



Federal Accounting Standards Advisory Board

April 4, 2008

TO: Members of FASAB

FROM: Richard Fontenrose, Assistant Director

THROUGH: Wendy Payne, Executive Director

SUBJECT: Tab G – *Reporting Gains and Losses from Changes in Assumptions and Selection of Discount Rates and Valuation Date*¹

MEETING OBJECTIVES

The objective for April 17 is to review and approve the changes recommended by staff to and address the changes needed to convert the exposure draft *Reporting Gains and Losses from Changes in Assumptions and Selection of Discount Rates and Valuation Dates* (“the ED”) to a final Statement of Federal Financial Accounting Standards (SFFAS).

BRIEFING MATERIAL

This Tab presents the following reference items as Attachments, which is referenced in this discussion memorandum:

- Attachment 1 – The “track changes” edition of draft SFFAS
- Attachment 2 – A table of questions, issues and decisions to date
- Attachment 3 – Attachment 3 (updated) from February 2008 meeting, which contained the staff’s summary of comments received
- Attachment 4 – Attachment 4 from February 2008 meeting, which contained the staff’s analysis of selected issues
- Attachment 5 – The staff’s briefing memorandum from January 2007, which presented an analysis of assumptions used for federal financial reporting
- Attachment 6 – Liability sections from most CFOA agency balance sheets
- Attachment 7 – Statements of Net Cost from most CFOA agencies

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

BACKGROUND

The ED proposed standards for:

- displaying gains and losses from changes in assumptions as discrete line items on the statement of net cost;
- disclosing information about the components of certain expenses associated with long-term liabilities and about current market rates for Treasury securities; and
- selecting discount rates and valuation dates.

This ED proposed that it become effective for fiscal years beginning after September 30, 2008. Responses to the ED were provided to members and discussed at February's meeting.

STAFF SUMMARY AND ANALYSIS

The staff made changes to the ED to convert it into a standard, including deleting the chairman's letter to potential respondents and the questions for respondents, and to incorporate some of the respondents' comments as indicated in the staff's February analysis (see Attachments 3 and 4). In addition, changes were made pursuant to the Board's direction to limit the scope of the standard to employee pensions and other retirement benefits (ORB) and other post-employment benefits (OPEB).

Limit the Scope of the Standard

New paragraph 14 reflects the changes made to limit the scope of the standard to employee pensions and ORB and OPEB. Conforming changes are reflected elsewhere in the standard as needed.

Several members asked staff to provide information about the effect of the Board's February 2008 to limit the scope of the standard to the liabilities listed in original ED paragraph 14A and excluding those in subparagraphs 14B-E.

Attachment 5 to this memorandum contains a staff paper submitted for the January 2007 FASAB meeting. Two of the four issues addressed in that paper involved assumptions. "Display Question #1" addressed the issue of whether the standard should be limited to certain assumptions, for example, "actuarial assumptions" or "long-range assumptions," rather than merely refer to "assumptions," which would allow all assumptions to be considered potential candidates for separate display on the operating statement. In the paper, the staff recommended characterizing the assumptions of interest as long-term but not necessarily requiring an actuary to develop and therefore not characterized as "actuarial assumptions." In addition, the staff recommended that the standard provide certain explicit exceptions, for example, (i) assumptions used to estimate receivables, payables, inventory and related property and (ii) assumptions used for direct loans and loan guarantees where the FASAB has already provided procedures.

The minutes of the January 2007 meeting reflect the Board's acceptance of these recommendations. In addition, the minutes reiterate the Board's intent at that time that the scope for the standard should not be limited to SFFAS 5 liabilities but rather should apply generally to all long-term liabilities.

The Board has been primarily interested in the effect of assumptions changes on the veterans' compensation liability and presumably certain other large liabilities. Attachment 6 provides a table of liabilities reported by most of the Chief Financial Officer's Act (CFOA) agencies. It shows that the Department of Veterans Affairs' (VA) liabilities (see Attachment 6, page 4) include a \$1,128 billion VA compensation liability. Excluding federal debt and loan guarantees, other large liabilities include pensions (\$2,513 billion, in total), ORB (\$1,139 billion), environmental liabilities (\$342 billion), insurance (\$52 billion), and non-VA workers' compensation (\$13 billion). Limiting the scope standard will exclude environmental, insurance, and other liabilities.

Although few agencies displayed the effects of changes in assumptions on the face of their statements of net cost (SNC) in FY 2007, for those that did the result was significant. Attachment 7 presents the SNCs for most CFOA agencies. Most do not report any significant changes in estimates or assumptions or any other "costs not assigned to program" line items of their SNC. One exception is the Energy Department ("Energy"), which reported \$45.7 billion of "costs not applied" to programs on the face of their SNC and details in Note 22 (see Attachment 7, pages 6-7). Most of the \$45.7 billion was attributed to changes (1) in environmental estimates (\$40 billion) and (2) in spent nuclear fuel contingency estimates (\$4.3 billion). \$45.7 billion represented 74% of Energy's total costs (\$61.5 billion). The limited-scope standard will not require display of changes in environmental assumptions on the face of the SNC.

On the other hand, the standard will require display of the effect of changes in VA compensation assumptions, which the VA attempted to address. The VA displayed "net program costs before changes in veterans benefits actuarial liabilities" (\$76 billion) separate from veterans compensation (-\$26 billion), and net non-program costs (\$953 million). The negative 26 billion is obviously significant in relation to VA's total net cost of operations (\$51 billion) (see Attachment 7, page 18).

The staff's review of CFOA agency disclosures about assumptions found that most agencies included a general statement in their accounting policy note explaining that assumptions and estimates are necessary to prepare financial statements and actual results may differ. For example, the Department of Homeland Security explained that it sells flood insurance and although insurance underwriting operations believe the liability is reasonable and adequate, actual incurred losses may not conform to the assumptions inherent in the estimate.

Many of the CFOA agencies that administer credit programs explained the effect of assumptions and estimates. For example, the USDA noted that the housing FY 2006 upward loan re-estimates were largely due to model and data assumption changes, and that the reduction in the electric program was due to differences between the Treasury discount rate and the borrower interest rate varying from the original assumptions.

The CFOA agencies with environmental liabilities usually explained the effect of assumptions. For example, the Defense Department explained that changes in environmental liability resulted from overlooked or previously unknown contaminants and required re-estimates based on different assumptions and lessons learned.

Agencies with workers' compensation liabilities frequently explained the effect of changes in assumptions.

Those with pension and ORB programs other than CSRS and FERS explained the effect of assumptions. For example, the Energy Department explained that a 50 basis point increase in the discount rate (to its highest level in five years) used to estimate contractor-employee pension plan obligations was one of the primary reasons for an improvement in the funded status from an under funding of almost \$4.5 billion in FY 2006 to an under funding of less than \$0.1 billion in FY 2007.

Does the Board continue to prefer a standard that addresses pension, ORB, and OPEB assumptions rather long-term assumptions generally?

Other Changes

The other changes are illustrated in the standards section and explained in the basis for conclusions of the "track changes" edition of the statement at Attachment 1. Several changes are noteworthy.

Administrative and Employer Entity Reporting

Some respondents commented that OPM and DoD's Military Retirement System (DoD/MRS) report gains and losses from changes in actuarial assumptions associated with federal civilian and military pensions and ORB rather than the employer entities and requested guidance. The proposed standard did not address that circumstance explicitly, although, logically, if the preparer does not report such gains and losses, then no reporting would be required. The standard now provides guidance in that regard. In instances where an administrative entity for federal employee pensions and/or ORB (e.g., OPM and DoD/MRS) is reporting gains and losses from assumption changes pursuant to SFFAS 5, the administrative entity will display the discrete line item for gains and losses from changes in assumptions on its statement of net cost (see paragraph 23).

Does the Board approved the guidance regarding the administrative and employer entities reporting requirements?

Specifying the Numbers of Years to Include in the "Average Historical Treasury Rate"

The proposed standard does not specify a time-period for average and, thus, the Board sought comments on the question from respondents. Respondents differ as to specifying a time-period

for the average. Several respondents recommended that the Board specify the time-period for the average historical Treasury rates used for discounting, e.g., (no more than) 5 years, 10 years, 20 years, thereby reduce preparer discretion. Some would view the reduction of discretion positively, others negatively. Some respondents suggested a 5-year average.

A summary of historical Treasury rates from the Federal Reserve Statistical Release H-15, "Selected Interest Rates," is immediately below.

Maturity	3-Year Average	5-Year Average	10-Year Average	15-Year Average	20-Year Average	25-Year Average	30-Year Average
Year	2005-7	2003-7	1998- 2007	1993- 2007	1988- 2007	1983- 2007	1978- 2007
1	4.36%	3.24%	3.80%	3.99%	4.65%	5.59%	6.59%
2	4.34%	3.41%	4.04%	4.27%	4.97%	5.99%	6.91%
3	4.35%	3.59%	4.20%	4.44%	5.15%	6.20%	7.06%
5	4.41%	3.93%	4.49%	4.72%	5.45%	6.51%	7.31%
7	4.47%	4.16%	4.73%	4.93%	5.66%	6.75%	7.50%
10	4.57%	4.40%	4.86%	5.06%	5.79%	6.88%	7.58%
20	4.85%	4.91%	5.38%	5.50%	6.23%	7.29%	7.94%
30	4.76%	4.82%	5.24%	5.41%	6.11%	7.17%	7.81%

This table shows various average historical Treasury rates for varying numbers of year, e.g., a 3-year average, a 5-year average, a 10-year average, etc., for various maturities. Thus, if an entity used a 5-year average historical rate for a payment 7 years in the future, the rate would be 4.16%. If the entity used a 10-year average, the rate would be 4.73%. A 20-year average would be 5.66%; a 30-year average would be 7.50%. Thus, the rates could vary among preparers.

Does the Board wish to specify a time-period, e.g., 5-years? Doing so would enhance clarity, consistency and comparability. On the other hand, it would place constraints on management's choice of assumptions.

Does the Board wish to require a 5-year or other timeframe for average historical rates?

More Specificity Regarding Assumptions Used Generally in the Government

A respondent recommended that the standard be more specific with respect to the "assumptions used generally in the Federal Government as evidenced by independent sources" that the preparer is to review (see paragraph 35 in "track changes" edition of the proposed standard) and, if its assumptions differ, explain why it is appropriate to do so. Currently the standard gives the example of assumptions used by the Federal Bureau of Economic Analysis for the National Income and Product Accounts (NIPA). The respondent suggests specifying the GDP assumptions, which are part of the NIPA, or those pension assumptions used by OPM.

The BEA explains that it is –

[A]n agency of the Department of Commerce. Along with the Census Bureau and STAT-USA, BEA is part of the Department's Economics and Statistics Administration.

BEA produces economic accounts statistics that enable government and business decision-makers, researchers, and the American public to follow and understand the performance of the Nation's economy. To do this, BEA collects source data, conducts research and analysis, develops and implements estimation methodologies, and disseminates statistics to the public.

BEA is one of the world's leading statistical agencies. Although it is a relatively small agency, BEA produces some of the most closely watched economic statistics that influence the decisions made by government officials, business people, households, and individuals. BEA's economic statistics, which provide a comprehensive, up-to-date picture of the U.S. economy, are key ingredients in critical decisions affecting monetary policy, tax and budget projections, and business investment plans. The cornerstone of BEA's statistics is the national income and product accounts (NIPAs), which feature the estimates of gross domestic product (GDP) and related measures.

The GDP was recognized by the Department of Commerce as its greatest achievement of the 20th century and has been ranked as one of the three most influential measures that affect U.S. financial markets. Since the NIPAs were first developed in the aftermath of the Great Depression, BEA has developed and extended its estimates to cover a wide range of economic activities.

Today, BEA prepares national, regional, industry, and international accounts that present essential information on such key issues as economic growth, regional economic development, interindustry relationships, and the Nation's position in the world economy.

Staff believes that the options are:

- (1) No change to the proposed standard.
- (2) Specify the NIPA assumptions rather than merely use them as an example of assumptions "generally in the Federal Government" as evidenced by independent sources."
- (3) Specify the GDP assumptions within the NIPA.
- (4) Specify the OPM and/or MRS pension and ORB assumptions and Labor Department OPEB assumptions.

The staff recommends option (2). The BEA is both the recognize leader for national economic assumptions and is relatively independent of direct political pressure.


Does the Board wish to be more specific with respect to the assumptions to be reviewed by the preparer?



Federal Accounting Standards Advisory Board

***Reporting the Gains and Losses from
Changes in Assumptions and Selecting
Discount Rates and Valuation Dates***

Statement of Federal Financial Accounting Standards

October 1, 2008 

THE FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD

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

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

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

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

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

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Summary

During its project on long-term obligations the Board discussed the need to highlight gains and losses from changes in assumptions in federal financial reports. The largest amounts on the statement of net cost for the consolidated Financial Report of the United States Government (CFR) and for the certain component entities can result from gains and losses from changes in assumptions. This Statement address that need.

This Statement applies to federal entities that report liabilities and expenses for federal employee pensions, other retirement benefit (ORB), and other post-employment benefit (OPEB) in general purpose financial reports prepared pursuant to Federal Accounting Standard Advisory Board standards.

This Statement requires gains and losses from changes in long-term assumptions used to estimate federal employee pensions, ORB, and OPEB liabilities to be displayed on the statement of net cost separately from other costs. Separate display will provide more transparent information regarding the underlying costs associated with these liabilities.

This Statement also requires disclosure of the components of the expense associated with federal employee pensions, ORB, and OPEB liabilities in notes to the financial statements. Such disclosure will provide useful information for analysis. The information will be comparable across agencies and between post-employment and retirement programs.

This Statement also provides a standard for selecting the discount rate assumption for estimates of federal employee pensions, ORB, and OPEB liabilities. There is currently uncertainty in practice in this regard.

This Statement also provides a standard for selecting the valuation date for estimates of federal employee pensions, ORB, and OPEB liabilities, which will establish a consistent method for such measurements.

Tab G – Attachment 1
Table of Contents

Table of Contents

Introduction	3
Purpose	3
Background	3
Proposed Accounting Standard.....	6
Display	7
Selecting Discount Rates.....	9
Selecting Valuation Date	9
Effect on Prior Standards.....	10
Appendix A: Basis for Conclusions.....	15
Display	15
Selecting Discount Rates.....	20
Selecting Valuation Date	27
Appendix B: Pro Forma Statement of Net Cost Displaying Separate Line Item for Gains and Losses Due to Changes in Assumptions	31
Appendix C: Pro Forma Note Disclosure of OPEB Liabilities and Expense	32
Appendix D: Note 11 from FY 2006 Financial Report of the United States	33
Appendix E: Glossary.....	36
Appendix F: List of Abbreviations	38

Introduction

Purpose

1. This standard requires the following:
 - A. It requires gains and losses from changes in long-term assumptions used to estimate federal employee pensions, other retirement benefit (ORB), and other post-employment benefit (OPEB) liabilities to be displayed on the statement of net cost separately from other costs. This display will distinguish gains and losses from changes in assumptions from other costs and thereby provide more transparent information regarding the underlying costs associated with certain liabilities.
 - B. It requires components of the expense associated with federal employee pensions, ORB, and OPEB liabilities to be disclosed in notes to the financial statements. Such disclosure will provide useful information for analytical purposes. The information will be comparable across agencies and between post-employment and retirement programs.
2. This standard also provides standards for selecting:
 - A. the discount rate assumption for pension, ORB, and OPEB liabilities where there is currently uncertainty in practice regarding the discount rates in some situations.
 - B. the valuation date for measuring pension, ORB, and OPEB liabilities, which will establish a consistent method for such measurements.

Background

Reporting Gains and Losses from Changes in Assumptions

3. During its discussions on long-term obligations the Board addressed the need to highlight certain gains and losses from changes in assumptions in federal financial reports. The largest amounts on the statement of net cost for the consolidated Financial Report of the United States Government (CFR)¹ and for the certain component entities can result from gains and losses from changes in assumptions. The Board is now requiring that such gains and losses be reported as a discrete line item on the statement of net cost.

Selecting the Discount Rates


4. SFFAS 5 provides standards for several types of liabilities, some of which require present value valuations. Federal accounting standards requiring present valuations

¹ See Appendix D containing Note 11, "Federal Employee and Veterans Benefits Payable," from the FY 2006 CFR.

Tab G – Attachment 1

Introduction

usually specify U. S. Treasury borrowing rates as the discount rates, although the terminology used differs.

5. With respect to the selection of assumptions for pension, ORB, and OPEB, including the discount rate assumption, SFFAS 5 emphasizes expected long-term future trends rather than recent past experience. For the discount rate, SFFAS 5 required either the entity's long-term investment yield on assets, if the benefit plan is being funded, or other **long-term assumptions**² such as Treasury borrowing rates for securities of similar maturity to the period over which the payments are to be made.³
6. Some entities interpreted the SFFAS 5 standard with respect to **other post-employment benefits** (OPEB) to require the use of single-day Treasury rates for the discount rates. Single-day rates render liability projections susceptible to more volatility than, for example, rates based on long-term expectations or historical experience.
7. Liabilities for post-employment and retirement benefits and other long-term government obligations can be very large. The combination of the magnitude of these liabilities and volatility of the projections has resulted in large variations in annual cost from year to year that reduce the usefulness of reported operating results.
8. When they require long-term federal government borrowing rates or Treasury borrowing rates for discounting, FASAB standards did not specify a precise method for selecting those rates. There were a number of options for the discount rate. However, the ount rate generally required in FASAB standards is the rate on marketable Treasury securities of similar maturity to the cash flows of the obligation in question.
9. This Statement provides a standard for selecting discount rates for present value measurements of federal employee pensions, ORB, and OPEB liabilities .


Selecting the Valuation Date

10. This Statement provides a standard regarding selecting valuation dates for present valuations of federal employee pensions, ORB, and OPEB liabilities. Few FASAB standards currently address the valuation date per se.
11. In Interpretation 3, *Measurement Date for Pension and Retirement Health Care Liabilities* (August 1997), the Board addressed the valuation date issue with respect to measuring federal civilian and military employee pensions and retirement health care liabilities in general purpose financial reports prepared pursuant to SFFAS 5. Interpretation 3 requires that pension and retirement health care liabilities in general purpose federal financial reports prepared pursuant to SFFAS 5 be measured as of the end of the reporting period. However, a full actuarial valuation as of the end of the reporting period is not required. The Interpretation allows the measurement to be based on an actuarial valuation performed as of an earlier date during the fiscal year, including the beginning-of-year, adjusted or "rolled forward" for the effects of changes during the year in major factors such as pay raises and cost of living adjustments.

² Terms in the Glossary are shown in **boldface** the first time they appear in this document.



³ SFFAS 5, pars. 66, 83, and 95.

Tab G – Attachment 1
Introduction

12. In this Statement the Board is extending the Interpretation 3 approach to expense and liability measurement for OPEB liabilities.
13. This Statement would be effective for fiscal years beginning after September 30, 2009. 

Proposed Accounting Standard

Scope

14. This Statement applies to federal entities that report liabilities for federal employee pensions, other retirement benefits (ORB), and other post-employment benefits (OPEB), including veterans' compensation,⁴ in general purpose financial reports prepared pursuant to Federal Accounting Standard Advisory Board (FASAB) standards. The standard does not apply to pension and ORB plans.
15. This Statement requires the display of gains and losses from changes in **long-term assumptions** used to estimate liabilities for federal employee pensions, ORB, and OPEB, including a discount rate assumption.  the purpose of this Statement, assumptions are considered long-term if the underlying event about which the assumption is made will not occur for five years or more. If the event is one of a series of events, the entire series should be considered the event and, thus, projected payments may commence within one year but would be required to extend at least five years. Otherwise, assumptions would be considered short-term.
16. This Statement does not apply to other long-term liabilities where the FASAB has specifically provided standards. Thus, this Statement does not apply to areas addressed in SFFAS 2, *Accounting for Direct Loans and Loan Guarantees*, SFFAS 18, *Amendments to Accounting Standards for Direct Loans and Loan Guarantees (Amends SFFAS 2)*, and SFFAS 19, *Technical Amendments to Accounting Standards for Direct Loans and Loan Guarantees (Amends SFFAS 2)*.
17. This Statement does not preclude  federal entities from displaying or disclosing any information about the effect of changes in any assumptions, short- or long-term, that the preparer believes would be informative.
18. In addition, except for the change in terminology to characterize the preparer's long-term estimates from "best estimate" to "reasonable estimate," this Statement does not apply to social insurance programs for which the FASAB has specifically provided standards in SFFAS 17, *Accounting for Social Insurance*. The preparation and display of the expense and liability, related disclosures, and the statement of social insurance follows the standards promulgated in SFFASs 17, 25,⁶ and 26.⁷

⁴ The pension program for veterans of the Department of Veterans' Affairs (DVA) is not accounted for as a "federal employee pension plan" under SFFAS 5 and the obligation therefore is not recorded as a liability due to differences between its eligibility conditions and those of federal employee pensions. The veterans' pension obligation is currently measured internally by the DVA in a manner consistent with the DVA's compensation program.

⁶ *Reclassification of Stewardship Responsibilities and Eliminating the Current Services Assessments*, July 17, 2003.

⁷ *Presentation of Significant Assumptions for the Statement of Social Insurance: Amending SFFAS 25*, November 1, 2004.

Tab G – Attachment 1

Proposed Accounting Standard

19. This Statement applies to information provided in general purpose federal financial reports. It does not affect statutory or other special-purpose reports.

Display

Component Entities

20. Component entities should display gains and losses from changes in long-term assumptions used to measure liabilities for federal civilian and military employee pensions, ORB, and OPEB, including veterans' compensation as a separate line item or line items on the statement of net costs. See the pro forma illustration in Appendix B.
21. The display requirement in paragraph 20 does not apply to gains and losses from changes in other assumptions, including the following:
- A. assumptions that are short-term in nature, for example, those used to estimate receivables, payables, inventory and related property, and claims incurred but not reported (IBNR); and
 - B. assumptions used in direct loan and loan guarantee programs or other activities for which the FASAB has provided specific display, discount rate, or valuation date standards.
22. Selecting the pension, ORB, and OPEB liability assumptions for which gains and losses from changes are to be displayed individually on the statement of net cost requires judgment. The preparer should consider quantitative and qualitative criteria. Acceptable criteria include but are not limited to quantitative factors such as the percentage of the reporting entity's cost that resulted from changes in assumptions and size of the gains or loss relative to the liability; and qualitative factors including whether the gains or losses from changes in an assumption should be of interest to decision-makers and other users. Nothing in this standard should be construed to preclude an entity from displaying gains or losses from assumptions changes involving short-term assumptions if in the preparer's judgment doing so would be informative.
23. In instances where an administrative entity⁸ is reporting the gains and losses from assumption changes associated with pensions, ORB, and OPEB liabilities, the administrative entity would display the discrete line item for gains and losses from changes in assumptions on its statement of net cost.
24. Component entities should disclose in notes to the financial statements the following reconciliation of beginning and ending pension, ORB, and OPEB liabilities:

⁸ The terms "employer entity" and "administrative entity" are used in SFFAS 5 to distinguish between entities that employ federal workers and thereby generate the employee costs, including pension cost, and those that are responsible for managing and/or accounting for the pension or the other employee plan. For example, entities that receive "salaries and expense" appropriations are employer entities, while the Office of Personnel Management is an administrative entity because it administers the civilian retirement benefit plans. See especially SFFAS 5, pars. 71-2 and 88.

Tab G – Attachment 1
Proposed Accounting Standard

Beginning liability balance	\$X,XXX
Expense:	
Normal cost	XX
Interest on the liability balance	XX
Actuarial (gain)/loss:	
From experience	XX
From assumption changes	XX
Prior service costs	X
Other	(X)
Total expense	XXX
Less amounts paid	(XX)
Ending liability balance	\$X,XXX

25. This reconciliation must provide all material components of pension, ORB, and OPEB expense consistent with the components identified in the table immediately above, if applicable. Additional sub-components may be presented. The line item for **actuarial gains and losses** should be broken out into the sub-components “from experience” and “from assumptions changes.” Significant pensions, ORB, and OPEB programs should be presented individually in a separate column along with an “all other” column, if applicable, and a “total” column for each line item. Instances where an administrative entity is responsible for reporting all components of pension and ORB cost pursuant to SFFAS 5, including gains and losses from assumption changes, the administrative entity is responsible for disclosing the information in paragraph 24.
26. Component entities should disclose current market rates as of the reporting date for Treasury securities with 10-, 20-, and 30-year maturities, if available, for comparison with the average historical Treasury rates the entity is using for the discount rate.
27. Component entities holding non-Treasury securities as assets to fund their pension, ORB, and OPEB programs should disclose the rate of return, specific maturities, and allocation by type (stocks, bonds, etc.) of such assets.

Governmentwide Entity

28. The governmentwide entity should display gains and losses from changes in assumptions as a separate line item or line items on the statement of net cost after a subtotal for all other costs and before total cost. See the pro forma illustration in Appendix B.
29. The governmentwide entity should disclose in the notes to the financial statements a reconciliation consistent with paragraph 24 above for long-term liabilities. At a minimum,

* See the glossary for this standard’s definition of “normal cost.”

Tab G – Attachment 1

Proposed Accounting Standard

reconciliations for liabilities classified as civilian, military, and veterans OPEB must be presented. See Appendix C for an example.

Selecting Discount Rates


30. Discount rates for present value measurements of long-term pension, ORB, and OPEB liabilities should be interest rates on **marketable Treasury securities** of similar maturities to the cash flows for which the estimate is being made. The discount rates should be matched with the expected timing of the associated expected cash outflow. Thus, each year for which cash flows are projected should have a separate discount rate associated with it. However, a single average discount rate may be used for all projected future payments if the result is not materially different than the multiple-rate result.
31. The discount rates should reflect average historical rates on marketable Treasury securities rather than give undue weight to recent past experience with such rates. Historical experience should be the basis for expectations about future trends in marketable Treasury securities. The preparer will need to exercise judgment when developing the discount rate.
32. For cash flows that are projected to occur in future years for which Treasury securities are not available or that extend beyond the maturities for which Treasury securities are available, e.g., beyond the 30-year security, the preparer should incorporate in the assumed discount rate expected re-financing rates extrapolated from historical Treasury borrowing rates.

Selecting Valuation Date

33. Estimates of pension, ORB, and OPEB liability and expense in general purpose federal financial reports should be measured as of the end of the fiscal year (or other reporting period if applicable). Measurements based on an actuarial valuation may be performed as of an earlier date during the fiscal year, including the beginning of the year, with adjustments for the effects of changes during the year in major factors such as the pay raise and cost of living adjustment. This measurement is required to be performed following the end of the period reported, but a full actuarial valuation as of the end of the reporting period is not required.
34. The valuation date utilized by the entity should be consistently followed from year to year.
35. Measurements should reflect the entity's assumptions about the major factors that would be reflected in a full actuarial valuation, such as the actual pay raise, the actual cost of living adjustment, and material known changes in the number of participants covered (enrollment) that cause a change in the liability. The entity's estimates will reflect its judgment about the outcome of events based on past experience and expectations about the future. Estimates should reflect what is reasonable to assume under the circumstances. The entity's own assumptions about future cash flows may be used. However, the entity should review assumptions used generally in the federal government as evidenced by independent sources, for example, those used by the Federal Bureau

Tab G – Attachment 1

Proposed Accounting Standard

of Economic Analysis for the National Income and Product Accounts and, if its assumptions do not reflect such data, explain why it is inappropriate to do so. 

Effect on Prior Standards

36. This Statement provides additional requirements for display, disclosure, discount rates, and valuation dates for federal civilian and military employee pensions, ORB, and OPEB in SFFAS 5. Interpretation 3 is rescinded. In addition, this Statement replaces “best estimate” with “reasonable estimate” in SFFAS 5, SFFAS 7, and SFFAS 17.

SFFAS 5

37. This Statement also affects current standards for selecting discount rates. SFFAS 5, *Accounting for Federal Liabilities*, is amended as follows:

65. Assumptions—For financial reports prepared for the three primary federal plans (CSRS, FERS, and MRS), ~~the best available~~ actuarial estimates of assumptions should be used to calculate the pension expense and liability. The selection of all actuarial assumptions should be guided by Actuarial Standards of Practice No. 4, *Measuring Pension Obligations*, as revised from time to time by the Actuarial Standards Board. Accordingly, actuarial assumptions should be on the basis of the actual experience of the covered group, to the extent that credible experience data are available, but should emphasize expected long term future trends rather than give undue weight to recent past experience. Although emphasis should be given to the combined effect of all assumptions, the reasonableness of each actuarial assumption should be considered independently on the basis of its own merits and its consistency with each other assumption. [footnote omitted]

66. In addition to complying with the guidance in the preceding paragraph, **the discount rate assumption for present value measurements pension liabilities should be the interest rate on marketable Treasury securities of similar maturities to the cash flows of the payments for which the estimate is being made. The discount rates should be matched with the expected timing of the associated expected cash outflow. Thus, each year for which payments are projected should have a separate discount rate associated with it. However, a single average discount rate may be used for all projected future payments if the result is not materially different than the multiple-rate result.** ~~the interest rate assumption should be based on an estimated long-term investment yield for the plan, giving consideration to the nature and the mix of current and expected plan investments and the basis used to determine the actuarial value of assets; or if the plan is not being funded, other long-term assumptions (for example, the long-term Federal government borrowing rate).~~ The underlying inflation rate and the other economic assumptions should be consistent. ~~The rate used to discount the pension obligation should be equal to the long-term expected return on plan assets.~~ **The discount rates should reflect average historical rates on marketable Treasury securities rather than give undue weight to recent past experience with such rates. Historical experience should be the basis for**

expectations about future trends in marketable Treasury securities. The preparer will need to exercise judgment when developing the discount rate. For cash flows that are projected to occur in future years for which Treasury securities are not available or that extend beyond the maturities for which Treasury securities are available, e.g., beyond the 30-year security, the preparer should incorporate in the assumed discount rate expected re-financing rates extrapolated from historical Treasury borrowing rates.

83. **Assumptions**—Amounts calculated for financial reports prepared for ORB plans should reflect (1) general actuarial and economic assumptions that are consistent with those used for **federal employee** pensions and (2) a **long-term** health care cost trend assumption that is consistent with Medicare projections or other authoritative sources appropriate for the population covered by the plan. The discount rate assumption for present value measurements of ORB liabilities should be the interest rate on marketable Treasury securities of similar maturities to the cash flows of the payments for which the estimate is being made. The discount rates should be matched with the expected timing of the associated expected cash outflow. Thus, each year for which payments are projected should have a separate discount rate associated with it. However, a single average discount rate may be used for all projected future payments if the result is not materially different than the multiple-rate result be equal to the long-term expected return on plan assets if the plan is being funded or on other long-term assumptions (for example, the long-term Federal government borrowing rate) for unfunded plans. The discount rates should reflect average historical rates on marketable Treasury securities rather than give undue weight to recent past experience with such rates. Historical experience should be the basis for expectations about future trends in marketable Treasury securities. The preparer will need to exercise judgment when developing the discount rate. For cash flows that are projected to occur in future years for which Treasury securities are not available or that extend beyond the maturities for which Treasury securities are available, e.g., beyond the 30-year security, the preparer should incorporate in the assumed discount rate expected re-financing rates extrapolated from historical Treasury borrowing rates. The administrative entity should disclose the assumptions used.

95. The employer entity should recognize an expense and a liability for OPEB when a future outflow or other sacrifice of resources is probable and measurable on the basis of events occurring on or before the reporting date. For example, a reduction in force may require an employer entity to make severance payments, unemployment reimbursements, or other payments in future periods. Similarly, an injury on the job may require the employer entity to make short- or long-term reimbursements to the federal workers' compensation program. A long-term OPEB liability should be measured at the present value of future payments. This will require the employer entities to estimate the amount and timing of future payments, and to discount the future outflow using the

interest rate on marketable Treasury borrowing rate for securities of similar maturities to the period over which the payments are to be made. The discount rate assumption for present value measurements of OPEB liabilities should be the interest rate on marketable Treasury securities of similar maturities to the cash flows of the payments for which the estimate is being made. The discount rates should be matched with the expected timing of the associated expected cash outflow. Thus, each year for which payments are projected should have a separate discount rate associated with it. However, a single average discount rate may be used for all projected future payments if the result is not materially different than the multiple-rate result. The discount rates should reflect average historical rates on marketable Treasury securities rather than give undue weight to recent past experience with such rates. Historical experience should be the basis for expectations about future trends in marketable Treasury securities. The preparer will need to exercise judgment when developing the discount rate. For cash flows that are projected to occur in future years for which Treasury securities are not available or that extend beyond the maturities for which Treasury securities are available, e.g., beyond the 30-year security, the preparer should incorporate in the assumed discount rate expected re-financing rates extrapolated from historical Treasury borrowing rates.

157. Second, assumptions ought to be consistent across federal employee retirement systems. Assumptions need not be identical because the conditions facing each plan may objectively differ, but they should be rationally related (thus, the standard calls for financial reports to be prepared on the basis of ~~the best available~~ reasonable estimates for actuarial assumptions). Also, the standard allows the smaller plans to use the assumptions provided by any of the three primary plans or to use their own assumptions if they explain how and why they are different from one of the major plans.

SFFAS 7

38. This Statement also affects current standards that use the term “best estimate.” SFFAS 7, *Accounting for Revenue and Other Financing Sources ...*, is amended as follows:

67.1 Entities that collect taxes and duties should provide the following supplementary information relating to their potential revenue and custodial responsibilities:

67.1 The estimated realizable value, as of the end of the reporting period, of compliance assessments and, if reasonably estimable, preassessment work in process. The amounts furnished should represent management's ~~best~~ estimate of additional revenues reasonably expected ~~likely~~ to be collected from compliance assessments and from pre-assessment work in process, appropriately qualified as to their reliability. A range of amounts may be provided for pre-assessment work in process if estimable. The change in the total(s)

of compliance assessments and of pre-assessment work in process during the reporting period also should be provided.

*67.2 If reasonably estimable, other claims for refunds that are not yet accrued but are likely to be paid when administrative actions are completed. If estimated, unasserted claims for refunds should be provided separately from claims filed and may be expressed as a range of amounts. The amounts furnished should represent management's ~~best~~ **reasonable** estimates, appropriately qualified as to their reliability. The change in the total of these amounts during the reporting period also should be provided.*

SFFAS 17

39. Paragraphs 24-27 and 32-33 of SFFAS 17 provide the standard for required supplementary information (sub-paragraph 27(3) and 32(3) were re-classified as basic information by SFFAS 26, *Presentation of Significant Assumptions for the Statement of Social Insurance: Amending SFFAS 25*). Paragraph 25 of SFFAS 17 is changed as follows:

*25. The projections and estimates used should be based on the entity's ~~best~~ **reasonable** estimates of demographic and economic assumptions, taking each factor individually and incorporating future changes mandated by current law. Significant assumptions should be disclosed.*

40. Paragraph 27(2) of SFFAS 17 requires the ratio of contributors to beneficiaries as supplementary information. Paragraph 27(2) is changed as follows:

27(2) Ratio of Contributors to Beneficiaries - With respect to the OASDI and HI programs, the ratio of the number of contributors to the number of beneficiaries (commonly called the "dependency ratio") during the same projection period as for cashflow projections (e.g., 75 years), using the program managers' ~~best~~ estimate. At a minimum, the ratio should be reported for the beginning and end of the projection period. [footnote omitted]

41. Paragraph 27(4) (a) of SFFAS 17 requires sensitivity analysis as supplementary information. The phrase "best estimate cost" before the word "assumptions" is changed as follows:

*27(4) (a) For all programs except UI illustrate the sensitivity of the projections and present values required by paragraphs 27(1) and 27(3) to changes in the most significant individual assumptions. For example, using the entity's "~~best estimate~~" **reasonable** cost assumptions as a baseline, show the effect of varying several significant assumptions*

Effective Date

42. This Statement is effective for fiscal years beginning after September 30, 2009. 

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

Appendix A: Basis for Conclusions

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

Comments Received

A1. The Board did not rely on the number in favor or opposed to a given position. Information about the respondents' majority view is provided only as a means of summarizing the comments. The Board considered the arguments in each response and weighed the merits of the points raised. The respondents' comments are summarized below.

A2. Eight written responses were received from the following sources:

	FEDERAL (Internal)	NON-FEDERAL (External)
Users, academics, others		2
Auditors	1	
Preparers and financial managers	5	

Summary of Comments

Display

What the Exposure Draft Proposed Regarding Display

A3. During its consideration of long-term obligations the Board discussed how financial statement display might be modified to show the fluctuations in cost caused by changes in assumptions. The largest amounts on the operating statement for the Financial Report of the United States Government (CFR) and on the statement of net cost for some component entities often result from gains and losses from changes in assumptions. Note 11⁹ to the FY 2006 CFR disclosed that the expense for military employee pension benefits was \$112.2 billion. Of this amount \$20.1 billion was for changes in assumptions, and \$6.1 billion was from differences between actual experience and what was assumed. And even more dramatically, Note 11 in the CFR for FY 2005 disclosed that of the \$123 billion expense for post-retirement healthcare benefit for military personnel, \$53 billion is attributed to changes in assumptions and \$5 billion was from differences between actual experience and what was assumed.

⁹ See Appendix D for Note 11.

- A4. The Board decided to propose a general standard because many programs are affected by changes in long-term assumptions. Such programs involve long-term liability and cost estimates the dollar amounts of which are very large relative to other financial statement items. The long-term estimates on which the Board focused frequently employ discounted present value and therefore a discount rate assumption. However, the exposure draft required the entity to display the effect of changes in long-term assumptions even if discounted present value is not employed
- A5. The exposure draft proposed that gains or losses from changes in assumptions, if any, should be presented as discrete line items not assigned to programs on the statement of net cost. The Board believed that this disaggregation would enhance the usefulness of the information provided on the statement of net cost. Separate display highlights the effects of changes in assumptions, which can be significant. Expenses assigned to programs would be distinguished from the gains and losses from changes in assumptions. The user would be better able to understand the operating performance of the entity as well as the role of gains and losses from changes in assumptions.
- A6. The Board believed that the discrete display of such gains and losses would enhance users' understanding of liabilities and periodic expense. Users, including entity managers, would understand more about how liabilities and expense are measured; about the uncertainty of the measurement of individual liabilities; and about what causes changes in liabilities. Managers would benefit from having information about the volatility of assumptions in long-term programs. Extreme volatility might indicate the assumptions chosen and/or the assumption-selection process needs re-evaluation. Volatility may affect the entity's funding requests and long-term planning. It will at least raise a flag for further investigation.
- A7. The proposed Statement provided certain exceptions to the display requirement. Assumptions used to estimate receivables, payables, inventory and related property and other short-term assumptions were excepted because they will be proved or disproved within a relatively short period of time. Also, those assumptions used for direct loans and loan guarantees were excepted because the FASAB has already provided accounting procedures.

Respondents' Comments Regarding Display

- A8. Most respondents agreed that the separate display of gains and losses from changes in assumptions on the statement of net cost (SNC) would be informative and useful. One respondent recommended displaying more detail about assumption changes on the face of the SNC, for example, the nature of the assumption change, within a category of assumptions (i.e., economic, demographic, etc.) and the amount of change.
- A9. Most of the respondents who commented on the question about the criteria for short – and long-term assumptions found the 5-year criteria useful. One respondent commented that there is some ambiguity in the wording and suggested the following three improvements: (1) explicitly allow display of gains/losses from assumption changes involving estimates for less than five years, (2) include the size of the gain/loss relative to the actuarial liability as part of the guidance in the proposed standard (ED paragraph

21) as another criterion for deciding what to display, and (3) include a discussion of the need to distinguish between benefit changes and assumption changes in the basis for conclusions. Another respondent commented that the glossary should be clearer regarding what is meant by “long-term assumptions.”

- A10. One respondent did not believe the 5-year division is appropriate “to define liabilities.” In addition, they thought there would be situations where changes in short-term assumptions could result in material gains and losses.
- A11. Another respondent commented that the proposed standard did not provide satisfactory guidance based on their belief that it (1) would apply to a very limited federal audience, (2) uses high-level generalities, and (3) should be directed to the administrative entities for the primary federal employee benefit programs.
- A12. Several respondents commented that the proposed standard is not clear with respect to how it applies to non-actuarially prepared liability estimates. For example, one respondent thought that it may not be feasible to identify separate components of an annual change in non-actuarial liabilities. Another respondent asked for more guidance with respect to paragraph 21 in the exposure draft, which directs the preparer to use judgment in selecting the long-term assumptions for which gains and losses from changes are to be displayed individually on the statement of net cost.

The Board’s Conclusions Regarding Display

- A13. The Board decided to limit the standard to federal employee pension, ORB, and OPEB liabilities. This decision is based on the Board’s desire to address its primary concern, which is to display the effect of assumption changes on VA’s annual expense, as note in paragraph A3 above. Although in principle a broader application is desirable, the Board concluded that limiting the scope to pensions, ORB, and OPEB liabilities would address the specific issue presented at this time. In addition, the need for information about the effect of assumption changes is more acute for pensions, ORB, and OPEB liabilities than for other liabilities where the combination of factors that the preparer would have to consider is more complex. Legal contingencies, for example, involve an array of considerations that are not as clear-cut as for employee benefits.
- A14. This decision effectively renders moot several of the respondents’ concerns. First, it addresses the concern of some respondents that the guidance was not specific enough with respect to which assumptions are subject to the standard. Second, addresses the concern that the disclosure requirement of ED paragraphs 22-23 were too pension and may confuse users regarding how to classify annual changes in, for example, environmental cleanup liabilities or contingent liabilities.
- A15. Regarding the concern that the proposed standard did not provide satisfactory guidance regarding how it applies to administrative and employer entities as defined in SFFAS 5, specific guidance has been added to the standard to clarify that, in cases where the administrative agency is responsible for reporting the gains and losses from changes in assumptions, the administrative entity would be responsible for reporting the discrete line item on its SNC. However, the Board continues to believe that the display of the

effect of changes in assumptions will be meaningful for employer entities that are responsible for reporting such gains and losses, that is, that service as both the employer and administrative entities. Employer entities that report OPEB expenses from information provided by the another agency, e.g., the Labor Department, would be responsible for reporting such gains or losses from changes in assumptions, if material. The agency providing the data should provide the disaggregated information necessary for such reporting.

A16. Regarding the distinction between “short-term assumptions” and “long-term assumptions,” the Board believes standard provide sufficient guidance. Assumptions are considered long-term if the underlying event about which the assumption is made will not occur for five years or more. If the event is one of a series of events, the entire series should be considered the event and, thus, projected payments may commence within one year but would be required to extend at least five years. Otherwise, assumptions would be considered short-term. The Board believes that limiting the scope of the standard to federal employee pensions, ORB, and OPEB will reduce the potential for misunderstanding.

A17. Regarding that comment that information about changes in short-term assumptions might be informative, the Board agrees that there might be instances where the display of gains and losses from changes in assumptions that are by definition “short-term” in nature might be informative. Although it did not require such display, the proposed standard did not preclude displaying the effect of changes in short-term assumptions. The Board has made this explicit (see paragraph).

A18. Regarding the comment about the propriety of the 5-year criteria for distinguishing long-term liabilities, the proposed standard did not define “long-term liabilities”. It used that term generally to describe the types of liabilities for which components of expense should be disclosed and for which valuations are undertaken using “long-term assumptions.” The proposed standard defined long-term assumptions as those where the underlying event about which the assumption is made will not occur for five years or more. The Board understands the respondent’s comment to involve a question about the sufficiency of the general usage of “long-term liability” in the standard. The Board believes that the usage of “long-term liability”, along with the specific focus on assumptions involving events of 5 years or more, is sufficient.

Note Disclosures

What the Exposure Draft Proposed Regarding Disclosure

A19. The display standard required certain note disclosures. First, the components of expense associated with long-term liabilities were to be disclosed. The Treasury Department and other users advocated a disclosure that will allow increased comparability between federal civilian and military employee and veteran benefits programs. The Board believed that disclosing the components of expense will provide information about the government’s annual accrued costs and about increases and decreases in the associated liability that will be useful for decision-making. The Treasury Department prepares the CFR and must explain any wide swings in long-term liabilities.

For some time Treasury has sought to improve the disclosure for federal employee and veteran benefits payable and currently discloses the information shown in Appendix D. The desire for more transparency in this regard is not only the goal of the Treasury Department but also apparent in comments from other CFR users, most notably the Federal Reserve. Most of the information required in this Statement is already presented in the CFR but some data is missing. The proposed standard was intended to fill these gaps with this proposed standard.

- A20. In addition to the components of expense, the exposure draft proposed a second note disclosure requirement for market rates for Treasury securities with 10-, 20-, and 30-year maturities, if available. The Board believed that market rates will be a useful benchmark for comparison with the discount rate(s) the entity is using. The discount rate affects expense and liability amounts and a comparison with market rates will provide useful context. The Board considered but decided not to require the note disclosure to include the entity's analysis of the effect on expense and liability amounts of using current market rates. The burden of such a requirement on preparers was deemed to outweigh the benefits of the information provided. However, the proposed note disclosure would allow interested parties to begin such an analysis.

Respondents Comments Regarding Disclosure

- A21. Most respondents commented that the note disclosure would be informative. One respondent recommended more detailed information about gains and losses from assumption changes. For example, display the type of assumption within a category of assumptions (i.e., categories are economic, demographic, discount rates, etc.) and the amount of each change. Another respondent recommended disclosure of (1) the assumed rate of return on the plan assets, if the reporting entity has such assets – that is, not just the return on Treasury securities, (2) the specific maturities for the Treasury securities, and (3) the allocation of the fund's assets by asset general category. Another respondent recommended requiring the reporting entity to determine its financial position using both the discount rate on Treasury securities and the discount rate on the actual assets of the fund, if any, to show the actual impact of these different rates.
- A22. Another respondent commented that they do not believe the disclosure would be meaningful and informative. They found the standard too vague to determine whether long-term construction contracts or procurements would be included. They cited issues involving their Standard General Ledger accounts and accounting system.
- A23. One respondent commented that they believe the disclosure of market rates would be informative and provide transparency. However, another respondent found the benchmark comparisons unnecessary and potentially confusing. They favored merely stating the basis for selecting assumptions in the notes; for example, that a board of experts decided the rates are appropriate.
- A24. One respondent commented that the proposed standard appeared to eliminate the requirement in SFFAS 5, par. 88, for disclosure of gains and losses due to changes in

the medical trend assumptions as a separate item because it could be included in disclosure of all other such gains and losses. The Board notes that this is not the case; the requirement in par. 88 is not affected by this standard.

The Board's Conclusions Regarding Disclosure

- A25. With respect to the suggestion that more detail be disclosed, the proposal in the exposure draft did not require as much detail on the face of the financial statement as recommended by a respondent. The illustration in Appendix B of the exposure draft showed a display by assumption category, e.g., discount rate assumption. The note disclosure proposed in exposure draft does not require detail about assumption changes but rather focuses on the components of the change in the associated long-term liability. However, as noted above, the exposure draft did not and the standard does not preclude display or disclosure of short-term gains and losses or other material components that the preparer believes it would be informative.
- A26. One respondent recommended using both the discount rate on Treasury securities and the discount rate on the actual assets of the fund, if any, to show the impact of these different rates. The Board believes this disclosure would be informative but that preparing two calculations would be costly and therefore should be optional.
- A27. Regarding the comment about administrative and employer entities, the standard now states the necessity for the administrative entity to either display or disclosure the relevant gains/losses, if it is responsible for doing so; or, to provide the detailed information for the employer entity to report, in instances where it reports the liability.
- A28. The Board's decision to limit the scope of the standard to employee benefits addresses comments about the disclosure requirement in ED paragraphs 22-3 being overly pension oriented.
- A29. Regarding the comments about disclosure of market rates, the Board continues to believe that this disclosure will be a useful benchmark for comparison with the entity's rate. As noted above, the Board decided not to require an analysis of the effect on expense and liability amounts of using current market rates but the data will help interested parties begin such an analysis. The Board agrees that additional information regarding the Treasury securities and assets intended to fund future benefits would be informative and has added a requirement to that effect.

Selecting Discount Rates

What the Exposure Draft Proposed Regarding Discount Rates

- A30. The Board became aware of an issue affecting preparers with respect to the selection of discount rates for present value measurements of expense and liability amounts. A preparer noted that, with respect to OPEB accounting, SFFAS 5 requires that the liability be estimated using as the discount rate the U. S. Treasury borrowing rate for securities

of similar maturity to the period over which the payments are to be made.¹⁰ The preparer asked whether the discount rates should be based on a single day's interest rates or whether there are other alternates acceptable, such as an average of interest rates over a period of time. The preparer currently uses one-day Treasury "spot" rates consistent with the expected timing of future cash flows relating to the program, believing that that is what the Board intended by the OPEB standard in SFFAS 5, paragraph 95. As a result, its future liabilities projection is susceptible to more volatility than alternative discounting measures. The preparer has been criticized for extreme volatility in its liabilities projection and has suggested that alternatives to single-day Treasury borrowing rates could mitigate volatility.

- A31. Several current FASAB standards require present valuations and discounting, including federal civilian and military employee pensions, ORB, OPEB, and veterans' compensation. Federal activities that incur long-term liabilities typically involve similar types of demographic and economic assumptions.
- A32. The FASAB standard for federal civilian and military employee pensions and ORB includes general guidance with respect to assumptions.¹¹ These standards state that federal pension plans should be guided by Actuarial Standards of Practice (ASOP), e.g., ASOP 4, *Measuring Pension Obligations*, and ASOP 27, *Selection of Assumptions for Measuring Pension Obligations*, as revised from time to time by the Actuarial Standards Board (ASB). The ASB is a board associated with the American Academy of Actuaries that sets professional standards of actuarial practice in the United States. The Board referenced ASB standards because it considers them accepted actuarial practice.
- A33. Consistent with ASOPs, SFFAS 5, paragraph 65 requires actuarial assumptions to be based on the actual experience of the covered group and to emphasize expected long-range future trends rather than give undue weight to recent past experience. Although emphasis should be given to the combined effect of all assumptions, the standard requires that the reasonableness of each actuarial assumption should be considered independently on the basis of its own merits and its consistency with each other assumption.
- A34. With respect to discount rates for pensions and ORB accounting, SFFAS 5 requires the interest rate used for discounting to be based on
- an estimated long-term investment yield for the plan, giving consideration to the nature and the mix of current and expected plan investments and the basis used to determine the actuarial value of assets; or if the plan is not being funded, other long-term assumptions (for example, the long-term federal government borrowing rate). ...¹²
- A35. The FASAB standard for OPEB differs somewhat from that for pensions and ORB. For OPEB, SFFAS 5 requires employer entities to estimate the amount and timing of future payments and to discount the future cash flows using the Treasury borrowing rate for

¹⁰ SFFAS 5, par. 95.

¹¹ See SFFAS 5, pars. 65 and 83, respectively, for pensions and ORB.

¹² SFFAS 5, par. 66.

securities of similar maturity to the period over which the payments are to be made.¹³ This difference is attributable to the fact that, unlike most federal civilian and military employee pensions and ORB plans, the federal employee OPEB plans generally are not funded and thus the long-term yield on investments was not thought to be relevant. For plans that are not funded the standards have been essentially the same: the objective is an expected long-term rate that reflects the government's expected borrowing costs.

A36. The Board concluded in SFFAS 5 that the discount rate for pensions and ORB, which are funded, should reflect the long-term expected return on plan assets. The Board explained that the expected long-term rate reduces volatility, reflects the actual experience and expectations of the primary federal plans, and is consistent with the assumptions used in the budget.¹⁴

A37. As previously stated, current FASAB standards provide two approaches for selecting discount rates. The first approach is the expected long-term return on plan assets. The second approach involves unfunded plans where an expected long-term return on plan assets is not available and a Treasury borrowing rate is required. The proposed standard employed one approach for all instances not otherwise expressly provided in FASAB standards: discount rates for present value measurements of long-term liabilities should be the interest rate on marketable Treasury securities of similar maturities to the cash flows of the benefit payment for which the estimate is being made.

A38. The Board believed that discount rates for present value measurements of expense and liability amounts should be rates for marketable Treasury securities because they reflect the government's borrowing cost with the public. Also, expected long-term rates reduce volatility, reflect the actual experience and expectations of the primary federal plans, and are consistent with the assumptions used in the budget.

A39. The proposed standard eliminated the plan's investment yield as an option for discount rates for present value measurements of expense and liability amounts. The discount rate assumption for long-term liabilities is used most significantly to calculate the present value of the obligation and the **annual cost increments** of net periodic cost, for example, the normal cost component of pension expense. Both of those uses are conceptually independent of a plan's assets, if any. If two employers have made the same benefit promise, the FASAB believes the annual cost increments and the present

¹³ SFFAS 5, par. 95.

¹⁴ SFFAS 5, par. 159.

²² PL No. 109-280

value of the obligation should be the same even if one expected to earn an annual return of 6 percent on its plan assets and the other had an unfunded plan. However, the plan's portfolio of Treasury securities may be used for discount rates of present value measurements if the result is not materially different than the result using the approach in proposed ED.

- A40. The Board noted that the Pension Protection Act of 2006²² requires fund managers to focus on long-term interest rates instead of their particular asset holdings. The Act requires them to calculate pension liabilities based on current bond rates rather than the expected rate or return from an asset portfolio. Thus, high expected gains from stock holdings will no longer be able to help diminish benefit liabilities since they will no longer be part of the calculation.
- A41. The FASAB believes that the objective of discount rates is to reflect **the time value of money**. The time value of money should reflect the single amount that, if invested at the measurement date in risk-free investments with maturities like those of the future benefit payments being measured, would generate the necessary cash flows to pay the benefits when due. Marketable U.S. Treasury securities are deemed risk free because they pose neither uncertainty in timing nor risk of default to the holder. This single amount is the gross liability. It would equal, conceptually, the current market value of a portfolio of Treasury zero coupon bonds whose maturity dates and amounts would be the same as the timing and amount of the expected future benefit payments. In the absence of a portfolio of such zero coupon Treasury securities, however, the federal preparer will need to incorporate in assumed discount rates the re-financing rates expected to be available on marketable Treasury securities in the future, which should be extrapolated from historical experience.
- A42. With respect to Treasury rates the Board considered average historical rates as well as current market rates as of the reporting date. Some prefer current market rates, arguing that interest rates can move significantly from year to year and the use of interest rates from a prior year (or smoothing this year's rates with those from prior years) can therefore result in significant misstatements about the current value of future cash flows. They argue further that changing interest rate assumptions annually would result in more accurate but also more volatile estimates of liabilities and changes in net cost than the current actuarial practice in the federal government of revisiting interest rate assumptions every 3 to 5 years. They argue that the proposed display standard is the best way to deal with volatility, i.e., by reporting on a separate line changes in net cost due to changes in actuarial assumptions.
- A43. The FASAB decided to propose average historical rates rather than single-day or market rates on the reporting date. The Board believed that single-day rates would not reflect the long-term orientation of most federal programs.
- A44. The proposed standard was not intended to change the Board's preference, expressed in SFFAS 5 and elsewhere, for expected long-term future trends rather than giving undue weight to recent past experience. With respect to assumptions in general, FASAB standards have emphasized expected long-term future trends.

- A45. Regarding the method of discounting cash flow in future years, the FASAB believed that discount rates used to measure the present value of the annual cost increments of expense should be selected that are applicable to the various benefit periods in question. The Board believed that annual cost increments will be more representationally faithful if individual discount rates applicable to various benefit deferral periods are selected. For future years extending beyond the last for which Treasury rates are available, e.g., beyond 30-year maturities, the proposed standard required the preparer to incorporate in the assumed discount rate expected re-financing rates extrapolated from historical Treasury borrowing rates. However, the proposed standard allowed that a single average discount rate may be used for all projected future payments if the result is not materially different than the multiple-rate result, or for cases in which discount rates have limited influence on current liability estimates.
- A46. The proposed standard provided for the discount rates to be reviewed at each annual reporting date and changed if materially different from the existing rate. However, the Board preferred a stable discount rate that would result from applying historical averages, rather than current market rates. The Board stated that current market rates produce a degree of volatility that is not a faithful representation of the time value of money in long-term federal programs. The Board also stated that implicit in the notion of stable rates is the fact that the discount rate normally would not change every year. The preparer would change the rate based on a significant change in the historical average Treasury rate, as determined by the preparer, which would reflect long-term expectations rather than the current market rate. Thus, the proposed standard neither required nor precluded annual changes in the discount rate. Current Office of Personnel Management practice is to maintain a constant discount rate for civilian pensions and other retirement benefits for five years. The Board does not anticipate that the proposed standard would necessarily affect that practice because Treasury borrowing rates normally change very slowly.
- A47. The discount rate standard in the proposed Statement did not apply to instances where the FASAB has required or permitted a discount rate to capture risk, i.e., to be other than the risk-free Treasury borrowing rate. However, the proposed standard did apply to all instances where risk-free Treasury borrowing rates are appropriate.

Respondents Comments Regarding Discount Rates

- A48. The majority of respondents commented that long-term Treasury rates are appropriate for discounting long-term liabilities. One respondent commented that they favored current market rates over average historical Treasury rates, believing them to be a better reflection of the cost of issuing Treasury securities to extinguish long-term liabilities at the financial statement date. In addition, they believe current market rates would provide

Tab G – Attachment 1
Appendix A: Basis for Conclusions

more comparability and would be consistent with fair value accounting. However, they commented that, if average historical rates are used, the time period allowed for average historical Treasury rates should be limited to 5 years, which they feel would better reflect the current market than longer horizons.

- A49. One respondent commented that they use statutory rates and that such rates supersede SFFASs.
- A50. One respondent found the requirement (ED paragraphs 27 and A33) to use year-specific discount rate “fundamentally” inconsistent with the Aggregate Entry Age Normal (AEAN) cost method required by SFFAS 5. The current FASAB pension and other retirement benefits (ORB) standards for selecting cost attribution methods (paragraphs 63 and 82, SFFAS 5, respectively) direct the preparer to use AEAN (or other actuarial cost methods if the results are not materially different). The AEAN method is one of several cost attribution methods available. The private sector pension standard, SFAS 87, used another approach called “projected unit credit” (PUC). The primary reason given in SFFAS 5 for directing the use of AEAN was that the major federal pension plans at OPM and DoD were using it, and the Board was advised by actuaries that the results would not be substantially different than the unit benefit approach required by SFAS 87 (see SFFAS 5, par. 153). In addition, they did not believe that allowing a single rate if the “result” is not materially different, as was done in the ED paragraph 27, would sufficiently address this issue. They did not believe that year-specific discount rates should be required, even if the FASAB Board wants to allow them.
- A51. This respondent also commented that the perspective of the government’s borrowing cost with the public is not necessarily relevant from the point of view of the employer entity in the case of a “funded” plan. Although this respondent’s plan is a federal plan holding federal securities, from this respondent’s perspective, the plan is funded. Therefore, this respondent believes the investment yield perspective for the discount rate has relevance. From the employers’ perspective, this respondent did not believe the statement in paragraph A25 of the exposure draft about the equivalence of two plans with the same benefit provisions (one funded and one not), is necessarily correct.
- A52. This respondent states that, from the overall federal government perspective, it is not clear what constitutes the best basis for the discount rate assumption. They believe the statement in paragraph A24 of the exposure draft that the rationale for using marketable Treasury securities for the discount rate is that they reflect the government’s borrowing cost with the public is questionable. They assert that a private company would not value a given future obligation at its own borrowing cost.
- A53. This respondent acknowledges that, in the sense that Treasury securities represent risk-free investments (as described in paragraph A27, of the exposure draft) arguments can be made for their use as the discount rate basis. However, they assert that two circumstances make an investment yield approach preferable. First, when the entity employs an independent actuarial board, the respondent believes that board’s assumptions for the financial statement valuations make the most sense, especially when Congress has created the independent expert for setting the assumptions. Second, an investment yield approach is preferable when the “funding” in a trust fund

comprised entirely of investments that mirror marketable US Treasury securities. DoD-OACT (Letter #2) also states, “[a]rguments that the discount rate shouldn’t be impacted by the particular portfolio of securities in the trust funds at a given time, are not valid in the context of an alternative involving ‘a vague, undefined ‘historical’ average.’”

- A54. A respondent comments that the phrase “average historical Treasury rates” is unclear but consistent with ED paragraph 28 with respect to the need for the reporting entity to use judgment, and with the notion of “Congressionally-established expert Boards for trust funds restricted to investing in securities that mirror marketable US Treasury securities.”
- A55. Other respondents prefer more guidance regarding the time-period for and meaning of average historical rates. Several respondents recommend limiting the time-period to 5 years, if average historical rates are used, feeling it would better reflect the current market that longer horizon and that that would be a sufficiently long period.
- A56. One respondent asked more explanation and guidance with respect to the phrase “extrapolated from historical Treasury borrowing rates,” It is possible for projected cash flows to extend beyond the maturities for which Treasury securities are available, e.g., beyond the 30-year security. The proposed standard required the preparer to incorporate in the assumed discount rate expected re-financing rates extrapolated from historical Treasury borrowing rates, that is, use the historical rates as indicative of what future rates will be.

The Board’s Conclusions Regarding Discount Rates

- A57. The Board decided to retain “average historical Treasury rates.” The discount rate assumption for long-term liabilities is used most significantly to calculate the present value of the obligation and the annual cost increments of net periodic cost, which are conceptually independent of a plan’s assets. Again, if two employers have made the same benefit promise, the FASAB believes the annual cost increments and the present value of the obligation should be the same even if one expected to earn an annual return of 6 percent on its plan assets and the other had an unfunded plan.
- A58. The Board believes that the average historical Treasury rates for each year is clear and well defined. The objective is a principle-based requirement where the reporting entity would be responsible for calculating the rate.
- A59. The Board decided to retain a specific discount rate for each year. This is sometimes called the “yield curve” approach. As the year of payment nears, a different rate would be used to discount the future payment. The change in discount rate would be a function of (1) the passage of time and (2) the market. It would not represent a change in assumption per se. In other words, the discount rate does not change, the year changes. There would be a one-year rate, a two-year rate, a 5-year rate, etc., that would not (necessarily) change each year. There would be average historical rates for each year that would change when the average historical data dictated. The mere fact that a payment that was due in 5 years is now due if 4 years would not constitute an

assumption change. The Board does not believe that the requirement is conceptually inconsistent with the AEAN or other provisions of SFFAS 5, paragraphs 63 and 82.

A60. The Board notes that the ED's "if-not-materially-different-result" exception – e.g., regarding use of the AEAN cost approach – is a current FASAB pension and ORB standards and has been in effect since October 1996.

A61. With respect to the use of expert actuarial boards, the Board notes that such boards provide assumptions for funding and other purposes and presumably also would provide assumptions for general-purpose financial statements. However, for the latter, under the standard, they would look at the broader market for Treasury securities for context. Actuaries obviously work with the rules provided. The Board concludes that the general requirement for average historical rates should be retained.

A62. With respect to the request for addition guidance regarding the phrase "extrapolate from historical Treasury borrowing rates" where projected cash flows extend beyond the maturities for which Treasury securities are available, e.g., beyond the 30-year maturity, the Board notes that there are several methods that can be applied to extend a yield curve for terms beyond the last available rate in the market. The International Actuarial Association's Risk Margin Working Group (RMWG) recent exposure draft²⁶ on measuring liabilities for insurance contracts mentions that the simplest approach is to use the last available rate (for example the 20-year rate for a 30-year cash flow), and that a more advanced method would be to extrapolate the yield curve with a constant slope assuming that the forward rate observed between the last two market rates stays constant. In addition, the RMWG ED states that a model can be applied to extend the yield curve and cites several examples. The Board believes these approaches are reasonable.



Selecting Valuation Date

What the Exposure Draft Proposed Regarding Valuation Dates

A63. The FASAB has addressed the issue of valuation dates for present valuations in various ways. The sections of SFFAS 5 dealing with pensions, ORB, and OPEB do not mention valuation dates, but the Board did address it Interpretation 3, *Measurement Date for Pension and Retirement Health Care Liabilities* (August 1997). In Interpretation 3 the Board decided that pension and retirement health care liabilities should be measured for general purpose federal financial reports as of the end of the reporting period, and that such measurement should be based on an actuarial valuation within a year of the end of the reporting period.

A64. In Interpretation 3 the Board had been asked to endorse use of an actuarial valuation date as of the beginning of the fiscal year, which had been the practice in some of special purpose financial reports on pension plans prepared pursuant to statutory

²⁶Risk Margin Working Group, *Measurement of Liabilities for Insurance Contracts: Current Estimate and Risk Margins*, March 24, 2008 ("RMWG ED").

²⁷ RMWG ED, page 31.

provisions. Some actuaries were concerned that differences between actuarial measurements used in different reports would cause problems and confusion. Some people who supported using a beginning-of-year valuation also were concerned about the potential for disagreements between auditors and preparers if projections or estimates were used instead of a full actuarial valuation. However, other people believed that liability measurements in financial statements prepared pursuant to SFFAS 5 should be as of the end of the reporting period, and that a measurement based on a projection or "roll forward" of a full actuarial valuation would be appropriate if it were not feasible to perform a full actuarial valuation as of year end.

A65. SFFAS 17, *Accounting for Social Insurance*, does address the valuation date, specifying that it should be as of any time within a year of the reporting date.

A66. Although it does not explicitly discuss the valuation date, SFFAS 5 implicitly calls for measurement at the reporting date for pensions, ORB, and OPEB liabilities, which are reported as of the balance sheet date.

A67. FASB's Statements 87 and 106 allowed preparers to use a valuation date for measuring pensions and other postretirement liabilities up to three months earlier than the reporting date. However, FAS 158 published under Phase I of FASB's pension project requires the measurement of plan assets and benefit obligations to be as of the date of the sponsoring employer's statement of financial position. The FASB concluded that this will more accurately reflect the economic status of defined benefit plans and further improve the understandability of the financial statements.²⁸

A68. In Statement 27 and Statement 45, the GASB did not require the valuation date to be the employer's balance sheet date. Statement 27 requires the expense/expenditure amount to be based on the results of an actuarial valuation performed in accordance with the parameters as of a date not more than 24 months before the beginning of the employer's fiscal year. Statement 45 requires that the actuarial valuation date generally should be the same date each year (or other applicable interval). However, in both instances a new valuation would be required if, since the previous valuation, significant changes occurred that affect the results of the valuation, including significant changes in benefit provisions, the size or composition of the population covered by the plan, or other factors that impact long-term assumptions.

A69. The Board believes that the approach in Interpretation 3 is preferable. Long-term obligations such as those for pensions, ORB, and OPEB should be measured as of the end of the reporting period based on a full actuarial valuation within a year of the end of the reporting period. Thus, "full actuarial valuations," as that term is used by actuaries, can be performed as of an earlier date during the fiscal year than year end, including a beginning-of-year date, with suitable adjustments for the effects of changes during the year in major factors such as the pay raise and cost of living adjustment. Such adjustments are sometimes referred to as a measurement based on a "projection" or "roll-forward."

²⁸ FAS 158, par. B16.

A70. The proposed Statement also addressed an issue with respect to the meaning of “best estimate.” The proposed Statement provided that estimates should be reasonable under the circumstances (see paragraph 31). The notion of “best estimate” has been used in several FASAB standards, for example, in SFFAS 5, paragraph 65, SFFAS 7, *Accounting for Revenue and Other Financing Sources* ..., paragraph 67.1, and in various instances in SFFAS 17. However, preparers and auditors have reported disagreements regarding the meaning of the word “best,” which is sometimes defined as “excelling all others.” Thus, the Board proposed to replace the term “best estimate” in FASAB standards with “reasonable estimate.”

A71. Actuarial Standards of Practice (ASOP) provide guidance regarding the meaning of “best estimate.” ASOP 10, *Methods and Assumptions for Use in Life Insurance Financial Statements Prepared in Accordance with GAAP*, and ASOP 27, *Selection of Economic Assumptions for Measuring Pension Obligations*. ASOP 27 instruct actuaries to select a specific economic assumption from within his or her “best estimate range” with respect to that assumption, which it defines as “the narrowest range within which the actuary reasonably anticipates that the actual results ... are more likely than not to fall”²⁹ [emphasis added]. ASOP 27 provides, generally, that

“[b]ecause no one knows what the future holds with respect to economic and other contingencies, the best an actuary can do is to use professional judgment to estimate possible future economic outcomes based on past experience and future expectations, and to select assumptions based upon that application of professional judgment. Therefore, an actuary’s best-estimate assumption is generally represented by a *range* rather than one specific assumption. The actuary should determine the best-estimate range for each economic assumption, and select a specific point from within that range. In some instances, the actuary may present alternative results by selecting different points within the best-estimate range” [emphasis added].³⁰

A72. The Board concluded that ASOP 10 and 27 apply a standard of reasonableness regarding “best estimate,” and that that is an appropriate approach. Therefore, paragraph 31 of the exposure draft called for the preparer’s estimate to reflect what is reasonable to assume under the circumstances, rather than the preparer’s “best estimate.”

Respondents Comments on the Valuation Date

A73. Most of the respondents who commented on the proposed valuation date standard commented that it was appropriate. One respondent asserted that its valuation dates are based on statutory requirements.

A74. One respondent objected to the proposed requirement that the preparer compare assumptions used for the liability estimate with assumptions generally used in the federal government as evidenced by independent sources, unless their actuarial board is considered an “independent source.” Another respondent was concerned that the

²⁹ ASOP 27, Section 2.1.

³⁰ ASOP 27, Section 3.1.

proposed standard may prove inconsistent with the historical rates used in setting discount rates, because it permits the use of the entity's own assumptions as long as they can be justified if they deviate from independent sources. They suggest this possible inconsistency be discussed in the guidance. Another respondent commented that the requirement is not clear regarding whether it applies to pension and actuarial valuations or other long-term liabilities such as environmental liabilities and, if so, as to what independent source should be used.

The Board's Conclusions Regarding Valuation Date

A75. The Board continues to believe that pensions, ORB, and OPEB obligations should be measured as of the end of the reporting period based on a full actuarial valuation within a year of the end of the reporting period. Thus, actuarial valuations can be performed as of an earlier date during the fiscal year than year end, including a beginning-of-year date, with suitable adjustments for the effects of changes during the year in major factors such as the pay raise and cost of living adjustment. However, the Board [consider the options for specifying the GDP or other specific government assumptions with which to compare the entity's assumptions. Staff could develop options for the Board's consideration.]

Tab G – Attachment 1
Appendix B: Pro Forma Statement of Net Cost

Appendix B: Pro Forma Statement of Net Cost Displaying Separate Line Item for Gains and Losses Due to Changes in Assumptions

Component Entity:

Pro forma *Statement of Net Cost*

	2005 (millions)
ABC Program	
ABC expenses	\$ 1,000
Less: exchange revenue	<u>50</u>
Net expense before gain/loss from changes in assumptions	950
(Gain)/loss on assumption changes:	
Discount rate assumption	600
Other assumptions	<u>(100)</u>
Net cost	\$1,450

Governmentwide Entity:

*Pro Forma Statements of Net Cost
for the Year Ended September 30, 2006*

	Gross Cost	Earned Revenue	Net Cost
Department of Defense.....	\$ 623	\$ 24	\$ 599
Department of Health & Human Services....	679	51	628
* * *			
All Other entities.....	<u>146</u>	<u>92</u>	<u>54</u>
Cost before gains/losses from changes in assumptions.....	3,060	226	2,834
Less loss (plus gain) from changes in assumptions:			
DoD.....	35	0	35
OPM.....	1	0	1
VA.....	31	0	31
Total cost	\$ 3,128	0	\$ 2,901

Tab G – Attachment 1
Appendix C: Pro Forma Note Disclosure

Appendix C: Pro Forma Note Disclosure of OPEB Liabilities and Expense

	Post Employment Actuarial Liabilities (in billions)			Balance Sheet Total
	Civilian	Military	Veterans	
Beginning balance	1,496.3	1,563.0	924.8	4,062.1
<u>Expense</u>				
Normal cost	41.5	33.4	XXX	
Interest on the liability balance	92.4	96.9	XXX	
Assumption changes	0.2	58.5	XXX	
Plan amendments (prior service cost)	-	25.8	XXX	
Actuarial (gain)/loss	1.9	4.6	XXX	
Other	(0.2)		XXX	
Total expense	135.8	219.2	XXX	
Less benefits paid	(67.6)	(52.9)	XXX	
Subtotal of pension and health	1,564.5	1,729.3	XXX	
Ending balance, other benefits	48.5	26.9	-	
Total post employment actuarial liabilities	1,613.0	1,756.2	1,122.6	4,491.8

Appendix D: Note 11 from FY 2006 Financial Report of the United States

Note 11. Federal Employee and Veteran Benefits Payable

The Government offers its employees life and health insurance, as well as retirement and other benefits. These benefits, which include actuarial and amounts due and payable to beneficiaries and health care carriers, apply to civilian and military employees.

The Federal Government administers more than 40 pension plans. OPM administers the largest civilian plan. DOD, meanwhile, administers the largest military plan. Other significant pension plans with more than \$10 billion in accrued benefits payable include those of the Coast Guard and the Foreign Service. The changes in the accrued post-retirement pension and health benefit liability and components of related expense for the years ended September 30, 2006, and 2005, respectively, are presented below.

Federal Employee and Veteran Benefits Payable as of September 30						
	Civilian		Military		Total	
(In billions of dollars)	2006	2005	2006	2005	2006	2005
Pension and accrued benefits	1,349.0	1,273.8	967.1	895.4	2,316.1	2,169.2
Post-retirement health and accrued benefits	295.2	290.7	837.2	833.9	1,132.4	1,124.6
Veterans compensation and burial benefits	N/A	N/A	1,153.8	1,122.6	1,153.8	1,122.6
Life insurance and accrued benefits	34.2	32.9	-	-	34.2	32.9
FECA benefits	14.4	14.3	22.2	22.7	36.6	37.0
Liability for other benefits	1.5	1.3	4.4	4.2	5.9	5.5
Total Federal employee and veteran benefits payable	<u>1,694.3</u>	<u>1,613.0</u>	<u>2,984.7</u>	<u>2,878.8</u>	<u>4,679.0</u>	<u>4,491.8</u>

Change in Pension and Accrued Benefits			
(In billions of dollars)	Civilian	Military	Total
Actuarial accrued pension liability as of September 30, 2005	1,273.8	895.4	2,169.2
Pension Expense:			
Normal costs	26.8	15.6	42.4
Plan amendment changes	-	0.1	0.1
Assumption changes	1.0	35.4	36.4
Interest on liability	78.0	55.0	133.0
Prior (and past) service cost	-	-	-
Actuarial (gains)/losses	29.7	6.1	35.8
Total pension expense	135.5	112.2	247.7
Less benefits paid	60.3	40.5	100.8
Actuarial accrued pension liability as of September 30, 2006	<u>1,349.0</u>	<u>967.1</u>	<u>2,316.1</u>

Significant Long-Term Economic Assumptions Used in Determining Pension Liability and the Related Expense				
(In percentages)	Civilian		Military	
	2006	2005	2006	2005
Rate of interest	6.25%	6.25%	6.00%	6.25%
Rate of inflation	3.50%	3.25%	3.00%	3.00%
Projected salary increases	4.25%	4.00%	3.75%	3.75%

Change in Post-Retirement Health and Accrued Benefits

(In billions of dollars)	Civilian	Military	Total
Actuarial accrued post-retirement health benefits liability, as of September 30, 2005.....	290.7	833.9	1,124.6
Post-Retirement Health Benefits Expense:			
Normal costs.....	11.2	21.0	32.2
Interest on liability.....	17.1	52.9	70.0
Other actuarial (gains)/losses.....	(12.5)	(53.8)	(66.3)
Total post-retirement health benefits expense.....	15.8	20.1	35.9
Less claims paid.....	11.3	16.8	28.1
Actuarial accrued post-retirement health benefits liability, as of September 30, 2006.....	295.2	837.2	1,132.4

Significant Long-Term Economic Assumptions Used in Determining Post-Retirement Health Benefits and the Related Expense

(In percentages)	Civilian		Military	
	2006	2005	2006	2005
Rate of interest.....	6.25%	6.25%	6.25%	6.25%
Rate of health care cost inflation.....	7.00%	7.00%	6.25%	6.25%

Separate boards of actuaries for OPM and DOD determine the actuarial assumptions used in calculating the pension liability and the post-retirement health benefit liability for the civilian and military personnel. Both boards use generally accepted actuarial methodologies. The board for OPM uses a fixed rate of inflation and projected salary increases over all years for both the pension and post-retirement health benefit liabilities. These rates are shown in the tables above. The board for DOD uses a range of rates for the inflation and the projected salary increases, with an ultimate rate for the long term. The board for DOD also uses different health care cost inflation rates for inpatient, outpatient, and prescription drugs. The long-term ultimate rate is shown in the tables above.

The long-term ultimate rate for fiscal year 2006 of 6.25 percent is shown in the tables above. For disclosure and comparison purposes, DOD's estimate of a single equivalent fixed rate of health care cost inflation for fiscal year 2006 is 7.20 percent, which is an approximation of the single equivalent rate that would produce that same actuarial liability as the actual rates used.

Appendix E: Glossary

Actuarial Gains and Losses

A change in the value of a long-term liability (or the benefit plan's assets) resulting from experience different from that assumed or from a change in an actuarial assumption. Past experience is reflected in current costs through actuarial gains and losses.

Annual Cost Increment

The annual cost increment component of expense is the actuarial present value of the future cash outflows for which a reporting entity becomes obligated during the reporting period. See **Normal Cost** below for pensions, ORB, and OPEB.

Long-term Assumptions

Assumptions are considered long-term if the underlying event about which the assumption is made will not occur for five years or more. If the event is one of a series of events the entire series should be considered the event and, thus, the payment may commence within one year but would be required to extend at least five years. Otherwise, the asset or liability would be classified as short-term.

Marketable Treasury Securities

Debt securities, including Treasury bills, notes, and bonds, that the U.S. Treasury offers to the public and are traded in the marketplace. Their bid and ask prices are quoted on securities exchange markets.

Post-employment Benefits, Other (OPEB)

Forms of benefits provided to former or inactive employees, their beneficiaries, and covered dependents outside pension or **Other Retirement Benefit** plans.

Prior Service Costs

The cost of retroactive benefits granted in a plan amendment.

Retirement Benefits, Other (ORB)

Forms of benefits, other than retirement income, provided by an employer to retirees. Those benefits may be defined in terms of specified benefits, such as health care, tuition assistance, or legal services, which are provided to retirees as the need for those benefits arises, such as certain health care benefits. Or they may be defined in terms of monetary amounts that become payable on the occurrence of a specified event, such as life insurance benefits.

Risk-free Interest Rate

The rate on risk-free monetary assets that have maturity dates or durations that coincide with the period covered by the cash flows. See Time Value of Money below.

Normal Cost

The normal cost component of expense is the actuarial present value of the future cash outflows for which a reporting entity becomes obligated during the reporting period. For pensions, ORB, and OPEB, it represents that portion of the actuarial present value of benefits and expenses attributed to the valuation year by the benefit plan formula to work in covered employment or other service rendered by the participant in the period. The normal cost is a component of the annual expense and liability of the program and is not affected by the funded status of the plan.

Time Value of Money

The time value of money is represented by the rate on risk-free monetary assets that have maturity dates or durations that coincide with the period covered by the cash flows (risk-free interest rate). For present value computations denominated in nominal U.S. dollars, the yield curve for U.S. Treasury securities determines the appropriate risk-free interest rate. U.S. Treasury securities are deemed (default) risk free because they pose neither uncertainty in timing nor risk of default to the holder.

Appendix F: List of Abbreviations

ANPV	Actuarial net present value
CFS	Consolidated financial statements
CPI	Consumer Price Index
ED	Exposure draft
FASAB	Federal Accounting Standards Advisory Board
FASB	Financial Accounting Standards Board
GAO	Government Accountability Office
GASB	Governmental Accounting Standards Board
OMB	Office of Management and Budget
OPEB	Other post-employment benefits
ORB	Other retirement benefits
PV	Preliminary Views
RSI	Required supplementary information
SFAS	Statements of Financial Accounting Standards
SFFAC	Statements of Federal Financial Accounting Concepts
SFFAS	Statements of Federal Financial Accounting Standards

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Tab G – ATTACHMENT 2 – Table of Questions, Issues, and Decisions to Date

Questions for Respondents		
8 Questions for Respondents	Staff Discussion and Recommendation	Board Decision
<p><u>Display and Disclosure</u></p> <p>1. This statement proposes to display gains and losses from changes in assumptions, including the discount rate assumptions, as a discrete item on the statement of net cost. See paragraphs 19-26 in the standard, paragraphs A1-A10 in the basis for conclusions, and the illustration in Appendix B, “Pro Forma Statement of Net Cost Displaying Separate Line Item for Gains and Losses Due to Changes in Assumptions,” for more information regarding display and disclosure.</p> <p>1.1 Do you believe that the display will be informative?</p>	<p>1.1 Most respondents found the display to be informative. One respondent (Letter # 6) does not believe the display will be informative for most program agencies because DOL and OPM calculate such costs and allocate them to the program agencies. Staff does not recommend changing the proposed standard</p>	<p>1.1 The Board decided to limit the scope of the display and disclosure standards to employee benefits because that is the activity most affected by changes in assumptions.</p>

Tab G – ATTACHMENT 2 – Table of Questions, Issues, and Decisions to Date

Questions for Respondents		
8 Questions for Respondents	Staff Discussion and Recommendation	Board Decision
<p>1.2 Do you believe the standard provides satisfactory guidance as to what should be displayed as gains or losses from changes in assumptions?</p>	<p>because the effect of assumption changes on cost should be meaningful at the component level as well as for DOL and OPM. However, see immediately below for more regarding additional guidance.</p> <p>1.2 The staff has no objections to respondents' suggestions and will add explanatory material for the Board's consideration at a subsequent FASAB meeting.</p> <p>Staff will develop additional guidance regarding the necessity for administrative agencies to provide the cost detail for the program agencies' use.</p> <p>Staff recommended that additional wording be developed to clarify how the standard applies to changes in non-actuarial assumptions. However, the Board decided to limit the scope of the standard to actuarial assumptions pertaining to employee benefits.</p>	<p>1.2 Repeating from immediately above, the Board decided to limit the scope of the display and disclosure standards to employee benefits because that is the activity most affected by changes in assumptions.</p> <p>Also, the Board did not object to the staff recommendation regarding additional guidance for administrative and program agencies on the cost detail for the program agencies' use.</p>
<p>2. The statement ... proposes that the components of the expense associated with long-term liabilities be disclosed in notes to the financial statements. See</p>	<p>Regarding the comment about the elimination of a disclosure regarding gains and losses from changes in the medical cost assumption, the proposed standard would not effect that requirement. Staff will develop a brief explanation of the continuing requirement regarding SFFAS 5, par. 88 for the Board's</p>	<p>The Board did not object to the additional guidance.</p>

Tab G – ATTACHMENT 2 – Table of Questions, Issues, and Decisions to Date

Questions for Respondents		
8 Questions for Respondents	Staff Discussion and Recommendation	Board Decision
<p>paragraphs 22 and 26 in the standard; paragraph A9 in the basis for conclusions, and the illustration in Appendix C, “Pro Forma Note Disclosure of Liabilities and Expense,” for more information regarding display and disclosure. Do you believe that disclosure of the components of expense is informative?</p>	<p>consideration at a subsequent FASAB meeting.</p> <p>Regarding how to response to comments about adding detail to the display, staff does not recommend changing the proposal but agrees that more detail about the nature of the assumption change would be informative. Staff will develop the disclosure requirement and enhanced wording for the Board’s consideration.</p> <p>Regarding a respondent’s recommendation that there be additional note disclosure in instances where the reporting entity is holding non-Treasury assets, staff believes this disclosure would be informative and will develop the requirement for the Board’s consideration at a subsequent FASAB meeting.</p> <p>A respondent also recommends using both the discount rate on Treasury securities and the discount rate on the actual assets of the fund, if any, to show the impact of these different rates. Staff believes this disclosure would be informative but that preparing two calculations would be costly, should be optional, and therefore does not recommend changing the standard in this regard.</p> <p>Regarding a respondent’s comment about vagueness in the ED, staff references its</p>	<p>The Board did not object to the additional guidance.</p> <p>The Board did not object to the additional guidance.</p> <p>The Board did not object to the additional guidance.</p> <p>The Board did not object to the additional guidance.</p>

Tab G – ATTACHMENT 2 – Table of Questions, Issues, and Decisions to Date

Questions for Respondents		
8 Questions for Respondents	Staff Discussion and Recommendation	Board Decision
	<p>recommendation under Question 1.2 above, which is that additional guidance be provided stating that the administrative agencies may need to provide the cost detail for program agencies to report, in instances where the former calculates the cost of long-term liability programs.</p> <p>Respondents commented about the ED paragraph 23 being overly pension oriented. Staff recommended additional guidance.</p>	<p>Repeating from immediately above, the Board decided to limit the scope of the display and disclosure standards to employee benefits because that is the activity most affected by changes in assumptions.</p>
<p><u>Benchmark Disclosure</u></p> <p>3. This statement proposes that the preparer provide the 10-, 20- and 30-year market rate for Treasury securities in the notes to the financial statements as a benchmark comparison with the discount rate used by the entity. See paragraph 24 for the note disclosure standard and paragraph A10 in the basis for conclusions for the</p>	<p>A respondent found the requirement to disclose market rates for Treasury securities at the reporting date as a benchmark comparison with average historical rates used unnecessary and potentially confusing. The respondent favored merely stating the basis for selecting assumptions in the notes. Staff continues to recommend this disclosure for the reasons given in the ED's basis for conclusion, essentially because it finds the benchmark informative for comparison with the entity's rate. The ED notes that the Board decided not to require an analysis of the effect on expense and liability amounts of using current market rates but the data will help interested parties begin such an analysis.</p>	<p>The Board did not object to this requirement.</p>

Tab G – ATTACHMENT 2 – Table of Questions, Issues, and Decisions to Date

Questions for Respondents		
8 Questions for Respondents	Staff Discussion and Recommendation	Board Decision
<p>rationale for the disclosure of market rates. Do you believe that disclosure of market rates as described above is informative?</p>		
<p><u>Guidance re Short- and Long-term Assumptions</u></p> <p>4. The statement addresses long-term assumptions that have a material effect on the reporting, for example, those used for measuring expense and liabilities associated with pensions, other retirement benefits, and post-employment benefits. The statement excludes short-term assumptions of which it provides specific examples (see paragraph 20.A), and defines “long-term assumptions” as those involving projections of 5 years or more (see paragraph 15) and,</p>		

Tab G – ATTACHMENT 2 – Table of Questions, Issues, and Decisions to Date

Questions for Respondents		
8 Questions for Respondents	Staff Discussion and Recommendation	Board Decision
<p>accordingly, short-term assumptions as those involving projections of fewer than 5 years.</p> <p>4.1 Do you believe that the 5-year division between short- and long-term assumptions is appropriate?</p> <p>4.2 Do you believe the exclusion of short-term assumptions in the measurement of expense and liability amounts from the display requirement is appropriate?</p> <p>4.3 Are “short-term assumptions” clearly delineated?</p> <p>4.4 Should other short-term</p>	<p>4.1 Although the effect of the 5-year division is largely eliminated with the Board’s decision to limit the scope of the standard to employee benefits, the staff believes the general usage of “long-term liability”, along with the specific focus on assumptions involving events of 5 years or more, is sufficient and therefore recommends no changes.</p> <p>4.2 Again, the effect of the 5-year division is largely eliminated with the Board’s decision to limit the scope of the standard to employee benefits, the proposed standard does not preclude display of short-term gains and losses or other material components that the preparer believes the user should know about. The staff recommends no changes in this regard.</p> <p>4.3 Respondents found the distinction clear.</p> <p>4.4 A respondent suggested adding IBRN to the list of examples of short-term liabilities</p>	<p>The Board decided to limit the scope of the display and disclosure standards to employee benefits because that is the activity most affected by changes in assumptions. However, the Board did not object to this requirement per se.</p> <p>The comment immediately above pertains to all the sub-questions under Question #4.</p>

Tab G – ATTACHMENT 2 – Table of Questions, Issues, and Decisions to Date

Questions for Respondents		
8 Questions for Respondents	Staff Discussion and Recommendation	Board Decision
<p>assumptions be listed as examples?</p>	<p>excluded from the standard. Since the Board decided to limit the scope of the standard to employee benefits, this suggestion becomes moot.</p>	
<p><u>Discount Rate</u></p> <p>5. This statement proposes a standard for selecting the discount rates for present value measurements of expense and liability amounts. The standard provides that the discount rate should be the interest rate(s) on marketable Treasury securities of similar maturities to the cash flows of the payments for which the estimate is being made. The discount rate(s) should reflect average historical rates on marketable Treasury securities rather the current market rate(s). See paragraphs 27-28 in the standard and paragraphs A11-A35 and especially A28 in the</p>		

Tab G – ATTACHMENT 2 – Table of Questions, Issues, and Decisions to Date

Questions for Respondents		
8 Questions for Respondents	Staff Discussion and Recommendation	Board Decision
<p>basis for conclusions.</p> <p>5.1 Do you believe average historical Treasury rates are appropriate discount rates for measuring long-term liabilities in the federal government, rather than current market rates?</p>	<p>5.1(a) One respondent favored a 5-year average Treasury rate. Staff recommends retaining the proposed “average historical Treasury rates” for reasons stated in the basis for conclusions and will do so.</p> <p>5.1(b) A respondent found the proposed requirement for year-specific discount rates inconsistent with SFFAS 5. The current FASAB pension and other retirement benefits (ORB) standards for selecting cost attribution methods (paragraphs 63 and 82, SFFAS 5, respectively) direct the preparer to use a particular cost attribution method – AEAN – or other actuarial cost methods if the results are not materially different. The AEAN method is one of several cost attribution methods available. The primary reason given in SFFAS 5 for directing the use of AEAN was that the major federal pension plans at OPM and DoD were using it, and the Board was advised by actuaries that the results would not be substantially different than the unit benefit approach required by SFAS 87 (see SFFAS 5, par. 153).</p> <p>The ED proposes using a specific discount rate for each year. As the year of payment nears, a different rate would be used to discount the future payment. The change in discount rate would involve measurement of</p>	<p>5.1(a) The Board did not object to this requirement.</p> <p>5.1(b) The Board did not object to this requirement.</p>

Tab G – ATTACHMENT 2 – Table of Questions, Issues, and Decisions to Date

Questions for Respondents		
8 Questions for Respondents	Staff Discussion and Recommendation	Board Decision
<p>5.2 How would you interpret the word “historical” in the phrase “average historical Treasury</p>	<p>the average historical rate and reflect the affects of (1) the passage of time and (2) the market. Any differences between what was assumed for prior year financial reporting and the actual outcome would be reported as an actuarial gain or losses “from experience” rather than from changes in assumptions. The measurement objective for such accounting estimates deals with perceptions about value at a point in time, which changes with the passage of time as the operating environment changes. There would be a one-year rate, a two-year rate, a 5-year rate, etc., that would not (necessarily) change each year. There would be average historical rates for each year that would change when the average historical data dictated. The mere fact that a payment that was due in 5 years is now due if 4 years would not constitute an assumption change. Staff has consulted with several actuaries on this issue and does not believe that the requirement is conceptually inconsistent with SFFAS 5, paragraphs 63 and 82. Staff recommends adding a note to this effect in the proposed standard.</p> <p>5.2(a) A respondent disagrees with the ED proposal that discount rates be independent on the employer’s investments and actuarial assumptions about them. Staff believes the ED proposal is preferable for reasons stated in the</p>	<p>5.2(a) The Board did not object to this requirement.</p>

Tab G – ATTACHMENT 2 – Table of Questions, Issues, and Decisions to Date

Questions for Respondents		
8 Questions for Respondents	Staff Discussion and Recommendation	Board Decision
<p>rates”, for example, a 1-year average? 5-year average? 20-year average?</p> <p>5.3 The proposed standard incorporates prior FASAB guidance regarding</p>	<p>basis for conclusions.</p> <p>5.2(b) A respondent found the “average historical Treasury rates” phrase vague. Staff disagrees that the “average historical Treasury rates” for each year would be vague or undefined. The objective was a principle-based requirement where the reporting entity would be responsible for calculating the rate. In addition, the Board asked, Question 5.2, what “average historical” would mean to the respondents in order to acquire more feedback on this issue. The Board may wish to consider additional guidance on this issue after consider issue #3 below.</p> <p>5.2(c) The proposed standard does not specify a time-period for average and, thus, the Board sought comments on the question from respondents. Respondents differ as to specifying a time-period for the average. Does the Board wish to specify a time-period, e.g., 5-years? Doing so would enhance clarity, consistency and comparability. On the other hand, it would place constraints on management’s choice of assumptions.</p> <p>5.3 The respondents generally found the standards sufficiently specific regarding the necessity for assumptions to be consistent.</p>	<p>5.2(b) Does the Board wish to consider additional guidance on average historical Treasury rates?</p> <p>5.2(c) Same as 5.2(b) immediately above: Does the Board wish to consider additional guidance on average historical Treasury rates?</p> <p>5.3 The Board did not object to this requirement.</p>

Tab G – ATTACHMENT 2 – Table of Questions, Issues, and Decisions to Date

Questions for Respondents		
8 Questions for Respondents	Staff Discussion and Recommendation	Board Decision
<p>selecting economic assumptions. It invokes Actuarial Standards of Practice and does not affect the explicit SFFAS 5 requirement for consistency among assumptions. See ED paragraph [34], which contains revisions to relevant SFFAS 5 paragraphs. Some observers advocate expanding the scope of the standard to provide for selecting all economic assumptions because they are concerned about consistency between the discount rate and</p>		

Tab G – ATTACHMENT 2 – Table of Questions, Issues, and Decisions to Date

Questions for Respondents		
8 Questions for Respondents	Staff Discussion and Recommendation	Board Decision
<p>other economic assumptions employed. Do you believe that the guidance in the revised SFFAS 5 paragraphs (as shown in paragraph [34] of this exposure draft) is sufficiently specific regarding the necessity for the discount rate to be consistent with other economic assumptions?</p>		
<p><u>Valuation Dates</u></p> <p>6. This statement proposes a standard for selecting the valuation date for present valuations for long-term liabilities. See paragraphs 30-32 in the standard and paragraphs A36-A44 in the basis for conclusions. Do you believe the valuation date approach is appropriate?</p>	<p>The respondents who commented on this question found the valuation date standard appropriate.</p>	<p>The Board did not object to this requirement.</p>

Tab G – ATTACHMENT 2 – Table of Questions, Issues, and Decisions to Date

Questions for Respondents		
8 Questions for Respondents	Staff Discussion and Recommendation	Board Decision
<p data-bbox="191 272 625 342"><u>Reasonable Estimate vs. Best Estimate</u></p> <p data-bbox="239 378 638 1406">7. This statement involves estimates that reflect the preparer’s judgment about the outcome of events based on experience and expectations about the future. Estimates are to reflect what is reasonable to assume under the circumstances rather than the preparer’s “best estimate” or other phraseology. The preparer may use his or her own assumptions about future cash flows. However, the entity should explain why it is inappropriate to use assumptions generally used in the federal government, as evidenced by independent sources, if the assumption the entity used is different. See paragraph 31 in the standard and paragraphs A43-A44 in the basis for conclusions. Do you believe the approach regarding “reasonable estimate” rather than “best</p>	<p data-bbox="674 378 1257 488">The respondents who commented on this question favored the ED’s “reasonable estimate” approach.</p>	<p data-bbox="1373 378 1814 448">The Board did not object to this requirement.</p>

Tab G – ATTACHMENT 2 – Table of Questions, Issues, and Decisions to Date

Questions for Respondents		
8 Questions for Respondents	Staff Discussion and Recommendation	Board Decision
estimate” assumptions in paragraph 31 is appropriate?		
<p data-bbox="191 375 615 443"><u>Benefits and Costs and Other Comments</u></p> <p data-bbox="239 480 646 1039">8. The Board believes that this proposal would improve Federal financial reporting and contribute to meeting the Federal financial reporting objectives. The Board has considered the perceived costs associated with this proposal. Please consider the expected benefits, perceived costs, and communicate any concerns that you may have in regard to implementing this proposal in completely or in part.</p>	<p data-bbox="674 480 1314 589">Staff does not object to the other suggestions the respondents contributed and will incorporate them.</p>	<p data-bbox="1373 480 1814 553">The Board did not object to this requirement.</p>

TAB G – ATTACHMENT 3 – Attachment 3 from February 2008 – Staff Summary of Responses

Table 1 – Tally of Responses by Question QUESTION	YES AGREE	NO OR DIS- AGREE	NEITHER YES or NO	NO COM MENT
<u>Display and Disclosure</u>				
1. This statement proposes to display gains and losses from changes in assumptions, including the discount rate assumptions, as a discrete item on the statement of net cost. See paragraphs 19-26 in the standard, paragraphs A1-A10 in the basis for conclusions, and the illustration in Appendix B, “Pro Forma Statement of Net Cost Displaying Separate Line Item for Gains and Losses Due to Changes in Assumptions,” for more information regarding display and disclosure.				
1.1 Do you believe that the display will be informative?	6	1		1
1.2 Do you believe the standard provides satisfactory guidance as to what should be displayed as gains or losses from changes in assumptions?	6	1		1
2. The statement also proposes that the components of the expense associated with long-term liabilities be disclosed in notes to the financial statements. See paragraphs 22 and 26 in the standard; paragraph A9 in the basis for conclusions, and the illustration in Appendix C, “Pro Forma Note Disclosure of Liabilities and Expense,” for more information regarding display and disclosure. Do you believe that disclosure of the components of expense is informative?	6	1		1
<u>Benchmark Disclosure</u>				
3. This statement proposes that the preparer provide the 10-, 20- and 30-year market rate for Treasury securities in the notes to the financial statements as a benchmark comparison with the discount rate used by the entity. See paragraph 24 for the note disclosure standard and paragraph A10 in the basis for conclusions for the rationale for the disclosure of market rates.				

TAB G – ATTACHMENT 3 – Attachment 3 from February 2008 – Staff Summary of Responses

Table 1 – Tally of Responses by Question QUESTION	YES AGREE	NO OR DIS- AGREE	NEITHER YES or NO	NO COM MENT
Do you believe that disclosure of market rates as described above is informative?	2	1		5
<u>Guidance re Short- and Long-term Assumptions</u>				
4. The statement addresses long-term assumptions that have a material effect on the reporting, for example, those used for measuring expense and liabilities associated with pensions, other retirement benefits, and post-employment benefits. The statement excludes short-term assumptions of which it provides specific examples (see paragraph 20.A), and defines “long-term assumptions” as those involving projections of 5 years or more (see paragraph 15) and, accordingly, short-term assumptions as those involving projections of fewer than 5 years.				
4.1 Do you believe that the 5-year division between short- and long-term assumptions is appropriate?	3	1	1	3
4.2 Do you believe the exclusion of short-term assumptions in the measurement of expense and liability amounts from the display requirement is appropriate?	4	1		3
4.3 Are “short-term assumptions” clearly delineated?	5			3
4.4 Should other short-term assumptions be listed as examples?	2			6

TAB G – ATTACHMENT 3 – Attachment 3 from February 2008 – Staff Summary of Responses

Table 1 – Tally of Responses by Question QUESTION	YES AGREE	NO OR DIS- AGREE	NEITHER YES or NO	NO COM MENT
<p><u>Discount Rate</u></p> <p>5. This statement proposes a standard for selecting the discount rates for present value measurements of expense and liability amounts. The standard provides that the discount rate should be the interest rate(s) on marketable Treasury securities of similar maturities to the cash flows of the payments for which the estimate is being made. The discount rate(s) should reflect average historical rates on marketable Treasury securities rather than the current market rate(s). See paragraphs 27-28 in the standard and paragraphs A11-A35 and especially A28 in the basis for conclusions.</p> <p>5.1 Do you believe average historical Treasury rates are appropriate discount rates for measuring long-term liabilities in the federal government, rather than current market rates?</p> <p>5.2 How would you interpret the word “historical” in the phrase “average historical Treasury rates”, for example, a 1-year average? 5-year average? 20-year average?</p>	<p>4</p>	<p>2 (one response is “yes and no”)</p>		<p>3</p>
	<p>2 = more guidance needed</p>	<p>1 = 5-year average is best; 1= statutory rate</p>		<p>4</p>

TAB G – ATTACHMENT 3 – Attachment 3 from February 2008 – Staff Summary of Responses

Table 1 – Tally of Responses by Question QUESTION	YES AGREE	NO OR DIS- AGREE	NEITHER YES or NO	NO COM MENT
<p>5.3 The proposed standard incorporates prior FASAB guidance regarding selecting economic assumptions. It invokes Actuarial Standards of Practice and does not affect the explicit SFFAS 5 requirement for consistency among assumptions. See ED paragraph [34], which contains revisions to relevant SFFAS 5 paragraphs. Some observers advocate expanding the scope of the standard to provide for selecting all economic assumptions because they are concerned about consistency between the discount rate and other economic assumptions employed. Do you believe that the guidance in the revised SFFAS 5 paragraphs (as shown in paragraph [34] of this exposure draft) is sufficiently specific regarding the necessity for the discount rate to be consistent with other economic assumptions?</p>	3	1 = uses statutory rate		4
<p><u>Valuation Dates</u></p> <p>6. This statement proposes a standard for selecting the valuation date for present valuations for long-term liabilities. See paragraphs 30-32 in the standard and paragraphs A36-A44 in the basis for conclusions. Do you believe the valuation date approach is appropriate?</p>	3	1		4
<p><u>Reasonable Estimate vs. Best Estimate</u></p> <p>7. This statement involves estimates that reflect the preparer's judgment about the outcome of events based on experience and expectations about the future. Estimates are to reflect what is reasonable to assume under the circumstances rather than the preparer's "best estimate" or other phraseology. The preparer may use his or her own assumptions about future cash</p>				

TAB G – ATTACHMENT 3 – Attachment 3 from February 2008 – Staff Summary of Responses

Table 1 – Tally of Responses by Question QUESTION	YES AGREE	NO OR DIS- AGREE	NEITHER YES or NO	NO COM MENT
flows. However, the entity should explain why it is inappropriate to use assumptions generally used in the federal government, as evidenced by independent sources, if the assumption the entity used is different. See paragraph 31 in the standard and paragraphs A43-A44 in the basis for conclusions. Do you believe the approach regarding “reasonable estimate” rather than “best estimate” assumptions in paragraph 31 is appropriate?	5		1	2
<u>Benefits and Costs and Other Comments</u> 8. The Board believes that this proposal would improve Federal financial reporting and contribute to meeting the Federal financial reporting objectives. The Board has considered the perceived costs associated with this proposal. Please consider the expected benefits, perceived costs, and communicate any concerns that you may have in regard to implementing this proposal in whole or in part.	1 = short list of editorial comments; 1 = supportive comment	N/A		5

TAB G – ATTACHMENT 3 – Attachment 3 from February 2008 – Staff Summary of Responses

Table 2 – Quick Table of Responses by Question

The following table provides a quick overview of the comments by question number. It omitted Question #8, the “any concerns?” question. See the table “Tally of Responses by Question” immediately above for the text of the questions.

Respondent	Q 1.1 Display	Q 1.2 Guidance	Q 2 Disclosure	Q 3 “Bench- mark” Rates	Guidance re Short- vs. Long-term Assumptions				Discount Rates			Q 6 Val. Date	Q 7 “Best” est.
					Q 4.1	Q 4.2	Q 4.3	Q 4.4	Q 5.1	Q 5.2	Q 5.3		
1 FL/CPAs	Yes	Yes	Yes	Yes	Yes	Yes	Yes	No other com- ments	No	No com- ment	No com- ment	Yes	Yes
2 DoD/OACT	Yes	Yes; need more	Yes	No	Yes; need more	Yes	Yes	Yes; Add IBRN as example	Yes & No	Need more guid.	Yes	Yes	Yes
3 VA/DASF	No com- ment	Yes; need more	No com- ment	No com- ment	No com- ment	No com- ment	No com- ment	No other com- ments	Yes	Need more guid.	Yes	No com- ment	Yes
4 DoD/AF	Yes	No com- ment	Yes; need more	No com- ment	No com- ment	No com- ment	No com- ment	No other com- ments	No com- ment	No com- ment	No com- ment	No com- ment	No com- ment
5 FMSB	Yes	Yes	Yes; need more	Yes; need more	Yes	Yes	Yes	No other com- ments	Yes	5-yrs. is best	Yes	Yes	Yes; need more
6 DOI/FM	No	No	No	No specific com- ment	No	No	Yes	No other com- ments	Yes	Uses stat. rate	Uses statutory rate	No	Yes
7 GAO	Yes	Yes; need more	Yes; need more	No com- ment	No com- ment	No com- ment	No com- ment	No com- ment	No com- ment	No com- ment	No com- ment	No com- ment	No com- ment
8 NASA	Yes	Yes; need more	Yes; need more	No com- men	Maybe	Yes	Yes; need more	Yes	No com- ment	No com- ment	No com- ment	No com- ment	Maybe

TAB G – ATTACHMENT 3 – Attachment 3 from February 2008 – Staff Summary of Responses

ATTACHMENT 3– Attachment 3 from February 2008 – Staff Summary of Responses (continued)

The following table provides staff analysis and responses to the comments received and with staff recommendations, where appropriate, as well as brief summaries of the respondents' comments. The volume and length of the comment letters received is such that the members can and no doubt will use the comment letters themselves for the respondents' thoughts on the questions.

In addition to the four "Broad Issues" identified in the following table, which are developed in Attachment 4 of this memorandum, several relatively minor changes mentioned by respondent are present here that we plan to accommodate. These are identified in the table below as changes to be made "without objection from members at the meeting on February 14th", and, without objection, the staff will develop the details for these changes for the Board's consideration at a subsequent meeting.

Table 3 – Answers and Comments by Question and by Respondent

QUESTION 1

QUESTION 1.1 – Do you believe that the display will be informative?	
Comments	<p>The Florida Institute of CPAs (Letter #1); the Department of Defense, Office of the Actuary (DoD-OACT) (Letter #2); the DoD-Air Force (DoD/AF) (Letter #4); the AGA Financial Management Standards Board (FMSB) (Letter #5); the Government Accountability Office (GAO) (Letter #7) and NASA/OCFO (Letter #8) agreed that the display would be informative and useful.</p> <p>The DoD-AF also recommends displaying more detail about the assumption change. For example, display on the financial statements the nature of the assumption change, within a category of assumptions (i.e., economic, demographic, etc.) and the amount of change.</p> <p>The Department of the Interior-Office of Financial Management (DOI-FM) (Letter # 6) does not believe the display will be informative or meaningful for most program agencies because the Labor Department (DOL) and the Office of Personnel Management (OPM) – that is, the administrative agencies for pensions, postretirement healthcare, and workers' compensation – calculate such costs and allocate them to the program agencies.</p>
Staff Response and Recommendation	<p><i>Regarding the DoD-AF recommendation for additional display, please see Question #2 below dealing with disclosure, because that is where the staff's believes some options are available to be responsive to the DoD-AF comment.</i></p> <p><i>Regarding the DOI-OFM comment, staff does not recommend changing the proposed standard, because the effect of assumption changes on cost should be meaningful at the component level as well as for DOL and OPM.</i></p>

TAB G – ATTACHMENT 3 – Attachment 3 from February 2008 – Staff Summary of Responses

QUESTION 1.2 – Do you believe the standard provides satisfactory guidance as to what should be displayed as gains or losses from changes in assumptions?	
Comments	<p>The Florida Institute of CPAs (Letter #1) and the FMSB (Letter #5) comment that they believe the proposed standard provides satisfactory guidance.</p> <p>The DoD-OACT (Letter #2) comments that the five-year concept appears reasonable, but that there is some ambiguity in the wording. They suggest three improvements:</p> <ul style="list-style-type: none"> (1) explicitly allow display of gains/losses from assumption changes involving estimates for less than five years; (2) include the size of the gain/loss relative to the actuarial liability as part of the guidance in the proposed standard (ED paragraph 21) as another criterion for deciding what to display, because they find that relationship to be very significant; and (3) include a discussion of the need to distinguish between <u>benefit</u> changes and <u>assumption</u> changes, for example, in the ED paragraph A7 of the basis for conclusions. (Paragraph A7 explains the need for the reporting entity's judgment.) <p>The Department of Veterans Affairs, Deputy Assistant Secretary for Finance (VA/DASF) (Letter #3) comments that it would be useful to be clearer in the glossary regarding what is meant by "long-term assumptions."</p> <p>The DOI-OFM (Letter #6) comments that they do not believe the proposed standard provides satisfactory guidance based on their belief that:</p> <ul style="list-style-type: none"> (1) the standard would apply to a very limited federal audience, (2) the use of high-level generalities diminish the standard's usefulness, and (3) the standard should be directed to the entities that are responsible for the cost calculations, i.e., the administrative agencies. <p>The GAO (Letter #7) and NASA/OCFO (Letter #8) comment that the proposed standard is not clear with respect to how it applies to non-actuarially prepared liability estimates. For example, it may not be feasible to identify separate components of an annual change in the liability.</p> <p>NASA/OCFO also comments that paragraph 21, which deals with the need for the preparer to use</p>

TAB G – ATTACHMENT 3 – Attachment 3 from February 2008 – Staff Summary of Responses

<p><i>Staff Response and Recommendation</i></p>	<p>judgment as to which gains and losses to display needs clarification.</p> <p><i>The staff has no objections to the DoD-OACT and VA/DASF suggestions; and, without objection from members at the meeting on February 14, will add explanatory material for the Board's consideration at a subsequent FASAB meeting.</i></p> <p><i>Regarding the DOI-OFM comment, without objection from members at the meeting on February 14, staff will develop for reporting for the Board's consideration at a subsequent FASAB meeting, additional wording for the basis for conclusions regarding the necessity for administrative agencies to provide the cost detail for the program agencies' use.</i></p> <p><i>Similarly, with respect to GAO's comment, without objection, staff will develop for reporting for the Board's consideration at a subsequent FASAB meeting, additional wording to clarify how the standard applies to changes in non-actuarial assumptions.</i></p>
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<p>Table 3 – Answers and Comments by Question and by Respondent (continued)</p> <p>QUESTION 2</p> <p>Do you believe that disclosure of the components of expense is informative?</p>	
<p>Comments</p>	<p>The Florida Institute of CPAs (Letter #1), the DoD-OACT (Letter #2), and the FMSB (Letter #5) comment that the disclosure of components is informative.</p> <p>The DoD-OACT also comments that it appears the proposal eliminates the requirement in SFFAS 5, par. 88, to disclose gains/losses due to changes in the medical trend assumptions as a separate item, since now it can be included in disclosure of all other such gains/losses. (<i>This is not the case, as explained below.</i>) In that case, the DoD-OACT suggests amending SFFAS 5, par. 88.</p> <p>The DoD-AF (Letter #4) recommends more detail for the display of gains and losses from assumption changes. For example, display the type of assumption within a category of assumptions (i.e., categories are economic, demographic, discount rates, etc.) and the amount of each change. The DoD-AF further recommends additional note disclosure, including</p> <ul style="list-style-type: none"> (1) the assumed rate of return on the plan assets, if the reporting entity has such assets – that is, not just the return on Treasury Securities), (2) the specific maturities for the Treasury Securities, and

TAB G – ATTACHMENT 3 – Attachment 3 from February 2008 – Staff Summary of Responses

<p><i>Staff Response and Recommendation</i></p>	<p>(3) the allocation of the fund's assets by asset general category.</p> <p>The DoD-AF also recommends requiring the reporting entity to determine its "financial position" using both the discount rate on Treasury securities and the discount rate on the actual assets of the fund to show the actual impact of these different rates.</p> <p>The FMSB (Letter #5) suggests clarifying paragraph 25 by adding the adjective "long-term" before the word "assumption".</p> <p>The DOI-OFM (Letter #6) comments that they do not believe the disclosure would be meaningful and informative. They believe the proposed standard is "so vague that it is hard to determine whether long-term construction contracts or procurements" would be included. They cite issues involving their SGL accounts and accounting system.</p> <p>GAO (Letter #7) comments that the disclosure in ED paragraph 22 is pension-oriented and may confuse users regarding how to classify annual changes in, for example, environmental cleanup liabilities or contingent liabilities. GAO recommends additional disclosure guidance.</p> <p><i>Regarding the DoD-OACT comment about the elimination of a disclosure regarding gains and losses from changes in the medical cost assumption, the proposed standard would not effect that requirement. Without objection from members at the meeting on February 14, staff will develop a brief explanation of the continuing requirement regarding SFFAS 5, par. 88 for the Board's consideration at a subsequent FASAB meeting.</i></p> <p><i>Regarding the DoD-AF recommendation that more detail be displayed about the nature of the assumption change, the ED proposal currently does not require as much detail on the face of the financial statement as recommended by DoD-AF. The illustration in Appendix B of the ED shows a display by assumption category, e.g., discount rate assumption. The ED's proposed note disclosure does not require detail about assumption changes but rather focuses on the change in the long-term liability.</i></p> <p><i>Regarding how to response to these comments, staff does not recommend changing the display proposal but agrees with the DoD-AF that more detail about the nature of the assumption change would be informative. Without objection from members at the meeting on February 14, staff will develop the disclosure requirement and enhanced wording for the Board's consideration at a subsequent FASAB meeting.</i></p> <p><i>The DoD-AF also recommends additional note disclosure in instances where the reporting entity is holding non-Treasury assets. Staff believes this disclosure would be informative and, without objection from the members,</i></p>
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TAB G – ATTACHMENT 3 – Attachment 3 from February 2008 – Staff Summary of Responses

	<p><i>will develop the requirement for the Board's consideration at a subsequent FASAB meeting.</i></p> <p><i>The DoD-AF also recommends using both the discount rate on Treasury securities and the discount rate on the actual assets of the fund, if any, to show the impact of these different rates. Staff believes this disclosure would be informative but that preparing two calculations would be costly and should be optional.</i></p> <p><i>Regarding DOI-OFM's comment about vagueness, etc., staff references its recommendation under Question 1.2 above, which is that the basis for conclusions state the necessity for administrative agencies to provide the cost detail for program agencies to report, in instances where the former calculates the cost of long-term liability programs. The DOI-OFM question regarding whether long-term construction contracts and procurements would be within the scope of the standard would hinge on (a) whether a transaction involves a long-term liability and (b) whether the events for which assumptions are being used extend five years or more. If so, then the transaction would be within the scope of the standard. Staff believes the guidance is sufficient to answer these questions.</i></p> <p><i>Regarding GAO's comment about the ED paragraph 23 being overly pension oriented, staff believes the note disclosure requirement can be improved. Staff will develop, with objection from members at the meeting on February 14, additional guidance for the Board's consideration at a subsequent meeting.</i></p>
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Table 3 – Answers and Comments by Question and by Respondent (continued)	
QUESTION 3	
Do you believe that disclosure of market rates as described above is informative?	
Broad Issue #1, Disclosure of Market Rates	
Comments	<p>One respondent, the Florida Institute of CPAs (Letter #1) comments that they believe the disclosure of market rates would be informative and would provide transparency.</p> <p>However, another respondent, the DoD-OACT (Letter #2) does not believe this disclosure would be informative. Staff has identified this as an issue.</p> <p>For more on issue 1, see Attachment 4 of this memorandum.</p>

TAB G – ATTACHMENT 3 – Attachment 3 from February 2008 – Staff Summary of Responses

Table 3 – Answers and Comments by Question and by Respondent (continued)	
QUESTION 4	
QUESTION 4.1 – Do you believe that the 5-year division between short- and long-term assumptions is appropriate?	
Comments	<p>The Florida Institute of CPAs (Letter #1) and FMSB (Letter #5) commented that they believe the 5-year division is appropriate.</p> <p>The DoD-OACT (Letter #2) references their comments on Question 1.2.</p> <p>The DOI-OFM (Letter #6) does not believe the 5-year division is appropriate “to define liabilities”. The DOI-OFM comments that such a definition is contrary to every definition they can find for long-term liabilities.</p> <p>NASA (Letter #8) comments that it would be beneficial to clarify the rationale for the 5-year criteria.</p>
<i>Staff Response and Recommendation</i>	<p><i>Regarding the DOI-OFM comment, the proposed standard does not define “long-term liabilities”. It uses that term in a general way essentially to describe the types of liabilities for which components of expense should be disclosed and for which valuations are undertaken using “long-term assumptions.” The proposed standard <u>does</u> define long-term assumptions as those where the underlying event about which the assumption is made will not occur for five years or more. Although the respondent appears to be misreading the standard with respect to definitions, staff understands the respondent’s comment to involve a question about the sufficiency of the general usage of “long-term liability” in the standard. The staff believes the general usage of “long-term liability”, along with the specific focus on assumptions involving events of 5 years or more, is sufficient and therefore recommends no changes.</i></p>
QUESTION 4.2 – Do you believe the exclusion of short-term assumptions in the measurement of expense and liability amounts from the display requirement is appropriate?	
Comments	<p>The Florida Institute of CPAs (Letter #1), the DoD-OACT (Letter #2), the FMSB (Letter #5), and NASA/OCFO (Letter #8) commented that the exclusion of short-term assumptions is appropriate.</p> <p>The DOI-OFM (Letter #6) finds it hard to believe that there will not be situations where changes in short-term assumptions could not result in material gains and losses.</p>
<i>Staff Response</i>	<p><i>Regarding the DOI-OFM comment, the proposed standard focuses on the display of changes in long-term</i></p>

TAB G – ATTACHMENT 3 – Attachment 3 from February 2008 – Staff Summary of Responses

<i>and Recommendation</i>	<i>assumptions. It does not preclude display of short-term gains and losses or other material components that the preparer believes the user should know about. The staff recommends no changes in this regard.</i>
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QUESTION 4.3 – Are “short-term assumptions” clearly delineated?	
Comments	The Florida Institute of CPAs (Letter #1), the DoD-OACT (Letter #2), and the FMSB (Letter #5) commented that they find the term “short-term assumptions” clearly delineated.
<i>Staff Response</i>	<i>Noted</i>

QUESTION 4.4 – Should other short-term assumptions be listed as examples?	
Comments	The DoD-OACT (Letter #2) comments that the examples in paragraph 20.A of situations involving short-term assumptions should include IBNR.
<i>Staff Response and Recommendation</i>	<i>Staff has no objection to adding IBNR to the list of examples and, without objection from members at the meeting on February 14, will include IBNR in the list of examples.</i>

Table 3 – Answers and Comments by Question and by Respondent (continued)	
QUESTION 5	
QUESTION 5.1 – Do you believe average historical Treasury rates are appropriate discount rates for measuring long-term liabilities in the federal government, rather than current market rates?	
General Comments	
Comment	<p>The Florida Institute of CPAs (Letter #1) comments that they do not believe average historical Treasury rates are appropriate. The Institute favors current market rates because they believe it would be a better reflection of the cost of issuing Treasury securities to extinguish long-term liabilities at the financial statement date. In addition, the Institute believes current market rates would provide more comparability and would be consistent with fair value accounting. However, the Institute comments that, if average historical rates are used, the time period should be limited to 5 years, which they feel would better reflect the current market that longer horizons.</p> <p>The DoD-OACT (Letter #2), the VA/DASF (Letter #3), the FMSB (Letter #5), and DOI-OFM (Letter #6) commented that long-term Treasury rates are appropriate.</p> <p>The DOI-OFM (Letter #6) comments that they use statutory rates and that such rates supersede SFFASs.</p>

TAB G – ATTACHMENT 3 – Attachment 3 from February 2008 – Staff Summary of Responses

<p><i>Staff Response and Recommendation</i></p>	<p><i>With respect to the Florida Institute of CPA's comment on rates, staff recommends retaining the proposed "average historical Treasury rates" for reasons stated in the basis for conclusions and will do so, without objection from the members at the meeting on February 14.</i></p> <p><i>Regarding the DOI-OFM comment on this question and elsewhere in their comment letter that statutory requirements supersede GAAP, staff notes, for the record, the GAAP reporting and statutory reporting sometimes differ.</i></p>
<p>Broad Issue #2, Discount Rates</p>	
<p>Issue 2.1 – Discount Rates – AEAN and Year-Specific Discount Rates</p>	
<p>Comment</p>	<p>The DoD-OACT (Letter #2) finds the requirement (ED paragraphs 27 and A33) to use year-specific discount rate "fundamentally" inconsistent with the Aggregate Entry Age Normal (AEAN) cost method required by SFFAS 5. Staff has identified this as an issue.</p> <p>For more on issue 2.1, see Attachment 4 of this memorandum.</p>
<p>Issue 2.2 – Discount rates – Investment Yields vs. Treasury Borrowing Rates</p>	
<p>Comment</p>	<p>The DoD-OACT (Letter #2) comments: "... [T]he perspective of the government's borrowing cost with the public is not necessarily relevant from the point of view of the employer entity (e.g., the DoD, in the case of the Military Retirement System) in the case of a 'funded' plan. Staff has identified this as an issue.</p> <p>For more on issue 2.2, see Attachment 4 of this memorandum.</p>
<p>QUESTION 5.2 – How would you interpret the word "historical" in the phrase "average historical Treasury rates", for example, a 1-year average? 5-year average? 20-year average?</p>	
<p>Broad Issue # 3, Time Period for Average Historical Rate</p>	

TAB G – ATTACHMENT 3 – Attachment 3 from February 2008 – Staff Summary of Responses

Comment	<p>The DoD-OACT (Letter #2) comments that the phrase “average historical Treasury rates” is unclear but consistent with ED paragraph 28 with respect to the need for the reporting entity to use judgment and with the notion of “Congressionally-established expert Boards for trust funds restricted to investing in securities that mirror marketable US Treasury securities.”</p> <p>The VA/DASF (Letter #3) prefers more guidance regarding the time-period for and meaning of average historical rates.</p> <p>If average historical rates are used, the Florida Institute of CPAs (Letter #1) recommends limiting the time-period to 5 years, feeling it would better reflect the current market than longer horizons. The Institute prefers current market rates, as mentioned above.</p> <p>The FMSB (Letter #5) prefers a 5-year time period for the discount rate, feeling that that would be a sufficiently long period.</p> <p>The DOI-OFM (Letter #6) comments that they have legislative requirements to use 15-year Treasury rates for “many of our efforts”. Staff has identified this as an issue.</p> <p>For more on issue 3, see Attachment 4 of this memorandum.</p>
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QUESTION 5.3 – Do you believe that the guidance in the revised SFFAS 5 paragraphs (as shown in paragraph [34] of this exposure draft) is sufficiently specific regarding the necessity for the discount rate to be consistent with other economic assumptions?	
Comments	<p>The DoD-OACT (Letter #2), VA/DASF (Letter #3), and FMSB (Letter #5) commented that they believe the guidance is sufficient.</p> <p>The DOI-OFM (Letter #6) comments that the discount rates are dictated by legislation and therefore consistency among federal entities is not possible.</p>
<i>Staff Response</i>	<i>Noted</i>

TAB G – ATTACHMENT 3 – Attachment 3 from February 2008 – Staff Summary of Responses

Table 3 – Answers and Comments by Question and by Respondent (continued)	
QUESTION 6	
Do you believe the valuation date approach is appropriate?	
Comments	<p>The Florida Institute of CPAs (Letter #1), the DoD-OACT (Letter #2), and FMSB (Letter #5) commented that they believe the valuation date approach is appropriate.</p> <p>The DOI-OFM (Letter #6) state that their valuation dates are set by statute and that that would supersede FASAB standards.</p>
Staff Response	<p><i>Again, regarding the DOI-OFM comment on this question and elsewhere in their comment letter that statutory requirements supersede GAAP, staff notes, for the record, the GAAP reporting and statutory reporting sometimes differ.</i></p>

Table 3 – Answers and Comments by Question and by Respondent (continued)	
QUESTION 7	
Do you believe the approach regarding “reasonable estimate” rather than “best estimate” assumptions in paragraph 31 is appropriate?	
General Comments	
Comments	<p>The Florida Institute of CPAs (Letter #1), DoD-OACT (Letter #2), VA/DASF (Letter #3), and the FMSB (Letter #5) commented that they believe the “reasonable estimate” approach is appropriate.</p> <p>The FMSB also suggests that the Board consider adding a reference to ASOP 10 and 27 or at least to ASOP in general in paragraph A44.</p> <p>The NASA/OCFO (Letter #8) comments that the requirement to compare assumptions with those used generally in the federal government it is not clear. They ask whether it applies to pension and actuarial valuations or other long-term liabilities such as environmental liabilities and, if so, then what independent source should be use?</p>
Staff Response	<p><i>Noted</i></p>
Broad Issue # 4, Comparing Preparer’s Assumptions with Other Federal Sources	
Comments	<p>The DoD-OACT (Letter #2) objects to the requirement for the entity to review assumptions used generally in the</p>

TAB G – ATTACHMENT 3 – Attachment 3 from February 2008 – Staff Summary of Responses

	<p>federal government as evidenced by independent sources, unless the DoD actuarial board is considered an “independent source”.</p> <p>The VA/DASF (Letter #3) is concerned that the proposed standard, which permits the use of the entity’s own assumptions as long as they can be justified if they deviate from independent sources, may prove inconsistent with the historical rates used in setting discount rates. They suggest this possible inconsistency be discussed in the guidance.</p> <p>Staff has identified this as an issue.</p> <p>For more on issue 4, Attachment 4 of this memorandum.</p>
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Table 3 – Answers and Comments by Question and by Respondent (continued) QUESTION 8 Please consider the expected benefits and perceived costs and communicate any concerns that you may have in regard to implementing this proposal in whole or in part.	
<p>Comments</p> <p>The Florida Institute of CPAs (Letter #1) believes that overall, the proposal would improve Federal financial reporting and contribute to meeting the federal reporting objectives. It also believes that the benefits of the new display and enhanced comparability outweigh the costs.</p> <p>The VA/DASF (Letter #6) offers a short list of other comments at the end of their comment letter.</p> <p><i>Staff Response and Recommendation</i></p>	<p><i>Staff does not object to the VA/DASF suggestions and will incorporate them, without objection from members at the meeting on February 14...</i></p>

TAB G – ATTACHMENT 4 – Attachment 4 from the February 2008 Meeting

ATTACHMENT 4 – Attachment 4 from the February 2008 Meeting

Overall Summary

Respondents addressed the eight specific questions present in the ED. The staff notes that the respondents generally supported the display and valuation date standards and had differing views regarding the disclosure and the discount rate proposals.

Issues Raised – Staff Analysis and Recommendations

From the comments received, staff has identified four broad issues discussed immediately below. Staff includes its recommendation with each issue. These issues and recommendations are also identified in the table in Attachment 3 above entitled “Answers and Comments by Question and by Respondent,” which presents the staff’s summary response to the all comments received, including staff recommendations, where appropriate.

The staff’s brief summaries of respondents’ comments below and in Attachment 3 provide context for staff’s responses and recommendations. The limited number of comments and the length of comment letters received for this ED is such that the members can and no doubt will readily refer to them for the definitive version of the respondents’ comments on the questions.

Broad Issue #1 – Disclosure of Market Rates

The Department of Defense, Office of the Actuary (DoD-OACT) (Letter #2) does not believe this disclosure would be informative. They find benchmark comparisons unnecessary and potentially confusing. They favor merely stating the basis for selecting assumptions in the notes; for example, that a board of experts decided the rates are appropriate.

Staff Response and Recommendation: Staff continues to recommend this disclosure for the reasons given in the ED’s basis for conclusion, essentially that it would be a useful benchmark for comparison with the entity’s rate. The ED notes that the Board decided not to require an analysis of the effect on expense and liability amounts of using current market rates but the data will help interested parties begin such an analysis.

Broad Issue #2 – Discount Rates

Staff is presenting two issues with respect to Question #5, which was a multi-part question dealing the discount rate.

Issue 2.1 – AEAN and Year-Specific Discount Rates

The DoD-OACT (Letter #2) finds the requirement (ED paragraphs 27 and A33) to use year-specific discount rate “fundamentally” inconsistent with the Aggregate Entry Age Normal (AEAN) cost method required by SFFAS 5. They comment that, under the AEAN method, the normal cost percentage (of pay) [NCP] would not change in consecutive valuations if assumptions do not change. However, with year-specific discount rates the NCP does change if

TAB G – ATTACHMENT 4 – Attachment 4 from the February 2008 Meeting

assumptions do not change. In addition, the DoD-OACT does not believe that allowing a single rate if the “result” is not materially different, as is done in the ED paragraph 27, will sufficiently address this issue. They comment that this “would require doing the calculation under the flawed [year-specific] approach as a comparison to show the ‘result’ is not materially different.” The DoD-OACT does not believe that year-specific discount rates should be required, even if the FASAB Board wants to allow them.

Staff Response and Recommendation: The current FASAB pension and other retirement benefits (ORB) standards for selecting cost attribution methods (paragraphs 63 and 82, SFFAS 5, respectively) direct the preparer to use AEAN (or other actuarial cost methods if the results are not materially different). The AEAN method is one of several cost attribution methods available. The private sector pension standard, SFAS 87, used another approach called “projected unit credit” (PUC). The primary reason given in SFFAS 5 for directing the use of AEAN was that the major federal pension plans at OPM and DoD were using it, and the Board was advised by actuaries that the results would not be substantially different than the unit benefit approach required by SFAS 87 (see SFFAS 5, par. 153).

The ED proposes using a specific discount rate for each year. This is sometimes called the “yield curve” approach. As the year of payment nears, a different rate would be used to discount the future payment. The change in discount rate would be a function of (1) the passage of time and (2) the market. It would not represent a change in assumption per se in the staff’s view. In other words, the discount rate does not change, the year changes. There would be a one-year rate, a two-year rate, a 5-year rate, etc., that would not (necessarily) change each year. There would be average historical rates for each year that would change when the average historical data dictated. The mere fact that a payment that was due in 5 years is now due in 4 years would not constitute an assumption change. Staff has consulted with several actuaries on this issue and does not believe that the requirement is conceptually inconsistent with SFFAS 5, paragraphs 63 and 82. Staff recommends adding a note to this effect in the proposed standard.

Regarding the DoD-OACT comment about the ED’s “if-not-materially-different-result” exception, current FASAB pension and ORB standards contain this exception regarding use of the AEAN cost approach. This provision may not have ever been used but it has never been raised as an issue.

Issue 2.2 – Investment Yields vs. Treasury Borrowing Rates

In addition, with respect to discount rates, the DoD-OACT (Letter #2) comments “... the perspective of the government’s borrowing cost with the public is not necessarily relevant from the point of view of the employer entity (e.g., the DoD, in the case of the Military Retirement System) in the case of a ‘funded’ plan.

- “From DoD’s perspective, the plan is funded.”
- “Therefore the investment yield perspective for the discount rate has relevance.”
- “From the employers’ perspective, the statement in [ED] paragraph A25 about

TAB G – ATTACHMENT 4 – Attachment 4 from the February 2008 Meeting

the equivalence of two plans with the same benefit provisions (one funded and one not), is not necessarily correct.”

- “From the overall federal government perspective, it is not clear what constitutes the best basis for the discount rate assumption.”
- “From the overall government, or US Treasury perspective, [ED] paragraph A24’s statement that the rationale for using marketable Treasury securities for the discount rate is that they reflect the government’s borrowing cost with the public is questionable. A private company would not value a given future obligation at its own borrowing cost.”

Staff Response and Recommendation: The respondent disagrees with the ED proposal that discount rates be independent on the employer’s investments and actuarial assumptions about them. Staff believes the ED proposal is preferable for reasons stated in the basis for conclusions.

Respondent is suggesting that US Treasury rates are really employer rates. Staff disagrees with that view because Treasury rates are much broader than an individual employer’s rates. In addition, in the sentence immediately below the respondent concedes the point.

DoD-OACT (Letter #2) also comments that “However, in the sense that Treasury securities represent risk-free investments, as described in [ED] paragraph A27, arguments can be made for their use as the discount rate basis.

- “In the case of US Military pensions and retiree health benefits, using [DoD actuarial] Board assumptions for the financial statement valuations make the most sense.
- “Congress has created ‘funding’ in a trust fund comprised entirely of investments that mirror marketable US Treasury securities, and further has created independent expert Boards for setting the assumptions used in the valuations of these plans.
- “The [DoD actuarial] Board assumption basis is reasonable from the employer perspective (i.e., the investment yield perspective) and is also reasonable in terms of the perspective advocated in [ED] paragraph A27 because of the nature of the trust funds. ...”

Staff Response: DoD is arguing for employer perspective regarding discount rates, which is contrary to the views present in the proposed standard that call for average historical Treasury rates

DoD-OACT (Letter #2) also states, “[a]rguments that the discount rate shouldn’t be impacted by the particular portfolio of securities in the trust funds at a given time, are not valid in the context of an alternative involving “a vague, undefined ‘historical’ average.”

TAB G – ATTACHMENT 4 – Attachment 4 from the February 2008 Meeting

Staff Response and Recommendation: Staff disagrees that the average historical Treasury rates for each year would be vague or undefined. The objective was a principle-based requirement where the reporting entity would be responsible for calculating the rate. In addition, the Board asked, Question 5.2, what “average historical” would mean to the respondents in order to acquire more feedback on this issue. The Board may wish to consider additional guidance on this issue after consider issue #3 below.

DoD-OACT (Letter #2) continues that “DoD actuarial board assumptions as to long-term yield on the trust funds is as good a basis as any to determine the discount rate, and is in fact more credible given the independence and the credentials of the DoD actuarial board members.”

Staff Response and Recommendation: The DoD actuarial board provides assumptions for funding and, presumably, other purposes and presumably would provide assumptions for general-purpose financial statements. However, for the latter, under the proposed standard, they would look at the broader market for Treasury securities for context. Actuaries obviously work with the rules provided.

Staff recommends retaining the general requirement for average historical rates with some additional guidance as noted in Question 5.2 immediately below.

Broad Issue # 3, Time Period for Average Historical Rate

The DoD-OACT (Letter #2) comments that the phrase “average historical Treasury rates” is unclear but consistent with ED paragraph 28 with respect to the need for the reporting entity to use judgment and with the notion of “Congressionally-established expert Boards for trust funds restricted to investing in securities that mirror marketable US Treasury securities.”

The Department of Veterans’ Affairs, Deputy Assistant Secretary for Finance (VA/DASF) (Letter #3) prefers more guidance regarding the time-period for and meaning of average historical rates.

The Florida Institute of CPAs (Letter #1) comments that, if average historical rates are used, they recommend limiting the time-period to 5 years, feeling it would better reflect the current market than longer horizons. The Institute prefers current market rates, as mentioned above. Similarly, the AGA Financial Management Standards Board (FMSB) (Letter #5) prefers a 5-year time period for the discount rate, feeling that that would be a sufficiently long period.

Staff Response: The proposed standard does not specify a time-period for average and, thus, the Board sought comments on the question from respondents. Respondents differ as to specifying a time-period for the average. Does the Board wish to specify a time-period, e.g., 5-years? Doing so would enhance clarity, consistency and comparability. On the other hand, it would place constraints on management’s choice of assumptions.

TAB G – ATTACHMENT 4 – Attachment 4 from the February 2008 Meeting

Broad Issue # 4, Comparing Preparer's Assumptions with Other Federal Sources

The DoD-OACT (Letter #2) objects to the requirement for the entity to review assumptions used generally in the federal government as evidenced by independent sources, unless the DoD actuarial board is considered an "independent source."

The VA/DASF (Letter #3) is concerned that the proposed standard, which permits the use of the entity's own assumptions as long as they can be justified if they deviate from independent sources, may prove inconsistent with the historical rates used in setting discount rates. They suggest this possible inconsistency be discussed in the guidance.

Staff Response and Recommendation: Staff recommends retaining the requirement. However, staff also recommends consideration of the options for specifying the GDP or other specific government assumptions with which to compare the entity's assumptions. Staff could develop options for the Board's consideration.

TAB G – ATTACHMENT 5 – Staff Issue Paper from the January 2007 Meeting

Tab F1 – Staff Issues Paper Display Standard – Question #1

The proposed standard on reporting gains and losses from changes in assumptions and selecting discount rates and valuation dates addresses the following three areas:

- (1) Reporting gains and losses from changes in assumptions (the “display standard”),
- (2) Selecting discount rates (the “discount rate standard”), and
- (3) Selecting valuation dates (the “valuation date standard”).

At the November meeting, the Board generally approved the approach but directed staff to consider expanding the scope of the standard so that it would apply generally to liabilities measured using long-range assumptions rather than only to pensions, other retirement benefits (ORB), and other post-employment benefits (OPEB).

This paper discusses the following four topics and offers recommendations for each for the Board’s consideration:

- (1) two questions with respect to expanding the scope of the display standard,
- (2) an issue involving the discount rate,
- (3) the “best estimate” issue and
- (4) the Governmentwide display of the effect on changes in assumptions.

Display Standard

The display standard currently requires the entity to present gains or losses from changes in assumptions, if any, as a separate line item on the statement of net costs. Note disclosure of the components of expense is required, including gains and losses from changes in assumptions.

In November, the Board decided to consider applying the display standard generally, along with the discount rate and valuation date standards. The staff raises two questions in that regard.

Display Question #1 – Should the scope of the display standard be limited to certain assumptions, for example, “actuarial assumptions” or “long-range assumptions;” in other words, should the standard refer merely to “assumptions” and allow all assumptions to be considered potential candidates for separate display on the SNC?

Discussion

To date the Board’s discussion has focused on the type of major assumptions that affect the financial report of the United States Government (FR). For example, Treasury reports that the change in VA’s “actuarial cost” from year to year accounts for the majority of the change in the Government’s net cost in most years (the percentage was 54% in FY 06); and that the change in VA’s and other “actuarial costs” (e.g., pensions) accounted for nearly 80% of the \$310 billion decrease in total net operating costs between 2006 and 2005.¹

FASAB standards and other publications frequently use the word “actuarial” and the phrase “actuarial assumptions” to denote the type of significant, long-range assumptions of interest to users. The 2006 FR employs the adjective “actuarial” frequently, stating, for example, that total “actuarial cost” in 2006 was \$187.2 billion and that this represents most of the annual differences between the Government’s budget deficit and net cost (93% in 2006), “as it does in most years, and ostensibly between the cash and accrual bases of accounting in the federal

¹ 2006 FR, Executive Summary, p. 5.

TAB G – ATTACHMENT 5 – Staff Issue Paper from the January 2007 Meeting

Tab F1 – Staff Issues Paper Display Standard – Question #1

Government.”² Also, the FR reports that the Energy Department (DOE) experienced the greatest percentage increase in its net cost (+52.7%) in 2006 while VA experienced the greatest decrease (-58.3%), DOE’s increase was mainly attributable to revisions to its estimate of environmental clean-up costs. “Both changes resulted from each agency’s need to estimate future costs and liabilities based on complex assumptions and cost models.” It states that VA uses several variables (e.g., number of eligible recipients, discount rates, and life expectancy) to estimate its “actuarial liability” for veterans’ compensation.³

If the standard merely requires “change in assumptions” to be reported, preparers might reasonably be uncertain about which assumptions to report and what the threshold for reporting is. The question is therefore whether the standard requiring the separate display of gains and losses from changes in assumptions on the statement of net cost should be explicitly limited to certain assumptions.

Types of Assumptions

The use of assumptions in accounting is routine and pervasive. Most assumptions and changes therein affect the entities’ costs.

The following lists some of the applications:

1. assumptions for pension and other retirement liabilities:
 - a. demographic, for example:
 - i. mortality
 - ii. morbidity
 - iii. terminations
 - iv. others
 - b. economic, for example:
 - i. inflation
 - ii. healthcare cost increases
 - iii. salary increases
 - iv. interest/discount rate
 - v. others
2. assumptions for post-employment benefit liabilities, including workers’ compensation and veterans’ compensation and other VA liabilities, for example:
 - a. disability

² 2006 FR Executive Summary, p. 5.

³ 2006 FR MD&A p. 15. In fact, the FR states that large fluctuations in actuarial costs render the VA’s annual actuarial cost information not useful for predicting future costs. “The (VA) liability balance increase during the year represents the actuarial cost amount for that year. Because a small change in interest rate assumptions produces ... large actuarial cost fluctuations ... reported annual VA actuarial costs are not useful in predicting future annual costs.” (Emphasis added)

TAB G – ATTACHMENT 5 – Staff Issue Paper from the January 2007 Meeting

Tab F1 – Staff Issues Paper Display Standard – Question #1

- b. mortality
 - c. claims incurred but not reported
 - d. interest/discount rate
 - e. others
- 3. for loans and loan guarantee liabilities, for example:
 - a. defaults
 - b. foreclosures
 - c. interest/discount rate
 - d. others
- 4. for environmental and disposal liabilities, for example:
 - a. remediation costs
 - b. inflation rates
 - c. interest/discount rates
 - d. others
- 5. for accounts and grants payable, for example:
 - a. credit and grant activity
- 6. for contingent liabilities, for example:
 - a. claims incurred
 - b. probability of adverse judicial outcome
 - c. others
- 7. for doubtful accounts receivable, for example:
 - a. defaults
 - b. recoveries
- 8. others, for example:
 - a. obsolete inventory and OM&S balances
 - b. insurance claims and settlements
 - c. allocation of trust fund receipts
 - d. receipts inflows
 - e. indirect common costs to construction-in-progress
 - f. depreciation
 - g. service life
 - h. fines, penalties

Assumptions Definitions

The FASAB Consolidated Glossary in *Original Pronouncements* provides the following definition and examples of “assumptions”:

Assumptions – Basic beliefs about the future operating and functional characteristics.

TAB G – ATTACHMENT 5 – Staff Issue Paper from the January 2007 Meeting

Tab F1 – Staff Issues Paper Display Standard – Question #1

Types of assumptions include:

Actuarial: Assumptions as to the occurrence of future events affecting projected costs, such as mortality, withdrawal, disability, and future interest rates.

Cash flow assumptions - all known and/or forecasted information about the characteristics and performance of a cash flow ...

Hospital assumptions: Assumptions related to medical treatment ...

Key assumptions - Assumptions that have been established, through sensitivity analysis or other means, to be the elements that have a large impact on estimates, and thus are the most important factors in determining the cost of a loan or group of loans or loan guarantees.

Model assumptions - determinations of how cash flow assumptions are applied through the life of the cohort. ...

Social Security: Values relating to future trends in certain key factors. Demographic assumptions include fertility, mortality, net immigration, marriage, divorce, retirement patterns, disability incidence and termination rates, and changes in the labor force. Economic assumptions include unemployment, average earnings, inflation, interest rates, and productivity. Projections are normally provided based on the following three sets of economic assumptions

- the “low cost” set (Alternative I) that assumes relatively rapid economic growth, low inflation, and demographic conditions favorable to the plan;
- the “intermediate cost” set (Alternative II) that represents the trustees’ “best estimate” of future trends; and
- the “high cost” set (Alternative III) that assumes slow economic growth, more rapid inflation, and demographic conditions unfavorable to the plan.

Frequently the focus is on “actuarial assumptions” and therefore that term is a prime candidate for use in this standard. Webster’s Dictionary defines “actuarial” as: (1) of or having to do with actuaries; (2) relating to statistical calculation especially of life expectancy.

Actuarial Standard of Practice No. 4 (section 5.2.4) provides guidance for actuaries when selecting “actuarial assumptions” as follows:

Actuarial Assumptions—The actuarial assumptions individually and in combination should reflect the actuary’s best judgment. The actuary should consider the actual experience of the covered group but should emphasize expected long-term future trends rather than give undue weight to recent past experience. In choosing the assumptions, the actuary should take into account, to the extent deemed suitable, general or specific information from other sources, including the plan sponsor, plan administrator, investment managers, accountants, etc.

a. **Identification of Assumptions**—In preparing actuarial present value calculations in accordance with this standard, the actuary should consider the

TAB G – ATTACHMENT 5 – Staff Issue Paper from the January 2007 Meeting

Tab F1 – Staff Issues Paper Display Standard – Question #1

applicability of actuarial assumptions to such [economic and demographic factors].

b. Assumptions Considered Individually and in Aggregate—The actuary should consider the reasonableness of each actuarial assumption independently on the basis of its own merits, its consistency with each other assumption, and the combined impact of all assumptions. ...

c. Effect of Changes on Assumptions—The actuary should consider that changes in plan design or external circumstances may significantly alter the level and trend of expected future experience. ...

d. Plan-Specific Assumptions—In choosing actuarial assumptions, the actuary should consider not only information on general trends but specific information related to the plan. As a result of this information, the actuary may develop actuarial assumptions which differ from plan to plan or from group to group within a plan.

e. Past Experience—Past experience of the covered group is reflected in current costs through actuarial gains and losses. It may also be useful in forming a judgment about future experience. The long-range, prospective nature of pension costs, however, dictates that the assumptions be based on expected long-term future trends.

Thus, the term “actuarial assumptions” has a technical meaning for actuaries. Presumably, “actuarial assumptions” would denote an assumption derived from the work of an actuary, not merely a long-range assumption.

Usage in the FR is problematic. “Actuarial cost” as used in the FR seems to mean either annual accrued cost or changes in “actuarial assumptions” or both. The examples Treasury provides of “actuarial cost” are the present value of expected pension benefits and the annual estimated veterans’ compensation benefits.

The Objective of the Display Standard

The objective of the display standard is to provide information regarding gains and losses from changes in assumptions on the face of the statement of net cost. The rationale for this is similar to that expressed in SFFAC 2 (see pars. 94-95) and SFFAS 4 (see par. 92) regarding general “support costs” incurred to administer a program. These standards provide that costs reported for a program should be directly traceable, assignable, or allocable on a reasonable and consistent basis, consistent with the premise that any costs reported for a program should be controllable by that program to at least some degree⁴ (emphasis added). Separately identifying “management costs” enables the use of resources for these activities to be justified on their own merit, particularly when it can assist in “evaluating performance” and is cost effective.⁵ Standard 4 identifies such costs as “unassigned costs” that are part of the organization costs, and provides that they should be reported on the entity’s statement of net costs as costs not assigned to programs.⁶

⁴ SFFAC 2, par. 94.

⁵ SFFAC 2, par. 95.

⁶ SFFAS 4, par. 92.

TAB G – ATTACHMENT 5 – Staff Issue Paper from the January 2007 Meeting

Tab F1 – Staff Issues Paper Display Standard – Question #1

Unlike “general management and administrative support costs,” the gains and losses from changes in assumptions can be “traced, assigned, or allocated to segments and their outputs;” but they are not controllable by the segment, and reporting them separately presumably will assist in evaluating performance.

Making a conceptual distinction between “actuarial assumptions,” other “long-range assumptions,” and other assumptions that affect financial reporting would be difficult. Assumptions can be “long-range” without necessarily being derived from actuarial processes, for example, the discount rate assumption. Moreover, long-range assumptions do not necessarily significantly affect costs, for example, a change in the service life of a building or a military asset. In addition, short-range assumptions may have a material effect as well, for example, the obsolescence of operating materials and supplies.

Staff Recommendation #1

The staff recommends that the standard:

- a. Describe the assumptions of interest as “major” and “long-term,” and provide that such assumptions do not necessarily require an actuary to develop.
- b. Not define the assumptions of interest as “actuarial.”
- c. Provide explicit exceptions for certain assumptions, for example:
 - i. those used to estimate receivables, payables, inventory and related property. Such assumptions will be proved or disproved within a relatively short period of time; and
 - ii. direct loans and loan guarantees for which the FASAB has already provided acceptable accounting procedures.

The minutes of the January 2007 meeting reflect the Board’s decision to use the adjective “long-term” to describe the assumptions rather than “major” or “actuarial.”

Attachment 6 - Liabilities

	FY 2007 (millions)	USDA 1	DOC 2	DOD 3	Education 4	DOE 5	HHS 6 (FY 06)
Liabilities:							
Intergovernmental							
Accounts Payable		\$ 12	\$ 105	\$ 1,912		\$ 66	\$ 708
Debt to Treasury (or FFB)		75,101	646	3,242	105,390	2,777	
Debt to General Fund							
Other Debt and Interest Payable						9,060	
Resources Payable to Treasury		12,921	30		5,351		
FECA Liability to DOL		162		1,388			
Custodial Liability		54		5,237			409
Other		616	522	4,876	292	307	546
Total intergovernmental		88,866	1,303	16,655	111,033	12,210	1,663
Accounts Payable		4,360	327	29,674	913	3,793	562
Debt Held by Public						6,427	
Monetary Liabilities							
Due & Payable Liabilities							61,164
Loan Guarantees		1,258	56	25	50,874		
Guarantees Other Than Loans [ED par. 14.C]							
Fed. Employee and VA Benefits [ED par. 14.A]:		775		1,874,680			
Pensions			416			12,433	6,583
Other Retirement Benefits (e.g., healthcare)			46				680
OPEB (unemployment, workers' comp., etc.)							
Environmental Liabilities [ED par. 14.B]		105	67	74,708		263,603	
Accrued [Unemployment & Other] Benefits							
Future FECA Benefits [aka "Actuarial FECA"]			164				269
Energy employees Comp. Benefits							
Insurance [ED par. 14.D]		4,653					
Accrued Payroll/leave		594	396	14,905			804
Accrued Grants			405		2,094		3,833
Capital Lease Liab.		36	16	184		214	
Unearned Revenue			1,004			25,145	
Payments due to States		394					

Attachment 6 - Liabilities

	FY 2007	USDA	DOC	DOD	Education	DOE	HHS
Other		13,702	28	34,663	143	3,272	1,266
Commitments and Contingencies [ED par. 14.E]		48		5,234		11,071	1,601
Total Liabilities		\$ 114,791	\$ 4,228	\$2,050,727	\$ 165,057	\$ 338,168	\$ 78,425

Legend:

FECA = Federal employees' workers' compensation

Notes:

USDA provides crop insurance

DOC provides non-CSRS/FERS pensions and ORB to "NOAA corps."

DOE has a "debt" liability of \$6,427 million to pay operating budgets of nuclear power plants

DOE recognizes deferred revenue from fees assessed against certain nuclear waste generators.

DOE recognized \$11 billion contingencies re spent nuclear fuel litigation.

DHS' FEMA administers flood insurance

HHS provides non-CSRS/FERS pensions and ORB to PHS employees.

DHS provides non-CSRS/FERS pensions and ORB to USCG, USSS, DC firefighters

State provides non-CSRS/FERS pensions for Foreign Service

DOI provides non-CSRS/FERS pensions for Park Police

Treasury provides non-CSRS/FERS pensions to DC government

The "other" category for PBGC includes \$5 billion for

"Present value of nonrecoverable future

financial assistance" and \$5 billion for "Due for

purchases of securities"

Attachment 6 - Liabilities

	FY 2007 (millions)	DHS 7	HUD 8	DOI 9	DOL 10	DOJ 11	State 12	DOT 13
		(FY 06)				(FY 06)		
Liabilities:								
Intergovernmental								
Accounts Payable		\$ 2,066	\$ 5	\$ 591	\$ 22	\$ 300	\$ 5	\$ 21
Debt to Treasury (or FFB)		18,153	5,459	858	9,632	20		839
Debt to General Fund		2,085						
Other Debt and Interest Payable								
Resources Payable to Treasury				2,031				
FECA Liability to DOL		355				215		215
Custodial Liability				820		832		
Other		245	3,808	1,377	206	608	658	3,203
Total intergovernmental		22,904	9,272	5,677	9,860	1,975	663	4,278
Accounts Payable		3,003	769	1,077	892	2,776	1,945	404
Debt Held by Public			981					
Monetary Liabilities								
Due & Payable Liabilities								
Loan Guarantees			7,551	41				346
Guarantees Other Than Loans [ED par. 14.C]								
Fed. Employee and VA Benefits [ED par. 14.A]:			82					
Pensions		33,227		704			14,729	950
Other Retirement Benefits (e.g., healthcare)								
OPEB (unemployment, workers' comp., etc.)								
Environmental Liabilities [ED par. 14.B]		275		148		22	392	954
Accrued [Unemployment & Other] Benefits					1,200			
Future FECA Benefits [aka "Actuarial FECA"]		1,683		659	548	1,046		
Energy employees Comp. Benefits					6,942			
Insurance [ED par. 14.D]		1,508						
Accrued Payroll/leave		1,553			98	1,028		
Accrued Grants								5,547
Capital Lease Liab.						53		
Unearned Revenue		2,727		741		312		
Payments due to States				640				

Attachment 6 - Liabilities

	FY 2007	DHS	HUD	DOI	DOL	DOJ	State	DOT
Other		2,053	1,705	937	217	1,558	2,164	1,409
Commitments and Contingencies [ED par. 14.E]				355		378		
Total Liabilities		\$ 68,933	\$ 20,360	\$ 10,979	\$ 19,757	\$ 9,148	\$ 19,893	\$ 13,888

Legend:

FECA = Federal employees' workers' compensation

Notes:

USDA provides crop insurance
 DOC provides non-CSRS/FERS pensions and ORB to
 DOE has a "debt" liability of \$6,427 million to pay opera
 DOE recognizes deferred revenue from fees assessed
 DOE recognized \$11 billion contingencies re spent nuc
 DHS' FEMA administers flood insurance
 HHS provides non-CSRS/FERS pensions and ORB to
 DHS provides non-CSRS/FERS pensions and ORB to
 State provides non-CSRS/FERS pensions for Foreign
 DOI provides non-CSRS/FERS pensions for Park Polic
 Treasury provides non-CSRS/FERS pensions to DC go
 The "other" category for PBGC includes \$5 billion for
 "Present value of nonrecoverable future
 financial assistance" and \$5 billion for "Due for
 purchases of securities"

Attachment 6 - Liabilities

	FY 2007 (millions)	Treasury 14	VA 15	USAID 16	EPA 17	GSA 18	NASA 19	NSF 20
Liabilities:								
Intergovernmental					(FY 06)			
Accounts Payable			\$ 115	\$ 62	\$ 108	\$ 82	\$ 424	
Debt to Treasury (or FFB)			1,052	4,544	19	2,151		
Debt to General Fund		4,303,761						
Other Debt and Interest Payable		14,164						
Resources Payable to Treasury								
FECA Liability to DOL				6				
Custodial Liability					33			
Other			2,410	210	103	376	109	
Total intergovernmental		4,317,925	3,577	4,822	263	2,609	533	-
Accounts Payable			3,938	2,368	726	1,861	1,036	
Debt Held by Public		5,054,250						
Monetary Liabilities		20,864						
Due & Payable Liabilities								
Loan Guarantees			3,769	1,823				
Guarantees Other Than Loans [ED par. 14.C]								
Fed. Employee and VA Benefits [ED par. 14.A]:								
Pensions		8,992			39			
Other Retirement Benefits (e.g., healthcare)								
OPEB (unemployment, workers' comp., etc.)			1,127,700					
Environmental Liabilities [ED par. 14.B]			558		10	105	963	
Accrued [Unemployment & Other] Benefits								
Future FECA Benefits [aka "Actuarial FECA"]			1,827	22		145	64	
Energy employees Comp. Benefits								
Insurance [ED par. 14.D]			11,217					
Accrued Payroll/leave				39		72		
Accrued Grants								
Capital Lease Liab.						273		
Unearned Revenue				10				
Payments due to States								

Attachment 6 - Liabilities

	FY 2007	Treasury	VA	USAID	EPA	GSA	NASA	NSF
Other		5,348	7,710	349	559	309	1,389	
Commitments and Contingencies [ED par. 14.E]								
Total Liabilities		\$ 9,407,379	\$ 1,160,296	\$ 9,433	\$ 1,597	\$ 5,374	\$ 3,985	\$ -

Legend:

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Notes:

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 purchases of securities"

Attachment 6 - Liabilities

	FY 2007 (millions)	NRC 21	OPM 22	SBA 23	SSA 24	USPS 25	PBGC 26	Total
Liabilities:								
Intergovernmental								
Accounts Payable					\$ 7,788			\$ 14,392
Debt to Treasury (or FFB)								229,883
Debt to General Fund								4,305,846
Other Debt and Interest Payable					3,802			27,026
Resources Payable to Treasury								20,333
FECA Liability to DOL								2,341
Custodial Liability								7,385
Other					95			20,567
Total intergovernmental		-	-	-	11,685	-	-	4,627,773
Accounts Payable					372	2,086	111	62,993
Debt Held by Public						4,200		5,065,858
Monetary Liabilities								20,864
Due & Payable Liabilities			9,357		69,938			140,459
Loan Guarantees								65,743
Guarantees Other Than Loans [ED par. 14.C]								-
Fed. Employee and VA Benefits [ED par. 14.A]:						3,571		1,879,108
Pensions			1,319,900				69,237	1,467,210
Other Retirement Benefits (e.g., healthcare)			302,114				2,124	304,964
OPEB (unemployment, workers' comp., etc.)								1,127,700
Environmental Liabilities [ED par. 14.B]								341,910
Accrued [Unemployment & Other] Benefits								1,200
Future FECA Benefits [aka "Actuarial FECA"]						6,800		13,227
Energy employees Comp. Benefits								6,942
Insurance [ED par. 14.D]			35,164					52,542
Accrued Payroll/leave						2,129		21,618
Accrued Grants								11,879
Capital Lease Liab.						618		1,394
Unearned Revenue						1,142		31,081
Payments due to States							328	1,362

Attachment 6 - Liabilities

	FY 2007	NRC	OPM	SBA	SSA	USPS	PBGC	Total
Other			1,138		1,263	3,712	10,704	95,598
Commitments and Contingencies [ED par. 14.E]						455		19,142
Total Liabilities		\$ -	\$1,667,673	\$ -	\$ 83,258	\$ 24,713	\$ 82,504	\$ 15,360,566

Legend:

FECA = Federal employees' workers' compensation

Notes:

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Attachment 6 - Liabilities

	FY 2007 (millions)
Liabilities:	
Intergovernmental	
Accounts Payable	
Debt to Treasury (or FFB)	
Debt to General Fund	
Other Debt and Interest Payable	
Resources Payable to Treasury	
FECA Liability to DOL	
Custodial Liability	
Other	
Total intergovernmental	
Accounts Payable	
Debt Held by Public	
Monetary Liabilities	
Due & Payable Liabilities	
Loan Guarantees	
Guarantees Other Than Loans [ED par. 14.C]	
Fed. Employee and VA Benefits [ED par. 14.A]:	
Pensions	
Other Retirement Benefits (e.g., healthcare)	
OPEB (unemployment, workers' comp., etc.)	
Environmental Liabilities [ED par. 14.B]	
Accrued [Unemployment & Other] Benefits	
Future FECA Benefits [aka "Actuarial FECA"]	
Energy employees Comp. Benefits	
Insurance [ED par. 14.D]	
Accrued Payroll/leave	
Accrued Grants	
Capital Lease Liab.	
Unearned Revenue	
Payments due to States	

Attachment 6 - Liabilities

FY 2007

Other

Commitments and Contingencies [ED par. 14.E]

Total Liabilities

Legend:

FECA = Federal employees' workers' compensation

Notes:

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Tab G – Attachment 7 – CFOA Agency Statements of Net Cost

Attachment 7 – CFOA Agency Statements of Net Cost

TABLE OF CONTENTS

USDA FY 2007 Statement of Net Cost	2
Commerce Department (DOC) FY 2007 Statement of Net Cost.....	3
Defense Department FY 2007 Statement of Net Cost	4
Education Department FY 2007 Statement of Net Cost	5
Energy Department's FY 2007 Statement of Net Cost	6
Department of Health and Human Services <i>FY 2006</i> Statement of Net Cost	8
Homeland Security Department FY 2007 Statement of Net.....	9
HUD FY 2007 Statement of Net.....	11
Interior Department's FY 2007 Statement of Net	12
Labor Department FY 2007 Statement of Net Cost	13
Justice Department's FY 2007 Statement of Net Cost.....	14
State Department FY 2007 Statement of Net Cost	15
Transportation Department FY 2006 Statement of Net Cost	16
Treasury Department's FY 2007 Statement of Net Cost.....	17
Department of Veterans' Affairs FY 2007 Statement of Net Cost	18
Agency for International Development FY 2007 Statement of Net Cost	19
Environmental Protection Agency <i>FY 2006</i> Statement of Net Cost	20
General Services Administration FY 2007 Statement of Net Cost	21
NASA FY 2007 Statement of Net Cost	23
Personnel Management, Office of, FY 2007 Statement of Operations	24
SSA FY 2007 Statement of Net Cost.....	25
USPS FY 2007 Statement of Net Cost	26
Pension Benefit Guaranty Corporation FY 2007 Statement of Operations and Changes in Net Position	27

Tab G – Attachment 7 – CFOA Agency Statements of Net Cost

USDA FY 2007 Statement of Net Cost

CONSOLIDATED STATEMENT OF NET COST For the Years Ended September 30, 2007 and 2006 (in millions)

	2007	2006
<i>Enhance International Competitiveness of American Agriculture:</i>		
Gross Cost	\$ 2,099	\$ 1,152
Less: Earned Revenue	615	748
Net Cost	<u>1,484</u>	<u>404</u>
<i>Enhance the Competitiveness and Sustainability of Rural and Farm Economies:</i>		
Gross Cost	21,424	30,689
Less: Earned Revenue	6,325	6,231
Net Cost	<u>15,099</u>	<u>24,458</u>
<i>Support Increased Economic Opportunities and Improved Quality of Life in Rural America:</i>		
Gross Cost	6,952	7,048
Less: Earned Revenue	4,750	3,980
Net Cost	<u>2,202</u>	<u>3,068</u>
<i>Enhance Protection and Safety of the Nation's Agriculture and Food Supply:</i>		
Gross Cost	3,271	3,829
Less: Earned Revenue	762	649
Net Cost	<u>2,509</u>	<u>2,980</u>
<i>Improve the Nation's Nutrition and Health:</i>		
Gross Cost	53,991	53,064
Less: Earned Revenue	43	36
Net Cost	<u>53,948</u>	<u>53,028</u>
<i>Protect and Enhance the Nation's Natural Resource Base and Environment:</i>		
Gross Cost	11,824	12,592
Less: Earned Revenue	745	1,104
Net Cost	<u>11,079</u>	<u>11,488</u>
Total Gross Costs	99,561	108,174
Less: Total Earned Revenues	<u>13,240</u>	<u>12,748</u>
Net Cost of Operations (Note 19)	<u>\$ 86,321</u>	<u>\$ 95,426</u>

Tab G – Attachment 7 – CFOA Agency Statements of Net Cost

Commerce Department (DOC) FY 2007 Statement of Net Cost

United States Department of Commerce Consolidated Statements of Net Cost
For the Years Ended September 30, 2007 and 2006 (Note 17) (In Thousands)

	FY 2007	FY 2006
Strategic Goal 1: Provide the Information and Tools to Maximize U.S. Competitiveness and Enable Economic Growth for American Industries, Workers, and Consumers		
Gross Costs	\$ 2,133,671	\$ 2,124,582
Less: Earned Revenue	(298,730)	(308,300)
Net Program Costs	1,834,941	1,816,282
Strategic Goal 2: Foster Science and Technological Leadership by Protecting Intellectual Property, Enhancing Technical Standards, and Advancing Measurement Science		
Gross Costs	2,781,232	2,528,674
Less: Earned Revenue	(1,967,068)	(1,821,454)
Net Program Costs	814,164	707,220
Strategic Goal 3: Observe, Protect, and Manage the Earth's Resources to Promote Environmental Stewardship		
Gross Costs	4,062,583	4,171,133
Less: Earned Revenue	(276,781)	(277,747)
Net Program Costs	3,785,802	3,893,386
NET COST OF OPERATIONS	\$ 6,434,907	\$ 6,416,888

The accompanying notes are an integral part of these statements.

Tab G – Attachment 7 – CFOA Agency Statements of Net Cost

Defense Department FY 2007 Statement of Net Cost

30 Department of Defense Agency Financial Report 2007

Section 2: Financial Information

CONSOLIDATED STATEMENT OF NET COST

Department of Defense

For the years ended September 30, 2007 and 2006

(\$ in millions)

	2007	2006 Restated
Program Costs		
Gross Costs	\$ 668,138.4	\$ 634,544.0
Less: Earned Revenue	(45,686.4)	(48,495.7)
Net Program Costs	\$ 622,452.0	\$ 586,048.3
Cost Not Assigned to Programs	-	-
Less: Earned Revenue Not Attributable to Programs	-	-
Net Cost of Operations	\$ 622,452.0	\$ 586,048.3

Tab G – Attachment 7 – CFOA Agency Statements of Net Cost

Education Department FY 2007 Statement of Net Cost

United States Department of Education
Consolidated Statement of Net Cost
For the Years Ended September 30, 2007 and 2006
(Dollars in Millions)

	Fiscal Year 2007	Fiscal Year 2006
Program Costs		
<u>Enhancement of Postsecondary and Adult Education</u>		
Gross Costs	\$ 31,924	\$ 63,356
Less: Earned Revenue	7,933	7,790
Net Program Costs	23,991	55,566
Total Program Costs	\$ 23,991	\$ 55,566
<u>Creation of Student Achievement, Culture of Achievement and Safe Schools</u>		
Gross Costs	\$ 23,368	\$ 24,605
Less: Earned Revenue	78	60
Net Program Costs	23,290	24,545
Total Program Costs	\$ 23,290	\$ 24,545
<u>Transformation of Education</u>		
Gross Costs	\$ 1,468	\$ 1,363
Less: Earned Revenue	18	18
Net Program Costs	1,450	1,345
Total Program Costs	\$ 1,450	\$ 1,345
<u>Special Education and Program Execution</u>		
Gross Costs	\$ 15,556	\$ 15,375
Less: Earned Revenue	3	2
Net Program Costs	15,553	15,373
Total Program Costs	\$ 15,553	\$ 15,373
Grand Total Program Costs	\$ 64,284	\$ 96,829
Net Cost of Operations (Notes 12 and 15)	\$ 64,284	\$ 96,829

Tab G – Attachment 7 – CFOA Agency Statements of Net Cost

Energy Department's FY 2007 Statement of Net Cost

U. S. Department of Energy Consolidated Statements of Net Cost

For Years Ended September 30, 2007 and 2006

(\$ in millions)

	FY 2007	FY 2006 (Unaudited)
STRATEGIC THEMES:		
Energy Security:		
Energy Diversity		
Program Costs	\$ 1,085	\$ 1,415
Less: Earned Revenues ^(Note 19)	(6)	(616)
Net Cost of Energy Diversity	1,079	799
Environmental Impacts of Energy		
Program Costs	1,041	989
Less: Earned Revenues ^(Note 19)	(60)	(95)
Net Costs of Environmental Impacts of Energy	981	894
Energy Infrastructure		
Program Costs	3,930	3,951
Less: Earned Revenues ^(Note 19)	(4,146)	(4,313)
Net Cost of Energy Infrastructure	(216)	(362)
Energy Productivity Program Costs	496	470
Net Cost of Energy Security	2,340	1,801
Nuclear Security:		
Nuclear Deterrent Program Costs	6,851	6,671
Weapons of Mass Destruction Program Costs	1,539	1,377
Nuclear Propulsion Plants		
Program Costs	810	783
Less: Earned Revenues ^(Note 19)	(19)	(11)
Net Cost of Nuclear Propulsion Plants	791	772
Net Cost of Nuclear Security	9,181	8,820
Scientific Discovery and Innovation:		
Net Cost of Scientific Discovery and Innovation	4,004	3,734
Environmental Responsibility:		
Environmental Cleanup		
Program Costs	5,861	6,007
Less: Earned Revenues ^(Note 19)	(493)	(509)
Net Costs of Environmental Cleanup	5,368	5,498
Managing the Legacy Program Costs	57	62
Net Cost of Environmental Responsibility	5,425	5,560
Net Cost of Strategic Themes	20,950	19,915
OTHER PROGRAMS:		
Reimbursable Programs:		
Program Costs	3,529	3,398
Less: Earned Revenues ^(Note 19)	(3,521)	(3,385)
Net Cost of Reimbursable Programs	8	13
Other Programs: ^(Note 20)		
Program Costs	690	653
Less: Earned Revenues ^(Note 19)	(312)	(218)
Net Cost of Other Programs	378	435
Costs Applied to Reduction of Legacy Environmental Liabilities ^(Notes 14 and 21)	(5,573)	(6,207)
Costs Not Assigned ^(Note 22)	45,732	49,724
Net Cost of Operations ^(Note 23)	\$ 61,495	\$ 63,880

The accompanying notes are an integral part of these statements

Tab G – Attachment 7 – CFOA Agency Statements of Net Cost

22. Costs Not Assigned (in millions)

	FY 2007	FY 2006 (Unaudited)
Spent nuclear fuel contingency ^(Note 17)		
Current year Judgement Fund payments	\$ 103	\$ 107
Change in estimates ^(Note 23)	4,249	1,718
Current year spent nuclear fuel contingency costs	\$ 4,352	\$ 1,825
Change in environmental liability estimates ^(Notes 14 and 23)	39,958	47,713
Changes in contractor pension and PRB estimates ^(Note 23)	(404)	368
Change in unfunded safety and health liabilities ^(Notes 13 and 23)	329	(303)
Change in occupational illness program –		
Subtitle B	1,310	402
Subtitle E	213	(10)
Uranium enrichment services pricing litigation	-	28
Other	(26)	(299)
Total costs not assigned	\$ 45,732	\$ 49,724

Compensation Program for Occupational Illnesses

The Energy Employees Occupational Illness Compensation Program Act (EEOICPA) authorized compensation for certain illnesses suffered by employees for the Department, its predecessor agencies, and contractors who performed work for the nuclear weapons program. Subtitle B covers illnesses associated with exposure to radiation, beryllium, or silica. In general, each eligible employee and survivors of deceased employees will receive compensation for the disability or death of that employee in the amount of \$150,000 plus the costs of medical care.

The National Defense Authorization Act of 2005 amended the EEOICPA to include Subtitle E, Contractor Employee Compensation. This amendment replaces Subtitle D of the EEOICPA, which provided

assistance for the Department in obtaining state workers' compensation benefits. The new program grants workers' compensation benefits to covered employees and their families for illness and death arising from exposure to toxic substances at a DOE facility. The amendment also makes it possible for uranium workers, as defined under Section 5 of the Radiation Exposure Compensation Act, to receive compensation under Subtitle E for illnesses due to toxic substance exposure at a uranium mine or mill covered under that Act.

As of September 30, 2005, the law makes payments under these programs the responsibility of the Department of Labor. Therefore, the liability is recorded by the Department of Labor and changes in the total liability are recognized by the Department as imputed costs and imputed financing source.

Tab G – Attachment 7 – CFOA Agency Statements of Net Cost

Department of Health and Human Services FY 2006 Statement of Net Cost

U. S. Department of Health and Human Services
CONSOLIDATED STATEMENTS OF NET COST
 For the Years Ended September 30, 2006 and 2005
 (In Millions)

	2006	2005
Responsibility Segments		
Administration for Children and Families (ACF)	\$ 47,165	\$ 46,722
Administration on Aging (AoA)	1,386	1,400
Agency for Healthcare Research and Quality (AHRQ)	(280)	(297)
Centers for Disease Control and Prevention (CDC)	6,152	5,242
Centers for Medicare & Medicaid Services (CMS)	524,398	483,645
Food & Drug Administration (FDA)	1,599	1,449
Health Resources & Services Administration (HRSA)	6,180	6,787
Indian Health Service (IHS)	3,275	3,157
National Institutes of Health (NIH)	28,450	27,875
Office of the Secretary (OS)	2,183	2,159
Program Support Center (PSC)	261	(18)
Substance Abuse & Mental Health Services Administration (SAMHSA)	3,168	3,199
	<hr/>	<hr/>
Net Cost of Operations	\$ 623,937	\$ 581,320
	<hr/>	<hr/>

Tab G – Attachment 7 – CFOA Agency Statements of Net Cost

Homeland Security Department FY 2007 Statement of Net

Department of Homeland Security Statements of Net Cost For the Years Ended September 30, 2007 and 2006 (In Millions)		
Directorates and Other Components (Note 23 and 24)	<u>2007</u> (Unaudited)	<u>2006</u> (Unaudited) (Restated)
<i>U.S. Customs and Border Protection</i>		
Gross Cost	\$8,198	\$7,135
Less Earned Revenue	(157)	(153)
Net Cost	<u>8,041</u>	<u>6,982</u>
<i>U.S. Coast Guard</i>		
Gross Cost	10,564	10,011
Less Earned Revenue	(492)	(424)
Net Cost	<u>10,072</u>	<u>9,587</u>
<i>U.S. Citizenship and Immigration Services</i>		
Gross Cost	1,731	1,588
Less Earned Revenue	(1,659)	(1,729)
Net Cost	<u>72</u>	<u>(141)</u>
<i>Federal Emergency Management Agency</i>		
Gross Cost	14,272	28,845
Less Earned Revenue	(2,842)	(2,469)
Net Cost	<u>11,430</u>	<u>26,376</u>
<i>Federal Law Enforcement Training Center</i>		
Gross Cost	402	312
Less Earned Revenue	(40)	(33)
Net Cost	<u>362</u>	<u>279</u>
<i>National Protection and Programs Directorate</i>		
Gross Cost	855	743
Less Earned Revenue	-	(1)
Net Cost	<u>855</u>	<u>742</u>
<i>U.S. Immigration and Customs Enforcement</i>		
Gross Cost	4,891	4,500
Less Earned Revenue	(900)	(857)
Net Cost	<u>3,991</u>	<u>3,643</u>

Cost

Tab G – Attachment 7 – CFOA Agency Statements of Net Cost

Department of Homeland Security Statements of Net Cost For the Years Ended September 30, 2007 and 2006 (In Millions)		
	2007 (Unaudited)	2006 (Unaudited) (Restated)
Directorates and Other Components (Note 23 and 24)		
<i>Office of Health Affairs</i>		
Gross Cost	5	53
Less Earned Revenue	-	-
Net Cost	<u>5</u>	<u>53</u>
<i>Departmental Operations and Other</i>		
Gross Cost	1,204	852
Less Earned Revenue	(3)	(2)
Net Cost	<u>1,201</u>	<u>850</u>
<i>U.S. Secret Service</i>		
Gross Cost	1,689	1,471
Less Earned Revenue	(16)	(18)
Net Cost	<u>1,673</u>	<u>1,453</u>
<i>Science and Technology Directorate</i>		
Gross Cost	987	843
Less Earned Revenue	(14)	-
Net Cost	<u>973</u>	<u>843</u>
<i>Transportation Security Administration</i>		
Gross Cost	6,439	6,001
Less Earned Revenue	(2,299)	(2,477)
Net Cost	<u>4,140</u>	<u>3,524</u>
NET COST OF OPERATIONS (Note 23 and 24)	<u>\$42,815</u>	<u>\$54,191</u>

Tab G – Attachment 7 – CFOA Agency Statements of Net Cost

HUD FY 2007 Statement of Net

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT FY 2007 PERFORMANCE AND ACCOUNTABILITY REPORT

Consolidated Statement of Net Cost For the Period Ended September 2007 and 2006 (Dollars in Millions)

	2007	2006
COSTS:		
Federal Housing Administration		
Gross Cost	\$3,890	(\$380)
Less: Earned Revenue	(1,521)	(1,701)
Net Program Costs	\$2,369	(\$2,081)
Government National Mortgage Association		
Gross Cost	\$53	\$60
Less: Earned Revenue	(791)	(849)
Net Program Costs	(\$738)	(\$789)
Section 8:		
Gross Cost	\$24,640	\$23,827
Less: Earned Revenue		
Net Program Costs	\$24,640	\$23,827
Community Development Block Grants:		
Gross Cost	\$10,966	\$5,093
Less: Earned Revenue		
Net Program Costs	\$10,966	\$5,093
HOME:		
Gross Cost	\$1,902	\$1,853
Less: Earned Revenue		
Net Program Costs	\$1,902	\$1,853
Operating Subsidies:		
Gross Cost	\$3,831	\$3,600
Less: Earned Revenue		
Net Program Costs	\$3,831	\$3,600
Low Rent Public Housing Loans and Grants		
Gross Cost	\$3,479	\$3,566
Less: Earned Revenue	(\$0)	(\$0)
Net Program Costs	\$3,479	\$3,566
Housing for the Elderly and Disabled		
Gross Cost	1,317	\$1,279
Less: Earned Revenue	(419)	(515)
Net Program Costs	\$898	\$764
Other:		
Gross Cost	\$3,376	\$3,541
Less: Earned Revenue	(21)	(78)
Net Program Costs	\$3,355	\$3,463
Costs Not Assigned to Programs:	\$332	\$332
Consolidated:		
Gross Cost	\$53,786	\$42,771
Less: Earned Revenue	(2,752)	(3,143)
Net Cost of Operations	\$51,034	\$39,628

Cost

Tab G – Attachment 7 – CFOA Agency Statements of Net Cost

Interior Department's FY 2007 Statement of Net

Statement of Net Cost
for the years ended September 30, 2007 and 2006
(dollars in thousands)

	FY 2007	FY 2006
RESOURCE PROTECTION		
Costs	\$ 4,459,531	\$ 3,946,834
Less: Earned Revenue	793,422	1,136,759
Net Cost	3,666,109	2,810,075
RESOURCE USE		
Costs	3,438,415	3,942,639
Less: Earned Revenue	1,294,116	1,327,167
Net Cost	2,144,299	2,615,472
RECREATION		
Costs	2,593,722	1,780,694
Less: Earned Revenue	338,687	370,645
Net Cost	2,255,035	1,410,049
SERVING COMMUNITIES		
Costs	5,091,113	6,518,561
Less: Earned Revenue	454,591	904,395
Net Cost	4,636,522	5,614,166
REIMBURSABLE ACTIVITY AND OTHER		
Costs	2,626,815	3,295,714
Less: Earned Revenue	1,690,094	2,340,934
Net Cost	936,721	954,780
TOTAL		
Costs	18,209,596	19,484,442
Less: Earned Revenue	4,570,910	6,079,900
Net Cost of Operations (Notes 20 and 22)	\$ 13,638,686	\$ 13,404,542

Tab G – Attachment 7 – CFOA Agency Statements of Net Cost

Labor Department FY 2007 Statement of Net Cost

	(in 000s)	2007	2006
NET COST OF OPERATIONS (Notes 1-S and 15)			
CROSSCUTTING PROGRAMS			
Income Maintenance			
Gross cost		\$43,231,820	\$40,661,833
Less earned revenue		(3,265,223)	(3,712,611)
Net cost of program		39,966,597	36,949,222
Employment and training			
Gross cost		6,088,647	5,710,741
Less earned revenue		(44,925)	(22,568)
Net cost of program		6,043,722	5,688,173
Labor, employment and pension standards			
Gross cost		716,808	729,053
Less earned revenue		(11,024)	(14,082)
Net cost of program		705,784	714,971
Worker safety and health			
Gross cost		882,471	859,144
Less earned revenue		(2,405)	(14,465)
Net cost of program		880,066	844,679
OTHER PROGRAMS			
Statistics			
Gross cost		613,949	604,142
Less earned revenue		(6,083)	(5,332)
Net cost of program		607,866	598,810
COSTS NOT ASSIGNED TO PROGRAMS			
Gross cost		93,009	85,782
Less earned revenue		(6,325)	(7,608)
Net cost of program		86,684	78,174
Net Cost of Operations		<u>\$48,290,719</u>	<u>\$44,874,029</u>

Tab G – Attachment 7 – CFOA Agency Statements of Net Cost

Justice Department's FY 2007 Statement of Net Cost

U. S. Department of Justice
Consolidated Statements of Net Cost
For the Fiscal Years Ended September 30, 2007 and 2006

Dollars in Thousands

	FY	Gross Costs			Less: Earned Revenues			Net Cost of Operations (Note 19)
		Intra- governmental	With the Public	Total	Intra- governmental	With the Public	Total	
Goal 1	2007	\$ 967,483	\$ 2,875,701	\$ 3,843,184	\$ 222,795	\$ 31,344	\$ 254,139	\$ 3,589,045
	2006	\$ 972,740	\$ 2,793,488	\$ 3,766,228	\$ 220,417	\$ 47,013	\$ 267,430	\$ 3,498,798
Goal 2	2007	3,091,738	10,752,699	13,844,437	645,797	608,074	1,253,871	12,590,566
	2006	2,997,532	10,282,114	13,279,646	736,074	603,035	1,339,109	11,940,537
Goal 3	2007	1,901,488	9,220,700	11,122,188	969,679	390,438	1,360,117	9,762,071
	2006	1,693,506	8,744,628	10,438,134	724,753	360,039	1,084,792	9,353,342
Total	2007	<u>\$ 5,960,709</u>	<u>\$ 22,849,100</u>	<u>\$ 28,809,809</u>	<u>\$ 1,838,271</u>	<u>\$ 1,029,856</u>	<u>\$ 2,868,127</u>	<u>\$ 25,941,682</u>
	2006	<u>\$ 5,663,778</u>	<u>\$ 21,820,230</u>	<u>\$ 27,484,008</u>	<u>\$ 1,681,244</u>	<u>\$ 1,010,087</u>	<u>\$ 2,691,331</u>	<u>\$ 24,792,677</u>

Goal 1: Prevent Terrorism and Promote the Nation's Security

Goal 2: Prevent Crime, Enforce Federal Laws, and Represent the Rights and Interests of the American People

Goal 3: Ensure the Fair and Efficient Administration of Justice

Tab G – Attachment 7 – CFOA Agency Statements of Net Cost

State Department FY 2007 Statement of Net Cost

(Dollars in Thousands)

As of September 30,

	2007	2006
Achieve Peace and Security		
Total Cost	\$ 5,761,110	\$ 5,663,920
Earned Revenue	(849,177)	(694,911)
Net Program Costs	4,911,933	4,969,009
Governing Justly and Democratically		
Total Cost	696,812	631,846
Earned Revenue	(46,704)	(55,020)
Net Program Costs	650,108	576,826
Investing in People		
Total Cost	2,321,731	1,328,527
Earned Revenue	(21,083)	(24,791)
Net Program Costs	2,300,648	1,303,736
Promoting Economic Growth and Prosperity		
Total Cost	1,138,891	1,032,707
Earned Revenue	(76,335)	(89,926)
Net Program Costs	1,062,556	942,781
Providing Humanitarian Assistance		
Total Cost	1,099,132	924,589
Earned Revenue	(31)	(122)
Net Program Costs	1,099,101	924,467
Promoting International Understanding		
Total Cost	1,925,025	1,638,788
Earned Revenue	(151,451)	(165,591)
Net Program Costs	1,773,574	1,473,197
Strengthening Consular and Management Capabilities		
Total Cost	2,609,552	2,380,822
Earned Revenue	(2,661,992)	(2,332,238)
Net Program Costs	(52,440)	48,584
Executive Direction and Other Costs Not Assigned		
Total Cost	3,472,286	3,481,740
Earned Revenue	(1,581,683)	(1,227,677)
Net Program Costs	1,890,603	2,254,063
Total Cost	19,024,539	17,082,939
Total Revenue	(5,388,456)	(4,590,276)
Total Net Cost	\$ 13,636,083	\$ 12,492,663

Tab G – Attachment 7 – CFOA Agency Statements of Net Cost

Transportation Department FY 2006 Statement of Net Cost

DEPARTMENT OF TRANSPORTATION CONSOLIDATED STATEMENT OF NET COST

For the Years Ended September 30,	2006	2005
Dollars in Thousands		
PROGRAM COSTS (Notes 19 & 20)		
SURFACE TRANSPORTATION		
Gross Costs	\$ 46,922,501	\$ 42,519,917
Less: Earned Revenue	395,325	210,507
Net Costs	46,527,176	42,309,410
AIR TRANSPORTATION		
Gross Costs	\$ 15,112,554	\$ 14,618,959
Less: Earned Revenue	659,343	589,863
Net Costs	14,453,211	14,029,096
MARITIME TRANSPORTATION		
Gross Costs	\$ 739,789	\$ 735,215
Less: Earned Revenue	282,264	456,301
Net Costs	457,525	278,914
CROSS-CUTTING PROGRAMS		
Gross Costs	\$ 442,044	\$ 536,912
Less: Earned Revenue	434,689	528,184
Net Costs	7,355	8,728
Costs Not Assigned To Programs	390,463	261,911
Less: Earned Revenues Not Attributed to Programs	30,985	25,165
NET COST OF OPERATIONS	\$ 61,804,745	\$ 56,862,894

Tab G – Attachment 7 – CFOA Agency Statements of Net Cost

Treasury Department's FY 2007 Statement of Net Cost

Consolidated Statements of Net Cost

For the Years Ended September 30, 2007 and 2006

(In Millions)

	2007	2006
Cost of Treasury Operations (Note 19):		
Financial Program:		
Gross Cost	\$ 13,980	\$ 17,496
Less Earned Revenue	(2,245)	(5,083)
Net Program Cost	\$ 11,735	\$ 12,413
Economic Program:		
Gross Cost	\$ 5,660	\$ 2,339
Less Earned Revenue	(6,116)	(1,151)
Net Program Cost	\$ (456)	\$ 1,188
Security Program		
Gross Cost	\$ 302	\$ 0
Less Earned Revenue	(2)	0
Net Program Cost	\$ 300	\$ 0
Management Program		
Gross Cost	\$ 883	\$ 987
Less Earned Revenue	(443)	(559)
Net Program Cost	\$ 440	\$ 428
Total Program Gross Costs	\$ 20,825	\$ 20,822
Total Program Gross Earned Revenues	(8,806)	(6,793)
Total Net Cost of Treasury Operations	\$ 12,019	\$ 14,029
Federal Costs (Note 19):		
Federal Debt Interest	\$ 432,153	\$ 403,459
Less Interest Revenue from Loans	(11,714)	(12,593)
Net Federal Debt Interest Costs	\$ 420,439	\$ 390,866
Other Federal Costs	\$ 8,863	\$ 8,940
Net Federal Costs	\$ 429,302	\$ 399,806
Net Cost of Treasury Operations, Federal Debt Interest, and Other Federal Costs	\$ 441,321	\$ 413,835

Tab G – Attachment 7 – CFOA Agency Statements of Net Cost

Department of Veterans' Affairs FY 2007 Statement of Net Cost

DEPARTMENT OF VETERANS AFFAIRS			
CONSOLIDATED STATEMENTS OF NET COST (dollars in millions)			
for the Years Ended September 30,		2007	2006
NET PROGRAM COSTS (NOTE 19)			
Medical Care	\$	32,013	\$ 29,103
Medical Education		1,267	1,101
Medical Research		843	813
Compensation		34,897	31,879
Pension		3,902	3,752
Education		2,348	2,304
Vocational Rehabilitation and Employment		722	709
Loan Guaranty		(200)	(823)
Insurance		94	104
Burial		355	376
NET PROGRAM COSTS BEFORE CHANGES IN VETERANS BENEFITS ACTUARIAL LIABILITIES		76,241	69,318
Compensation		(26,000)	31,100
Burial		(100)	100
SUBTOTAL		(26,100)	31,200
NET NON-PROGRAM COSTS		953	944
NET COST OF OPERATIONS (NOTE 19)	\$	51,094	\$ 101,462

Tab G – Attachment 7 – CFOA Agency Statements of Net Cost

Agency for International Development FY 2007 Statement of Net Cost

U.S. Agency for International Development CONSOLIDATED STATEMENT OF NET COST For the Years Ended September 30, 2007 and 2006 (Dollars in Thousands)		
OBJECTIVES	2007	2006
Peace and Security		
Gross Costs	\$ 460,211	\$ 567,836
Less: Earned Revenue	(1,146)	(5,208)
Net Program Costs	459,065	562,628
Governing Justly and Democratically		
Gross Costs	1,306,545	1,458,935
Less: Earned Revenue	(3,498)	(17,197)
Net Program Costs	1,303,047	1,441,738
Investing in People		
Gross Costs	3,513,749	3,718,162
Less: Earned Revenue	(484,068)	(146,009)
Net Program Costs	3,029,681	3,572,153
Economic Growth		
Gross Costs	3,103,511	3,915,462
Less: Earned Revenue	(102,616)	(32,515)
Net Program Costs	3,000,895	3,882,947
Humanitarian Assistance		
Gross Costs	1,389,641	844,792
Less: Earned Revenue	(3,587)	(5,956)
Net Program Costs	1,386,054	838,836
Operating Unit Management		
Gross Costs	117,362	56,028
Less: Earned Revenue	(210)	(606)
Net Program Costs	117,152	55,422
Net Costs of Operations (Notes 17 and 18)	\$ 9,295,894	\$ 10,353,724

Tab G – Attachment 7 – CFOA Agency Statements of Net Cost

Environmental Protection Agency FY 2006 Statement of Net Cost

2.		
Environmental Protection Agency		
Consolidating Statement of Net Cost		
For the Periods Ending September 30, 2006 and 2005		
(Dollars in Thousands)		
	FY 2006	FY 2005
COSTS		
Gross Costs (Note 22)	\$ 9,215,502	\$ 8,497,422
Less:		
Earned Revenue (Notes 21, 22)	<u>869,762</u>	<u>463,477</u>
NET COST OF OPERATIONS (Note 22)	<u>\$ 8,345,740</u>	<u>\$ 8,033,945</u>

Tab G – Attachment 7 – CFOA Agency Statements of Net Cost

General Services Administration FY 2007 Statement of Net Cost

CONSOLIDATING STATEMENTS OF NET COST

FOR THE FISCAL YEARS ENDED SEPTEMBER 30, 2007 AND 2006
(Dollars in Millions)

	2007	2006
FEDERAL BUILDINGS FUND		
Revenues:		
Building Operations - Government-Owned	\$ 3,822	\$ 3,740
Building Operations - Leased	5,051	4,769
Expenses:		
Building Operations - Government-Owned	3,182	3,188
Building Operations - Leased	5,133	4,714
Net Revenues From (Cost of) Operations	558	607
ACQUISITION SERVICES FUND		
Revenues:		
IT Solutions	3,136	3,700
Network Services	1,132	1,208
Global Supply Operations	1,085	1,029
Vehicle Acquisition and Leasing	1,717	1,526
Commercial Acquisition	396	424
Professional Services	572	661
Other Programs	104	62
Revenues Subtotal	8,142	8,610
Expenses:		
IT Solutions	3,202	3,852
Network Services	1,114	1,167
Global Supply Operations	1,062	1,005
Vehicle Acquisition and Leasing	1,625	1,465
Commercial Acquisition	356	368
Professional Services	573	675
Other Programs	88	66
Expenses Subtotal	8,020	8,598
Net Revenues From (Cost of) Operations	122	12

Tab G – Attachment 7 – CFOA Agency Statements of Net Cost

Continued from previous page

	2007	2006
OTHER FUNDS		
Revenues:		
Working Capital Fund	356	367
GSA OE and OGP Funds	17	20
Other Funds	19	13
Expenses:		
Working Capital Fund	358	372
GSA OE and OGP Funds	156	160
Other Funds	103	110
Net Revenues From (Cost of) Operations	(225)	(242)
LESS: INTRA-GSA ELIMINATIONS (NOTE 1-B)		
Revenues	534	579
Expenses	567	611
GSA CONSOLIDATED		
Revenues	16,873	16,940
Expenses	16,385	16,531
Net Revenues From (Cost of) Operations	\$ 488	\$ 409

Tab G – Attachment 7 – CFOA Agency Statements of Net Cost

NASA FY 2007 Statement of Net Cost

**National Aeronautics and Space Administration
Consolidated Statement of Net Cost
For the Fiscal Years Ended September 30, 2007 and 2006
(In Millions)**

	Unaudited 2007	Restated Unaudited 2006
Cost by Business Line:		
Aeronautics Research		
Gross Costs	\$ 700	\$ 1,129
Less: Earned Revenue	106	79
Net Costs	<u>594</u>	<u>1,050</u>
Exploration Systems		
Gross Costs	\$ 3,217	\$ 2,702
Less: Earned Revenue	29	88
Net Costs	<u>3,188</u>	<u>2,614</u>
Science		
Gross Costs	\$ 5,506	\$ 6,625
Less: Earned Revenue	352	348
Net Costs	<u>5,154</u>	<u>6,277</u>
Space Operations		
Gross Costs	\$ 6,443	\$ 8,117
Less: Earned Revenue	301	424
Net Costs	<u>6,142</u>	<u>7,693</u>
Net Cost of Operations	<u>\$ 15,078</u>	<u>\$ 17,634</u>

Tab G – Attachment 7 – CFOA Agency Statements of Net Cost

Personnel Management, Office of, FY 2007 Statement of Operations

<i>(In Millions)</i>		2007	2006
Provide CSRS Benefits	Intragovernmental Gross Costs [Note 1D]	–	–
	Gross Costs with the Public [Note 5A]	\$64,665	\$93,296
	Total Gross Costs	64,665	93,296
	Intragovernmental Earned Revenue	(25,383)	(27,829)
	Earned Revenue with the Public	(2,723)	(2,908)
	Total Earned Revenue	(28,106)	(30,737)
	Total Net Cost	\$36,559	\$62,559
Provide FERS Benefits	Intragovernmental Gross Costs [Note 1D]	–	–
	Gross Costs with the Public [Note 5A]	\$29,594	\$36,293
	Total Gross Costs	29,594	36,293
	Intragovernmental Earned Revenue	(29,219)	(27,021)
	Earned Revenue with the Public	(1,105)	(1,027)
	Total Earned Revenue	(30,324)	(28,048)
	Total Net Cost	(\$730)	\$8,245
Provide Health Benefits	Intragovernmental Gross Costs [Note 1D]	–	–
	Gross Costs with the Public	\$49,708	\$35,945
	Total Gross Costs	49,708	35,945
	Intragovernmental Earned Revenue	(25,317)	(16,157)
	Earned Revenue with the Public	(9,464)	(9,112)
	Total Earned Revenue	(34,781)	(25,269)
	Total Net Cost	\$14,927	\$10,676
Provide Life Insurance Benefits	Intragovernmental Gross Costs [Note 1D]	–	–
	Gross Costs with the Public	\$4,021	\$3,515
	Total Gross Costs	4,021	3,515
	Intragovernmental Earned Revenue	(1,713)	(1,642)
	Earned Revenue with the Public	(2,212)	(2,088)
	Total Earned Revenue	(3,925)	(3,730)
	Total Net Cost	\$96	(\$215)
Provide Human Resource Services	Intragovernmental Gross Costs	\$82	\$106
	Gross Costs with the Public	1,020	934
	Total Gross Costs	1,102	1,040
	Intragovernmental Earned Revenue	(1,084)	(890)
	Earned Revenue with the Public	(2)	(2)
	Total Earned Revenue	(1,086)	(892)
	Total Net Cost	\$16	\$148
Total Net Cost of Operations	Intragovernmental Gross Costs	\$82	\$106
	Gross Costs with the Public	149,008	169,983
	Total Gross Costs [Notes 10 and 14]	149,090	170,089
	Intragovernmental Earned Revenue	(82,716)	(73,539)
	Earned Revenue with the Public	(15,506)	(15,137)
	Total Earned Revenue [Notes 10 and 14]	(98,222)	(88,676)
	Total Net Cost [Note 14]	\$50,868	\$81,413

Tab G – Attachment 7 – CFOA Agency Statements of Net Cost

SSA FY 2007 Statement of Net Cost

(in millions)	2007	2006
OASI Program		
Benefit Payments	\$481,026	\$451,516
Operating Expenses (Note 10)	3,099	3,083
Total Cost of OASI Program	484,125	454,599
Less: Exchange Revenue (Notes 11 and 12)	9	8
Net Cost of OASI Program	484,116	454,591
DI Program		
Benefit Payments	97,410	90,944
Operating Expenses (Note 10)	2,560	2,574
Total Cost of DI Program	99,970	93,518
Less: Exchange Revenue (Notes 11 and 12)	8	9
Net Cost of DI Program	99,962	93,509
SSI Program		
Benefit Payments	34,142	35,237
Operating Expenses (Note 10)	3,117	3,147
Total Cost of SSI Program	37,259	38,384
Less: Exchange Revenue (Notes 11 and 12)	261	268
Net Cost of SSI Program	36,998	38,116
Other Programs		
Benefit Payments	8	15
Operating Expenses (Note 10)	1,689	1,753
Total Cost of Other Programs	1,697	1,768
Less: Exchange Revenue (Notes 11 and 12)	6	11
Net Cost of Other Programs	1,691	1,757
Total Net Cost		
Benefit Payments	612,586	577,712
Operating Expenses (Note 10)	10,465	10,557
Total Cost	623,051	588,269
Less: Exchange Revenue (Notes 11 and 12)	284	296
Total Net Cost	\$622,767	\$587,973

Tab G – Attachment 7 – CFOA Agency Statements of Net Cost

USPS FY 2007 Statement of Net Cost

Statements of **Operations**

	Years Ended September 30,		
	2007	2006	2005
(Dollars in millions)			
Operating revenue	\$ 74,778	\$ 72,650	\$ 69,907
Operating expenses:			
Compensation and benefits	54,186	54,665	52,449
Retiree health benefits	10,084	1,637	1,495
Transportation	6,502	6,045	5,437
Other	9,333	9,334	8,900
Total operating expenses	80,105	71,681	68,281
(Loss) Income from operations	(5,327)	969	1,626
Interest and investment income	195	167	86
Interest expense on deferred retirement obligations	-	(231)	(263)
Other interest expense	(10)	(5)	(4)
Net (Loss) Income	\$ (5,142)	\$ 900	\$ 1,445

Tab G – Attachment 7 – CFOA Agency Statements of Net Cost

Pension Benefit Guaranty Corporation FY 2007 Statement of Operations and Changes in Net Position

	Single-Employer Program		Multiemployer Program		Memorandum Total	
	For the Years Ended September 30,		For the Years Ended September 30,		For the Years Ended September 30,	
<i>(Dollars in millions)</i>	2007	2006	2007	2006	2007	2006
UNDERWRITING:						
Income:						
Premium (Note 9)	\$ 1,476	\$ 1,442	\$ 81	\$ 58	\$ 1,557	\$ 1,500
Other	55	79	0	0	55	79
Total	1,531	1,521	81	58	1,612	1,579
Expenses:						
Administrative	328	352	0	0	328	352
Other	114	2	1	0	115	2
Total	442	354	1	0	443	354
Other underwriting activity:						
Losses (credits) from completed and probable terminations (Note 10)	399	(6,155)	0	0	399	(6,155)
Losses from financial assistance (Note 5)			319	461	319	461
Actuarial adjustments (Note 4)	(114)	(424)	0	0	(114)	(424)
Total	285	(6,579)	319	461	604	(6,118)
Underwriting gain (loss)	804	7,746	(239)	(403)	565	7,343
FINANCIAL:						
Investment income (Note 11):						
Fixed	1,730	394	23	(1)	1,753	393
Equity	2,988	1,793	0	0	2,988	1,793
Other	19	(3)	0	0	19	(3)
Total	4,737	2,184	23	(1)	4,760	2,183
Expenses:						
Investment	50	53	0	0	50	53
Actuarial charges (credits) (Note 4):						
Due to passage of time	3,269	3,206	0	0	3,269	3,206
Due to change in interest rates	(2,809)	2,037	0	0	(2,809)	2,037
Total	510	5,296	0	0	510	5,296
Financial income (loss)	4,227	(3,112)	23	(1)	4,250	(3,113)
Net income (loss)	5,031	4,634	(216)	(404)	4,815	4,230
Net position, beginning of year	(18,142)	(22,776)	(739)	(335)	(18,881)	(23,111)
Net position, end of year	\$(13,111)	\$(18,142)	\$(955)	\$(739)	\$(14,066)	\$(18,881)