



February 12, 2009

Memorandum

To: Members of the Board

From: Richard Fontenrose, Assistant Director

Through: Wendy M. Payne, Executive Director

Subj: TAB C1, Accounting for Social Insurance, Revised: Comment Letters  
Received through February 12, 2009<sup>1</sup>

**MEETING OBJECTIVE**

Members are asked to review comments received in response to the exposure draft (ED) *Accounting for Social Insurance, Revised*, as well as to consider staff analysis and recommendations (Tab C2). At the meeting, members will identify any significant changes to be made to the proposal presented in the exposure draft. Specific issues for Board decisions are identified at Tab C2.

**BRIEFING MATERIAL**

This memorandum provides three tables as follows:

- A. Tally of Responses by Question
- B. Quick Table of Responses by Question
- C. Overall Summary by Question.

In addition, the memorandum includes two attachments as follows:

**Attachment 1** provides the full text of Answers and Comments by Question and by Respondent and Other Comments from Respondents.

---

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

**Attachment 2** provides the full text of the comment letters.

Staff analysis and recommendations are provided at Tab C2.

## **BACKGROUND**

The ED proposed amendments to SFFAS 17, *Accounting for Social Insurance*.

## **SUMMARY OF OUTREACH EFFORTS**

The exposure draft, *Accounting for Social Insurance, Revised*, was issued November 17, 2008 with comments requested by [insert date]. Upon release of the exposure draft, notices and press releases were provided to:

- a) The Federal Register;
- b) *FASAB News*;
- c) *The Journal of Accountancy*, *AGA Today*, *the CPA Journal*, *Government Executive*, *the CPA Letter*, and *Government Accounting and Auditing Update*;
- d) The CFO Council, the Presidents Council on Integrity and Efficiency, Financial Statement Audit Network, and the Federal Financial Managers Council; and
- e) Committees of professional associations generally commenting on exposure drafts in the past.

This broad announcement was followed by direct mailings of the exposure draft to:

- a) Relevant congressional committees
  - a. Senate Committee on Budget
  - b. Senate Committee on Finance
- b) Public interest groups
  - a. Federal Fiscal Policy Center on Budget and Policy Priorities
  - b. New America Foundation
  - c. Committee for a Responsible Federal Budget
  - d. US Budget Watch
  - e. Cato Institute (Jagadeesh Gokhale)

- f. The Heritage Foundation, Thomas A Roe Institute for Economic Policy Studies (Alison Acosta Fraser, Director)
  - g. National Center for Policy Analysis
  - h. Institute for Truth in Accounting (Sheila Weinberg)
- c) Past respondents on similar issues
  - a. All respondents to the preliminary views document *Accounting for Social Insurance, Revised*, and all who testified at the May 2007 hearing on that document for whom current addresses were on file.

To encourage responses, a reminder notices were provided on January 5, 14, and 29 to our Listserv.

## RESULT: Summary of Respondents

As of February 12, 2009, we have received 20 responses from the following sources:

|                                  | FEDERAL<br>(Internal) | NON-FEDERAL<br>(External) |
|----------------------------------|-----------------------|---------------------------|
| Users, academics, others         |                       | 14                        |
| Auditors                         | 1                     |                           |
| Preparers and financial managers | 5                     |                           |

As noted above, the comment letters are provided as **Attachment 2**. The comment letters include a table of contents and identify respondents in the order their responses are received. The comment letters appear as the final component of this memo to facilitate compilation and pagination. However, I encourage you to read the letters in their entirety before reading the staff summary below.

## STAFF SUMMARY

Staff has summarized responses to the questions. The staff's summary, presented in the following three tables, is intended to support your consideration of the comments and not to substitute for reading the individual letters. In a separate memo presented at Tab C2, staff provides analysis including an overall summary of responses and a list of issues identified with staff analysis and recommendations.

## TAB C1, Table A –Tally of Responses by Question

**Table A – Tally of Responses by Question**

| QUESTION  | YES/AGREE | NO/DISAGREE | NO COMMENT |
|---|-----------|-------------|------------|
| Q1. The Board proposes to require social insurance component entities and the governmentwide entity to discuss and analyze key measures from the basic financial statements in their management's discussion and analysis ("MD&A"). See paragraphs 26-30 in the proposed standard and paragraphs A75-A79 in the basis for conclusions.<br><b>Do you believe that key measures should be presented in the MD&amp;A as described in this exposure draft?</b>  | 11        | 6           | 3          |
| Q2. The Board is proposing to add a line for the <b>closed group measure</b> to the balance sheet below assets, liabilities, and net position and not included in the totals for these classifications. <sup>2</sup> See paragraphs 31-32 in the proposed standard and paragraphs A81-A100 in the basis for conclusions. Two members have submitted alternative views on this issue. See paragraphs A139-A142 in the basis for conclusions for Mr. Patton's view. Mr. Patton and other members believe that a liability greater than the due and payable amount should be recognized on the balance sheet. See paragraph A144 in the basis for conclusions for Mr. Werfel's view. Mr. Werfel and other members believe that the closed group measure should not be presented on the balance sheet.<br><b>Do you believe that the balance sheet should present a line item for the closed group measure as described in this exposure draft?</b> | 4         | 13          | 3          |
| Q3. The Board proposes to add a new summary section of the statement of social insurance ("SOSI") to present the closed and open group measures. See paragraphs 34-35 in the proposed standard and paragraphs A114-A116 in the basis for conclusions.<br><b>Do you believe that the SOSI should have a summary section as described in this exposure draft?</b>   | 8         | 8           | 4          |
| Q4. The Board proposes a new basic financial statement entitled "statement of changes in social insurance amounts." The new statement would   | 12        | 3           | 5          |

<sup>2</sup> Definitions of certain terms are provided in the Definitions section and Appendix F: Glossary of this proposed standard.

**TAB C1, Table A – Tally of Responses by Question (continued)**

| QUESTION   | YES/AGREE | NO/DISAGREE | NO COMMENT |
|--|-----------|-------------|------------|
| <p>explain the changes during the reporting period in the present value amounts for the closed group measure included in the statement of social insurance. See paragraphs 36-37 in the proposed standard and paragraph A116 in the basis for conclusions. Mr. Werfel and other members have an alternative view. They believe the new statement should focus on changes in the open group measure and not the closed group measure. The question of the use of the appropriate measure is addressed in question 7 below. See paragraph A145 in the basis for conclusions.</p> <p><b>Do you believe there should be a new basic financial statement explaining changes to the present value amount included in SOSI?</b></p>   |           |             |            |
| <p>Q5. The Board proposes to disclose an accrued benefit obligation in notes to the financial statements. This information would include a five year trend when the standard is fully implemented. See paragraph 38 in the proposed standard and paragraphs 117-123 in the basis for conclusions. Mr. Werfel and other members have an alternative view expressing opposition to this disclosure. See paragraph A146 in the basis for conclusions.</p> <p><b>Do you believe that an accrued benefit obligation should be disclosed as described in this exposure draft?</b></p>  | 6         | 10          | 4          |
| <p>Q6. The Board considered but decided not to propose adding a line item to the statement of net cost ("SNC") for the change during the reporting period in the closed group measure that would be presented below exchange revenue and expenses and not included in the totals for these classifications. Some argue that this measure should not be presented on the SNC because it is a fundamentally different measure. Others believe the change is an economic cost that belongs on the SNC, and that including this number at the bottom of the SNC appropriately links all basic financial statements. See paragraphs A101-A113 in the basis for conclusions.</p> <p><b>Do you believe that the SNC should not include a line item for the change during the period in the closed group measure, which would be presented below exchange revenue and expenses and not included in the totals for these classifications?</b></p> | 14        | 2           | 4          |

**TAB C1, Table A – Tally of Responses by Question (continued)**

| QUESTION   | YES/AGREE | NO/DISAGREE | NO COMMENT |
|--|-----------|-------------|------------|
| <p>Q7. The Board decided to present the <b>closed group measure</b> (CGM) (defined in paragraph 19) as a common thread among the proposed new reporting. The proposal requires that the CGM and other key measures from the financial statements be discussed in management's discussion and analysis; that the CGM be presented on the balance sheet below assets, liabilities and net position (without being included in the totals for those categories); and that the changes in the CGM during the reporting period be presented and explained in the new summary section of the statement of social insurance and the new statement of changes in social insurance. The Board considered the <b>open group measure</b> (defined in paragraph 24) instead of the closed group measure as the focus for the disclosure. This exposure draft discusses both the closed group measure and the open group measure throughout. Paragraphs A69-A74 provide the basic rationale for the Board's selection of the closed group measure. Mr. Werfel and other members have an alternative view regarding the presentation of the closed group measure. They oppose the addition of the closed group measure to the balance sheet. Further, they believe the open group measure is the appropriate measure to use in the new statement of changes in social insurance and not the closed group measure. See paragraph A145 in the basis for conclusions.</p> <p><b>Do you agree with the Board's decision to feature the closed group measure?</b></p> | 3         | 12          | 5          |
| <p>Q8. The Board is proposing to change the requirement currently in SFFAS 17 for specific sensitivity analysis. The standard will require the entity to provide sensitivity analysis of the closed and open group measures appropriate for its particular social insurance program but will not specify a particular approach for the analysis. See paragraphs 42-43 of the standard and paragraphs A125-A137 of the basis for conclusions.</p> <p><b>Do you believe that a general requirement that allows flexibility in the sensitivity analysis presented will produce better information regarding the sensitivity of social insurance programs?</b></p>   | 9         | 5           | 6          |

## TAB C1, Table B –Quick Table of Responses by Question

**Table B – Quick Table of Responses by Question**

### Key to Respondents

|           | <b>Name</b>               | <b>Organization</b>   | <b>Category</b>    |
|-----------|---------------------------|---|--------------------|
| <b>1</b>  | Douglas Jackson           | Individual  | Non-federal, Other |
| <b>2</b>  | Dick Young                | Individual  | Non-federal, Other |
| <b>3</b>  | Juan Kelly                | Mahoney and Associates  | Non-federal, Other |
| <b>4</b>  | Kenneth Winter            | Individual  | Non-federal, Other |
| <b>5</b>  | David M. Walker           | Peter G. Peterson Foundation  | Non-federal, Other |
| <b>6</b>  | Mary Glenn-Croft          | Social Security Administration, Office of Chief Financial Officer     | Federal Preparer   |
| <b>7</b>  | Daniel L. Fletcher        | CFOC Standardization Committee, FASAB Response Group Representative   | Federal Preparer   |
| <b>8</b>  | Steven Schaeffer          | Assistant Inspector General for Audit, Social Security Administration | Federal Auditor    |
| <b>9</b>  | Eric Klieber              | Buck Consultants  | Non-federal, Other |
| <b>10</b> | Dr. Joseph Maresca        | Individual  | Non-federal, Other |
| <b>11</b> | Danial Kovlak             | Greater Washington Society of CPAs and GWSCPA Educational Foundation  | Non-federal, Other |
| <b>12</b> | Andrew Rettenmaier        | Texas A & M University  | Non-federal, Other |
| <b>13</b> | Stephan Goss              | Chief Actuary, Social Security Administration                         | Federal Preparer   |
| <b>14</b> | Cynthia Simpson           | Labor Department  | Federal Preparer   |
| <b>15</b> | Richard G. Schreitmueller | American Academy of Actuaries   | Non-federal, Other |
| <b>16</b> | Jagadeesh Gokhale         | Cato Institute  | Non-federal, Other |
| <b>17</b> | Terry Bowie               | NASA  | Federal Preparer   |
| <b>18</b> | Sheila Weinberg           | Institute for Truth in Accounting                                     | Non-federal, Other |
| <b>19</b> | Robert Childree           | AGA – Financial Management Standards Board                            | Non-federal, Other |
| <b>20</b> | Alvin K. Winters          | Individual  |                    |

## TAB C1, Table B –Quick Table of Responses by Question (continued)

**Table B – Quick Table of Responses by Question**

| <b>Respondent<br/>▼</b> | <b>1<br/>Do you<br/>Agree?</b> | <b>2<br/>Do you<br/>Agree?</b> | <b>3<br/>Do you<br/>Agree?</b> | <b>4<br/>Do you<br/>Agree?</b> | <b>5<br/>Do you<br/>Agree?</b> | <b>6<br/>Do you<br/>Agree?</b> | <b>7<br/>Do you<br/>Agree?</b> | <b>8<br/>Do you<br/>Agree?</b> |
|-------------------------|--------------------------------|--------------------------------|--------------------------------|--------------------------------|--------------------------------|--------------------------------|--------------------------------|--------------------------------|
| 1                       | Yes                            | No                             | Yes                            | N/C                            | Yes                            | No                             | N/C                            | N/C                            |
| 2                       | N/C                            | N/C                            | N/C                            | N/C                            | N/C                            | N/C                            | N/C                            | N/C                            |
| 3                       | Yes                            | No                             | Yes                            | No                             | No                             | Yes                            | No                             | No                             |
| 4                       | N/C                            | N/C                            | N/C                            | N/C                            | N/C                            | N/C                            | N/C                            | N/C                            |
| 5                       | Yes                            | No                             | No                             | Yes                            | No                             | Yes                            | No                             | Yes                            |
| 6                       | No                             | No                             | No                             | Yes                            | No                             | Yes                            | No                             | Yes                            |
| 7                       | No                             | No                             | No                             | Yes                            | No                             | Yes                            | No                             | Yes                            |
| 8                       | No                             | No                             | Yes                            | No                             | No                             | Yes                            | No                             | Yes                            |
| 9                       | Yes                            | No                             | No                             | Yes                            | No                             | Yes                            | No                             | Yes                            |
| 10                      | N/C                            | N/C                            | N/C                            | N/C                            | N/C                            | N/C                            | N/C                            | N/C                            |
| 11                      | Yes                            | Yes                            | Yes                            | Yes                            | Yes                            | Yes                            | No                             | No                             |
| 12                      | Yes                            | Yes                            | Yes                            | Yes                            | Yes                            | Yes                            | Yes                            | Yes                            |
| 13                      | No                             | No                             | No                             | Yes                            | No                             | Yes                            | No                             | No                             |
| 14                      | No                             | No                             | Yes                            | Yes                            | Yes                            | Yes                            | N/C                            | Yes                            |
| 15                      | No                             | No                             | No                             | Yes                            | No                             | Yes                            | No                             | No                             |
| 16                      | Yes                            | Yes                            | N/C                            | N/C                            | N/C                            | N/C                            | No                             | N/C                            |
| 17                      | Yes                            | No                             | No                             | Yes                            | No                             | Yes                            | No                             | Yes                            |
| 18                      | Yes                            | Yes                            | Yes                            | No                             | Yes                            | No                             | Yes                            | N/C                            |
| 19                      | Yes                            | No                             | Yes                            | Yes                            | Yes                            | Yes                            | Yes                            | Yes                            |

**TAB C1, Table B –Quick Table of Responses by Question (continued)**

| Respondent<br>▼              | 1<br>Do you<br>Agree? |   |   | 2<br>Do you<br>Agree? |    |   | 3<br>Do you<br>Agree? |   |   | 4<br>Do you<br>Agree? |   |   | 5<br>Do you<br>Agree? |    |   | 6<br>Do you<br>Agree? |   |   | 7<br>Do you<br>Agree? |    |   | 8<br>Do you<br>Agree? |   |   |
|------------------------------|-----------------------|---|---|-----------------------|----|---|-----------------------|---|---|-----------------------|---|---|-----------------------|----|---|-----------------------|---|---|-----------------------|----|---|-----------------------|---|---|
| 20                           | Yes                   |   |   | No                    |    |   | No                    |   |   | Yes                   |   |   | No                    |    |   | Yes                   |   |   | No                    |    |   | No                    |   |   |
| Totals                       | 11                    | 6 | 3 | 4                     | 13 | 3 | 8                     | 8 | 4 | 12                    | 3 | 5 | 6                     | 10 | 4 | 14                    | 2 | 4 | 3                     | 12 | 5 | 9                     | 5 | 6 |
|                              |                       |   |   |                       |    |   |                       |   |   |                       |   |   |                       |    |   |                       |   |   |                       |    |   |                       |   |   |
| Legend –<br>N/C – no comment |                       |   |   |                       |    |   |                       |   |   |                       |   |   |                       |    |   |                       |   |   |                       |    |   |                       |   |   |

## TAB C1, Table C – Overall Summary by Question

### Table C – Over Summary by Question

**Note:** The denominator for each question is the number of respondents answering the related question with a yes or a no. The denominator excludes those not addressing the topic or whose response was not a clear yes or no. Staff exercised judgment in determining whether a clear yes or no answer was provided.

- Q1. A majority of respondents (11 of 17) **agree** that key measures should be presented in the MD&A as described in this exposure draft.
- Q2. A majority of respondents (13 of 17) **disagree** that the balance sheet should present a line item for the closed group measure as described in this exposure draft.
- Q3. The respondents were equally divided (8 to 8) that the SOSI should have a summary section as described in this exposure draft.
- Q4. A majority of respondents (12 of 15) **agree** that there should be a new basic financial statement explaining changes to the present value amount included in SOSI.
- Q5. A majority of respondents (10 of 16) **disagree** that an accrued benefit obligation should be disclosed as described in this exposure draft.
- Q6. A majority of respondents (14 of 16) **agree** that the SNC should not include a line item for the change during the period in the closed group measure, which would be presented below exchange revenue and expenses and not included in the totals for these classifications.
- Q7. A majority of respondents (12 of 15) **disagree** with the decision to feature the closed group measure in the financial reporting.
- Q8. A majority of respondents (9 of 14) **agree** with a general requirement that allows flexibility in the sensitivity analysis presented will produce better information regarding the sensitivity of social insurance programs.

## **TAB C1, Attachment 1 – Full Text of Answers by Question**

### **Full Text of Answers by Question**

Q1. The Board proposes to require social insurance component entities and the governmentwide entity to discuss and analyze key measures from the basic financial statements in their management's discussion and analysis ("MD&A"). See paragraphs 26-30 in the proposed standard and paragraphs A75-A79 in the basis for conclusions.

**Do you believe that key measures should be presented in the MD&A as described in this exposure draft?**

**Respondent #1** – Douglas Jackson – Yes. Better Financial statements result from more transparency.

**Respondent #2** – Dick Young – No comment.

**Respondent #3** – Juan Kelly – I answer in the affirmative, because to do otherwise is irresponsible.

**Respondent #4** – Kenneth Winter – No comment.

**Respondent #5** – David Walker – I agree with key measures from the basic financial statements relating to social insurance programs should be included in MD&A.

**Respondent #6** – Mary Glenn-Croft – SSA agrees that a discussion of financial statements in the MD&A is warranted. In accordance with SFFAS 15 ...the purpose of MD&A is to increase the understandability and usefulness of an entity's financial reports; communicate managers' insights about the reporting entity; and include forward-looking information about the future effects of existing demands, risks .... However, we do not agree that the standard should specify exactly what measures should be discussed. The ED seems too prescriptive when outlining the requirements for the MD&A discussion. In addition, SSA believes that it is inappropriate to use the closed group measure as the primary focus for social insurance reporting, and therefore, we disagree with its discussion in the MD&A.

Additionally, we do not believe that the draft [SI accounting] standard is the proper venue to discuss MD&A requirements not related to the [SOSI]. Because the Social Insurance standard only applies to a very limited number of preparers and auditors, there is a risk that only a subset of stakeholders will consider the full range of MD&A changes proposed in this standard. Users of FASAB standards may find it disjointed to have some MD&A requirements related to historical statements reside outside of SFFAS 15.

**Respondent #7** – David Fletcher – CFOC agrees that social insurance component entities and the governmentwide entity should discuss "critical measure" from their basic

## TAB C1, Attachment 1 – Full Text of Answers by Question (continued)

statements in the MD&A. However, the selection of measures deemed to be “critical” should not be prescribed by the standard. [It] should be left to the preparer. In particular, mandating presentation and/or discussion of the closed group measure is inappropriate, as this measure is extremely misleading in the context of any program that is financed on a current-cost basis. ... Discussion of the fiscal gap [as extensively discussed in the *Projections* ED] or other sustainability measures in MD&A should be left to the discretion of the governmentwide entity. Because fiscal gap, and any measure that summarizes financial flows over a long time in a single number, cannot address sustainability of financing, measures that illustrate timing and trend the measurement of which should be encouraged over summary measures. Additionally, we do not believe that the draft [SI accounting] standard is the proper venue for discussing MD&A unrelated to SOSI. Because the [SI] standard only applies to a very limited number of preparers and auditors, there is a risk that only a subset of stakeholders will consider the full range of MD&A changes proposed in this standard. Users of FASAB standards may find it disjointed to have some MD&A standards related to historical statements reside outside SFFAS 15.

**Respondent #8** – Steven Schaeffer – The MD&A section should provide a brief high level discussion of the financial statements. Therefore, we believe that the last part of paragraph 26 which states that “The discussion should go beyond a mere description of existing conditions to include possible future effects ...of anticipated events and trends. Where appropriate, the description of ... anticipated factors should include quantitative forecasts or projections” should be removed. If readers would like more detailed information, it can be found in the financial statements and the accompanying notes.

We also have a concern that possible future events could be considered speculative in nature. If readers determine that part of the information is speculative, the remainder of the data would be discredited.

**Respondent #9** – Eric Klieber – I agree that key measures should be presented as described in the exposure draft, with two exceptions, as follows:

The ED states that MD&A “should encompass the possible future effects of anticipated future events, conditions, and trends.” Measurement of the net obligations for most of the programs covered by the ED requires projection of income and expenses many years into the future. These projections, in turn, require assumptions regarding future events, conditions and trends. These assumptions are subject to a high degree of uncertainty, as is widely recognized. As appropriate, the ED calls for a sensitivity analysis showing the possible effects of variance between assumed and actual experience over time. The section of the MD&A that discusses the possible future effects of anticipated future events, conditions and trend should be subsumed into the sensitivity analysis for those programs for which a sensitivity analysis is required.

## **TAB C1, Attachment 1 – Full Text of Answers by Question (continued)**

The ED should substitute discussion of the open group measure for the closed group measure in the MD&A, for the reasons given in the response to Question 7 below.

**Respondent #10** – Joseph Maresca – No comment.

**Respondent #11** – Daniel Kovlak – Yes, this information should be presented in the MD&A. It adds to the understanding of the program and impacts of actual and potential changes in the programs. The MD&A should also include an analysis and presentation of the data in discrete increments that make up the 75-year long-term projection. The 75-year timeframe is too far into the future for most people to concern themselves and many will doubt the accuracy of the 75-year projections. Most statisticians consider the accuracy of projections to decline dramatically as the timeframe increases more than a couple of years into the future.

**Respondent #12** – Andrew J. Rettenmaier – Yes, the MD&A should include a discussion of key measures including social insurance. However, the treatment of social insurance in the proposed Table of Key Measures in Appendix B is too detailed. The NPVs for the closed group should be reported once, on the same date as the other measures in the table.

**Respondent #13** – Stephan Goss – We agree that social insurance component entities and the governmentwide entity should discuss “critical measures” from their basic statements in the MD&A. However, the selection of measures deemed to be “critical” should not be prescribed by this standard. The decision regarding which measures are “critical” and require discussion in the MD&A should be left to the preparer.

In particular, mandating presentation and/or discussion of the closed group measure for social insurance commitments would be highly inappropriate as this measure is extremely misleading in the context of any program that is financed on a current-cost basis. If anything, presentation and discussion of closed group measures should be discouraged by the standard. Our objection to the closed group measure is described more fully in response to Question 2 below.

As noted in paragraph 27, the measure of “fiscal gap” is discussed extensively in the [*Projections* ED]. Discussion of fiscal gap or other sustainability measures in the MD&A should be left to the discretion of the governmentwide entity. Because fiscal gap, and any measure that summarizes financial flows over a long period of time in a single Discussion of fiscal gap or other sustainability measures in the MD&A should be left to the discretion of the governmentwide entity. Because fiscal gap, and any measure that summarizes financial flows over a long period of time in a single number, cannot address sustainability of financing, measures that illustrate timing and trend of any projected future financial costs or shortfalls should be encouraged over summary measures.

## **TAB C1, Attachment 1 – Full Text of Answers by Question (continued)**

**Respondent #14** – Cynthia Simpson – For the Black Lung Disability Benefit program, we believe that brief and general descriptions of the program and its activity may be presented in the MD&A. The reader should then be referred to the financial statements, notes, and Required Supplementary Information for further discussion. Discussions with greater detail should not be presented in the MD&A as described in the exposure draft because we believe this information would be redundant. DOL currently presents the measures mentioned in paragraphs 27a and 27b in the footnote for earmarked funds. Notes regarding the refinancing of the Black Lung Disability Trust Fund have and will be included also, along with program descriptions included in the Required Supplementary Information.

Paragraph A79 states, "This standard requires the governmentwide and component entities that present a SOSI to include certain information in their discussion of financial statements in the MD&A." DOL does not prepare a SOSI for the Unemployment Insurance Program. Therefore, it is DOL's understanding that the MD&A requirements do not apply to the Unemployment Insurance Program.

At the beginning of paragraph 27, in the statement that, "At a minimum, all entities should present and explain," we believe that the words "social insurance component entities that present a SOSI and governmentwide entity" should replace "all entities." Because paragraph 15 states that the proposed standard does not alter the MD&A requirements of other entities (besides the social insurance entities and the governmentwide entity), the use of "all entities" in paragraph 27 may be confusing.

We do not agree with the use of the word "commitments" in paragraph 27c because of its use as a technical term in budgetary accounting. Perhaps alternative terminology could be used, such as "measures related to social insurance." Because of the closed universe of participants in the Black Lung Disability Benefit program, reporting on closed group versus open group measures will be the same.

Lastly, we believe it would be more appropriate for new MD&A requirements to appear as an amendment to SFFAS No. 15, Management's Discussion and Analysis, as opposed to appearing in a separate standard on social insurance. If the new MD&A requirements remain in the standard on social insurance, FASAB should provide a notice in the Original Pronouncements referencing the social insurance standard in the section regarding SFFAS No. 15 in a manner similar to how SFFAS No. 26 was referenced in the June 2008 Codification regarding SFFAS No. 17.

**Respondent #15** – Richard G. Schreitmueller – We agree that social insurance component entities and the governmentwide entity should discuss "critical measures" from their basic statements in the MD&A. However, the selection of measures deemed to be "critical" should not be prescribed by this standard. The decision regarding which measures are "critical" and require discussion in the MD&A should be left to the preparer.

## TAB C1, Attachment 1 – Full Text of Answers by Question (continued)

In particular, mandating presentation and/or discussion of the closed group measure for social insurance commitments is inappropriate here, as this measure is not relevant in the context of financial reporting for a program that is financed on a current-cost basis. Our objection to the closed group measure is described more fully in response to Question 2 below.

As noted in paragraph 27, the measure of “fiscal gap” is discussed extensively in the [Projections ED].address sustainability of financing, measures that illustrate timing and trend of any projected future financial costs or shortfalls should be encouraged over summary measures.

**Respondent #16** – Jagadeesh Gokhale – I believe it’s crucial to provide a complete and forward-looking accounting of social insurance unfunded obligations under “current policies” *and that it be presented along with the balance sheet, including in the executive summary section of the U.S. Financial Statement/Report.*

The current compromise proposal makes progress toward providing such information (in Appendices B and C), but it does not present the complete set of unfunded obligation measures in the MD&A and the balance sheet. Even in the SOSI, the measures proposed are incomplete and do not clearly depict the total fiscal burdens being transferred to future generations under “current policies.”

The main reason offered for not providing the open group measure in the balance sheet and MD&A appears to be the uncertainty associated with making very long-term projections – beyond the standard 75-year time horizon. This concern is expressed via the requirement that the “liability” be “reasonably measureable.”

But ignoring very long-term “liabilities” has its own pitfalls: *It could be construed by readers to imply that the social insurance (program’s) post-75 year finances are balanced* – which is less “reasonable” compared to reporting the *best available estimate* of the pos-75 year financial imbalance under continuation of current policies.

**Respondent #17** – Terry Bowie – We agree that the discussion and analysis of key measures form the basic financial statements in the [MD&A] by the component entities and government wide entity will enhance the understandability and readability of the basic financial statements. Explanation of the significance of key amounts, the changes to those amounts in the reporting period and the causes thereof will help to enhance reader’s understandability of the financial statements.

**Respondent #18** – Sheila Weinberg – The key measures could be presented in the MD&A. The “Budget Results” could be moved to the top of the key measures, so it is next to the “Costs”. The term “Costs” could be changed to “Financial Results”. Using the term “Costs” would not be conducive, if the government reported a “surplus”. (We can always hope.) To make the table more readable, I would recommend the “Social Insurance Commitments” be

## **TAB C1, Attachment 1 – Full Text of Answers by Question (continued)**

changed to “Change in Social Insurance Commitments” and only have the “Change”. I assume a large portion of “Federal employee & veterans benefits” is a net present value calculation, but in the “Net Position” portion of the table the NPV is not mentioned. I would also not mention the NPV in the “Change in Social Insurance Commitments” portion of the table. I would have a line for “Change in Medicare” and “Change in Social Security”, then a total “Change in Social Insurance Commitments”.

A better format of this information can be found on page 11 of the 2004 CFR. I have also prepared possible format. (See attachment “Key Measures for the ED”).

**Respondent #19** – Robert Childree – Regardless of how the ultimate standard chooses to report, or not report, social insurance costs and liabilities/obligations within the statements of net cost or balance sheet, the inclusion of the proposed information within MD&A is an important and positive step. In that regard, par. 26 reflects the following important commitments:

“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 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. Where appropriate, the description of possible future effects of both existing and anticipated factors should include quantitative forecasts or projections. “

Further, in paragraph A76 of the Basis for Conclusions, the ED states the following:

“Very importantly, the MD&A should include forward-looking information regarding the possible future effects of the most important existing, currently-known as well as anticipated demands, risks, uncertainties, events, conditions, and trends. MD&A should deal with the “vital few” matters, i.e., the most important matters that will probably affect the judgments and decisions of people who rely on the financial report, including the most important problems that need to be addressed and the actions taken or planned.”

It seems that these excerpts from both the standard section and the basis make it mandatory for the preparer of the federal CFR and the annual

## **TAB C1, Attachment 1 – Full Text of Answers by Question (continued)**

financial reports of social insurance agencies to make it very plain the condition of these programs, to include, but not be limited to, information on the following:

1. The specific nature and limitations of the authorizing legislation of social insurance programs.
2. The absence of purposeful advanced funding of the future costs of the programs.
3. A statement clearly contrasting the basis of accounting for federal social insurance programs with the accounting for pension and OPEB costs and liabilities of state and local governments
4. The likelihood that these programs will be reduced in future years due to the absence of funding.
5. The mechanisms built into the current law that will require a formal reduction in social security and Medicare funding and benefits when certain circumstances occur (see the separate 2007 Citizen's Guide that accompanied the 2007 Annual Report of the U.S. Government for an example of how this might be expressed.)
6. Estimates of the year in which funding and benefits will be reduced for individuals currently receiving benefits under the program.

In short, the MD&A should clearly say what all of the reported numbers clearly indicate--that the social insurance programs will not continue in their current form and that citizens now receiving benefits and those currently qualified to receive benefits in the future will not receive the benefits they now anticipate.

**Respondent #20** – Alvin Winters – I agree that that component entities and the government wide entity should discuss and analyze key measures from the basic financial statements. For social insurance programs, however, any “closed group” measure should not be included unless the nature of the program dictates it.

For example, any reporting on the financial status of the OASDI program should not include it. The excess of the present value of future benefits over revenues for the closed group has no value. It is commonly understood that the current structure of social insurance programs need to be changed. The amount of change necessary is measured by looking at the present value of future benefits over the present value of future revenue for a specific time period not a specific group of people.

The OASDI and HI Trustees have historically measured the financial status of the program over a variety of time periods. However, primary focus has been given to the set of 75-year estimates. The ability to properly measure the difference between funding and benefits will decrease as the time

## **TAB C1, Attachment 1 – Full Text of Answers by Question (continued)**

horizon expands. Thus, incredibly long time horizons such as one covering infinity, are impractical and of little value. However, to be of value to policy makers the time horizon must cover something more than a few years or budget cycles. Thus the current SOSI measure of 75 years appears to be practical, although very rationale arguments can be made for using a somewhat shorter period.

An example where a “closed group” measurement would be valuable would be in the accounting for pensions and retirement benefits of Federal employees.

## **TAB C1, Attachment 1 – Full Text of Answers by Question (continued)**

Q2. The Board is proposing to add a line for the **closed group measure** to the balance sheet below assets, liabilities, and net position and not included in the totals for these classifications.<sup>3</sup> See paragraphs 31-32 in the proposed standard and paragraphs A81-A100 in the basis for conclusions. Two members have submitted alternative views on this issue. See paragraphs A139-A142 in the basis for conclusions for Mr. Patton's view. Mr. Patton and other members believe that a liability greater than the due and payable amount should be recognized on the balance sheet. See paragraph A144 in the basis for conclusions for Mr. Werfel's view. Mr. Werfel and other members believe that the closed group measure should not be presented on the balance sheet.

**Do you believe that the balance sheet should present a line item for the closed group measure as described in this exposure draft?**

**Respondent #1** – Douglas Jackson – No. I agree with Mr. Patton that ALL liabilities should be shown as such on the balance sheet.

**Respondent #2** – Dick Young – No comment.

**Respondent #3** – Juan Kelly – I answer in the negative, because I find it misleading and of little use.

**Respondent #4** – Kenneth Winter – No comment.

**Respondent #5** – David Walker – I do not believe that a “closed group measure” regarding major social insurance programs should be presented on the balance sheet or in any basic financial statement. Closed-group measures are typically used for employer sponsored pension and retiree health programs where individuals perform services in exchange for such benefits as part of their total compensation package. In fact, such is already the case for the employer sponsored programs of the federal government. However, closed-group calculations are not meaningful for social insurance programs since no such exchange has occurred and no such irrevocable commitment exists. Including such information on the face of the balance sheet would, at a minimum, result in confusion among financial statement users, and could even be viewed as misleading.

**Respondent #6** – Mary Glenn-Croft – We do not believe that a “closed group measure” line item should be added to the balance sheet. The intention of the balance sheet is to show the government's financial position at a certain point in time and this includes showing only liabilities that are present obligations. By including this new line item, it would appear to be including future benefits a liability.

---

<sup>3</sup> Definitions of certain terms are provided in the Definitions section and Appendix F: Glossary of this proposed standard.

## **TAB C1, Attachment 1 – Full Text of Answers by Question (continued)**

Likewise, we disagree with Mr. Patton's view that a liability should be recorded on the balance sheet for future benefits. Our longstanding position is to record only those liabilities and expenses that are due and payable. In the case of Social Security, attaining fully insured status (40 quarters of coverage) is not an obligating event because of uncertainties that exist related to survival to retirement age, subsequent work activities, etc. In addition, a liability can only occur when the entity does not have the ability to single handily alter the liability. In the case of the Social Security program, the federal government retains the right to alter the benefit up until the point when the benefit is due.

Furthermore, we support the alternative view presented by Mr. Werfel. Including a commitment line item on the balance sheet would be misleading to the reader; no clear definition of a commitment exists in accounting literature issued by FASAB or OMB. We believe the SOSI is the appropriate vehicle for presenting the open group line item since the SOSI's purpose is to "illustrate the extent to which future revenues will be sufficient to pay future benefits." It does not seem appropriate to "crosswalk" between items presented on the balance sheet and on the SOSI, since the statements are trying to convey information over different points in time. In addition, the ED seems inconsistent in not proposing to add other significant long-term commitments, such as those for defense and education.

**Respondent #7** – David Fletcher – No, the balance sheet should not present a line item for the closed group measure. We agree with the alternative view of Mr. Werfel in paragraph A144. The balance sheet, which by definition presents assets and liabilities at a single point in time, is not the appropriate place to display social insurance commitments or obligations on either an open or a closed group basis. Future social insurance obligations are not liabilities, and should not be presented on the balance sheet as such, whether above the line, or "below-the-line" as proposed.

However, objection to the inclusion of the closed group measure is even more fundamental. The closed group measure presents as estimate of the excess of the obligation for current-law scheduled future benefits for current participants over [their] current-law scheduled taxes. The closed group measure is not at all relevant to the financial status of programs financed on a current-cost basis. Closed group measures should not be presented on the balance sheet or elsewhere in the financial statements for Social Security, Medicare, or government discretionary programs, all of which are financed on a current-cost basis. Doing so would be misleading and would encourage a fundamental misunderstanding of the financing basis for the programs. Any program with future obligations that are intended to be and will be financed on a current-cost basis as obligations come due will have a substantial closed group shortfall, even when financing is expected to be perfectly adequate on a current-cost basis. Any inclusion of a closed group measure in financial reporting for a program with current-cost financing should be discouraged by the FASAB rather than encouraged.

## **TAB C1, Attachment 1 – Full Text of Answers by Question (continued)**

While the closed group measure is presented in the Social Security Trustees Report, it is displayed along with the net present value for future participants, solely as an illustrative decomposition of the open group measure. The decomposition represents a generational perspective that may be of interest from a relatively academic analytical perspective, but it has no relevance at all to the financial status of a current-cost-financed or a pay-as-you-go system. The closed group measure is also currently included in the [SOSI] where it is described and explained in more detail in the supporting disclosures. Rather than encouraging or prescribing further presentation of this misleading measure, the FASAB should encourage further disclosure and emphasis on measures that illustrate the timing and trend in annual government obligations and cash-flow balances that are critical to an understanding of sustainability of the various government programs. Summary measures that are misleading and distracting should be discouraged rather than encouraged by the FASAB.

**Respondent #8** – Steven Schaeffer – No. We agree with paragraph A144, that the commitment is a future event. Also, if deferred revenues of future taxes are not recorded, it is misleading to have future liabilities recorded on the balance sheet ... based on the matching principle of accounting. Finally, the balance sheet is a historical measure as of a certain date.

**Respondent #9** – Eric Klieber – The balance sheet should present a line item for neither the closed group method nor the open group method. The Board bases its proposal for adding a line for the closed group measure to the balance sheet ... on what the Board describes as a liability-commitment-expectation continuum. Because the social insurance systems covered by the ED fall outside the liability segment of the continuum, they should not affect the reported net position of the federal government; but because they represent more than mere expectations of future expenditures, they warrant a line item on the government's balance sheet ....

In fact no such continuum exists. Rather, federal programs fall onto a multi-dimensional array of combinations regarding the source, degree of certainty and timing of funding and expenditures. For example, although the government has a commitment to national defense at least as strong as to the social insurance programs covered by the ED, funding for defense is appropriated from general revenues on a year-by-year basis. Funding for highway and airport construction comes from dedicated trust funds like some social insurance programs but is derived from taxes on gasoline and airport usage fees, respectively. Funding for entitlement programs such as Medicaid comes from general revenues and is essentially open ended, while funding for the closely related SCHIP program comes from block grants to the states. Medicare Part A is funded by a trust fund derived from a dedicated tax, while Parts B and D are funded by premiums and general revenues.

As the foregoing examples illustrate, the variety of funding mechanisms for federal programs is too broad to place on a single continuum. The ED fails to provide any compelling argument that the five covered programs are both so

## **TAB C1, Attachment 1 – Full Text of Answers by Question (continued)**

similar to each other yet so distinct from other government programs as to require special treatment on the balance sheet. Therefore, no additional line item of any kind relating to these programs should be presented on the balance sheet.

**Respondent #10** – Joseph Maresca – No comment.

**Respondent #11** – Daniel Kovlak – We agree with adding the line below the assets, liabilities, and net assets and not including in totals for these categories. The social insurance measures being based on a long-term projection cannot be directly compared to the “harder” numbers included on the balance sheet. We believe the open group amount should be shown. This position, though, was not unanimous among the committee members. Mr. Werfel’s alternative view raises compelling arguments about the reporting of the closed group measure in the balance sheet, the reporting of the closed group measure as a “below the line” total on the balance sheet does not provide a basis for understanding to the reader, is not comparable and is undefined with respect to any other element in the balance sheet, and is not a fair presentation of the “pay-as-you-go” nature of the program. As a result, one member of our committee expressed that the closed group measure should not be recognized on the balance sheet.

**Respondent #12** – Andrew J. Rettenmaier – Based on my reading of the “basis for conclusions” the inclusion of the closed group measure was a compromise, particularly on the balance sheet. In the context of a balance sheet, assets and accrued liabilities as of the reporting date are more appropriate than the net closed group obligation given that it includes future accruals as well as future dedicated revenues. A balance sheet of the United States Government, however, with no mention of Social Insurance Commitments would be incomplete. Thus, a balance sheet that includes the close group obligation as a compromise is preferred to a balance sheet with no mention of social insurance commitments.

**Respondent #13** – Stephan Goss – No, the balance sheet should not present a line item for the closed group measure. This would be inappropriate and misleading. We agree with the alternative view put forth by Mr. Werfel in paragraph A144.

The balance sheet, which by definition presents assets and liabilities at a single point in time, is not the appropriate place to display social insurance commitments or obligations on either an open group or a closed group basis. Future social insurance obligations are not liabilities, and should not be presented on the balance sheet as such, whether above the line, or “below-the-line” as proposed.

However, our objection to the inclusion of the closed group measure is even more fundamental. The closed group measure represents an estimate of the excess of the obligation for current-law scheduled *future* benefits for current participants over current-law scheduled *future* taxes from only those current participants. The closed group measure is not at all relevant to the financial status of programs financed on a current-cost basis. Closed group

## **TAB C1, Attachment 1 – Full Text of Answers by Question (continued)**

measures should not be presented on the balance sheet or elsewhere in the financial statements for Social Security, Medicare, or government discretionary spending programs, all of which are financed on a current-cost basis. Doing so would be very misleading and would encourage a fundamental misunderstanding of the financing basis for the programs. Any program with future obligations that are intended to be and will be financed on a current-cost basis as obligations come due will have a substantial closed group shortfall, even when financing is expected to be perfectly adequate on a current-cost basis. Any inclusion of a closed group measure in financial reporting for a program with current-cost financing should be strongly discouraged by the FASAB rather than encouraged.

While the closed group measure is presented in the Social Security Trustees Report, it is displayed along with the net present value for future participants, solely as an illustrative decomposition of the open group measure. The decomposition represents a generational perspective that may be of interest from a relatively academic analytical perspective, but it has no relevance at all to the financial status of a current-cost-financed or pay-as-you-go system. The closed group measure is also currently included in the SOSI, where it is described and explained in more detail in the supporting disclosures. Rather than encouraging or prescribing further presentation of this misleading measure, the FASAB should encourage further disclosure and emphasis on measures that illustrate the timing and trend in annual government obligations and cash-flow balances that are critical to an understanding of sustainability of the various government programs. Summary measures that are misleading and distracting should be discouraged rather than encouraged by the FASAB.

Some have argued that more measures and illustrations are necessarily better. This is an appealing concept, but it is false. Readers of any document, including the governmentwide entity financial statements, have limited time and attention that can be devoted to that particular document. It is the obligation of the preparers, and of standard-setting bodies like the FASAB, to make such statements as straightforward as possible with great emphasis on the information that will convey a true sense of the status of the programs in question. Inclusion of closed group measures is highly undesirable in achieving this end.

**Respondent #14** – Cynthia Simpson – No, we do not agree that the balance sheet should present a line item for the closed group measure as described in the exposure draft. We agree in principle with the discussions provided in paragraph A144.

**Respondent #15** – Richard G. Schreitmueller – No, the balance sheet should not present a line item for the closed group measure. This would be inappropriate and misleading. We agree with the alternative view put forth by Mr. Werfel in paragraph A144.

## **TAB C1, Attachment 1 – Full Text of Answers by Question (continued)**

The balance sheet, which by definition presents assets and liabilities at a single point in time, is not the appropriate place to display social insurance commitments or obligations on either an open group or a closed group basis. Future social insurance obligations are not liabilities, and should not be presented on the balance sheet as such, whether above the line, or “below-the-line” as proposed.

However, our objection to the inclusion of the closed group measure is even more fundamental. The closed group measure represents an estimate of the excess of the obligation for current-law scheduled future benefits for current participants over current-law scheduled taxes from only those current participants. This measure is not relevant to the financial status of programs financed on a current-cost basis. Closed group measures should not be presented on the balance sheet or elsewhere in the financial statements for Social Security, Medicare, or government discretionary spending programs, all of which are financed on a current-cost basis. Doing so would be very misleading and would encourage a fundamental misunderstanding of the financing basis for the program. Any program with future obligations that are intended to be and will be financed on a current-cost basis as obligations come due will have a substantial closed group shortfall, even when financing is expected to be perfectly adequate on a current-cost basis. Any inclusion of a closed group measure in financial reporting for a program with current-cost financing should be discouraged by the FASAB.

While the closed group measure is presented in the Social Security Trustees Report, it is displayed along with the net present value for future participants, solely as an illustrative decomposition of the open group measure. The decomposition represents a generational perspective that is of interest from an analytical perspective – for example, from the perspective of someone exploring potential changes to the nature of the system – and we encourage the use of this decomposition in such appropriate contexts; but it is not relevant to the financial status of a current-cost-financed, or pay-as-you-go system. The closed group measure is also currently included in the [SOSI], where it is described and explained in more detail in the supporting disclosures. Rather than encouraging or prescribing further presentation of this measure, the FASAB should encourage further disclosure and emphasis on measures that illustrate the timing and trend in annual government obligations and cash-flow balances that are critical to an understanding of sustainability of the various government programs. Summary measures that are not relevant in the context of financial statements should be discouraged by the FASAB.

**Respondent #16** – Jagadeesh Gokhale – The open-group measure should be included in the balance sheet along with the closed group measure by adding the line “Net present Value of cash flows for all participants, past, current, and future.” My preference for the extended balance sheet table, is as follows:

## TAB C1, Attachment 1 – Full Text of Answers by Question (continued)

- a) *past cash flows: past and current generations (trust fund value)*
- b) *future cash flows for current generations*
- c) *all cash flows: past and current generations [closed group: (b) – (a)]*
- d) *future cash flows: future generations*
- e) *all cash flows: all generations (past, present, and future) [open group (c) + (d)]*

This would *complete* the description of the social insurance (program's) financial condition within the balance sheet: the asset, liability, and net asset position would show the current financial position and the extended, forward-looking closed and open-group measures would show the long-term financial condition under "current policies."

There should be a disclaimer about liability recognition attached to the extended section – it should explicitly indicate the uncertain nature of the long-term projections, but also indicate that these measures represent the best estimates of the "future implications of continuing current policies." Such a complete display would

- f) account for the "future committed revenue" – the trust fund,
- g) indicate the full extent of the financial shortfall under "current policies" on account of all participants
- h) indicate the full extent of fiscal burdens being transferred to future generations under "current policies" via the closed group measure

It would also

- i) indicate the extent by which delaying policy adjustments by one year would change (usually increase) the total size of social insurance (program's) unfunded obligations and show the increase in past and current generations' net benefits – which is the implied fiscal burden on future generations defined relative to the current year as opposed to the previous years.
- j) provide a powerful tool-kit to policymakers to show available tradeoffs: Evaluating the two measures under a new policy would indicate the reduction in total social insurance (program's) unfunded obligations (change in the open group measure) and show how the reduction would be distributed across current and future generations (change in the closed group measure).

**Respondent #17** – Terry Bowie – In general we agree to the practice of providing financial and non-financial information that improves the understandability of the financial

## TAB C1, Attachment 1 – Full Text of Answers by Question (continued)

statements to the users. At the same time, the additional detailed information provided by just a single line for the closed group measure on the balance sheet below assets, liabilities and net position will be minimal. In addition, since the information is not a liability or an asset, it raises more questions than it answers and should not be included. A cross-reference to the appropriate footnote or other supplementary information and/or discussion in the MD&A will be appropriate.

**Respondent #18** – Sheila Weinberg – The closed group should be used. I don't believe people who are not current participants in the programs should be included in the calculations.

**Respondent #19** – Robert Childree – The “compromise” presented in the ED is not supported by the concepts statements of the FASAB, nor of other standards setting organizations. As noted in par. A98, the below-the-line item is not an element and, therefore, should not be included on the balance sheet as proposed. However, if the line was, instead, changed to a note to the balance sheet appearing both on the bottom of the balance sheet and as a note to the liability section of the balance sheet, then what the ED seeks to accomplish “might” be achievable. Although this can be explored by the Board, it should continue to deliberate on the possibility of recognizing some form of liability and/or obligation associated with social insurance within the balance sheet and statement of net cost.

In this regard, although the Board is to be commended for its continued efforts to identify the better way of reporting social insurance liabilities and obligations, it is difficult to appreciate how either the compromise position or the alternative view expressed by Mr. Werfel serves the information needs of the citizens, the Congress, or the Administration. By way of illustration, the following are among the points of logic that fail to relate to understood accounting principles and precedence, or the information needs of users:

1. The compromise position on balance sheet disclosure and Mr. Werfel's view does not acknowledge that non-exchange transactions can impose a “liability” on the government in selected instances, such as:
  - a. When the government consistently communicates a long-term obligation to participants through annual notices of anticipated benefits,
  - b. Through the creation of a Trust Fund mechanism into which taxes from individual taxpayers are deposited,
  - c. The distinction that the federal government intentionally makes to taxpayer by segregating taxes collected for social security and for Medicare from those income and other taxes that clearly are collected as general revenue for Federal programs,

## **TAB C1, Attachment 1 – Full Text of Answers by Question (continued)**

d. Through the acknowledgement that funds borrowed by the Treasury from the various social insurance trust funds represent a “liability” to be repaid,

e. Through the acceptance of, application for, and reliance upon, the federal government’s obligation by current recipients who established their long-term financial objectives on the promise of social insurance benefits,

f. Through the reinforcement of the existence of a federal obligation by private sector and public sector pensions and OPEB plans who publicize the anticipated award of federal benefits in their communications with their participants

2. The alternative view of Mr. Werfel appears to rely on notions presented in the Preliminary Views document—which are not otherwise found in accounting theory, such as:

a. The recognition of a “large” liability for social insurance would reduce the importance of liabilities associated with exchange transactions and federal pension liabilities (ref. par. A24.b),

b. The ability of the Congress to change benefit provisions of social insurance programs reduces the justification for recognition (ref. par. A24.c),

c. The notion that because current and qualified beneficiaries are on notice that the social insurance programs are unsustainable, this eliminates the requirement to recognize a liability or other form of obligation on the balance sheet.

In contrast, the alternative view of Mr. Patton opens the door to possibly recognizing some portion of social insurance on the balance sheet and in the statement of net cost. Such options for recognition that could be tied to FASAB concepts and accounting theory might include the following:

1. The recognition as a balance sheet liability of the present value of future social insurance payments to “current recipients.”

2. The recognition as a balance sheet “obligation” of the present value of future social insurance payments to “qualified participants.”

3. The disclosure in the notes to the financial statement—referenced to the balance sheet—of the potential obligation of the government associated with the remainder of the closed group participants.

## TAB C1, Attachment 1 – Full Text of Answers by Question (continued)

The future incremental obligations associated with the closed group would not be associated with the balance sheet or the notes, but would rather be reported within the Statement of Social Insurance.

The points made within the ED that are supportive of the above approach to recognition and disclosure include, by way of illustration, the following:

1. From par. A19: "...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."
2. From par. A20: "...payroll tax contributions received during the reporting period should be matched against such costs rather than against the benefits paid out during the reporting period to truly evaluate the inter-period equity of the program. "
3. From par. A21: "...an expense may be incurred and a liability may arise equally for exchange, nonexchange, or quasi-exchange transactions so long as a present obligation exists. " and "...the use of "trust funds" and the "investment" of excess payroll taxes in special Treasury securities, arguably creates a constructive obligation at a point much earlier in time than when the payments are due and payable."
4. From par. A28: "... reporting on sustainability is not a substitute for or alternative to their proposal to alter expense and liability recognition on the statement of net cost and balance sheet." (also noted in par. 51)
5. From par. A37: the attain-fully-insured-status obligating event – or earlier event – would be measurable and auditable.
6. From par. A61: "...that as a general principle, decision-making is best informed if the government recognizes the costs of its commitments at the time it makes them."
7. From par. A68: "...actuarial assumptions and estimates are commonly used in measuring long-term liabilities such as for pension obligations and veteran's benefits."
8. From par. A69: "The closed group measure represents a reasonably good estimate of the net responsibility of future taxpayers, under current laws, to pay benefits to current participants."
9. From par. A72: "The Board believes that the closed group measure is one way to quantify the financing challenges relating to social insurance programs. It is relevant to the concerns of

## **TAB C1, Attachment 1 – Full Text of Answers by Question (continued)**

users who are assessing options for dealing with those challenges. The measure not only draws attention to the challenge but also quantifies it in a way that can support further analysis and decision-making.”

10. From par. A96: “...financial statements need to explain why the point estimates on the balance sheet have limitations for assessing financial condition.”

**Respondent #20** – Alvin Winters – Amounts on the balance sheet should be limited to assets and liabilities of the federal government. Creating new classifications or line items below the net position would reduce the clarity of the financial statements.

In addition, the balance sheet should not include the closed group measure for social insurance. As mentioned in the answer to question 1, the government’s responsibility in respect to these programs is to bring revenue in line with benefits. Thus the government’s liability is equal to the excess of the present value of future benefits over future tax revenue. For example, the 2008 OASDI Trustees Report shows that the present value of scheduled benefits exceeds the present value of future income by \$5.7 trillion over the next 75 years. This is the amount that the federal government is obligated to reduce benefits or increase taxes by to bring the program into balance and its value should be shown on the balance sheet. This line item should not be included below the net position, but rather it should be shown with the other liabilities/assets of the federal government.

Showing the closed group measure tends to be biased towards showing a larger deficit. For example, if the federal government enacted sufficient reform so that the present value of future benefits equaled the present value of revenue, the program would be in balance. However, the closed group measure could still show a significant deficiency. A key requirement of any Social Insurance value on the balance sheet should be that if the present value of future inflows equal future outflows the values on the balance sheet should be zero. To the extent, such inflows exceed projected outflows the government should show a net asset. To the extent, that such outflows exceed inflows, the government should record a liability.

## **TAB C1, Attachment 1 – Full Text of Answers by Question (continued)**

Q3. The Board proposes to add a new summary section of the statement of social insurance (“SOSI”) to present the closed and open group measures. See paragraphs 34-35 in the proposed standard and paragraphs A114-A116 in the basis for conclusions.

**Do you believe that the SOSI should have a summary section as described in this exposure draft?**

**Respondent #1** – Douglas Jackson – Yes. The more transparency, the better.

**Respondent #2** – Dick Young – No comment.

**Respondent #3** – Juan Kelly – I answer in the affirmative, because the details make the difference to sound executive decisions.

**Respondent #4** – Kenneth Winter – No comment.

**Respondent #5** – David Walker – [C]losed group measures are not meaningful in connection with social insurance programs. Therefore, they should not be included on the face of any basic financial statements. However, including such information along with appropriate explanatory comments in the notes to the financial statements could be acceptable.

**Respondent #6** – Mary Glenn-Croft – We do not believe the SOSI should have a summary section as described in the ...ED. Currently, the SOSI emphasizes the open group measure by displaying the future income and costs of the various programs. Presenting a “closed group” measure in the summary section would be misleading to the reader, as expressed in our other responses. The current SOSI provides sufficient data to allow the reader to compute a “closed group” measure if they so chose.

**Respondent #7** – David Fletcher – The current presentation in the SOSI shows, and emphasizes the open group future income and costs for these programs, with a decomposition of total income and total cost into generational components that allow the computation of a closed group measure for the interested reader. Explicit presentation of the closed group measure in the SOSI would be counterproductive and misleading. In particular, the net of expected future obligations and taxes for specific generational components should not be presented as indicated in the pro forma SOSI shown in Appendix D. In summary, the SOSI presentation should not be altered as suggested by paragraphs 33-35. If any change were to be made to the SOSI, it should be to include the amounts of any financial assets held by the specific program in a trust fund at the beginning of the valuation period. Inclusion of such assets would transform the “bottom line” of the SOSI into the unfunded obligation for the program, which would have a far greater meaning and relevance to the financial status of the program.

## **TAB C1, Attachment 1 – Full Text of Answers by Question (continued)**

**Respondent #8** – Steven Schaeffer – SSA already has a [SOSI] which presents the closed and open group measures in reader friendly terms. We do not object to the presentation of closed and open group measures in a summary section of the Consolidated Financial Statements.

**Respondent #9** – Eric Klieber –The SOSI should show only the open group measure, for the reasons given in the response to Question 7 below.

**Respondent #10** – Joseph Maresca – No comment.

**Respondent #11** – Daniel Kovlak – We think this could be better achieved with note disclosure rather than a separate section. Further, we believe that blending the presentation of the open and closed groups on the SOSI would create additional pints of confusion for the reader. As a result, we believe the reporting of the open group measure should remain in the MD&A and footnotes, and note within the principal statements.

**Respondent #12** – Andrew J. Rettenmaier – Yes. In particular, the age-decomposition of benefit payments and tax revenues are valuable in assessing the generational consequences of social insurance.

**Respondent #13** – Stephan Goss – The current presentation in the SOSI shows, and emphasizes, the open group future income and costs for these programs, with a decomposition of total income and total cost into generational components that allow the computation of a closed group measure for the interested reader. Explicit presentation of the closed group measure in the SOSI would be counterproductive and misleading. In particular, the net of expected future obligations and taxes for specific generational components should not be presented as indicated in pro-forma SOSI in Appendix D. In summary, the SOSI presentation should not be altered as suggested by paragraphs 33-35. If any change were to be made to the SOSI, it should be to include the amount of any financial assets held by the specific program in a trust fund at the beginning of the valuation period. Inclusion of such assets would transform the “bottom line” of the SOSI into the “unfunded obligation” for the program, which would have far greater meaning and relevance to the financial status of the program.

**Respondent #14** – Cynthia Simpson – In theory, we have no objections to the SOSI having summary section as described in the ED. However, due to the closed universe of participants in the Black Lung Disability Benefit Program and the similarity between closed and open group measurements which for reporting purposes are the same, the summary section would be duplicative.

**Respondent #15** – Richard G. Schreitmueller – The current presentation in the SOSI shows, and emphasizes, the open group future income and costs for these programs, with a decomposition of total income and total cost into generational components that allow the computation of a closed group measure for the interested reader. Explicit presentation of the closed group measure in the SOSI would be counterproductive and misleading. In

## **TAB C1, Attachment 1 – Full Text of Answers by Question (continued)**

particular, the net of expected future obligations and taxes for specific generational components should not be presented as indicated in pro-forma SOSI in Appendix D. In summary, the SOSI presentation should not be altered as suggested by paragraphs 33-35. If any change were to be made to the SOSI, it should be to include the amount of any financial assets held by the specific program in a trust fund at the beginning of the valuation period. Inclusion of such assets would transform the “bottom line” of the SOSI into the “unfunded obligation” for the program, which would have far greater meaning and relevance to the financial status of the program.

**Respondent #16** – Jagadeech Gokhale – No comment.

**Respondent #17** – Terry Bowie – We believe that the current [SOSI] provides sufficient information to the reader about the open group measure and there is no need for an additional summary section. The current data as displayed in the SOSI can be used to gather information about the closed group measure, if the reader so chooses.

**Respondent #18** – Sheila Weinberg – I don’t believe people who are not participants in the programs should be included in these summaries.

**Respondent #19** – Robert Childree – This new information will be helpful to users and would not be impacted by any decision by the Board to recognize some level of liability or obligation on the balance sheet.

**Respondent #20** – Alvin Winters – The current SOSI is an elegant presentation of the financial status of social insurance programs and truly represents one of FASAB’s greatest accomplishments. It presents the size of the government’s obligation to facilitate change, while at the same time allowing an inclined user the ability to calculate the amount of any intergenerational transfer. These generational components allow such interested parties to develop the closed group constructs if they wish, and SFAS 17 requires that they be given instructions on how to do so. Under the current SOSI configuration, users instantly realize the magnitude of the funding gap/surplus these programs face. Additional information on the face of the statement should not be added. Therefore, the SOSI should not be altered to include additional measures such as the closed group.

However, presenting the amounts on the SOSI with some additional context may be warranted. For example, showing the amounts as a percentage of GDP may be warranted and should be examined.

## **TAB C1, Attachment 1 – Full Text of Answers by Question (continued)**

Q4. The Board proposes a new basic financial statement entitled “statement of changes in social insurance amounts.” The new statement would explain the changes during the reporting period in the present value amounts for the closed group measure included in the statement of social insurance. See paragraphs 36-37 in the proposed standard and paragraph A116 in the basis for conclusions. Mr. Werfel and other members have an alternative view. They believe the new statement should focus on changes in the open group measure and not the closed group measure. The question of the use of the appropriate measure is addressed in question 7 below. See paragraph A145 in the basis for conclusions.

**Do you believe there should be a new basic financial statement explaining changes to the present value amount included in SOSI?**

**Respondent #1** – Douglas Jackson – (No opinion)

**Respondent #2** – Dick Young – No comment

**Respondent #3** – Juan Kelly – I answer in the negative, because I find this measure irrelevant.

**Respondent #4** – Kenneth Winter – No comment.

**Respondent #5** – David Walker – [T]he basic financial statements should not include any closed-group amounts for social insurance programs. Therefore, the “Statement of Changes in Social Insurance Amounts” should focus solely on open-group calculations.

**Respondent #6** – Mary Glenn-Croft – While we agree with the ED’s proposal to introduce a new basic financial statement ... we believe the statement should focus on the open group measure .... As stated in Mr. Werfel’s alternative view, social insurance reporting should address program sustainability and should include projections of all future cash flows over a given time horizon. The use of a closed group measure does not accomplish this, since it reflects only current participants. By not including the receipt of taxes from future participants, it would appear that a majority of benefits due to participants in the closed group would not be payable. In addition, since open group is used for evaluating changes in social insurance by Congress and other policy makers, based on estimates in the Trustees’ Reports, it seems appropriate to use only the open group measure in the new basic financial statement.

**Respondent #7** – David Fletcher – Again, we agree in principle with the alternative view put forth by Mr. Werfel. The new statement ... should focus solely on the open group measure and not on the closed group measure. [T]he closed group measure is highly misleading for programs financed on a current-cost basis, and so its presentation should be discouraged. However, the proposed statement ... properly focused ... is appropriate and valuable.

The proposed new statement as illustrated in Appendix E is good, but should be altered in two ways. First, as stated above, the new statement should address the open group measure only .... Addressing the closed group measure solely would be highly misleading, and addressing both the open

## **TAB C1, Attachment 1 – Full Text of Answers by Question (continued)**

group and the closed group measures ... here would be confusing, as well as misleading.

Second, the new statement ... should include a separate line item for “change in valuation period” as the initial change. This entry would show the extent of the change in present value purely due to the change in valuation date. These changes include: (1) the change in the date to which annual estimates are discounted, which alone increases the magnitude of the measured amount by the nominal annual rate of interest; (2) the omission of obligations and taxes for the first year of the former valuation period; and (3) the net obligations over taxes for the last year of the new valuation period. Inclusion of these items in “Other changes” after other line items would be inappropriate, as changes due to the change in the valuation date are fundamental and occur even if there is no change for any other reason.

The other categories of change are logical, informative, and readily available, as they coincide with values already computed and provided in the annual Trustees Reports for Social Security and Medicare. The presentations of change in these reports have been developed and refined for decades. The table illustrating changes in the open group measure would be a useful addition to the required supplementary information in the financial statements.

**Respondent #8** – Steven Schaeffer – No. We believe that the significant changes can be explained in short high level note to the [SOSI]. We believe that the average citizen wants to know when expenses are forecasted to exceed tax revenues, and when Social Security will not be able to fully fund benefits under current law if no changes are made.

**Respondent #9** – Eric Klieber – I agree with the alternative view expressed by Mr. Werfel, for the reasons given in the response to Question 7 below.

**Respondent #10** – Joseph Maresca – No comment.

**Respondent #11** – Daniel Kovlak – The Statement of Changes would add valuable information about what causes the measures to change. As noted below in response to Question 7, we believe the focus should be on the open group rather than the closed group measures.

**Respondent #12** – Andrew J. Rettenmaier – Yes. A statement of changes ... should be included and should be based on the closed group obligation, given that it is the focus of the new reporting.

**Respondent #13** – Stephan Goss – Again, we agree in principle with the alternative view put forth by Mr. Werfel. The new statement of changes in social insurance amounts should focus solely on the open group measure and not on the closed group measure. As described above, the closed group measure is highly misleading for programs financed on a current-cost basis, and so its presentation should be discouraged. However, the proposed statement of changes, properly focused on the open group measure in SOSI, is appropriate and valuable.

## **TAB C1, Attachment 1 – Full Text of Answers by Question (continued)**

The proposed new statement as illustrated in Appendix E is good, but should be altered in two ways. First, as stated above, the new statement should address the open group measure only and should not address the closed group measure. Addressing the closed group measure solely would be highly misleading, and addressing both the open group and closed group measures here would be confusing, as well as misleading

Second, the new statement illustrated in Appendix E should include a separate line item for “change in valuation period” as the initial change. This entry would show the extent of the change in present value purely due to the change in valuation date. These changes include (1) the change in the date to which annual estimates are discounted, which alone increases the magnitude of the measured amount by the nominal annual rate of interest, (2) the omission of obligations and taxes for the first year of the former valuation period, and (3) the net obligations over taxes for the last year of the new valuation period. Inclusion of these items in “Other changes” after the other line items would be inappropriate, as these changes due to the change in the valuation date are fundamental and occur even if there is no change for any of the other reasons. The other categories of change are logical, informative, and readily available, as they coincide with values already computed and provided in the annual Trustees Reports for Social Security and Medicare. The presentations of change in these reports have been developed and refined for decades. The table illustrating changes in the open group measure would be a useful addition to the required supplementary information in the financial statements.

**Respondent #14** – Cynthia Simpson – In theory we have no objections to the new basic statement explaining changes to the present value amount included in the SOSI. However, we believe that changes in the SOSI may be better explained in additional information provided in a footnote to SOSI.

**Respondent #15** – Richard G. Schreitmueller – Again, we agree in principle with the alternative view put forth by Mr. Werfel. The new statement of changes in social insurance amounts should focus solely on the open group measure and not on the closed group measure. As described above, the closed group measure is misleading for programs financed on a current-cost basis, and so its presentation should be discouraged. However, the proposed statement of changes, properly focused on the open group measure in SOSI, is appropriate and valuable.

The proposed new statement as illustrated in Appendix E is good, but should be altered in two ways. First, as stated above, the new statement should address the open group measure only and should not address the closed group measure. Addressing the closed group measure solely would be highly misleading, and addressing both the open group and closed group measures here would be confusing, as well as misleading

Second, the new statement illustrated in Appendix E should include a separate line item for “change in valuation period” as the initial change. This

## **TAB C1, Attachment 1 – Full Text of Answers by Question (continued)**

entry would show the extent of the change in present value purely due to the change in valuation date. These causes of this change include (1) the change in the date to which annual estimates are discounted, which, alone increases the magnitude of the measured amount by the nominal annual rate of interest, (2) the omission of obligations and revenues for the first year of the former valuation period, and (3) the net obligations over revenue for the last year of the new valuation period. Inclusion of these items in “Other changes” after the other line items would be inappropriate, as these changes due to the change in the valuation date are fundamental and occur even if there is no change for any of the other reasons. The other categories of change are logical, informative, and readily available, as they coincide with values already computed and provided in the annual Trustees Reports for Social Security and Medicare. The presentations of change in these reports have been developed and refined for decades. The table illustrating changes in the open group measure would be a useful addition to the required supplementary information in the financial statements.

**Respondent #16** – Jagadeech Gokhale – No comment.

**Respondent #17** – Terry Bowie – We believe that the proposed statement [SCSIA] will help to present the reconciliation of the beginning balance of the social insurance in the current year with the ending balances. By providing additional relevant information in the SCSIA, this statement will help to enhance the understandability to users. The proposed summary section of the [SOSI] presents information for both the closed and open group measures, but on practical considerations the Board opted to present a statement of changes only for the closed group measure. Readers of this basic financial statement will be interested in the changes during the current period and we suggest the Board pursue further development of a change statement that includes the open group measures too.

**Respondent #18**—Sheila Weinberg – To avoid adding complications to the basic statements, such a schedule should be included as RSI.

**Respondent #19** – Robert Childree – This additional information will be very useful to users of both the consolidated financial report and the reports of the social insurance agencies and departments. Par. 37 makes the following very important notation, as follows: “The most significant changes should be explained in the entity’s MD&A as well as in disclosures associated directly with the SCSIA.” Both of these additions to reported information will be important in understanding the elements that create change in reported amounts, and will be especially important when the Congress begins to respond to the currently unsustainable nature of social insurance program. Further, as noted in par. A116, “(t)he format in Attachment E also includes beginning of the year and end of year present values, which would agree with the balances for the current year and immediate past year presented in the SOSI for the closed group. This will illustrate the link between current and prior years.”

## **TAB C1, Attachment 1 – Full Text of Answers by Question (continued)**

**Respondent #20** – Alvin Winters – I agree with the alternative view. I believe showing the reasons for the changes in the SOSI amounts is practical and should be reported. However, I would hope rather overloading the users of the financial statements with information on each line item, only the changes in the total present value of benefits and total present value of revenue be shown. Both should be measured on an “open group” basis only. The use of a “closed group” measure has no context, given the current construction of social insurance programs.

At a minimum, the following changes and the resulting impact of each should be disclosed:

- i.Changes in the valuation period.
- ii.Changes in assumptions.
- iii.Changes in methodology.
- iv.Changes in law.
- v.Actuarial gains and losses.

In addition, I would like each change in assumption and method broken out separately. For example if mortality and inflation assumptions were both changed, it would be valuable to see the impact of each change separately. The same would apply to changes in assumptions. Changes in assumptions should be shown separately from changes in data. Where the data comes in differently than expected, those changes should be reported as and actuarial gain or loss.

## **TAB C1, Attachment 1 – Full Text of Answers by Question (continued)**

Q5. The Board proposes to disclose an accrued benefit obligation in notes to the financial statements. This information would include a five year trend when the standard is fully implemented. See paragraph 38 in the proposed standard and paragraphs 117-123 in the basis for conclusions. Mr. Werfel and other members have an alternative view expressing opposition to this disclosure. See paragraph A146 in the basis for conclusions.

**Do you believe that an accrued benefit obligation should be disclosed as described in this exposure draft?**

**Respondent #1** – Douglas Jackson – Yes. The more transparency, the better.

**Respondent #2** – Dick Young – No comment.

**Respondent #3** – Juan Kelly – I answer in the negative, because I find this measure irrelevant.

**Respondent #4** – Kenneth Winter – No comment.

**Respondent #5** – David Walker – I do not believe that accrued benefit obligation amounts should be included in the notes to the financial statements. Such amounts do not reflect the realities of a social insurance program and would not provide meaningful information to the readers of the financial statements. The financial statements already include extensive information on social insurance programs. There is a limit as to how much information can be reasonably absorbed. Candidly, I believe that, absent any realistic possibility of the federal government terminating these programs in a manner similar to an employer sponsored pension plan, which is what this measure implies, including accrued benefit obligation information would [be] both inappropriate and a step in the wrong direction.

**Respondent #6** – Mary Glenn-Croft – We do not believe that an accrued benefit obligation should be disclosed. As noted in Mr. Werfel's alternative view, the term "obligation" may be misleading to users in this context since it implies that the government has an "obligation" or liability to participants. In addition, the accrued benefit obligation is calculated based on current participants only (closed group), not considering the current cost financing principle of Social Security.

**Respondent #7** – David Fletcher – We agree with the position of Mr. Werfel as stated in paragraph A146. It is not appropriate to present the accrued benefit obligation in the notes to the financial statements. Social insurance programs are appropriately characterized as statements of intent for future benefits of a general nature, but do not make commitments to any level of benefits that may be scheduled in current law [sic]. Projected shortfalls in expected financing for social insurance programs should only be presented on a basis that properly accounts for the intended financing of the program. For a current-cost-financed program like Social Security, only the open group measure is appropriate. The closed group measure, and the even more specific "accrued benefit obligation" are inappropriate and misleading and do

## **TAB C1, Attachment 1 – Full Text of Answers by Question (continued)**

not contribute to the understanding of the financial challenges presented by the program.

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. The accrued benefits obligation is simply not a meaningful number for an ongoing pay-as-you-go social insurance program. Moreover, the difficulty in defining the basis for computation of this measure is enormous. While such values have been estimated on a rough basis for illustrative purposes by the Social Security actuaries, the complexity of assumptions needed would make this measure highly controversial. If the program were converting abruptly to a new form that applies not only for future participants but also with respect to all future taxes or premiums of current participants, then the accrued benefit obligation might be of some interest, as a “transition cost” .... This is the context in which this value is computed and presented in publications by the Social Security actuaries. This measure is inappropriate for inclusion in the financial statements for ongoing programs like Social Security.

In addition, as stated by Mr. Werfel, the presentation of yet another measure of social insurance commitments would likely confuse and mislead user of the financial statements.

**Respondent #8** – Steven Schaeffer – No. We concur with paragraph A146. We believe that adding more information to the SOSI information already contained in the FY 2008 SSA Performance Accountability Report would be too much information for the average citizen.

**Respondent #9** – Eric Klieber – I do not agree that an accrued benefit obligation should be disclosed as described in the ED. The Board claims this new disclosure comes at the request of users, but does not attempt to explain how it would be used other than “to provide information for the many users who are interested in knowing what such an amount might be and in evaluating the obligation in this way.” This rationale is simply too vague to be compelling. For example, the users may have requested the disclosure because they have agreed among themselves that the last 5 digits would be the winning number in a lottery. It is incumbent on the Board to explain how the disclosure would be used rather than merely relying on a request from users.

**Respondent #10** – Joseph Maresca – No comment.

**Respondent #11** – Daniel Kovlak – We believe only the chosen measures (open group, closed group, or Accrued Benefit Obligation (ABO)) should be shown. The inclusion of alternatives and too many presentations of data confuses the reader. As discussed below, we prefer the open group measures over the closed group measures and the ABO.

**Respondent #12** – Andrew J. Rettenmaier – Yes. Comprehensive financial reporting requires the inclusion of accrued benefit obligation measures for social insurance. Of all of the measures used to account for the financial status of these

## **TAB C1, Attachment 1 – Full Text of Answers by Question (continued)**

programs, only the accrued benefit obligation can be thought of as liabilities. It is unfortunate that the accrued obligations are relegated to a footnote in the proposed standard. The accrued benefits measures provide valuable information to the public regarding the current outstanding commitments of the federal government to beneficiaries. The accrued benefits, particularly Social Security payments to current beneficiaries are equivalent to the pension obligation of private and public sector employers. Though there are definitional issues to overcome in calculating accruals for current participants who are younger than the eligibility age, as well as more uncertainty in the estimates for Medicare, the accrued measures are necessary for a complete understanding of the current burden of social insurance.

**Respondent #13** – Stephan Goss – We agree with the position of Mr. Werfel as stated in paragraph A146. It is not appropriate to present the accrued benefit obligation in the notes to the financial statements. Social insurance programs are appropriately characterized as statements of intent for future benefits of a general nature, but do not make commitments to any level of benefits that may be scheduled in current law. The historical record makes this clear. Projected shortfalls in expected financing for social insurance programs should only be presented on a basis that properly accounts for the intended financing of the program. For a current-cost-financed program like Social Security, only the open group measure is appropriate. The closed group measure, and the even more specific “accrued benefit obligation,” are inappropriate and misleading and do not contribute to the understanding of the financial challenges presented by the program.

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. The accrued benefit obligation is simply not a meaningful number for an ongoing pay-as-you-go social insurance program that is subject to certain change in the future. Moreover, the difficulty in defining the basis for computation of this measure is enormous. While such values have been estimated on a rough basis for illustrative purposes by the Social Security actuaries, the complexity of assumptions needed would make this measure highly controversial if there were any attempt to portray it as a meaningful indicator of financial status. If the program were converting abruptly to a new form that applies not only for future participants but also with respect to all future taxes or premiums of current participants, then the accrued benefit obligation might be of some interest, as a “transition cost” component for the total net cost of conversion to the new form. This is the context in which this value is computed and presented in publications by the Social Security actuaries. However, this measure is inappropriate for inclusion in the financial statement for ongoing programs like Social Security.

## **TAB C1, Attachment 1 – Full Text of Answers by Question (continued)**

In addition, as stated by Mr. Werfel, the presentation of yet another measure of social insurance commitments would likely confuse and mislead users of the financial statements.

**Respondent #14** – Cynthia Simpson – The accrued benefit obligation is presented on the SOSI in the section entitled Social Insurance Summary (as presented in Appendix D). Therefore, presenting this information again in the notes would be redundant.

Because the Black Lung Disability Benefit Program has a closed universe of participants, where closed group and open group measures will yield the same reporting results, we believe that the accrued benefit obligation is already reported on the SOSI.

DOL does not prepare a SOSI for the Unemployment Insurance Program. Therefore, the UI would not report an accrued benefit obligation. The language presented in paragraph 38 is unclear regarding whether all social insurance programs or only those social insurance programs which prepare a SOSI must report an accrued benefit obligation.

**Respondent #15** – Richard G. Schreitmueller – We agree with the position of Mr. Werfel as stated in paragraph A146. It is not appropriate to present the accrued benefit obligation in the notes to the financial statements. Social insurance programs are appropriately characterized as statements of intent for future benefits of a general nature, but do not make commitments to any level of benefits that may be scheduled in current law. The historical record makes this clear. Projected shortfalls in expected financing for social insurance programs should only be presented on a basis that properly accounts for the intended financing of the program. For a current-cost-financed program like Social Security, only the open group measure is appropriate. Both the closed group measure and the even more specific “accrued benefit obligation” are inappropriate and misleading and do not contribute to the understanding of the financial challenges presented by the program.

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. The accrued benefit obligation is simply not a meaningful number for an ongoing pay-as-you-go social insurance program. Moreover, the difficulty in defining the basis for computation of this measure is enormous. While Social Security actuaries have provided rough estimates of such values for illustrative purposes, the complexity of assumptions needed would make this measure controversial. If the program were converting abruptly to a new form that applies not only for future participants but also with respect to all future taxes or premiums of current participants, then the accrued benefit obligation might be of some interest, as a “transition cost” component for the total net cost of conversion to the new form. This is the context in which this value is computed and presented in publications by the Social Security actuaries. This measure is inappropriate

## **TAB C1, Attachment 1 – Full Text of Answers by Question (continued)**

for inclusion in the financial statement for ongoing programs like Social Security.

Moreover, as stated by Mr. Werfel, the presentation of yet another measure of social insurance commitments would likely confuse and mislead users of the financial statements.

**Respondent #16** – Jagadeech Gokhale – No comment.

**Respondent #17** – Terry Bowie – We don't believe that the accrued benefit obligation should be disclosed since doing so could give the impression to the readers that government has an obligation to the participants for that amount. Please note that the accrued benefit obligation is calculated based on current participants only; thus disclosure of such could mislead some readers of the financial statements.

**Respondent #18** – Sheila Weinberg – Yes. The "accrued benefit obligation" is the most truthful amount of the Social Security and Medicare "obligation". This amount should be presented on the face of the balance sheet as a liability. The "present value of future payroll taxes and income taxes to be paid" should not be included in the calculations of the accrued liability and related current year cost. These "earmarked" taxes are "earmarked" in name only. In reality these taxes are just like any other tax, because they are commonly used to pay for non-social insurance benefits and services.

**Respondent #19** – Robert Chidree – This additional information is an excellent idea. It would permit the reader to relate the (nonexchange related) obligations of the federal government to current participants and qualified participants to its substantively comparable obligations to active and retired federal employees and to qualifying veterans.

**Respondent #20** – Alvin Winters – The accrued benefit obligation provides no value in the context of these programs and should not be used. The government is not obligated to provide these benefits. Since the inception of social insurance programs, the federal government has exercised its sovereign power to remove, reduce, or modify the benefits and taxation structure of these programs. The only measurement of any relevance is the difference between the program's future inflows and outgoes. That is where the government's true obligation lies. One way or the other, the federal government will be obligated to reduce benefits or increase revenues. These are the amounts that are of importance to financial statement users and policy makers.

## **TAB C1, Attachment 1 – Full Text of Answers by Question (continued)**

Q6. The Board considered but decided not to propose adding a line item to the statement of net cost ("SNC") for the change during the reporting period in the closed group measure that would be presented below exchange revenue and expenses and not included in the totals for these classifications. Some argue that this measure should not be presented on the SNC because it is a fundamentally different measure. Others believe the change is an economic cost that belongs on the SNC, and that including this number at the bottom of the SNC appropriately links all basic financial statements. See paragraphs A101-A113 in the basis for conclusions.

**Do you believe that the SNC should not include a line item for the change during the period in the closed group measure, which would be presented below exchange revenue and expenses and not included in the totals for these classifications?**

**Respondent #1** – Douglas Jackson – No. The more transparency, the better.

**Respondent #2** – Dick Young – No comment.

**Respondent #3** – Juan Kelly – I am in agreement that the SNC should not include a line item for the change in the closed group measure, because I find it irrelevant.

**Respondent #4** – Kenneth Winter – No comment.

**Respondent #5** – David Walker – [C]losed group measures should not be included in any of the basic financial statements.

**Respondent #6** – Mary Glenn-Croft – We agree with the board's decision to not include a line item [on SNC for] the closed group measure. Neither should the SNC show a "below the line" item for changes in the open group net obligation .... The SNC should reflect the matching of government costs of operations with services provided by the government during that particular year. Showing expenses for future benefits, even if only below the line, is not consistent with this principle and would be misleading to the user. ...

**Respondent #7** – David Fletcher – We agree that the SNC should not include a line item for the change during the period in the closed group measure. We agree with the members of the Board who believe that a measure representing future obligations which are not current costs should not be presented on the SNC because it is a fundamentally different measure. Our general objection to the use of the closed group measure in this standard is explained in response to Question 2 above.

Moreover, the SNC should not include a line item for even the change in the open group net obligation for social insurance programs. The SNC is just that: a statement of net cost for a particular year. It should reflect the principle of matching costs of government operations during a particular year with services provided by the government during that year. Displaying the change in a measure which includes future scheduled benefits would not match this principle, even if presented "below-the-line".

## **TAB C1, Attachment 1 – Full Text of Answers by Question (continued)**

Once again, we stress our objections to employing the closed group measure at all, in accordance with the alternative view presented by Mr. Werfel.

**Respondent #8** – Steven Schaeffer – We believe the SNC should not include a line for the change during the period. We believe that SOSI amounts are economic in nature, similar to fair market value of assets. If included in the SNC, we have a concern that this would result in the change being given greater weight than warranted.

**Respondent #9** – Eric Klieber – The SNC should not include a line item for the change during the period of either the closed group or the open group measure. As discussed in the response to Question 2 above, the Board has not provided a sufficient rationale for special treatment for the five social insurance programs covered by the ED.

**Respondent #10** – Joseph Maresca – No comment.

**Respondent #11** – Daniel Kovlak – We do not believe that the SNC should include a line item for the change during the period in the closed group measure. We have previously stated reasons for not including the measures in assets, liabilities, and net assets. Those reasons apply also to the SNC. If the measures are not included in assets, liabilities, and net assets, then the change should not flow through SNC.

**Respondent #12** – Andrew J. Rettenmaier – Yes. The SNC should not include a line item for the change during the period. The information in Appendix E is sufficient.

**Respondent #13** – Stephan Goss – We agree that the SNC should not include a line item for the change during the period in the closed group measure. Moreover, the SNC should not include a line item for even the change in the open group net obligation for social insurance programs. We agree with the members of the Board who believe that a measure representing future obligations which are not current costs should not be presented on the SNC because it is a fundamentally different measure. The SNC is just that: a statement of net cost for a particular year. It should reflect the principle of matching costs of government operations during a particular year with services provided by the government during that year. Displaying the change in a measure which includes future scheduled benefits would not match this principle, even if presented “below-the-line.”

Once again, we stress our objections to employing the closed group measure at all, in accordance with the alternative view presented by Mr. Werfel.

**Respondent #14** – Cynthia Simpson – We concur that the SNC should not include a line item for the change during the period in the closed group measure, to be presented below exchange revenue and expenses .... As stated in our response to Q2, we do not believe that the balance sheet should present a line item for the closed group measure as described in the ED. Therefore, we do not believe that the change during the period should be reported in the SNC.

## **TAB C1, Attachment 1 – Full Text of Answers by Question (continued)**

**Respondent #15** – Richard G. Schreitmueller – We agree that the SNC should not include a line item for the change during the period in the closed group measure. Moreover, the SNC should not include a line item for even the change in the open group net obligation for social insurance programs. We agree with the members of the Board who believe that a measure representing future obligations that are not current costs should not be presented on the SNC because it is a fundamentally different measure. The SNC is just that: a statement of net cost for a particular year. It should reflect the principle of matching costs of government operations during a particular year with services provided by the government during that year. Displaying the change in a measure which includes future scheduled benefits would not match this principle, even if presented “below-the-line.”

Once again, we stress our objections to employing the closed group measure at all, in accordance with the alternative view presented by Mr. Werfel.

**Respondent #16** – Jagadeech Gokhale – No comment.

**Respondent #17** – Terry Bowie – Yes, we agree that there is no need to include a line item to the [SNC] for the change during the reporting period in the closed group measure. We concur with the Board’s position that the purpose of the SNC is to present the cost of goods and services provided during the current period, and change in social insurance commitments as such is not a cost associated with providing goods and services. Furthermore, we believe that SOSI and the proposed SCSIA together will be sufficient to provide information to the users of these financial statements and adding a line item to the SNC could turn to be misleading to the users.

**Respondent #18** – Sheila Weinberg – A line item to the SNC should be added. I wholeheartedly agree with paragraphs A101-A109.

**Respondent #19** – Robert Childree – With reference to the answer to question 2, the inclusion of a separate line as contemplated is not supported by the concepts statements of the FASAB, nor of other standards setting organizations. A below-the-line item is not an element and, therefore, should not be included on the Statement of Net Cost. However, if the line was provided as appearing both on the bottom of the statement of net cost and as a disclosure within the notes to the financial statements, then the ultimate standard might be strengthened. Although this can be explored by the Board, it should continue to deliberate on the possibility of recognizing some form of costs associated with social insurance within the statement of net cost.

**Respondent #20** – Alvin Winters – Again the closed group measure has no meaning in the context of these programs. The SNC should not include the increase in the closed group obligation. However, including the increase in the open group measure would add value and provide the proper context for measuring the federal government’s actions or inaction over the prior year in regard to these programs. Again, the increase in the open group liability should be

**TAB C1, Attachment 1 – Full Text of Answers by Question  
(continued)**

shown as expense not some pseudo-expense below the SNC. Adding all of these pseudo expense/liability numbers on the government's financial statements will make the statements useless to all but the most knowledgeable parties. I doubt the general public will understand the nuances between items below and above the net position or net cost.

## **TAB C1, Attachment 1 – Full Text of Answers by Question (continued)**

Q7. The Board decided to present the **closed group measure** (CGM) (defined in paragraph 19) as a common thread among the proposed new reporting. The proposal requires that the CGM and other key measures from the financial statements be discussed in management's discussion and analysis; that the CGM be presented on the balance sheet below assets, liabilities and net position (without being included in the totals for those categories); and that the changes in the CGM during the reporting period be presented and explained in the new summary section of the statement of social insurance and the new statement of changes in social insurance. The Board considered the **open group measure** (defined in paragraph 24) instead of the closed group measure as the focus for the disclosure. This exposure draft discusses both the closed group measure and the open group measure throughout. Paragraphs A69-A74 provide the basic rationale for the Board's selection of the closed group measure. Mr. Werfel and other members have an alternative view regarding the presentation of the closed group measure. They oppose the addition of the closed group measure to the balance sheet. Further, they believe the open group measure is the appropriate measure to use in the new statement of changes in social insurance and not the closed group measure. See paragraph A145 in the basis for conclusions.

### **Do you agree with the Board's decision to feature the closed group measure?**

**Respondent #1** – Douglas Jackson – (No opinion.)

**Respondent #2** – Dick Young – No comment.

**Respondent #3** – Juan Kelly – I am not in agreement with the decision to feature the closed group measure using the same rationale as in my answer to Question 6.

**Respondent #4** – Kenneth Winter – No comment.

**Respondent #5** – David Walker – No.

**Respondent #6** – Mary Glenn-Croft – We strongly disagree with the Board's proposal to feature the closed group measure. As previously mentioned, the use of an open group measure is essential in performing an accurate sustainability analysis, by projecting all future cash flows over a given period. The closed group measure only includes [current participants] .... This concept fails to reflect the financing principle of the Social Security program, where working individuals pay the benefits of retired or disabled individuals. [I]gnoring this concept [makes] it appear that benefits to current participants would not be payable to a far greater degree than is appropriate. In addition, social insurance sustainability, policy, and other related changes are more accurately illustrated in changes to the open group measure for all participants.

**Respondent #7** – David Fletcher – No, we do not agree with the Board's decision to feature the closed group measure. We are in agreement with Mr. Werfel's view that the open group measure is the appropriate measure to use in the new statement

## **TAB C1, Attachment 1 – Full Text of Answers by Question (continued)**

.... We also agree with Mr. Werfel that the closed group measure should not be added to the balance sheet.

The closed group measure reflects only current programs ... participants ... which is entirely inconsistent with the design of the program and its basic financing principle (i.e., that working individuals pay the benefits of retired or disabled individuals). By ignoring this principle, payments from future participants necessary to pay current participants are not included ...making it appear that benefits to current participants would not be payable to a far greater degree than is appropriate.

The open group measure appropriately reflects the pay-as-you-go nature of the program .... It measures the extent to which future scheduled taxes will be sufficient to pay future schedule benefits on the actual basis by which the program is financed. Shifting the emphasis ... to a closed group approach would be highly misleading .... The FASAB should, in fact, discourage presentation of closed group measures....

In addition, the basis for any assessment or measurement of social insurance sustainability must be done on an open group basis. The Social Security and Medicare Trustees Reports follow this principle with emphasis almost exclusively on the open group; the closed group is only presented as an illustrative component of the theoretical decomposition of the open group from a generational perspective. This kind of academic analysis has no relevance in a financial statement. Focusing on the closed group measure would inappropriately magnify the difference between projected obligations and projected taxes and would be misleading and confusing for readers of the financial statements.

**Respondent #8** – Steven Schaeffer – We do not support the Board’s decision to feature the closed group. We agree with Mr. Werfel and others that the open group is the better measure.

**Respondent #9** – Eric Klieber – I disagree with the Board’s decision to feature the closed group measure. Congress has stated its intent that social insurance programs be funded on a pay-as-you-go basis, that is, the benefits of each cohort of participants are funded largely by the taxes paid by and on behalf of future cohorts. This applies even to those programs funded by dedicated trust funds. While it is true these trust funds have at times built up significant assets, these asset build-ups are merely an artifact of setting the funding tax at a long-term level rate to avoid the necessity of periodically raising the rate to follow expense trends. For example, when the 1983 OASDI amendments were adopted, the accompanying financial projection showed that, although the trust fund would grow to a substantial level during the first half of the 75-year projection period, the trust fund would exceed the targeted one year of expenses by only a miniscule amount at the end of the projection period.

The closed-group measure provides meaningful information only for programs intended to be fully pre-funded, that is, programs for which the benefits of each cohort are funded by the taxes paid by and on behalf of that cohort. The

## **TAB C1, Attachment 1 – Full Text of Answers by Question (continued)**

closed group measure includes only the payroll taxes and benefits associated with participants at the beginning of the projection period (including past payroll taxes net of benefits payments represented by the initial assets). Therefore, in a fully pre-funded program, the closed group measure includes both the benefits expected to be paid to members of the closed group and the payroll tax income intended to fund those benefits, as is appropriate. However, using the closed group method for a program funded on a pay-as-you-go basis excludes the payroll tax income from future new entrants intended to fund a portion of the benefits paid during the projection period. The resulting mismatch between benefits and funding presents a distorted picture of the financial position of the program.

The open group measure is appropriate for programs funded on a pay-as-you-go basis, because the open group measure includes all payroll tax income during the projection period .... In this manner, the benefits valued are matched to the tax income intended to fund those benefits.

**Respondent #10** – Joseph Maresca – No comment.

**Respondent #11** – Daniel Kovlak – We think there are good arguments for both the open group and the closed group measures. We do think that whether FASAB ultimately chooses the open group or closed group measures, it should not require that both be presented. We believe that this will add confusion. The results are also similar enough that two methods are not required. It would be our preference that the open group measure be the one adopted by the FASAB in its final pronouncement.

**Respondent #12** – Andrew J. Rettenmaier – Yes, as a compromise based on the reasons given in A69-A74, the closed group is preferable to the open group. Please see general comments below.

**Respondent #13** – Stephan Goss – We do not agree with the Board's decision to feature the closed group measure. We are in agreement with Mr. Werfel's view that the open group measure is the appropriate measure to use in the new statement of changes in social insurance. We also agree with Mr. Werfel that the closed group measure should not be added to the balance sheet.

The closed group measure reflects only current program beneficiaries and participants and assumes that the program is closed to future participants, which is entirely inconsistent with the design of the program and its basic financing principle (i.e. that the program will be financed essentially on a pay-as-you-go basis).

The open group measure appropriately reflects the pay-as-you-go nature of the program: taxes from future participants will be used to pay for benefits to current participants. It measures the extent to which future scheduled taxes will be sufficient to pay future scheduled benefits on the actual basis by which the program is actually financed. Shifting emphasis of the financial statements for social insurance by either the component entities or the governmentwide entity to a closed group approach would be highly

## **TAB C1, Attachment 1 – Full Text of Answers by Question (continued)**

misleading for readers of the statements. The FASAB should, in fact, strongly discourage presentation of closed group measures rather than encouraging or prescribing their use.

In addition, the basis for any assessment or measurement of social insurance sustainability must be done on an open group basis. The Social Security and Medicare Trustees Reports follow this principle with emphasis almost exclusively on the open group; the closed group is only presented as an illustrative component of the theoretical decomposition of the open group from a generational perspective. This kind of academic analysis has no relevance in a financial statement. Focusing on the closed group measure would inappropriately magnify the difference between projected obligations and projected taxes and would be misleading and confusing for readers of the financial statements.

**Respondent #14** – Cynthia Simpson – Due to the nature of the program, the Black Lung Disability Benefit Program essentially has a closed universe of participants; therefore, the closed group versus the open group measure will yield the same reporting result.

DOL does not prepare a SOSI for the UI program. The UI program uses open group measures for 10-year projections for the information presented in the RSI. Projections are based on predicted workforce and unemployment rates. We believe that closed group measures do not provide a complete presentation of the UI program.

**Respondent #15** – Richard G. Schreitmueller – We are in agreement with Mr. Werfel's view that the open group measure is the appropriate measure to use in the new statement of changes in social insurance. We also agree with Mr. Werfel that the closed group measure should not be added to the balance sheet.

The closed group measure reflects only current program beneficiaries and participants, and assumes that the program is closed to future participants, which is entirely inconsistent with the design of the program and its basic financing principle (i.e. that the program will be financed essentially on a pay-as-you-go basis). The open group measure appropriately reflects the pay-as-you-go nature of the program: Taxes from future participants will be used to pay for benefits to current participants. It measures the extent to which future scheduled taxes will be sufficient to pay future scheduled benefits on the basis by which the program is actually financed. Shifting emphasis of the financial statements for social insurance to a closed group approach, by either component entities or the governmentwide entity, would be misleading for readers of the statements, and the FASAB should not prescribe such an approach.

In addition, the basis for any assessment or measurement of social insurance sustainability must be done on an open group basis. The Social Security and Medicare Trustees Reports follow this principle with emphasis almost exclusively on the open group; the closed group is only presented as an illustrative component of the theoretical decomposition of the open group

## TAB C1, Attachment 1 – Full Text of Answers by Question (continued)

from a generational perspective. This kind of academic analysis, while useful in other contexts, is not has no relevance in a financial statement. Focusing on the closed group measure would inappropriately magnify the difference between projected obligations and projected taxes and would be misleading and confusing for readers of the financial statements.

**Respondent #16** – Jagadeech Gokhale – Issues about the reporting of social insurance liabilities have been thoroughly discussed for a number of years by academic economists and other scholars of the subject. The key basic measures for social insurance programs that should be *prominently* reported include the open- and closed-group net “liability” measures with appropriate discussion of the methodology of deriving them and their significance. Neither measure by itself is sufficient, but the two measures together provide complete and consistent information about the evolving financial condition of social insurance programs under existing policies.

**Respondent #17** – Terry Bowie – Since the open group measure includes the current and future participants, it can provide more realistic information about the sustainability of the program in the long run than a closed group measure. Providing closed group measure alone could be misleading to the readers because payments from future participants to pay current participants are not included.

**Respondent #18** – Sheila Weinberg – I don’t believe people who are not current participants in the programs should be included in the reporting of social insurance programs.

**Respondent #19** – Robert Childree – The presentation of the closed group measure would be most justified relative to established theory and practice, and, as recommended in the previous answers, would be the only measure that should be contemplated for recognition and/or disclosure relative to the balance sheet and statement of net cost. The open group measure cannot be related to either current or qualified participants and, therefore, would be most appropriately reported and discussed within the SOSI and in the anticipated Statement of Sustainability.

**Respondent #20** – Alvin Winters – No I do not agree with the Board. The open group measure is the only appropriate measure to use in the new statement of changes in social insurance. It is also the only number that should and must be included on the balance sheet.

Changes to the closed group measurement, by themselves do not indicate the change in the government’s obligation. Again, for the OASDI program the current measure of the government’s obligation is \$5.7 trillion, which is the difference between the present value of future benefits and revenue. This is the amount by which changes in benefit levels or taxation need to be made. Any other measure is irrelevant outside of this context. Thus the FASAB should discourage the presentation of closed-group measures rather than dictate their usage.

## **TAB C1, Attachment 1 – Full Text of Answers by Question (continued)**

Q8. The Board is proposing to change the requirement currently in SFFAS 17 for specific sensitivity analysis. The standard will require the entity to provide sensitivity analysis of the closed and open group measures appropriate for its particular social insurance program but will not specify a particular approach for the analysis. See paragraphs 42-43 of the standard and paragraphs A125-A137 of the basis for conclusions.

**Do you believe that a general requirement that allows flexibility in the sensitivity analysis presented will produce better information regarding the sensitivity of social insurance programs?**

**Respondent #1** – Douglas Jackson – (No opinion.)

**Respondent #2** – Dick Young – No comment.

**Respondent #3** – Juan Kelly – I do not believe a flexible approach to sensitivity analysis is appropriate as it is subject to abuse. Instead, the parties responsible for complying with the final standard must seek actuarial consensus referring to FASB/GASB pronouncements.

**Respondent #4** – Kenneth Winter – No comment.

**Respondent #5** – David Walker – I agree that a general requirement is acceptable provided that it only relates to open-group measures and adequate guidance is provided to help ensure effective and consistent compliance.

**Respondent #6** – Mary Glenn-Croft – Yes, we believe that allowing flexibility when preparing sensitivity analysis, on an open group basis only, will produce better information. Preparers will be able to present their sensitivity analysis in a more concise format that is understandable to readers.

**Respondent #7** – David Fletcher – Yes, we agree that flexibility ...is desirable and can produce better information for users. Streamlining the information presented, while retaining the most relevant and meaningful portions of the analysis, will lead to a more concise and less overwhelming presentation. But a sensitivity analysis, per se, should continue to include estimates of the effects of changes individual assumptions, as is currently the case. The statement in paragraph 42 suggesting that sensitivity analysis might illustrate the effects if "... data, methodologies or other inputs change" is unclear.

Including the results of stochastic modeling, as suggested in paragraph 43, is a useful consideration in displaying the distribution and uncertainty of future outcomes. But this presentation of uncertainty is fundamentally different from a sensitivity analysis for specific possible changes in specific assumptions. Mention of the possible inclusion of stochastic analysis for Social Insurance programs in the financial statements should be made in the context of discussion of uncertainty, and not in the context of sensitivity analysis. The Social Security Trustees Report has presented stochastic estimates since

## **TAB C1, Attachment 1 – Full Text of Answers by Question (continued)**

2003 as a supplement to the traditional methods of analyzing uncertainty. However, care should be taken in emphasizing stochastic analysis, as the science is still under development and current estimates are incomplete. It is understood that current presentations of stochastic ranges of potential outcomes understate the size of the range of potential outcomes at a given level of probability. Thus, for now, stochastic projections would probably be better excluded from the financial statements. Inclusion of such analysis, with appropriate caveats, would introduce considerable additional detail and complexity, thus reducing the clarity and emphasis of the statements on the critical measures.

Also note that a sensitivity analysis should be required and presented in the financial statements only on an open group basis. For all the reasons stated above, closed group measures are inappropriate and misleading, and would create a distraction that would be confusing and diminish the opportunity to present meaningful information in the financial statements.

**Respondent #8** – Steven Schaeffer – Yes, we believe that a general requirement allows for flexibility and will allow agencies to provide information specific to their mission. We would like to note that the FY 2008 SSA PAR contains 12 pages of sensitivity analysis which is fairly technical. Therefore, we have a concern that the average reader may be overwhelmed with the amount of additional information proposed.

**Respondent #9** – Eric Klieber – A sensitivity analysis is in an important component of the disclosure for a program which requires projections of income and expense far into the future. The sensitivity analysis should be confined to the open group measure, for the reasons given in the response to Question 7 above. Given the complexity of these programs and of the calculations required to properly value them, a high degree of flexibility should be allowed in determining what information to provide in the sensitivity analysis.

**Respondent #10** – Joseph Maresca – No comment.

**Respondent #11** – Daniel Kovlak – We are concerned that allowing too much flexibility in the sensitivity analysis will result in less relevant information being provided. If flexibility is allowed, this could lead to changes in the presentation each year which would compromise its comparability and consistency. The objective should be to present relevant information in a way that the reader can readily understand its significance. We are unsure whether allowing the use of stochastic modeling “as an augment or alternative to sensitivity analysis” would produce better information. We think it could be difficult for many readers to understand and could lead to more confusion than the present requirement for sensitivity analysis does.

**Respondent #12** – Andrew J. Rettenmaier – Yes. Sensitivity analysis is valuable for the public, but there are various ways to estimate confidence intervals around current forecast, so flexibility in making the stochastic estimates is important.

## **TAB C1, Attachment 1 – Full Text of Answers by Question (continued)**

**Respondent #13** – Stephan Goss – We agree that flexibility in the sensitivity analysis requirement is desirable and can produce better information for users. Streamlining the information presented, while retaining the most relevant and meaningful portions of the analysis, will lead to a more concise and less overwhelming presentation. But sensitivity analysis, per se, should continue to include estimates of the effects of changes in individual assumptions, as is currently the case. The statement in Paragraph 42 suggesting that sensitivity analysis might illustrate the effects if “...data, methodologies, and other inputs are changed” is unclear.

Including the results of stochastic modeling, as suggested in paragraph 43, is a useful consideration in displaying the distribution and uncertainty of future outcomes. But this presentation of uncertainty is fundamentally different from sensitivity analysis for specific possible changes in specific assumptions. Mention of the possible inclusion of stochastic analysis for social insurance programs in the financial statements should be made in the context of discussion of uncertainty, and not in the context of sensitivity analysis. The Social Security Trustees Report has presented stochastic estimates since 2003 as a supplement to the traditional methods of analyzing uncertainty. However, care should be taken in emphasizing stochastic analysis, as the science is still under development and current estimates are incomplete. It is understood that current presentations of stochastic ranges of potential outcomes understate the size of this range of potential outcomes at a given level of probability. Thus, for now, stochastic projections should be excluded from the financial statements. Inclusion of such analysis, with appropriate caveats, would introduce considerable additional detail and complexity, thus reducing the clarity and emphasis of the statements on the critical measures.

Also note that sensitivity analysis should be required and presented in the financial statements only on an open group basis. For all the reasons stated above, closed group measures are inappropriate and misleading, and would create a distraction that would be confusing and diminish the opportunity to present meaningful information in the financial statements.

**Respondent #14** – Cynthia Simpson – We concur with a general requirement that allows flexibility in the sensitivity analyses so that management may produce better information regarding the sensitivity of social insurance programs.

**Respondent #15** – Richard G. Schreitmüller – Sensitivity analysis should be required and presented in the financial statements only on an open group basis. For all the reasons stated above, closed group measures are inappropriate and misleading distractions that diminish the opportunity to present meaningful information in the financial statements.

However, we agree that flexibility in the sensitivity analysis requirement is desirable and can produce better information for users. Streamlining the information presented, while retaining the most relevant and meaningful portions of the analysis, will lead to a more concise and less overwhelming

## **TAB C1, Attachment 1 – Full Text of Answers by Question (continued)**

presentation. But sensitivity analysis, per se, should continue to include estimates of the effects of changes in individual assumptions, as is currently the case. The statement in Paragraph 42 suggesting that sensitivity analysis might illustrate the effects if "...data, methodologies, and other inputs are changed" is unclear.

Including the results of stochastic modeling, as suggested in paragraph 43, can be a useful in displaying the distribution and uncertainty of future outcomes. But this presentation of uncertainty is fundamentally different from sensitivity analysis for specific possible changes in specific assumptions. Mention of the possible inclusion of stochastic analysis for social insurance programs in the financial statements should be made in the context of discussion of uncertainty, and not in the context of sensitivity analysis. The Social Security Trustees Report has presented stochastic estimates since 2003 as a supplement to the traditional methods of analyzing uncertainty. Great care should be taken in emphasizing stochastic analysis, however, because the science is still under development. Thus, for now, stochastic projections are better excluded from the financial statements. Inclusion of such analysis, with appropriate caveats, would introduce considerable additional detail and complexity, thus reducing the clarity and emphasis of the statements on the critical measures.

**Respondent #16** – Jagadeesh Gokhale – No comment.

**Respondent #17** – Terry Bowie – We agree that a general approach rather than a specific requirement for the preparation of the sensitivity analysis will provide flexibility to the preparers to prepare concise and meaningful reports. A more concise and informative analysis rather than voluminous reports and graphs would be more understandable and meaningful to the users.

**Respondent #18** – Sheila Weinberg – No comment.

**Respondent #19** – Robert Childress – Yes, we believe that allowing flexibility in the sensitivity analysis presented will produce better information. The justification in the ED appears to be well founded.

**Respondent #20** – Alvin Winter – Sensitivity analysis should be required and presented in the supplemental information of the financial statements. This analysis should only be presented on an open-group basis. As stated in the answers to previous questions, closed group measures for Social Insurance programs are inappropriate.

Consolidating the information presented is an admirable goal. However, given the complexity of the calculations involved, a certain amount of detail is necessary. Therefore any sensitivity analysis needs to isolate the potential effects of changes to significant assumptions separately. The goals of the sensitivity analysis are to provide the user with the magnitude of change that could be expected given a change in one of the key assumptions not to merely present a wide range of scenarios that may be within some confidence interval. Showing a single range of stochastic

**TAB C1, Attachment 1 – Full Text of Answers by Question  
(continued)**

scenarios instead of the current individual sensitivity analysis would remove information that is currently available and useful to financial statement users.

## TAB C1, Attachment 1 – Full Text of Answers by Question (continued)

### Listing of Additional Comments from Respondents

#### Respondent #2 – Dick Young –

1. All the surplus to date in the Social Security system has been put in a Trust Fund. The government thought this money should be invested in safe securities, so they issued special bonds that were bought by the Trust Fund. Results – there is nothing in Trust Fund but a piece of paper promising that the government will buy bonds back if and when needed. The government gets the money and spends it for general purposes so it artificially reduces the reported deficit, but of course it increases our National Debt. Shortly, about 2017, there will no longer be a surplus so this will stop. Then we will have to pay for our actual operating deficit, but also pay to buy back the Trust's bonds so beneficiaries can be paid.
2. Our Government employees get very generous pensions. The employed pay a small fraction of the cost, and government says they pay the larger portion that goes into another Trust Fund. The Treasury Statement does show the government's cost, but at the end of the report they show it as an Offsetting Receipt since again the Trust paid for the bonds they were given. Again this reduces reported deficit and increases our National Debt. Any company that financed their employee retirement program by just issuing more of their own bonds rather than show it as an expense would be in jail.
3. The Trust funds, of course, are paid interest on the bonds they hold. Again this shows up as an expense in the Report, but at the end all interest paid to all Trust Funds show as an Offsetting Receipt. Again this reduces reported deficit and increases our National Debt. A good case can be made that the Trust Funds should not be paid any interest on their bonds. This would increase our reported deficit to be in line with our actual increase in Debt. The reported National Debt would then be only debt owed to the public, and would not report a debt owed to Trust Funds.
4. Trust Fund accounting is a sham! All it does is hide the unfunded liabilities we have in so many programs, and does not have transparency.

#### Respondent #4 – Kenneth Winter – FASAB has been evaluating the social insurance area (social security and medicare) for many years. FASAB should define, recognize and disclose social insurance as a **liability** and ensure prominent disclosure of this liability on the national "balance sheet". Such disclosure is critical to full Federal financial accountability and transparency to United States citizens.

Several years ago FASAB required greater disclosure of key social insurance reporting. Required disclosures represented an important step in the right direction, yet fell significantly short of the full recognition, disclosure and prominence that this matter deserves. In that regard, and in light of the unprecedented financial challenges currently facing the Nation, FASAB should require the Federal government to prominently recognize and disclose the Nation's social insurance liability on the national balance sheet and continue to require significant disclosure of related key financial and statistical information.

## **TAB C1, Attachment 1 – Full Text of Answers by Question (continued)**

Recognition/designation of this matter as a liability is important because such recognition and disclosure in the government's financial report (balance sheet) will help focus National attention on this critical National matter.

Social insurance should be identified as a liability because this obligation (like other liabilities) involves a transaction in which one party (the government) receives value (tax payments) from another party (the taxpayer) associated with a commitment/"promise" to provide value in the future (social insurance). Simply, stated the government "borrows" money and "promises" to pay the money back (plus) later, a liability. In that regard, the "closed group" measure or actuarial net present value of the social security program should be recognized as a liability. (FASAB defined the closed group measure as the net present value of (1) future benefit payments to current participants, (2) future contributions to be made by participants or their employers and (3) the accumulated fund balance at the valuation date.)

During prior deliberations of this matter, FASAB unfortunately did not establish the full social insurance obligation as a liability on the balance sheet and, as such, did not require optimally, prominent recognition and disclosure of this matter. The Board's approach did encourage certain disclosures but did not require the fullest and widest recognition and disclosure of this large, lingering liability. The essential National debate and resolution related to this large liability require the fullest and most prominent disclosure of this matter. Such recognition and disclosure will help fully inform the necessary national debate regarding this critical matter. FASAB should help inform this debate and the citizenry by defining, recognizing and disclosing this liability in the national accounts and in the related balance sheet statement, as well as, in other statements as appropriate.

**Respondent #5** – David Walker -- Respondent states that there are additional amounts that should be recognized in the basic financial statements in connection with several major social insurance programs (e.g., Social Security and Medicare). Specifically, the federal government should be recording a liability in connection with the bonds in the Social Security and Medicare "trust funds." [T]he bonds represent irrevocable commitments of the federal government. ... Failure to recognize the above liability results in a material misstatement of the federal government's debt, and total liabilities, as well as a material distortion of related ratio analyses (e.g., Debt/GDP). It also results in a material understatement of the net operating cost of the federal government and related ratio analyses (e.g., Net Operating Cost/GDP).

**Respondent #8** – Steven Schaeffer – In our opinion, this proposed Standard duplicates the guidance contained in the recent *Projections* ED.

**Respondent #9** – Eric Klieber – The definitions of current and future participants do not make completely clear the treatment of current residents age 15 or over not currently participating in a given social insurance program, but who may, and in some cases are likely to, become participants in the future. Examples include students who have not yet joined the labor force, and employees of state governments

## **TAB C1, Attachment 1 – Full Text of Answers by Question (continued)**

electing out of OASDI who may enter OASDI covered employment at a future date.

**Respondent #10** – Joseph Maresca – GENERALLY, the revision addresses accounting treatment for Social Insurance, as well as life expectancy, actuarial assumptions regarding costs and SOSI. The actuarial assumptions are the main technological methodology(ies) along with Stochastic Modeling and traditional probabilistic, conditional probabilistic, statistical inference methods, theories and techniques. Complex probability trees with multi-branch networks are another part of the known techniques in the subject of probability. An expanded service model might include some or all of the following elements.

Critique:

A goal of the issuance is to enhance the future ability to pay benefits and normalize costs.

There are emerging technologies in varying stages of development which could supplement or enhance the existing SOSI and mathematical models. A complete technological assessment seeks to determine which technologies will impact medical costs and actuarial life expectancy optimally.

For instance, artificial intelligence and "Advice Giving" algorithms may provide physicians and relevant others with a consensus of expert opinion developed by polling a community of experts for input onto the knowledge base. In the artificial intelligence art, the knowledge engineer is responsible for polling the community of experts and inputting the information onto the knowledge base for use in rendering "Advice Giving" to physicians and relevant others. The overall purpose of this exercise is to achieve a correct diagnosis with a minimum of encounters in the medical care delivery system. This technology is available right now.

Enhancements to the genetic code is another area with significant intermediate to longer term benefits to patients. The mapping of the genetic code is nearing completion.

Emcell implantation is an emerging technology for potential application in a variety of disease processes like diabetes, sickle cell anemia, the liver and other vital organs.

Food technologies and nutrition are other areas for model refinement. For instance, there are natural replacements for sugar which do not have the same adverse impact on glucose management and control. The Paleolithic diet and Mediterranean Diet are known to have better health outcomes than the junk food diet.

Successful medical outreach to underserved communities will obviate the necessity for more costly encounters later in life. In addition, integration of medical treatment with other federal programs could optimize the delivery of service. For instance, the Hill Burton Program and NIH programs exist to deliver expanded care to patients who either could not afford the care or the level of care

## **TAB C1, Attachment 1 – Full Text of Answers by Question (continued)**

is so complex that only a centralized think tank of physicians could arrive at an optimal diagnosis and treatment program on a timely basis and at a reasonable cost.

Taxes targeted to the consumption of alcohol, tobacco and junk food map the added revenue to incremental medical care required to manage diseases caused by excess consumption of the substances cited above. By way of example, a single pack of cigarettes could have a considerable tax levied to pay for the expected future costs of medical care for smoking earlier in life.

### **Respondent #11 – Daniel Kovlak – editorial comments –**

Par A77, p. 47 – For clarity, in the last sentence of the paragraph, the Board should consider adding the word “significant” before changes, so that it reads, “explain why the significant changes occurred.”

Appendix B: Table of Key Measures, p. 68 – We ask that the Board consider adding “Decrease (Increase)” after “Change in NPV”.

Appendix C: Pro Forma Balance Sheet, p. 69 – Under the heading of *Social Insurance Contribution*, we suggest the following: 1) add a footnote reference after the heading, where this would be described, and 2) after “Net present value of future cash flow for current participants,” there should be an indication that it is the “closed group” measure.

Appendix D: Pro Forma Statement of Social Insurance – In the heading, there is a reference to Part I. Is there a Part II, or will there be in the final guidance? Also, the table is missing part of the outline near the top on the right hand side.

### **Respondent #12 – Andrew Rettenmaier – The accounting for social insurance should identify the financial health of each entity as independent programs as well as identify their impact on the rest of the federal government’s finances. The *Medicare and Social Security Trustees Reports* thoroughly account for the programs’ financial status from the programs’ perspectives while the *Financial Report of the United States Government* should report on the status from a unified perspective. These differing perspectives lead to different emphases.**

The *Financial Report* should provide a comprehensive perspective that allows the user to draw informed conclusions about the current and future state of federal finances. The [SOSI] as summarized in Appendix D provides, in general, a comprehensive perspective by including the open and closed group measures. As mentioned in response to Question 5, however, accrued benefits could be more transparently presented. The SOSI as summarized in Appendix D could be modified by focusing on the current year and then decomposing the expenditures between those accrued as of the current year and those that are anticipated to be accrued in the future.

Opposition to reporting the more present-oriented measures (i.e., the closed-group or accrued benefits) is typically based on the logic that in the context of the pay-as-you-go financing such measures are not relevant or can be misconstrued.

## TAB C1, Attachment 1 – Full Text of Answers by Question (continued)

The presupposed financing method, however, should not determine whether a particular measure is reported. As long as the financial statements provide clear definitions of the different measures, users will have the necessary information to develop a comprehensive and unbiased understanding of the programs' financial positions.

**Respondent #16** – Jagadeesh Gokhale – The closed group measure included in Appendices B and C is described as “Net present value of future cash flow for current participants.” By that definition, the social insurance (program’s) trust fund’s value is not subtracted from the present value of future cash flows. If this is correct, the proposed measure does not correspond to the traditional definition of the closed group measure, which nets out the trust fund.

Under the traditional measure, the definition would be: “Net present value of cash flows for *past and current* participants.”

The reason to include past and current participants is that past net contributions of both of these groups are embedded in the trust fund and cannot be easily separated. The net results of past transactions 1) of past generations and 2) of currently alive generations should be accounted for to comprehensively to characterize their net benefits under “current policies.”

The closed group measure defined in the ED does not accurately capture the total net “liability” that would be transferred to future generations under “current policies” because it ignores the bequest (net “asset” or “liability”) being transferred on account of past transactions of those two groups. As such, the ED’s closed group measure is an incomplete representation of the total “liability” created by current generations. It is also an incomplete representation of the total “liability” that would be bequeathed by past and current generations to future generations under continuation of “current policies.” ...

In making projections over 75 years, there are implicit assumptions about the prevailing demographics in the 75<sup>th</sup> year. *Conditional on those demographics*, it appears more natural and correct to project and calculate a deficit/surplus for the 76<sup>th</sup> year than to assume, implicitly, that the 76<sup>th</sup> year’s amounts are zero.

Obviously, this argument can be extended to years beyond the 76<sup>th</sup> indefinitely.

The standard advice to households regarding future uncertainty is not to ignore it but to insure against it. The same seems appropriate for the government reporting for informing policymakers.

Indeed, according to recent estimates of Social Security’s trustees, considerably more than one-half of that program’s total (infinite-horizon) “liability” arises *after* the next 75 years. That means the implicit assumption of a zero liability after the next 75 years is likely to be further away from the “true but unobservable” liability value under current policies compared to the best estimate of that liability. ...

## TAB C1, Attachment 1 – Full Text of Answers by Question (continued)

Some analysts focus on the high variability of post-75<sup>th</sup> year estimates to parametric assumptions on discount rates and economic growth rates. With reference to discount rate responses, more volatility in the estimates for a given discount rate variation indicates that there is a larger problem lurking after the 75<sup>th</sup> year. Thus greater parametric sensitivity of the estimate should be a reason to include rather than exclude the estimation and reporting of post 75<sup>th</sup> year imbalances.

Understating the total “liability” by accounting for just the 75-year “liability” leads to the well known rolling window problem: the liability grows larger as additional deficit years are included in the 75-year horizon—making it difficult to judge the progress of reforms for restoring financial sustainability to social insurance (program’s).

In addition, the understatement of the total net “liability” because the post-75<sup>th</sup> - year “liability” is ignored introduces an undesirable “short-term” bias in policymaking—as detailed by the author in *Fiscal and Generational Imbalances: New Budget Measures for New Budget Priorities* (AEI Press, 2003).

Minor comments:

Para A69:

“The closed group measure represents a reasonably good estimate of the net responsibility of future taxpayers, under current laws, to pay benefits to current participants.”

This statement could be misconstrued: No law states that future generations are responsible for the tab of past and current generations that is unpaid to date.

The closed group measure simply indicates the “net benefits of current generations” under the assumption that those laws would be applied to current generations throughout their lifetimes.

Para A70 (and in general):

In most places where the program’s revenues or income is discussed, “interest income” should be explicitly excluded if the program’s trust fund is netted out when calculating the “open” or “closed” group unfunded obligation measures. This is consistent with the standard, traditional definition of the closed group measure. From the way it is defined in Appendix C (last line) it appears that the trust fund is not netted out.

Para A81:

“With respect to the balance sheet, the Board proposes to present new information on the balance sheet below assets, liabilities, and net position and not included in the totals for these classifications rather than to change the due and payable measure of the social insurance liability or change the basis for social insurance expense recognition.”

## TAB C1, Attachment 1 – Full Text of Answers by Question (continued)

“...the Board is proposing to add to the reporting model to require the closed group measure to be presented on the balance sheet but not included in the amounts in the totals for assets, liabilities, and net position...”

For a social insurance program, a long-range perspective on its finances appears to be more important—from a policymaking perspective compared to a snapshot of its current assets, liabilities and net assets. Therefore, I recommend that the former should be reported first: the assets, liabilities, and net position report should be placed after reporting both open- and closed-group measures. If possible, report both measures in a clearly demarcated section of the table because the new information is not integrated with the balance sheet totals.

Para A82:

Annual cash in- and out-flows associated with the *closed* group measure can be depicted separately. Could that also be a part of the social insurance RSI?

## TAB C1, Attachment 2 – Full Text of Comment Letters

### Exposure Draft: *Accounting for Social Insurance, Revised*

#### Comment Letters

#### TABLE OF CONTENTS

| <b>Letter Number</b> | <b>Respondent(s)</b>   | <b>Affiliation</b>                 | <b>Page Number</b> |
|----------------------|------------------------|------------------------------------|--------------------|
| #1                   | Douglas Jackson        | Individual                         | 1                  |
| #2                   | Dick Young             | Individual                         | 2                  |
| #3                   | Juan Kelly             | Mahoney and Associates             | 3                  |
| #4                   | Kenneth Winter         | Individual                         | 4                  |
| #5                   | David M. Walker        | Peter G. Peterson Foundation       | 6                  |
| #6                   | Mary Glenn-Croft       | SSA - OCFO                         | 8                  |
| #7                   | Daniel Fletcher        | CFO Council                        | 14                 |
| #8                   | Steve Schaeffer        | SSA - OIG                          | 23                 |
| #9                   | Eric Klieber           | Buck Consultants                   | 29                 |
| #10                  | Joseph Maresca         | Individual                         | 35                 |
| #11                  | Dan Kovlak             | Greater Washington Society of CPAs | 37                 |
| #12                  | Andrew Rettenmaier     | Texas A&M University               | 41                 |
| #13                  | Steve Goss             | SSA - Office of the Chief Actuary  | 47                 |
| #14                  | Cynthia Simpson        | Department of Labor - OCFO         | 56                 |
| #15                  | Richard Schreitmueller | American Academy of Actuaries      | 64                 |
| #16                  | Jagadeesh Gohkale      | Cato Institute                     | 71                 |
| #17                  | Terry Bowie            | NASA                               | 76                 |

## **TAB C1, Attachment 2 – Full Text of Comment Letters (continued)**

|     |                 |                                   |    |
|-----|-----------------|-----------------------------------|----|
| #18 | Sheila Weinberg | Institute for Truth in Accounting | 82 |
| #19 | Robert Childree | AGA- FMSB                         | 88 |
| #20 | Alvin Winters   | Individual                        | 95 |

February 9, 2009

Wendy M. Payne  
Executive Director  
Federal Accounting Standards Advisory Board  
441 G Street NW, suite 6814  
Washington, D.C., 20548

Dear Ms. Payne:

I write today to provide my comment to the Federal Accounting Standards Advisory Board (FASAB) on its Exposure Draft (ED) on *Accounting for Social Insurance, Revised*.

I would first like to express my admiration to FASAB for their leadership on this issue. The compelling case for an enormous, deficit-financed government response to our nation's current financial and economic woes adds a new urgency to the need to address our long-term social insurance imbalances. It is my belief that fully incorporating the scheduled benefits of Social Security and Medicare as liabilities during the working lives of the participants for purposes of the Financial Report of the United States Government will give policymakers – like myself – a better chance of facing up to, and ultimately overcoming, the challenge of putting these programs on a more sustainable footing.

Again, I commend FASAB for its work on this issue. Each day that goes by, the result of its deliberation becomes more important to the future viability of the American economy.

Attached is my expanded response to the request for comments contained in the ED.

Sincerely,

Jim Cooper  
Member of Congress

**Q1. Do you believe that key measures should be presented in the MD&A as described in this exposure draft?**

Yes. It is fundamental that the financial information presented in both the component and governmentwide entities be given narrative context in their respective MD&A. The MD&A's role as translator of the "vital few" matters contained in the financial statements to policymakers and the public clearly warrants a description of the key measures proposed: costs, position, social insurance commitments, budgetary information, and, in the case of the consolidated Financial Report, the fiscal gap.

**Q2. Do you believe that the balance sheet should present a line item for the closed group measure as described in this exposure draft?**

Yes. This is critical. For purposes of stewardship – for the keeping of the public trust – including the closed group measure as a line item in the balance sheet is the best of those views presented in the ED.

I prefer the view (represented by the Primary View from FASAB's October 2006 *Preliminary View: Accounting for Social Insurance, Revised*) replacing the "due and payable" standard with "fully insured" for a liability and expense in accounting for social insurance programs, and thus bringing them fully onto the balance sheet.

Recognizing the lack of consensus for moving forward with that view, and further recognizing issues associated with the lack of an exchange transaction, I believe this compromise takes a necessary step toward clearly reporting the comprehensive financial condition the nation. And this is the entire purpose of such reporting, after all.

**Q3. Do you believe that the SOSI should have a summary section as described in this exposure draft?**

The inclusion of a summary in the SOSI of the consolidated Financial Report over the last two years has been a clear success. It has added significantly to the report's clarity (albeit with some confusion between definitions of "open" and "closed group"). It should be required, and the requirement should be harmonized with the component entities.

**Q4. Do you believe there should be a new basic financial statement explaining changes to the present value amount included in SOSI?**

Though a narrative description of major changes should be included in the MD&A, a new basic financial statement for changes in the SOSI could be an important feature.

In the rare cases where legislative or significant methodological changes occur, this statement will provide a record for policymakers and the public to track over time. Among the more difficult theoretical issues to overcome in any financial statement is how changes in underlying assumptions change the final report. A statement of changes that pulls out discrete categories of changes may well provide a better tool for understanding the nature of social insurance programs.

**Q5. Do you believe that an accrued benefit obligation should be disclosed as described in this exposure draft?**

I wholeheartedly endorse the inclusion of a note on the accrued benefit obligation calculated consistent with the Primary View in FASAB's *Preliminary Views*.

Individuals receive their Social Security Statement with the caveat:

“Your estimated benefits are based on current law. Congress has made changes to the law in the past and can do so at any time. The law governing benefit amounts may change because, by 2041, the payroll taxes collected will be enough to pay only about 75 percent of scheduled benefits.”

It is difficult to understand the belief that, despite such a caveat in their personal Social Security Statement, those sophisticated enough to scour a document like the Financial Report would be overwhelmed or confused by the inclusion of a note on the accrued benefit obligation.

Further, I am still of the opinion (as I stated in my answer to Q2) that “due and payable” are not the proper criteria for recognizing a liability for social insurance for reasons stated in my comments and testimony on the *Preliminary Views*.

**Q6. Do you believe that the SNC should not include a line item for the change during the period in the closed group measure, which would be presented below exchange revenue and expenses and not included in the totals for these classifications?**

I disagree with the decision to not include such a line item. Including a line item for the change in the closed group measure (especially if the closed group measure is similarly displayed on, but sequestered from, the balance sheet) would tie the relevant financial statements together.

The argument that a good or service is not provided by the change in the closed group measure of social insurance ignores the political reality and public perception of the programs. A meaningful accounting standard should, in my opinion, attempt to approach this reality and perception.

**Q7. Do you agree with the Board's decision to feature the closed group measure?**

Yes. Again, I prefer a shift from "due and payable" to "fully insured" criteria for determining an expense and liability for social insurance. But, as FASAB has chosen to focus on net present value of future expenditures in excess of future revenue, I believe the closed group measure more accurately displays the current state of these programs for the purposes of financial reporting. The closed group measure more accurately encapsulates the broader social commitment and "sacred promise" political status of these programs, despite the lack of a legally irrevocable commitment.

**Q8. Do you believe that a general requirement that allows flexibility in the sensitivity analysis presented will produce better information regarding the sensitivity of social insurance programs?**

I have no opinion on this question at this time.

>>> "Murphy, Frank J" <[Frank.J.Murphy@hud.gov](mailto:Frank.J.Murphy@hud.gov)> 2/11/2009 4:37 PM >>>  
Thank you for the opportunity to comment on the above Exposure Draft  
(ED).

Attached are the Department of Housing and Urban Development's comments  
and responses to the questions in the "Accounting for Social Insurance"  
ED.

Please direct any questions concerning our response to me at the number  
listed below, or to my Financial Policy Division Director, Mr. Jerry  
Tucker, at 202-402-3710.

Frank Murphy

Assistant CFO for Financial Management

Department of Housing and Urban Development

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

**Request for Comments on FASAB Exposure Draft: *Accounting for Social Insurance, Revised*** (dated November 17, 2008)

QUESTIONS FOR RESPONDENTS:

Q1. The Board proposes to require social insurance component entities and the government wide entity to discuss and analyze key measures from the basic financial statements in their management's discussion and analysis ("MD&A"). See paragraphs 26-30 in the proposed standard and paragraphs A-75-A79 in the basis for conclusions.

**Do you believe that key measures should be presented in the MD&A as described in this exposure draft?**

**Please provide the rationale for your answers.**

HUD agrees with the described key measures for the MD&A in this exposure draft.

The key measures provide a transparency (to experts and non-experts) of the entity's financial statements related to responsibilities about risk and risk exposure. Moreover, the critical measures described in paragraphs 26-30 provide a guiding framework for reporting entities to use in determining risk disclosures in their MD&A analysis.

Social insurance spending continues to impact the United States' current budget, as well as a likelihood of its continued future impact. As proposed, key measures of the MD&A would offer lawmakers the opportunity to review the long-term measures of social insurance liabilities and associated policy changes, such that the lawmakers would assess reforms over the short term and long term. Such analyses would also show whether or not the nation is maintaining fiscal sustainability, or that it is performing worse than the preceding year and why.

Q2. The Board is proposing to add a line for the **closed group measure** to the balance sheet below assets, liabilities, and net position and not included in the totals for these classifications.<sup>1</sup> See paragraphs 31-32 in the proposed standard and paragraphs A81-A100 in the basis for conclusions. Two members have submitted alternative views on this issue. See paragraphs A139-A142 in the basis for conclusions for Mr. Patton's view. Mr. Patton and other members believe that a

---

<sup>1</sup> Definitions of certain terms are provided in the Definitions section and Appendix F: Glossary of this proposed standard.

**DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT**

liability greater than the due and payable amount should be recognized on the balance sheet. See paragraph A144 in the basis for conclusions for Mr. Werfel's view. Mr. Werfel and other members believe that the closed group measure should not be presented on the balance sheet.

**Do you believe that the balance sheet should present a line item for the closed group measure as described in this exposure draft?**

**Please provide the rationale for your answers.**

HUD does not concur with the Board's position.

Alternatively, HUD agrees with the views expressed by Mr. Patton that a liability exists per SFFAC 5, and therefore, should be reflected in the balance sheet for the reasons Mr. Patton stated in paragraph A139.

Q3. The Board proposes to add a new summary section of the statement of social insurance ("SOSI") to present the closed and open group measures. See paragraphs 34-35 in the proposed standard and paragraphs A114-A116 in the basis for conclusions.

**Do you believe that the SOSI should have a summary section as described in this exposure draft?**

**Please provide the rationale for your answers.**

HUD suggests that a summary section should be included in the SOSI.

Incorporating the new closed and open group measures into the summary statement of the SOSI would clarify the relevancy of the net present value of cash flows to and from current participants, as well as the magnitude of obligation to current participants and the projected funding amount to be financed by future participants.

Q4. The Board proposes a new basic financial statement entitled "statement of changes in social insurance amounts." The new statement would explain the changes during the reporting period in the present value amounts for the closed group measure included in the statement of social insurance. See paragraphs 36-37 in the proposed standard and paragraph A116 in the basis for conclusions. Mr. Werfel and other members have an alternative view. They believe the new statement should focus on changes in the open group measure and not the closed group measure. The question of the use of the appropriate measure is addressed in question 7 below. See paragraph A145 in the basis for conclusions.

**DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT**

**Do you believe there should be a new basic financial statement explaining changes to the present value amount included in SOSI?**

**Please provide the rationale for your answers.**

HUD agrees that there should be a new basic financial statement.

HUD proposes blending the views expressed by the Board and the alternative view members to be consistent with the Statement of Social Insurance. Specifically, in conjunction with HUD's response to question 3, the "statement of changes in social insurance amounts" should incorporate information for both the closed and open group measures, as in the summary section of the SOSI.

Q5. The Board proposes to disclose an accrued benefit obligation in notes to the financial statements. This information would include a five year trend when the standard is fully implemented. See paragraph 38 in the proposed standard and paragraphs A117-A123 in the basis for conclusions. Mr. Werfel and other members have an alternative view expressing opposition to this disclosure. See paragraph A126 in the basis for conclusions.

**Do you believe that an accrued benefit obligation should be disclosed as described in this exposure draft?**

**Please provide the rationale for your answers.**

HUD concurs with the Board's proposal for reasons noted in paragraphs 38 and A123, as this provides greater transparency. However, we propose that the trend analysis should incorporate data for 10 years, as this helps project the future generational benefit obligation and aids the budgetary process in Federal financial reports.

Q6. The Board considered but decided not to propose adding a line item to the statement of net cost ("SNC") for the change during the reporting period in the closed group measure that would be presented below exchange revenue and expenses and not included in the totals for these classifications. Some argue that this measure should not be presented on the SNC because it is a fundamentally different measure. Others believe the change is an economic cost that belongs on the SNC, and that including this number at the bottom of the SNC appropriately links all basic financial statements. See paragraphs A101-A113 in the basis for conclusions.

**Do you believe that the SNC should not include a line item for the change during the period in the closed group measure, which would be presented below exchange revenue and expenses and not included in the totals for these classifications?**

**DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT**

**Please provide the rationale for your answers.**

HUD concurs with the Board's position. The change in the reported period for the closed group measure is not considered a cost incurred for goods or services. Including this line item would misconstrue the reader's understanding of the statement of net cost.

Q7. The Board decided to present the **closed group measure** (CGM) (defined in paragraph 19) as a common thread among the proposed new reporting. The proposal requires that the CGM and other key measures from the financial statements be discussed in management's discussion and analysis; that the CGM be presented on the balance sheet below assets, liabilities and net position (without being included in the totals for those categories); and that the changes in the CGM during the reporting period be presented and explained in the new summary section of the statement of social insurance and the new statement of changes in social insurance. The Board considered the **open group measure** (OGM) (defined in paragraph 24) instead of the closed group measure as the focus for the disclosure. This exposure draft discusses both the closed group measure and the open group measure throughout. Paragraphs A69-A74 provide the basic rationale for the Board's selection of the closed group measure. Mr. Werfel and other members have an alternative view regarding the presentation of the closed group measure. They oppose the addition of the closed group measure to the balance sheet. Further, they believe the open group measure is the appropriate measure to use in the new statement of changes in social insurance and not the closed group measure. See paragraph A145 in the basis for conclusions.

**Do you agree with the Board's decision to feature the closed group measure?**

**Please provide the rationale for your answers.**

In conjunction with our answer to question 2, we do not agree that the (CGM) should be incorporated below the assets, liabilities and net position on the balance sheet. However, HUD would like to reiterate its support for Mr. Patton's position that the CGM should be incorporated in the liabilities portion of the financial statement for those individuals that (for example) have accumulated at least 40 quarters of work in covered employment for Social Security. In addition, the liabilities should include those individuals who are already receiving payments from the federal government or whose health care is already provided under Medicare based on their already fulfilling the eligibility criteria.

The CGM and OGM should be discussed in management's discussion and analysis and in the new statement of changes in social insurance using both group measures as noted in our earlier responses to ensure consistency in presentation between statements. Furthermore, HUD believes that incorporating both the open and closed

**DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT**

group measures, respectively, will provide a greater level of transparency regarding cash flows and will guide policy decisions as they impact the budget, in present and future predictions. Together, the closed and open group measures are critical to the financial statement analysis and should be used together.

Q8. The Board is proposing to change the requirement currently in SFFAS 17 for specific sensitivity analysis. The standard will require the entity to provide sensitivity analysis of the closed and open group measures appropriate for its particular social insurance program but will not specify a particular approach for the analysis. See paragraphs 42-43 of the standard and paragraphs A125-A137 of the basis for conclusions.

**Do you believe that a general requirement that allows flexibility in the sensitivity analysis presented will produce better information regarding the sensitivity of social insurance programs?**

**Please offer any comments that you wish to make on these provisions.**

HUD agrees with the Board's position. Sensitivity analysis will provide qualitative and quantitative benefits measures of the cash flow projections, sustainable solvency and overall benefits of the social insurance contributions to the general public. In addition, sensitivity analysis will provide entities with the microeconomic and macroeconomic impact of social programs and project future benefits based for the existence of such programs.

In paragraph A131, the Board suggests that entities use a "very general approach" for illustrating uncertainty. HUD believes that the Board should provide examples of some sensitivity modeling approaches that are acceptable, so that entities would have a guiding framework as to the acceptable methods of analysis which should be employed.



United States Government Accountability Office  
Washington, DC 20548

February 9, 2009

Ms. Wendy M. Payne  
Executive Director  
Federal Accounting Standards Advisory Board  
441 G Street, NW, Suite 6814  
Washington, DC 20548

Dear Ms. Payne:

The U.S. Government Accountability Office (GAO) is pleased to provide its comments on the Federal Accounting Standards Advisory Board (FASAB) Exposure Draft entitled Accounting for Social Insurance, Revised (ED).

We have consistently supported FASAB efforts to improve the transparency of critical information about social insurance programs to meet the objectives in SFFAC No. 1 to help readers determine whether

- the government's financial position improved or deteriorated over the period, and
- future budgetary resources will likely be sufficient to sustain public services and to meet obligations as they come due.

Also, we agree with the ED concerning the addition of the following information related to social insurance reporting:

- a summary section on the Statement of Social Insurance (SOSI),
- a Statement of Changes in Social Insurance, presenting the changes in social insurance during the reporting period, and
- critical information about costs, assets and liabilities, social insurance commitments, budget flows, and the fiscal gap in a section in MD&A devoted to financial statement analysis.

However, for the reasons discussed in Mr. Werfel's alternative view in paragraphs A143-A146, we strongly believe that

1. it is not appropriate to present any information, including the closed-group measure, "below the line" on the balance sheet,
2. the open group, not the closed group, is the appropriate measure to use in the new Statement of Changes in Social Insurance and in the MD&A, and
3. it is not appropriate to disclose the accrued benefit obligation in the financial statements.

We agree with the alternative view's discussion in paragraph A147 that the current financial statements, combined with the proposed Statement of Changes in Social Insurance and Statement of Fiscal Sustainability, will provide a comprehensive, and the most appropriate, financial presentation and disclosure of social insurance programs. Fiscal sustainability information, reported in SOSI and the Statement of Fiscal Sustainability, complements historical budget and accrual information but provides a fundamentally different perspective on the government's financial health and condition than historical budget and accrual information. Both prospective and historical information are needed to obtain a complete understanding of the federal government's financial condition. Together, the prospective sustainability statements and historical financial statements provide several key measures of the federal government's financial condition and changes therein, as illustrated in the following table.

|   | <b><u>Historical Perspective</u></b>  | <b><u>Sustainability Perspective</u></b>  |
|---|---|---|
| End-of-period measures reported through | <ul style="list-style-type: none"><li>• balance sheet</li><li>• budgetary resources</li></ul>   | <ul style="list-style-type: none"><li>• Statement of Social Insurance</li><li>• Statement of Fiscal Sustainability</li><li>• Fiscal Gap</li></ul> |
| Period measures reported through        | <ul style="list-style-type: none"><li>• net cost</li><li>• operations</li><li>• reconciliation of net operating cost and unified budget deficit</li><li>• changes in cash balance</li></ul> | <ul style="list-style-type: none"><li>• changes in social insurance</li><li>• changes in fiscal sustainability</li></ul>                          |

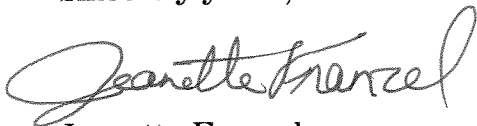
These two different, but complementary, perspectives have provided a useful and meaningful framework for reporting on the government's financial condition over the past two fiscal years in the Consolidated Financial Report (Management's Discussion and Analysis) and the Citizen's Guide to the Financial Report of the United States Government.

Moreover, as discussed in our comment letter on the ED entitled *Reporting Comprehensive Long-Term Fiscal Projections for the U.S. Government*, we believe that the Statement of Fiscal Sustainability is necessary, in addition to the SOSI, to provide an appropriate comprehensive perspective on the future funding and spending for Social Security and Medicare as well as for all other government programs. For example, the Statement of Fiscal Sustainability would provide critical information about whether and to what extent projected general revenues are less than or exceed the sum of projected Medicare Parts B and D benefits (net of premiums and state transfers that represent about 25% of Medicare Part B and D funding) and discretionary spending that is also funded by general revenue. Such information is not currently provided in the SOSI.

Furthermore, as noted in the ED which retains the liability and expense recognition and measurement reporting standard contained in Statement of Federal Financial Accounting Standard 17, we continue to believe that the obligating event for liability recognition for social insurance benefits should continue to be the point at which an individual meets all eligibility requirements for benefits and the benefit payments become "due and payable." (Please refer to our comment letter dated May 7, 2007, on the Preliminary Views document, *Accounting for Social Insurance, Revised*).

The FASAB's current efforts and deliberations on the presentation of social insurance programs, along with fiscal sustainability reporting, are important steps in recognizing the need for greater transparency in connection with the federal government's current financial condition and future fiscal path. Our specific comments, which are detailed in the enclosure to this letter, provide our responses to the questions put forth in the ED. If you have any questions on our comments, we are available for further discussions. Please call me at (202) 512-2600 or Robert Dacey, Chief Accountant, at (202) 512-7439.

Sincerely yours,

A handwritten signature in cursive script that reads "Jeanette Franzel".

Jeanette Franzel  
Managing Director  
Financial Management and Assurance

Enclosure

**GAO Responses to Questions Set Forth in the Exposure Draft Accounting  
for Social Insurance, Revised**

Questions:

Question 1.

The Board proposes to require social insurance component entities and the governmentwide entity to discuss and analyze key measures from the basic financial statements in their management's discussion and analysis (MD&A). See paragraphs 26-30 in the proposed standard and paragraphs A75-A79 in the basis for conclusions.

**Do you believe that key measures should be presented in the MD&A as described in this exposure draft? Please provide the rationale for your answers.**

We agree that critical financial statement measures, including social insurance, should be described in the MD&A. The discussion should be easy to locate, be readily understood, and explain the significance of key amounts; most importantly, the entity should explain the reasons for major changes in amounts for key items during the reporting period. MD&A should present meaningful sustainability information and the possible future effects of anticipated future events, conditions, and trends. Where appropriate, the description of possible future effects of both existing and anticipated factors should include quantitative forecasts or projections.

However, for reasons described in answer to question 7 below, we believe that the open-group measure is the appropriate measure to use for analyzing the long-term sustainability of social insurance programs and, therefore, should be included in the MD&A rather than the closed-group measure.

Question 2.

The Board is proposing to add a line for the **closed group measure** to the balance sheet below assets, liabilities, and net position and not included in the totals for these classifications. See paragraphs 31-32 in the proposed standard and paragraphs A81-A100 in the basis for conclusions. Two members have submitted alternative views on this issue. See paragraphs A139-A142 in the basis for conclusions for Mr. Patton's view. Mr. Patton and other members believe that a liability greater than the due and payable amount should be recognized on the balance sheet. See paragraph A144 in the basis for conclusions for Mr. Werfel's view. Mr. Werfel and other members believe that the closed group measure should not be presented on the balance sheet.

**Do you believe that the balance sheet should present a line item for the closed group measure as described in this exposure draft? Please provide the rationale for your answers.**

No. For the reasons discussed in the alternative view in paragraph A144, we believe that it is inappropriate to show either the closed-group measure, as proposed, or the open-group measure anywhere on the balance sheet.

Question 3.

The Board proposes to add a new summary section of the statement of social insurance (SOSI) to present the closed and open group measures. See paragraphs 34-35 in the proposed standard and paragraphs A114-A116 in the basis for conclusions.

**Do you believe that the SOSI should have a summary section as described in this exposure draft? Please provide the rationale for your answers.**

Yes. We believe that a summary section is a positive addition to the SOSI. However, we believe that the standard should provide greater flexibility for determining the appropriate summary information to be provided (e.g., open group, closed group, age cohorts). Also, the assets held by the programs, referred to in paragraph 34, would not be relevant for governmentwide-entity accounting and reporting.

Question 4.

The Board proposes a new basic financial statement entitled statement of changes in social insurance amounts. The new statement would explain the changes during the reporting period in the present value amounts for the closed group measure included in the statement of social insurance. See paragraphs 36-37 in the proposed standard and paragraph A116 in the basis for conclusions. Mr. Werfel and other members have an alternative view. They believe the new statement should focus on changes in the open group measure and not the closed group measure. The question of the use of the appropriate measure is addressed in question 7 below. See paragraph A145 in the basis for conclusions.

**Do you believe there should be a new basic financial statement explaining changes to the present value amount included in SOSI? Please provide the rationale for your answers.**

Consistent with our comments on the earlier Preliminary Views document, we agree that there should be a new Statement of Changes in Social Insurance that displays the reasons for changes in SOSI amounts during the reporting period and that will (1) reconcile beginning and ending net present values reported in the SOSI for social insurance programs and (2) provide the reasons for significant changes in the net present value during the reporting period. We also think the Board should provide flexibility to allow this new statement to be a stand-alone statement or to be incorporated into the existing SOSI.

Such a presentation of changes in social insurance will present the full extent of changes in the net present value of projected revenues and scheduled benefits and identify and analyze those changes. This information will highlight the reasons for any improvement or deterioration in the financial condition of these programs and will provide useful information to the reader. We believe that it is important for the reader to take note of the relative changes in the SOSI in order to draw comparisons with prior year results and obtain a better understanding of the factors affecting changes in social insurance projections.

Also, for the reasons discussed in the alternative view in paragraph A145 of this ED, we believe the open group, not the closed group, is the appropriate measure to use in the

new Statement of Changes in Social Insurance. The open-group measure is consistent with measuring the long-term sustainability of social insurance programs, especially given the pay-as-you-go structure of the programs, whereas the closed-group measure is not.

Question 5.

The Board proposes to disclose an accrued benefit obligation in notes to the financial statements. This information would include a five year trend when the standard is fully implemented. See paragraph 38 in the proposed standard and paragraphs A117-A123 in the basis for conclusions. Mr. Werfel and other members have an alternative view expressing opposition to this disclosure. See paragraph A146 in the basis for conclusions.

**Do you believe that an accrued benefit obligation should be disclosed as described in this exposure draft? Please provide the rationale for your answers.**

No. For the reasons discussed in paragraph A146, we believe that it is inappropriate to disclose an accrued benefit obligation. We have significant concerns that disclosing yet another number, the accrued benefit obligation, would lead to more confusion and burden on the user, rather than enhancing their understanding of the sustainability of the federal government's social insurance programs. Also, the concept may be misunderstood without significant explanation.

Question 6.

The Board considered but decided not to propose adding a line item to the statement of net cost (SNC) for the change during the reporting period in the closed group measure that would be presented below exchange revenue and expenses and not included in the totals for these classifications. Some argue that this measure should not be presented on the SNC because it is a fundamentally different measure. Others believe the change is an economic cost that belongs on the SNC, and that including this number at the bottom of the SNC appropriately links all basic financial statements. See paragraphs A101-A113 in the basis for conclusions.

**Do you believe that the SNC should not include a line item for the change during the period in the closed group measure, which would be presented below exchange revenue and expenses and not included in the totals for these classifications? Please provide the rationale for your answers.**

We agree with the ED that the change in the closed-group measure should not be included in the Statement of Net Cost. Consistent with our comments on the earlier Preliminary Views document, it is not a cost of the current period. Only costs of goods and services provided in the period should be shown on the SNC. The change in social insurance is not a good or service provided; it is a future benefit amount that is not a cost of the current period and has yet to be incurred.

In addition, the amounts in the SOSI reflect projected future receipts and scheduled benefits, assuming that current benefit levels are continued, and show a significant

excess of future expenditures over future revenue. However, for the Social Security and Medicare Part A programs, projected scheduled benefits cannot, by law, exceed receipts plus current trust fund assets. Therefore, the SOSI does not represent projections of likely outcomes under current law. While changes in social insurance are appropriate for the Statement of Changes in Social Insurance, it would not be appropriate to include them on the accrual-basis SNC.

Question 7.

The Board decided to present the **closed group measure** (CGM) (defined in paragraph 19) as a common thread among the proposed new reporting. The proposal requires that the CGM and other key measures from the financial statements be discussed in management's discussion and analysis; that the CGM be presented on the balance sheet below assets, liabilities and net position (without being included in the totals for those categories); and that the changes in the CGM during the reporting period be presented and explained in the new summary section of the SOSI and the new statement of changes in social insurance. The Board considered the **open group measure** (defined in paragraph 24) instead of the closed group measure as the focus for the disclosure. This exposure draft discusses both the closed group measure and the open group measure throughout. Paragraphs A69-A74 provide the basic rationale for the Board's selection of the closed group measure. Mr. Werfel and other members have an alternative view regarding the presentation of the closed group measure. They oppose the addition of the closed group measure to the balance sheet. Further, they believe the open group measure is the appropriate measure to use in the new statement of changes in social insurance and not the closed group measure. See paragraph A145 in the basis for conclusions.

**Do you agree with the Board's decision to feature the closed group measure?  
Please provide the rationale for your answers.**

No. For the reasons discussed in paragraph A145, we agree with the alternative view and believe that it is inappropriate to use the closed-group measure to show the government's responsibility to future taxpayers. As noted in our response to question 2, we do not believe that either the closed-or open-group measure should be reported anywhere on the balance sheet. Further, as discussed in our response to questions 1 and 4, we believe that the open group measure should be used instead of the closed-group measure proposed in the ED, both in the MD&A and in the Statement of Changes in Social Insurance.

The open-group presentation is more consistent with the measurement of program sustainability. The open group reflects the pay-as-you-go nature of the program; receipts from future participants will be necessary to make benefit payments to current participants. It measures the extent to which future taxes will be sufficient to pay future benefits. It is consistent with what is reported in the trustee's report and it is also the bottom-line measure of the SOSI, which is a basic financial statement.

The closed-group measure, on the other hand, is not a good estimate of the net responsibility of future taxpayers. Under current law, some of the scheduled benefits to the closed-group participants would not be payable even with the receipt of all scheduled taxes from future participants over the next 75 years. Also, the closed-group measure reflects only current program beneficiaries and participants and assumes that the

program is closed to future participants, which contradicts the pay-as-you-go financing principle on which the social security program was designed.

Also, closed-group measures are typically used for private sector pension plans and retiree health programs where individuals perform services in exchange for such benefits as part of their compensation. However, social insurance transactions are nonexchange transactions. That is, payments of social insurance taxes by an individual (which do not entitle the individual to a benefit in a legal or contractual sense), and the subsequent receipt of social insurance benefits by that individual are not directly based upon taxes paid or employment services rendered, and are separate nonexchange transactions.

If presented anywhere, the closed-group measure should be limited to the SOSI summary section, related notes, or both, so that it can be viewed and discussed in an appropriate context, such as in relation to the open-group measure.

Question 8.

The Board is proposing to change the requirement currently in SFFAS 17 for specific sensitivity analysis. The standard will require the entity to provide a sensitivity analysis of the closed-and open-group measures appropriate for its particular social insurance program but will not specify a particular approach for the analysis. See paragraphs 42-43 of the standard and paragraphs A125-A137 of the basis for conclusions.

**Do you believe that a general requirement that allows flexibility in the sensitivity analysis presented will produce better information regarding the sensitivity of social insurance programs? Please offer any comments that you wish to make on these provisions.**

We agree that sensitivity analysis is a good approach to illustrating uncertainty if estimates, projections, assumptions, data, methodologies, or other important inputs change. We also concur with paragraph A130 of the ED that the objective of the proposed standard is to “make sensitivity analysis more concise and meaningful”. However, we do not believe that the illustrative chart depicted in paragraph A137 meets this objective and leaves much room for readers’ interpretation and possible confusion. Sufficient guidance should be provided in allowing flexibility in the sensitivity analysis presented to ensure that adequate and meaningful information is disclosed.

Further, we believe that the requirement for sensitivity analysis in paragraph 42 should refer only to the closed-group measure. It is inappropriate to include the closed-group measure for the reasons stated in our response to question 7 and, in addition, it would unnecessarily add yet more length to the social insurance disclosures.