Federal Accounting Standards Advisory Board

September 23, 2004

Memorandum

To: Members of the Board

From: Julia E. Ranagan, Assistant Director

Through: Wendy M. Comes, Executive Director

Subj: Research into the Application of the Liability Definition[1]

At the April meeting, the Board discussed a preliminary project plan for extending the reconsideration of the recognition, measurement, display and disclosure of obligations beyond social insurance to other activities of the federal government. The board tentatively approved limited research into various programs. This research was incorporated into fact sheets that were used to compare and contrast different programs of the federal government from OASDI and Medicare as part of the Social Insurance Liability Project presentation at the August meeting. This companion research has seemingly proved helpful to several of the Board members in conjunction with staff presentations on liability recognition for OASDI and the creation of a revised government liability definition.

This tab presents a revised preliminary project plan that proposes a phased approach to addressing several significant obligations not specifically addressed by SFFAS No. 5, *Accounting for Liabilities of the Federal Government*, or the staff project on social insurance currently underway.

The staff objective for the October meeting is to obtain comments, suggestions, and continued direction for the project. Following this discussion, the staff will incorporate comments into the plan and continue the project as directed by the Board. Staff would specifically like to obtain the Board's responses to the following two questions:

1. **At this time, do you see merit in continuing research on other obligations of the federal government beyond social insurance? Such research may prove helpful to the Board in developing a principle-based liability element definition while providing more timely guidance to federal agencies on additional recognition or disclosures that may be required as a result of the Board's deliberations.**

2. **If yes to the above question, do you agree that staff should continue researching the programs proposed under phase one – benefits provided to individuals?**

Please contact me at 202-512-7377 or by e-mail at ranaganj@fasab.gov with questions or comments.

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

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I. Primary Objective

The first FASAB Objective for Operating Performance states that Federal financial reporting should provide information that helps the reader to determine the costs of providing specific programs and activities and the composition of, and changes in, these costs.[1] The second and third FASAB Objectives for Stewardship state that federal financial reporting should provide information that helps the reader to determine whether the government's financial position improved or deteriorated over the period and whether future budgetary resources will likely be sufficient to sustain public services and to meet obligations as they come due.[2]

However, current FASAB standards do not present recognition, measurement, display, and/or disclosure guidance for activities of the government that do not specifically meet the criteria for liabilities recognized or disclosed under SFFAS No. 5, *Accounting for Liabilities of the Federal Government*; SFFAS No. 12, *Recognition of Contingent Liabilities from Litigation*; or SFFAS No. 17, *Accounting for Social Insurance.*

The purpose of this project is to reconsider the recognition, measurement and display of liability and expense, potential new elements/statements,[3] and all related disclosures for obligations[4] of the federal government that could potentially result in a net outflow of resources. Some such obligations may not currently be recognized as liabilities on the balance sheet while others may be recognized based on "due and payable" concepts. The focus of this project would be on both (1) how to recognize, measure, and display obligations that meet the revised definition of a liability and (2) how (and whether) to disclose information about obligations that do not meet the revised definition of a liability. It is important to note that, while the liability definition is currently under construction, it would seem extremely useful for the Board to obtain a working knowledge of the environment of government obligations before finalizing a principle-based definition. This project would draw on the work completed by the elements phase of the Conceptual Framework and the Social Insurance[5] projects currently underway by FASAB staff, as appropriate.

II. Background

This project was formally introduced at the April 29th meeting. At that meeting, the Board discussed the staff's preliminary plan for the project under the title "Long-Term Commitments." It has been renamed at the suggestion of several Board members who felt that the title of "commitments" did not accurately capture the true nature of the project. This project has evolved from the social insurance liability project due to the need to compare and contrast the characteristics of the Old Age, Survivors, and Disability Insurance (OASDI) program with other obligations undertaken by the Federal Government. This concurrent review would assist the Board in determining how the proposed treatment of OASDI as potential liabilities may impact

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[1] FASAB SFFAC No. 1, *Objectives of Federal Financial Reporting*, par. 14

[2] FASAB SFFAC No. 1, *Objectives of Federal Financial Reporting*, pars. 136 and 139

[3] The scope of this project suggests that we should not preclude the development of new elements or statements if needed to adequately meet reporting objectives. However, staff does not suggest that this option be explored until existing (but evolving) element definitions and statements have been thoroughly considered.

[4] The term "obligation" is used in its everyday or generic sense (duty, responsibility, etc), not as it is used in federal budgetary accounting. Alternative wording is being considered as part of the elements project.

[5] The Social Insurance project addresses recognition and measurement and display of liability and expense for Old-Age, Survivors and Disability Insurance; Medicare Hospital Insurance; Medicare Supplementary Medical Insurance; Railroad Retirement Benefits; Black Lung Benefits; and Unemployment Insurance.

other programs that may or may not be more accurately portrayed with additional liability recognition, disclosure, and/or display requirements beyond due and payable.
Over the last 18 months, the issue of the government's long-term obligations has become a topic of interest government-wide. See Appendix 1 section on "Background" for viewpoints from various current and former government officials.

The Board is keenly aware of the issues regarding these obligations as evidenced by the evolving work undertaken by the Board on Social Insurance throughout the last several years.[6] This project would extend the analysis of recognition, measurement, display, and disclosure of liability and expense beyond Social Insurance, to other obligations of the federal government.

The current working FASAB liability definition, under revision as part of the staff project on elements, recommends that the following be considered characteristics of a liability:

1. Probable future outflow or other sacrifice of resources (or other economic benefit);
2. Present obligations; and,
3. Past transactions or events.

Ultimately, the FASAB definition of a liability may be revised as a result of the elements phase of the Conceptual Framework project or the Social Insurance project. For example, the concept of constructive obligations (little or no discretion) may be worked into the definition, as several other standard setters have done. However, as stated on the previous page, it is important to note that, while the liability definition is currently under construction, it would seem useful for the Board to obtain a working knowledge of the environment of government obligations before finalizing a principle-based definition.

III. Project Scope

This project would address all significant obligations of the federal government that could potentially result in a net outflow of resources other than those obligations already being addressed by staff for the Social Insurance Liability Project. Because SFFAS No. 5 explicitly addresses insurance, employee benefits, federal debt, contingencies, and capital leases, these are excluded from consideration in this project. The project would focus on (1) obligations arising from transactions between individuals and the government and (2) assumption of risk through unique federal activities such as treaties or government sponsored enterprises. Significant government obligations include Medicaid, Food Stamps, Supplemental Security Income (SSI), Temporary Assistance for Needy Families (TANF), Veterans benefits[7], treaties, contractual agreements, and Government Sponsored Enterprises.

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[6] SFFAS No. 17, *Accounting for Social Insurance*, August 1999; SFFAS No. 25, *Reclassification of Stewardship Responsibilities and Eliminating the Current Services Assessment*, July 2003; Exposure Draft: "Presentation of Significant Assumptions for the Statement of Social Insurance: Amending SFFAS 25", March 2004; and current staff work on the recognition and measurement of social insurance.
[7] Some believe that Veterans' benefits arise from exchange transactions. However, SFFAS No. 5 provides an exception to full accrual accounting for health care benefits. This is a controversial exception in light of legislation intended to enhance veterans' access to health care. The Board agreed to take up this issue in connection with this broad project on obligations.

It is important to note the distinction between those obligations that are merely expected versus those that might fall within the limits of accounting recognition and disclosure concepts. For example, a citizen's expectation that the U.S. Government will continue to defend the nation would not meet the scope of this project, while the U.S. government's intention to support Iraq for a certain number of years at a certain cost per year might. While at least one of the Board members has maintained that a citizen's expectation of future defense is an obligation, others would argue that it is not a present obligation based on past events.

There was some concern by Board members that this project may lead to a "slippery slope" whereby all government obligations could potentially meet the criteria for liability recognition. To address this concern, staff developed the chart on the following page to illustrate one way that programs could be characterized that would avoid a slippery slope. This chart is based on research prepared for the August 26th Board meeting and presented in fact sheets with the Social Insurance Liability Project. It defines programs as either monetary or non-monetary, either explicit or implicit, and having benefits that accumulate or do not accumulate.

Monetary simply means that the program participant receives a cash payment while non-monetary means the program participant receives a good or service in lieu of a cash payment.

The terms explicit and implicit were used by GAO in their chart on "fiscal exposures" (see appendix 1) and a number of Board members felt comfortable with those terms. GAO held that liabilities are explicit fiscal exposures while promises are implicit fiscal exposures.

One could also consider explicit to mean "full liability recognition is directly required as a result of SFFAS No. 5" and implicit to mean "full liability recognition is not directly required as a result of SFFAS No. 5." Although Veterans' health benefits were exempted from SFFAS No. 5, it meets the explicit requirements of SFFAS No. 5 and is therefore considered as an explicit obligation.

The dictionary definition of explicit is "fully revealed or expressed without vagueness, implication, or ambiguity: leaving no question as to meaning or intent." The dictionary definition of implicit is "capable of being understood from something else though unexpressed." (Merriam-Webster Online Dictionary)

The differentiating characteristic of benefits that accumulate versus benefits that do not accumulate was lively debated by the Board at the August 26th meeting with respect to OASDI benefits. The notion of an OASDI beneficiary having accumulated/earned/built up/accrued a certain amount of benefits as of a point in time, even though the actual payout date is at a later point in time, is considered key to recognizing a liability. Based on preliminary research performed on Medicaid, Food Stamps, TANF, and SSI, staff has suggested that the participants in these programs do not accumulate benefits in the same manner or to the same degree that OASDI participants do. This differentiation seems to help alleviate the potential for a slippery slope that is of concern to some of the Board members.

Monetary Benefits (Cash Payment)

	Benefits Accumulate[8] (Individual)	Benefits Do Not Accumulate (Collective)
Explicit	– Annual Leave – Federal Employees' Compensation Act – Pension (FERS, CSRS, and Military) – Veterans' and survivors' compensation benefits – **Veterans' pension benefits**[9] – **Veterans' health benefits** – **Social Security (OASDI) (some would argue implicit)**	
Implicit	– Social Security (OASDI) (some would argue explicit)	– Temporary Assistance for Needy Families (TANF)[10] – Supplemental Security Income

Non-Monetary Benefits (Goods/Services)

	Benefits Accumulate (Individual)	Benefits Do Not Accumulate (Collective)
Explicit	– Veterans' benefits (burial and plot)	
Implicit	– Medicare	– Medicaid – TANF[3] – Food Stamps – National Defense

(dark grey box) - Consider liability recognition (also bold Veterans' benefits)

(light grey box) - Consider additional disclosures

[8] The term "accumulate" as used in this sense means "to gather or pile up especially little by little" as defined in Merriam Webster Online. Accumulate is to be used as an illustrative opposite to "due and payable" where obligations only become attributable to an individual when they become "due and payable." Using the term "accumulate" is to suggest that the benefits become attributable to an individual at a point earlier than they become "due and payable."

[9] Future Veterans' pension benefit payments are not currently reported as a liability on the balance sheet. The projected estimate of future payments for pension benefits as of September 30, 2003, and September 30, 2002, respectively, were $102.7 and $91.6 billion, respectively (see Appendix 4 for disclosure).

[10] The TANF program is state-administered and the states have wide flexibility on how funds are spent. Some states provide services to low-income families eligible for assistance while other states choose to make cash payments or a combination of the two.

IV. Project Approach

This project would cover a broad range of activities. Staff proposes that the first step in the project would be to gather additional information on the various kinds of programs of the government that result in significant obligations of some type. Staff would compile fact sheets on the various programs, develop a set of characteristics to be reviewed in line with what has been done in the Social Insurance liability project, and assign each program a broad category based on like characteristics. See appendix 3 for the fact sheets compiled to date and discussed at the August 26th meeting in support of the Social Insurance Liability Project. Staff would not review all government programs, but rather a selection of programs that would be varied enough to effectively support the development of a principal-based standard.

Staff proposes that the following three phases be considered:[11]

Phase One – Benefits Provided to Individuals
This phase would address entitlement programs other than SI (Category I). Programs to be considered are veterans' benefits, Medicaid, Food Stamps, TANF, and SSI.

Phase Two – Government Sponsored Enterprises
This phase would explore the implied assumption of risk associated with Government Sponsored Enterprises, e.g., Fannie Mae and Freddie Mac (Category III) and any recognition or disclosure warranted for these activities.

Phase Three – Agreements that include broad assumption of risk
This phase would address treaties, contracts, and grants (Category II) that often include broad assumption of risk by the federal government.

Staff listed these phases in a logical sequence based on prior work of the Board, work currently underway in conjunction with the Social Insurance Liability Project, and input from the Board at the April 29th meeting. However, staff recognizes that this is not the only possible approach and would reorder these phases, as the Board deems necessary.

For each of the above three phases, this project would present for the Board's review:

(1) The current FASAB liability definition and its application to the category under review;
(2) Relevant applications of definitions established by other standard-setters;[12]
(3) Alternative obligating events (e.g., past events which create present obligations);
(4) Alternative measures for each major category of obligations;
(5) Alternative displays for the balance sheet, statement of net cost, and/or other statements;
(6) Alternative disclosures; and
(7) Associated issues.

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[11] This is a draft proposal of phases based on information gathered during the Social Insurance and liabilities projects and may be revised as a result of research completed during the information gathering stage of this project. Staff would present the Board with the results of the information gathering stage and proposed categories before proceeding with additional phases.

[12] For example, the International Federation of Accountants, Public Sector Committee, Invitation to Comment, "Accounting for Social Policies of Governments," January 2004 proposes three options for different recognition points as related to social obligations. This methodology would be reviewed as part of staff work on this project.

V. Next Steps

Staff would specifically like to obtain the Board's responses to the following two questions:

1. **At this time, do you see merit in continuing research on other obligations of the federal government beyond social insurance? Such research may prove helpful to the Board in developing a principle-based liability element definition while providing more timely guidance to federal agencies on additional recognition or disclosures that may be required as a result of the Board's deliberations.**

2. **If yes to the above question, do you agree that staff should continue researching the programs proposed under phase one – benefits provided to individuals? Later phases can be revised as the project progresses and the priorities of the Board are updated.**

If the answer to both of the above questions is yes, staff would next gather information on liabilities and other obligations of the Department of Veterans Affairs (VA). See Appendix 4 for current display and disclosure for VA. Staff would then prepare a recommendation paper similar to that for OASDI that is part of the Social Insurance Liability Project currently underway. Any criteria developed would be based on related groupings of federal programs and then tested for applicability to the individual programs under review.

Appendix 1 – Long-Term Commitments Project Plan, April 13, 2004

I. Primary Objective

The purpose of this project is to reconsider the recognition, measurement and display of liability and expense, potential new elements/statements,[13] and all related disclosures for commitments[14] of the federal government that could potentially result in a net outflow of resources. Some such commitments may not currently be recognized as liabilities on the balance sheet while others may be recognized based on "due and payable" concepts.

The first FASAB Objective for Operating Performance states that Federal financial reporting should provide information that helps the reader to determine the costs of providing specific programs and activities and the composition of, and changes in, these costs.[15] The second and third FASAB Objectives for Stewardship state that federal financial reporting should provide information that helps the reader to determine whether the government's financial position improved or deteriorated over the period and whether future budgetary resources will likely be sufficient to sustain public services and to meet obligations as they come due.[16]

However, current FASAB standards do not present recognition, measurement, display, and/or disclosure guidance for activities of the government that do not specifically meet the criteria for liabilities recognized or disclosed under SFFAS No. 5, *Accounting for Liabilities of the Federal Government*; SFFAS No. 12, *Recognition of Contingent Liabilities from Litigation*; or SFFAS No. 17, *Accounting for Social Insurance.* This project would address additional disclosures that may be needed in Federal financial reporting to meet the FASAB *Objectives of Federal Financial Reporting*. This project would draw on the work completed by the elements phase of the Conceptual Framework and the Social Insurance[17] projects already underway by FASAB staff, as appropriate.

II. Background

Long-Term Government Commitments

The issue of the size and nature of long-term government commitments has become a hot topic of discussion throughout government. Remarks of various federal leaders over the course of the last year are presented here to provide the Board with an overview of the issue of long-term government commitments from various perspectives.

On March 10, 2003, Peter R. Fisher, former Department of Treasury Under Secretary for Domestic Finance, remarked "There is only one path to fiscal discipline: to focus on total liabilities – to count them properly and to constrain their growth. In Washington budget jargon, we need a 'total liability pay-go' much more than we need a 'budget pay-go.' Once we have the government's total financial position in mind, and only then, can we start real discussion about closing the gap between future revenues and outlays."[18]

[13]The scope of this project suggests that we should not preclude the development of new elements or statements if needed to adequately meet reporting objectives. However, staff does not suggest that this option be explored until existing (but evolving) element definitions and statements have been thoroughly considered.
[14] The term "commitments" is used in its everyday or generic sense (an agreement or pledge to do something in the future), not as it is used in federal budgetary accounting.
[15] FASAB SFFAC No. 1, *Objectives of Federal Financial Reporting*, par. 14
[16] FASAB SFFAC No. 1, *Objectives of Federal Financial Reporting*, pars. 136 and 139
[17] The Social Insurance project addresses recognition and measurement and display of liability and expense for Old-Age, Survivors and Disability Insurance; Medicare Hospital Insurance; Medicare Supplementary Medical Insurance; Railroad Retirement Benefits; Black Lung Benefits; and Unemployment Insurance.
[18] Remarks to RBS Greenwich Capital Economic Lecture Seminar at the University of Connecticut, March 10, 2003

On May 9, 2003, Mr. Fisher stated, "It is not enough for us to imagine a better way of accounting for the federal government's liabilities. Accrual accounting, net-present value analysis, and generational accounting are powerful concepts and we must continue to refine them and make more people aware of them. But we now need to find practical ways to inject these concepts into the political, legislative, and administrative process, to re-shape the day-to-day incentives for policymakers - to help us 'all do better.'"[19]

On July 24, 2003, Douglas Holtz-Eakin, Director of the Congressional Budget Office, testified, "It will not be news to Members of this Committee that the United States faces severe fiscal demands in the decades ahead. CBO projects that, on the basis of current rules for benefits, federal spending, excluding interest payments, will rise as a share of national income from the level of roughly 18 percent in 2002 to about 28 percent by 2075. Little disagreement exists about the cause of that situation. It stems primarily from federal policies aimed at improving the well-being of retirees, the disabled, and the chronically ill. Other commitments, such as defense spending, may also claim a substantial share of society's resources. Additional potential demands include the war on terrorism, homeland security, environmental cleanup (including that resulting from defense activities), and settlements of asbestos claims. In short, the federal budget faces known, growing demands that will absorb an increasing share of the U.S. economy."[20]

On February 25, 2004, Alan Greenspan, Chairman of the Federal Reserve Board, testified that, in his opinion, "In view of this upward ratchet in government programs and the enormous uncertainty about the upper bounds of future demands for medical care, I believe that a thorough review of our spending commitments--and at least some adjustment in those commitments--is necessary for prudent policy. I also believe that we have an obligation to those in and near retirement to honor what has been promised to them. If changes need to be made, they should be made soon enough so that future retirees have time to adjust their plans for retirement spending and to make sure that their personal resources, along with what they expect to receive from the government, will be sufficient to meet their retirement needs."[21]

On March 11, 2004, Joshua Bolten, Director of the Office of Management and Budget, testified, "As discussed in the President's Budget, the real fiscal danger confronting our Nation is posed by the long-term unfunded obligations of Social Security, Medicare, and other entitlement programs. Spending decisions on entitlements often have ramifications on the budget outlook far beyond the 10-year congressional budget window used to score changes in policy. Enforcement mechanisms are needed to address the long-term impact of entitlement spending expansions."[22]

In recent months, David Walker, Comptroller General of the United States, has widely publicized his view on the long-term fiscal exposures (risk) of the federal government.[23] On March 23, 2004, Mr. Walker explained that "the federal government undertakes a wide range of responsibilities, programs, and activities that may either obligate the government to future

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[19] Remarks to the Stanford Institute for Economic Policy Research's Conference on U.S. Budget Policy and Practice, May 9, 2003

[20] Testimony on "The Economic Costs of Long-Term Obligations" before the Committee on the Budget, U.S. House of Representatives, on July 24, 2003

[21] Testimony before the Committee on the Budget, U.S. House of Representatives, on the "Economic outlook and current fiscal issues," February 25, 2004

[22] Testimony on the Budget Process before the Subcommittee on Legislative and Budget Process, Committee on Rules, U.S. House of Representatives, March 11, 2004

[23] Inspectors General 2004 Retreat, Annapolis, MD – March 24, 2004; Testimony Before the Subcommittee on Legislative and Budget Process, Committee on Rules, House of Representatives – March 23, 2004; The 33rd Annual Conference of the JFMIP, Washington, DC – March 9, 2004; Institute of Internal Auditors – March 3, 2004; *New York Times* op-ed – February 4, 2004; National Press Club, Washington, DC – September 17, 2003

spending or create an expectation for such spending. Specific fiscal exposures vary widely as to source, likelihood of occurrence, magnitude, and strength of the government's legal obligations. They may be explicit or implicit; they may currently exist or be contingent on future events. Their ultimate costs may or may not be reasonably measurable. Given this breadth, it is useful to think of fiscal exposures as a spectrum extending from explicit liabilities to the implicit promises embedded in current policy and/or public expectations."

The GAO figure below shows some selected fiscal exposures as defined by Mr. Walker. This figure is being presented here as one illustration of the types of commitments that the government is responsible for under current legislation and not as a framework for future work to be undertaken by staff. The direction of the staff is discussed in subsequent pages under the scope and approach sections.

Selected Fiscal Exposures (End of FY 2003)

Type	Example (dollars in billions)
Explicit liabilities	Publicly held debt ($3,913) Military and civilian pension and post-retirement health ($2,857) Veterans benefits payable ($955) Environmental and disposal liabilities ($250) Loan guarantees ($35)
Explicit financial commitments	Undelivered orders ($596) Long-term leases ($47)
Explicit financial contingencies	Unadjudicated claims ($9) Pension Benefit Guarantee Corporation ($86) Other national insurance programs ($7) Government corporations e.g., Ginnie Mae
Implicit Exposures Implied by Current policies or the public's Expectations about the role of government	Debt held by government accounts ($2,859)[a] Future Social Security benefit payments ($3,550)[b] Future Medicare Part A benefit payments ($5,931)[b] Future Medicare Part B benefit payments ($9,619)[b] Life cycle cost including deferred and future maintenance and operating costs (amount unknown) Government Sponsored Enterprises e.g., Fannie Mae and Freddie Mac

Source: GAO Analysis

Note: Updated February 27, 2004.

[a] This amount includes $774 billion in securities held by military and civilian pension funds that would offset the explicit liabilities reported by those funds.

[b] Figures for Social Security and Medicare are as of January 1, 2003, and are estimated over a 75-year period. These amounts represent net present value and are net of debt held by the trust funds ($1,378 billion for Social Security, $235 billion for Medicare Part A, and $34 billion for Medicare Part B). The estimate for Social Security over an infinite horizon would be $10.5 trillion according to the Social Security Trustees' 2003 annual report. There is no infinite horizon estimate for Medicare included in the Medicare Trustees' 2003 annual report. Medicare Part D was enacted after the end of FY 2003.

Current FASAB Work In Progress

The Board is keenly aware of the issues regarding these "fiscal exposures" as evidenced by the evolving work undertaken by the Board on Social Insurance throughout the last several years.[24] This project would extend the analysis of recognition, measurement, display, and disclosure of liability and expense beyond Social Insurance, to other commitments of the federal government.

The current working FASAB liability definition, under revision as part of the staff project on elements, recommends that the following be considered characteristics of a liability:

4. Probable future outflow or other sacrifice of resources (or other economic benefit);
5. Present obligations; and,
6. Past transactions or events.

This working definition differs slightly from SFFAS 5, *Accounting for Liabilities in the Federal Government*, which requires "a probable future outflow or other sacrifice of resources as a result of past transactions or events," but does not include the "present obligation" characteristic.

Since the liability definition does not explicitly address the appropriate accounting treatment for all significant commitments of the federal government, additional research is required. This research would help ensure that the Board's ultimate objectives for federal financial reporting are achieved.

The current preliminary list of criteria for expense and liability recognition proposed by staff on the Social Insurance project contains the following additional characteristics:

1. <u>Through an established pattern</u> of past practices, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities;
2. As a result, the entity has created <u>a valid expectation</u> on the part of those other parties that it will discharge those responsibilities;
3. The other parties have <u>relied on</u> the expectation over a period of time; and
4. There is <u>no realistic alternative</u> but to settle the obligation in the future.

Ultimately, the FASAB definition of a liability may be revised as a result of the elements phase of the Conceptual Framework project or the Social Insurance project.

III. Project Scope

This project would address all significant commitments of the federal government that could potentially result in a net outflow of resources other than those commitments already being addressed by staff for the Social Insurance project. Because SFFAS 5 explicitly addresses insurance, employee benefits, federal debt, contingencies, and capital leases, these are excluded from consideration in this project. The project would focus on (1) commitments arising from transactions between individuals and the government and (2) assumption of risk through unique federal activities such as treaties or government sponsored enterprises. Significant

[24] SFFAS No. 17, *Accounting for Social Insurance*, August 1999; SFFAS No. 25, *Reclassification of Stewardship Responsibilities and Eliminating the Current Services Assessment*, July 2003; Exposure Draft: "Presentation of Significant Assumptions for the Statement of Social Insurance: Amending SFFAS 25", March 2004; and current staff work on the recognition and measurement of social insurance.

government commitments include, but are not limited to, Medicaid, Food Stamps, Supplemental Security Insurance, Temporary Assistance for Needy Families (TANF), Veterans benefits[25], treaties, contractual agreements, and Government Sponsored Enterprises.

It is important to note the distinction between those commitments that are merely expected versus those that might fall within the limits of accounting recognition and disclosure concepts. For example, a citizen's expectation that the U.S. Government will continue to defend the nation would not meet the scope of this project, while the U.S. government's intention to support Iraq for a certain number of years at a certain cost per year might.

IV. Project Approach

This project covers a broad range of activities. Staff proposes that the first step in the project should be to gather additional information on the various programs of the government that result in significant commitments of some type. Staff would compile fact sheets on the various programs, develop a set of characteristics to be reviewed, and assign each program a broad category based on like characteristics. This additional information would give staff a clearer picture of the universe of significant government commitments that could potentially result in a net outflow of resources as well as the scope of this project.

Following the information gathering stage, it is the current view of staff that a phased approach should be implemented to address each general category of commitments assigned during the information gathering stage. All analysis in this project would include consideration of the most recent element definitions and Social Insurance developments to ensure consistent application of principles.

To provide a general direction for this project, staff proposes that the following phases be considered:[26]

<u>Phase One – Benefits Provided to Individuals</u>
This phase would address entitlement programs other than SI (Category I). Examples include veterans' benefits, Medicaid, TANF, and other means tested programs.

<u>Phase Two – Agreements that include broad assumption of risk</u>
This phase would address transactions such as treaties, contracts, and grants (Category II) that often include broad assumption of risk by the federal government.

<u>Phase Three – Government Sponsored Enterprises</u>
This phase would explore the implied assumption of risk associated with Government Sponsored Enterprises, e.g., Fannie Mae and Freddie Mac (Category III) and any recognition or disclosure warranted for these activities.

<u>Phase Four – Other</u>
This phase would cover all significant commitments, if any, that do not fit into any of the above categories I through III (Category IV).

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[25] Veterans' benefits arise from exchange transactions. However, SFFAS No. 5 provides an exception to full accrual accounting for health care benefits. This is a controversial exception in light of legislation intended to enhance veterans' access to health care. The Board agreed to take up this issue in connection with this broad project on commitments.

[26] This is a draft proposal of phases based on information gathered during the Social Insurance and liabilities projects and may be revised as a result of research completed during the information gathering stage of this project. Staff would present the Board with the results of the information gathering stage and proposed categories before proceeding with additional phases.

Appendix 1 – Long-Term Commitments Project Plan, April 13, 2004

Staff listed these phases in a logical sequence based on prior work of the Board and work currently underway on Social Insurance. However, staff recognizes that this is not the only possible approach and would reorder these phases as the Board deems necessary.

For each of the above four phases, this project would present for the Board's review:

(1) The current FASAB liability definition and its application to the category under review;
(2) Relevant applications of definitions established by other standard-setters;[27]
(3) Alternative obligating events (e.g., past events which create present obligations);
(4) Alternative measures for each major category of commitments;
(5) Alternative displays for the balance sheet, statement of net cost, and/or other statements;
(6) Alternative disclosures; and
(7) Associated issues.

[27] For example, the International Federation of Accountants, Public Sector Committee, Invitation to Comment, "Accounting for Social Policies of Governments," January 2004 proposes three options for different recognition points as related to social obligations. This methodology would be reviewed as part of staff work on this project.

Appendix 2 – Staff Notes on Project Plan Discussion at April 29th Board Meeting

- **Long-term Commitments**

Ms. Ranagan presented a preliminary plan for the proposed project on long-term government commitments. Ms. Ranagan provided an overview of the plan and explained that the purpose of the project is to reconsider the recognition, measurement and display of liability and expense, potential new elements or statements, and all related disclosures for commitments of the federal government that could potentially result in a net outflow of resources. Ms. Ranagan further explained that this project is a companion project to the liability elements and social insurance projects.

Ms. Ranagan indicated that her objectives for the meeting were to present the draft project plan, review the intention of the project, obtain agreement from the Board that this is a good project to pursue, and determine whether the Board believes the project approach appears reasonable.

Ms. Ranagan listed several examples of the types of programs that would be reviewed as part of this project if approved by the Board, including Medicaid, Food Stamps, Supplemental Security Insurance, Temporary Assistance for Needy Families, Veterans Benefits, treaties, contractual agreements, and Government Sponsored Enterprises (GSE).

Ms. Ranagan indicated that the first stage of the project would be to research and gather relevant information on significant commitments of the federal government. From there, staff would group the commitments into like categories and address each of the categories in phases.

Several members expressed concern over whether the programs would be reviewed individually or as groupings. Mr. Schumacher initiated the discussion by asking if the programs would be reviewed one by one within each of the phases. Mr. Farrell cautioned that looking at individual programs may not be the way to go as there could be hundreds and hundreds of them; he recommended looking at groupings of programs. Mr. Reid stated that he is concerned about having a laundry list of programs with their own individual set of criteria and then having a program come along that was not considered and may not fit. Ms. Comes indicated that her thinking was that a common set of criteria would be developed for programs with common characteristics and these criteria would be tested individually on each of the major programs within that grouping. Ms. Ranagan agreed and noted that this approach will help to ensure that criteria could later be applied to related programs that fit the category but do not meet the scale of our review.

Mr. Patton asked what we consider commitments to be. Ms. Ranagan referred to the footnote 3 definition on page 1 of the project plan where a commitment is defined as “an agreement or pledge to do something in the future.” This general terminology is used so as not to exclude certain items from consideration or presuppose that the recognition of a liability will be the outcome. Mr. Patton inquired if there would be a law supporting each of these commitments. Ms. Ranagan responded that she believed the commitments to be reviewed would have a law or treaty or some other formal document that could be used to define the boundaries of the commitment.

Ms. Robinson indicated that she has different feelings about each of the groupings and whether they are addressed in budgetary or financial reporting. She feels that GSEs (to which she would add IMF and other similar groups) are much more important and would be considered phase one rather than phase three. Ms. Ranagan indicated that the Board could determine the priority of the groupings to be reviewed.

Mr. Anania feels that the word "commitments" is too broad and would like to see it narrowed. In addition, he indicated that it is too early to commit to the phases in the paper and would like to examine them more completely. He referenced the designations of type made by GAO in the chart of "Selected Fiscal Exposures" and stated that they may be useful to the Board in narrowing the general concept of commitments. He asked for the Board's feelings on the categorizations in the GAO chart.

Mr. Calder said he does not believe the Board would benefit from exhaustive research into what the categorizations should be. He said he believed there was a pretty good list in the CFR MD&A.

Mr. Patton stated that he thinks the phases could be grouped according to whether the commitments are explicit or implicit; monetary or non-monetary; and whether the commitments are made to individuals or are collective goods type of commitments. He felt that the way the phases are structured would affect the outcome.

It was tentatively decided that the Board would hold off on developing phases until a preliminary survey of the programs to be reviewed was performed. Mr. Patton cautioned that the net should be cast broad enough to capture anything that looks like a commitment. Ms. Ranagan stated that she would obtain additional information on the types of commitments to be reviewed and then recast the project plan for the Board's review using the terminology suggested by Mr. Patton before going further into the recognition and measurement stage of the project.

Mr. Patton questioned whether commitments are less than liabilities. Ms. Ranagan stated that the word commitments include liabilities but would also include something that does not meet the recognition criteria but might need to be disclosed.

Mr. Anania pointed to the fourth type on the GAO chart – "Implicit Exposures Implied by current policies or the public's expectations about the role of government" – as having some of the same notions as constructive obligations. He said he sees where this project will cross over into the social insurance project.

Mr. Schumacher asked what staff sees as the end result of this project (a standard on long-term commitments, a series of standards, etc). Ms. Ranagan responded that it would depend on the result of research and how closely the programs fall out as to whether it would be one standard or multiple standards. She reiterated that this will be a long-term project.

Mr. Patton indicated that he felt the project was worthy but questioned the opportunity cost of what else staff could be working on. Ms. Comes responded that she sees this project as facilitating progress on the concepts and social insurance projects. She does not believe the Board can make reasonable progress on those projects unless they are also concurrently looking at other programs of the Federal government. She would see the opportunity cost of not addressing this project as slowing progress on the concepts and social insurance projects.

Mr. Anania asked if there was a benefit to looking at this as primarily a research project as opposed to a plan that will end up with one or more standards. He inquired as to what the deliverable will be. Ms. Comes agrees that she views this as research; she sees it as the application of evolving concepts. Mr. Reid agrees that it would be good to know what the impact of the liability definition project would be before crashing ahead.

Mr. Farrell said he thinks there is a disconnect between the background information provided and the project plan. He said he does not think putting the commitments in the financial statements is going to have an impact on whether the behavior of government is going to change. He does not know if the Board should undertake a lot of work in this area if the Board will not have an impact on changing the behavior of government. Mr. Mosso said staff could obtain a list of significant commitments from each of the individuals quoted in the project plan to get a first cut as to what the overall list should be.

Mr. Anania asked for clarification on the title, asking if we were trying to get at other possible liabilities and other possible disclosures. Ms. Comes explained that we originally had an “other liabilities and commitments” title to the project, but having the term liability in the title seemed to presuppose the outcome of the project.

Mr. Mosso summarized three basic outcomes for each of the commitments to be reviewed under the project: (1) recognize on the balance sheet; (2) disclose in some way; or (3) ignore. Ms. Comes stated that we could title the project “Research into the application of the liability definition.” A broad title such as that would suggest that we are in the initial phases of research and not moving towards issuing an exposure draft of standards. A broad title would help distinguish the project from one that is further down the development path.

Mr. Zavada stated that he feels as long as the social insurance project is on the agenda, a project such as this would need to be on the agenda as well, either as part of the social insurance project or as companion research.

Mr. Mosso summarized that everyone agrees that the first stage is research so the terminology characterizing the project need not be finalized at this point. Mr. Mosso directed staff to do some preliminary research and come back with a firmer project plan after performing an initial survey.

Mr. Calder reiterated that he does not feel that research needs to be exhaustive. He recommended that research be limited. Ms. Ranagan indicated her intention to solicit a list of significant commitments from each of the individuals quoted in the project plan to get a first cut as to what the overall population should be.

Ms. Ranagan requested and received positive confirmation from the Board that the agreement for staff to do more research on the project was present.

> CONCLUSION: Staff will rename the project “Research into the Application of the Liability Definition.” Staff will solicit input from selected parties regarding the major commitments of the federal government, target the specific programs to be researched, and begin preparing fact sheets as to the specific characteristics of each program. Staff will update the project plan phases to incorporate the suggestions made by the Board, including the use of the terms implicit, explicit, monetary, and nonmonetary as distinguishing characteristics.

Appendix 3 – Facts Sheets on Select Government Programs

Medicaid/SCHIP Fact Sheet

Medicaid is health insurance that helps many people who cannot afford medical care pay for some or all of their medical bills. The State Children's Health Insurance Program was established in 1997 to make health care coverage available to even more children.

Summary

Medicaid. Close to 42 million individuals were enrolled in Medicaid in 2003. Medicaid covers approximately one-fourth of the Nation's children and is the largest single purchaser of maternity care and nursing home/long-term care services in the United States. In 2003, the elderly and those with disabilities represented approximately 30 percent of Medicaid beneficiaries but accounted for two-thirds of its spending. Total Medicaid spending for 2005 is estimated to be around $322 billion ($182 billion Federal share).[28]

Title XIX of the Social Security Act is a program that provides medical assistance for certain individuals and families with low incomes and resources. The program, known as Medicaid, became law in 1965 as a jointly funded cooperative venture between the Federal and State governments (including the District of Columbia and U.S. Territories) to assist States in the provision of adequate medical care to eligible needy persons. Medicaid is the largest program providing medical and health-related services to America's poorest people. Within broad national guidelines provided by the Federal government, each of the States:

1. Establishes its own eligibility standards;
2. Determines the type, amount, duration, and scope of services;
3. Sets the rate of payment for services; and
4. Administers its own program.

Thus, the Medicaid program varies considerably from State to State, as well as within each State over time. State legislatures may change Medicaid eligibility, services, and/or reimbursement during the year.[29] Medicaid does not pay money directly to the participants; instead, it sends payments directly to participating health care providers. Depending on each state's rules, the participant may also be asked to pay a small part of the cost (co-payment) for some medical services.

State Children's Health Insurance Program (SCHIP). SCHIP was established in 1997 to make available approximately $40 billion over 10 years for States to provide health care coverage to low-income, uninsured children. SCHIP gives States broad flexibility in program design while protecting beneficiaries through Federal standards. Since the beginning of the Administration, enrollment in SCHIP has grown by over 1 million children, to approximately 5.3 million in 2002.[30]

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28 Budget of the United States Government, Fiscal Year 2005 – Health and Human Services (HHS) at http://www.whitehouse.gov/omb/budget/fy2005/.

29 Facts obtained from the HHS Centers for Medicare and Medicaid Services (CMS) website at www.cms.hhs.gov/medicaid.

30 Budget of the United States Government, Fiscal Year 2005 – HHS at http://www.whitehouse.gov/omb/budget/fy2005/.

Title XXI of the Social Security Act established SCHIP. Some of the states administer SCHIP in combination with Medicaid while other states maintain two separate programs. Due to their similarity, they will both be addressed in this paper.

Eligibility[31]

Individuals DO NOT need to be on welfare to receive Medicaid. The 1996 Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA) severed the automatic link between eligibility for cash assistance for families and children and Medicaid.

Medicaid

Categorically Needy

Medicaid does not provide medical assistance for all poor persons. Medicaid eligibility is limited to individuals who fall into specified categories. The federal statute identifies over 25 different eligibility categories for which federal funds are available. These categories can be classified in to one of the following broad coverage groups:

- Pregnant Women;
- Children and Teenagers; and,
- Persons who are Aged, Blind, or Disabled.

In general, citizens are encouraged to apply for Medicaid if their income is low; they have few resources; and they are either pregnant, under 18 or over 65, blind, or disabled. Medicaid coverage generally stops at the end of the month in which a person no longer meets the criteria of any Medicaid eligibility group.

Medically Needy

Thirty-seven states also have optional "medically needy" programs. Individuals that are classified as medically needy have too much money or resources to be eligible as "categorically needy."

Special Groups

In addition, there are several special groups that states can fund through the Medicaid program:

- Medicare Beneficiaries – Medicaid pays Medicare premiums, deductibles, and coinsurance for Qualified Medicare Beneficiaries (QMB) – individuals whose income is at or below 100 percent of the Federal poverty level and whose resources are at or below the standard allowed under SSI; individuals whose income is greater than 100 percent but less than 120 percent of the Federal poverty level; and individuals whose income is at least 120 percent but less than 135 percent of the Federal poverty level.

[31] Medicaid at a Glance 2003 at http://www.cms.hhs.gov/states/maaghm.asp.

- Qualified Working Disabled Individuals - Medicaid can pay Medicare Part A premiums for certain disabled individuals who lose Medicare coverage because of work. These individuals have income below 200% of the Federal poverty level and resources that are no more than twice the standard allowed under SSI.
- States may also improve access to employment, training and placement of people with disabilities who want to work through expanded Medicaid eligibility. Eligibility can be extended to working disabled people between ages 16 and 65 who have income and resources greater than that allowed under the SSI program. States can extend eligibility even more to include working individuals who become ineligible for the group described above because their medical conditions improve. States may require such individuals to share in the cost of their medical care.
- There are two eligibility groups that states may include under their Medicaid plans. One is a time-limited eligibility group for women who have breast or cervical cancer; the other is for people with tuberculosis (TB) who are uninsured. Women with breast or cervical cancer receive all plan services; TB patients receive only services related to the treatment of TB. The charts below identify the states that include these groups under their Medicaid plans.
- 1115 MEDICAID WAIVERS - Some states have also expanded eligibility under Medicaid waivers. These waivers relate to Section 1115 of the Social Security Act, which provides the Secretary of Health and Human Services with broad authority to authorize experimental, pilot, or demonstration project(s) that, in the judgment of the Secretary, are likely to assist in promoting the general objectives of Medicaid.
- Long Term Care - All states provide community Long Term Care services for individuals who are Medicaid eligible and qualify for institutional care. Most states use eligibility requirements for such individuals that are more liberal than those normally used in the community.
- Transitional Medical Assistance (TMA) – Medicaid coverage generally stops at the end of the month in which a person no longer meets the criteria of any Medicaid eligibility group.[32] However, when a family that has received Medicaid for at least three of the preceding six months loses eligibility for Medicaid because of an increase in earned income, the family is entitled to transitional medical assistance, which also is known as extended Medicaid benefits or transitional benefits, for 12 months (to be eligible for the full 12 months of assistance, the family must include a dependent child and the family's earned income minus the cost of child care must not exceed 185 percent of the federal poverty level (42USC1396r-6)).

In addition, under Section 1931 of the Social Security Act, States have numerous options that allow them to cover additional families and/or simplify eligibility requirements and administration. Under section 1931, States have varying flexibility with regards to countable resources, earned income limits, and time limits, among other things.

State Children's Health Insurance Programs (SCHIP)

In addition to the Medicaid program, states administer the State Children's Health Insurance Program (SCHIP) for children up to age 19. In some states the SCHIP is part of the state's Medicaid program, in some states it is separate, and in some states it is a combination of both types of programs. These programs are for children whose parents have too much money to be

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[32] Medicaid: A Brief Summary at http://www.cms.hhs.gov/publications/overview-medicare-medicaid/default4.asp

eligible for Medicaid, but not enough to buy private insurance. Most states offer this insurance coverage to children in families whose income is at or below 200% of the Federal poverty level. Not all the insurance programs provide the same benefits, but they all include shots (immunizations) and care for healthy babies and children at no cost. Families may have to pay a premium or a small amount (co-payment) for other services depending on their income.

Benefits[33]

Title XIX of the Social Security Act allows considerable flexibility within the States' Medicaid plans. However, some Federal requirements are mandatory if Federal matching funds are to be received. A State's Medicaid program *must* offer medical assistance for certain *basic* services to most categorically needy populations. These services generally include the following:

- Inpatient hospital services.
- Outpatient hospital services.
- Prenatal care.
- Vaccines for children.
- Physician services.
- Nursing facility services for persons aged 21 or older.
- Family planning services and supplies.
- Rural health clinic services.
- Home health care for persons eligible for skilled-nursing services.
- Laboratory and x-ray services.
- Pediatric and family nurse practitioner services.
- Nurse-midwife services.
- Federally qualified health-center (FQHC) services, and ambulatory services of an FQHC that would be available in other settings.
- Early and periodic screening, diagnostic, and treatment (EPSDT) services for children under age 21.

States must provide at least the following services when the medically needy are included under the Medicaid plans:

- Prenatal and delivery services.
- Post partum pregnancy related services for beneficiaries under age 18 and who are entitled to institutional and ambulatory services defined in a state's plan.
- Home health services to beneficiaries who are entitled to receive nursing facility services under the state's Medicaid plan.

States may also receive matching Federal funds to provide certain *optional* services. Following are the most common of the thirty-four currently approved optional Medicaid services:

- Diagnostic services.
- Clinic services.
- Intermediate care facilities for the mentally retarded (ICFs/MR).
- Prescribed drugs and prosthetic devices.

[33] Medicaid Services at http://www.cms.hhs.gov/medicaid/mservice.asp.

- Optometrist services and eyeglasses.
- Nursing facility services for children under age 21.
- Transportation services.
- Rehabilitation and physical therapy services.
- Home and community-based care to certain persons with chronic impairments.

Section 1932(b)(2)(A)(i) of the Social Security Act (42 U.S.C. 1396u-2) prohibits prior authorization for coverage of emergency services. This means that services that meet the definition of emergency services must be covered, and beneficiaries must not be charged for these services, except for any permissible nominal cost-sharing amounts. In addition, section 1011 of the Medicare Prescription Drug, Improvement and Modernization Act of 2003, Public Law 108-173, authorized federal reimbursement of emergency health services furnished to undocumented aliens, $250 million for each of fiscal years 2005 through 2008.

Funding[34]

Medicaid operates as a vendor payment program. States may pay health care providers directly on a fee-for-service basis, or States may pay for Medicaid services through various prepayment arrangements, such as health maintenance organizations (HMOs). Within Federally imposed upper limits and specific restrictions, each State for the most part has broad discretion in determining the payment methodology and payment rate for services. Generally, payment rates must be sufficient to enlist enough providers so that covered services are available at least to the extent that comparable care and services are available to the general population within that geographic area. Providers participating in Medicaid must accept Medicaid payment rates as payment in full. States must make additional payments to qualified hospitals that provide inpatient services to a disproportionate number of Medicaid beneficiaries and/or to other low-income or uninsured persons under what is known as the "disproportionate share hospital" (DSH) adjustment.

States may impose nominal deductibles, coinsurance, or copayments on some Medicaid beneficiaries for certain services. The following Medicaid beneficiaries, however, must be excluded from cost sharing: pregnant women, children under age 18, and hospital or nursing home patients who are expected to contribute most of their income to institutional care. In addition, all Medicaid beneficiaries must be exempt from copayments for emergency services and family planning services.

The Federal Government pays a share of the medical assistance expenditures under each State's Medicaid program. That share, known as the Federal Medical Assistance Percentage (FMAP), is determined annually by a formula that compares the State's average per capita income level with the national income average. States with a higher per capita income level are reimbursed a smaller share of their costs. By law, the FMAP cannot be lower than 50 percent or higher than 83 percent. In fiscal year (FY) 2003, the FMAPs varied from 50 percent in twelve States to 76.62 percent in Mississippi, and averaged 56.6 percent overall. The Federal Government pays States a higher share for children covered through the SCHIP program. This "enhanced" FMAP averages about 70 percent for all States, compared to the general Medicaid average of 56.6 percent.

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[34] Medicaid: A Brief Summary at http://www.cms.hhs.gov/publications/overview-medicare-medicaid/default4.asp.

The Federal Government also reimburses States for 100 percent of the cost of services provided through facilities of the Indian Health Service, provides financial help to the twelve States that furnish the highest number of emergency services to undocumented aliens, and shares in each State's expenditures for the administration of the Medicaid program. Most administrative costs are matched at 50 percent, although higher percentages are paid for certain activities and functions, such as development of mechanized claims processing systems.

Except for the SCHIP program, the Qualifying Individuals (QI) program (described later), and DSH payments, Federal payments to States for medical assistance have no set limit (cap). Rather, the Federal Government matches (at FMAP rates) State expenditures for the mandatory services, as well as for the optional services that the individual State decides to cover for eligible beneficiaries, and matches (at the appropriate administrative rate) all necessary and proper administrative costs.

Appendix 3 – Facts Sheets on Select Government Programs

Food Stamp Program (FSP) Fact Sheet

The Food Stamp Program serves as the first line of defense against hunger. It enables low-income families to buy nutritious food with Electronic Benefits Transfer (EBT) cards.[35] Food stamp benefit recipients can purchase eligible food, seeds, and/or plants in authorized retail stores.

Summary[36]

The purpose of the Food Stamp Program is to end hunger and improve nutrition and health. The program helps low-income households buy the food they need for a nutritionally adequate diet. The program is operated by State and local welfare offices, and the U.S. Department of Agriculture administers the Food Stamp Program at the Federal level through its Food and Nutrition Service (FNS).[37] State agencies administer the program at State and local levels, including determination of eligibility and allotments, and distribution of benefits. The program is in operation in the 50 States, the District of Columbia, Guam and the U.S. Virgin Islands.

The Food Stamp Program helped put food on the table for some 8.2 million households and 19.1 million individuals each day in fiscal year 2002 and cost $20.7 billion. It provides low-income households with electronic benefits they can use like cash at most grocery stores to ensure that they have access to a healthy diet. The Food Stamp Program is the cornerstone of the Federal food assistance programs, and provides crucial support to needy households and to those making the transition from welfare to work. It provided an average of $1.52 billion a month in benefits in fiscal year 2002.

Households must meet eligibility requirements and provide information – and verification -- about their household circumstances. U.S. citizens and some aliens who are admitted for permanent residency may qualify. The welfare reform act of 1996 ended eligibility for many legal immigrants, though Congress later restored benefits to many children and elderly immigrants, as well as some specific groups. The welfare reform act also placed time limits on benefits for unemployed, able-bodied, childless adults (in general, the limit for assistance is 60 months, whether or not consecutive. Able–bodied adults without dependents who are not meeting the work requirements are further limited to any 3 months in a 36–month period).[38]

One note of interest is that in 2001, only an estimated 52 percent of eligible individuals in working families and 70 percent of eligible members of nonworking families participated in the

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[35] USDA has completely discontinued use of the paper food stamps. The distribution of benefits is now accomplished completely via electronic benefits cards; California was the last state to move to electronic benefits in June 2004. The program will eventually be given a more relevant name.
[36] Food Stamp Program Frequently Asked Questions at http://www.fns.usda.gov/fsp/faqs.htm
[37] In addition to the Food Stamp Program, FNS also oversees the assistance program for Women, Infants, and Children; the School Meals program; the Summer Food Service Program; the Child and Adult Care Food Program; and the Food Assistance for Disaster Relief and Food Distribution programs.
[38] Public Law 104-193 Sec. 408(a)(7)(A) and Sec. 824(a), August 22, 1996

Food Stamp Program.[39] Thus, if future USDA attempts to encourage eligible families to apply for food stamp benefits is successful, the annual expenditures for the Food Stamp Program could increase dramatically.

Eligibility[40]

To participate in the Food Stamp Program:

- Households may have no more than $2,000 in countable resources, such as a bank account ($3,000 if at least one person in the household is age 60 or older, or is disabled).[41]
- The gross monthly income of most households must be 130 percent or less of the Federal poverty guidelines ($1,654 per month for a family of three in most places, effective Oct. 1, 2003 through Sept. 30, 2004).
- Net monthly income must be 100 percent or less of Federal poverty guidelines ($1,272 per month for a household of three in most places, effective Oct. 1, 2003 through Sept. 30, 2004).
- Most able-bodied adult applicants must meet certain work requirements.
- All household members must provide a Social Security number or apply for one.

The Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA) limits the receipt of food stamps to 3 months in a 3-year period for able-bodied adults without dependents (ABAWDs) who are not working, participating in, and complying with the requirements of a work program for 20 hours or more each week, or a workfare program. Individuals are exempt from this provision if they are:

- under 18 or over 50 years of age;
- responsible for the care of a child or incapacitated household member;
- medically certified as physically or mentally unfit for employment, pregnant; or,
- already exempt from the work requirements of the Food Stamp Act.

States may request a waiver of this provision for people in areas with an unemployment rate above 10 percent or for those in an area with insufficient jobs. States also have authority to exempt individuals using the 15% exemption authorized by the Balanced Budget Act.[42]

The following chart lists the current gross and net income eligibility standards for the continental United States, Guam and the Virgin Islands, effective Oct. 1, 2003 to Sept. 30, 2004. Eligibility levels are slightly higher for Alaska and Hawaii. Households must meet income tests UNLESS all members are receiving Title IV (TANF), SSI, or in some places general assistance.

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[39] Food Stamp Program: Steps Have Been Taken to Increase Participation of Working Families, but Better Tracking of Efforts Is Needed (GAO-04-346, March 5, 2004)

[40] Food Stamp Program Frequently Asked Questions at http://www.fns.usda.gov/fsp/faqs.htm

[41] There are certain resources that are NOT counted, such as a home and lot, the resources of people who receive Supplemental Security Income (SSI), the resources of people who receive Temporary Assistance to Needy Families (TANF) (formerly AFDC), most retirement (pension) plans, and some vehicles as noted at http://www.fns.usda.gov/fsp/applicant_recipients/resources.htm.

[42] Food Stamp Program ABAWDS at http://www.fns.usda.gov/fsp/rules/Memo/PRWORA/abawds/ABAWDsPage.htm.

Household size	Gross Monthly Income (130 percent of poverty)	Net Monthly Income (100 percent of poverty)
1	973	749
2	1,313	1,010
3	1,654	1,272
4	1,994	1,534
5	2,334	1,795
6	2,674	2,057
7	3,014	2,319
8	3,354	2,580
Each Additional Member	+341	+262

A new pre-screening tool can help individuals determine whether they might be eligible for food stamp benefits, and how much they might be eligible to receive, so they can see whether it would be worth their while to go to the local food stamp office and apply.[43] A few states even have an on-line application process.

The Food Stamp Act requires that the States obtain periodic reports of income from households receiving benefits to ensure they still meet the eligibility requirements.[44]

Note: Individuals who receive Supplemental Security Income (SSI) and reside in a State that provides State supplementary payments at a level that has been found by the Commissioner of Social Security to be specifically increased so as to include the bonus value of food stamp benefits are NOT eligible to receive separate food stamp benefits (see fact sheet on SSI for more information on supplementary payments).[45]

Benefits[46]

Eligible households are issued a monthly allotment of food stamp benefits based on the Thrifty Food Plan, a low-cost model diet plan. The TFP is based on National Academy of Sciences' Recommended Dietary Allowances, and on food choices of low-income households.

An individual household's food stamp benefits allotment is equal to the maximum allotment for that household's size, less 30 percent of the household's net income. Households with no countable income receive the maximum allotment ($371 per month in Fiscal Year 2004 for a household of three people). Allotment levels are higher for Alaska, Hawaii, Guam, and the Virgin Islands, reflecting higher food prices in those areas.

43 The USDA FNS Food Stamps Pre-Screening Eligibility Tool can be accessed at http://209.48.219.49/fns/.
44 FOOD STAMP ACT OF 1977 [As Amended Through P.L. 108–199, Jan. 23, 2004] §6(c)
45 FOOD STAMP ACT OF 1977 [As Amended Through P.L. 108–199, Jan. 23, 2004] §6(g)
46 Food Stamp Program Frequently Asked Questions at http://www.fns.usda.gov/fsp/faqs.htm

The average monthly benefit was about $80 per person and almost $186 per household in FY 2002. See the chart below for a listing of maximum benefits available to households of various sizes.

Households **CAN** use food stamp benefits to buy:

- Foods for the household to eat, such as:
- Breads and cereals;
- Fruits and vegetables;
- Meats, fish and poultry; and
- Dairy products.
- Seeds and plants that produce food for the household to eat.

Households **CANNOT** use food stamp benefits to buy:

- Beer, wine, liquor, cigarettes or tobacco;
- Any nonfood items, such as:
- Pet foods;
- Soaps, paper products; and
- Household supplies.
- Vitamins and medicines.
- Food that will be eaten in the store.
- Hot foods

In some areas, restaurants can be authorized to accept food stamp benefits from qualified homeless, elderly, or disabled people in exchange for low-cost meals. Food stamp benefits cannot be exchanged for cash.

The Food Stamp Program served an average of 17.2 million people each month during fiscal year 2002, and cost $20.7 billion. The current maximum allotment levels for the continental United States, in effect from Oct. 1, 2003 to Sept. 30, 2004 are:

Household size	Maximum allotment level
1	$141
2	259
3	371
4	471
5	560
6	672
7	743
8	849
Each additional member	+106

Funding

FNS pays the full cost of food stamp benefits and shares the states' administrative costs—with FNS usually paying 50 percent.[47] A total of $30,945,981,000 was appropriated for the Food Stamp Program for fiscal year 2004, of which $3,000,000,000 shall be reserved to pay for the cost of operations.[48] These monies are allocated based on annual plans submitted by the states. In the event that the sum of the state plans exceeds the appropriation available in any given year, FNS will request that the states revise their plans to the lowest level needed to meet minimum legislative requirements.[49]

FNS is authorized to pay to each State agency an amount equal to 50 per centum of all administrative costs involved in each State agency's operation of the food stamp program, which costs shall include, but not be limited to, the cost of (1) the certification of applicant households, (2) the acceptance, storage, protection, control, and accounting of electronic benefit cards after their delivery to receiving points within the State, (3) the issuance of benefits to all eligible households, (4) food stamp benefits informational activities (excluding recruitment activities), (5) fair hearings, (6) automated data processing and information retrieval, (7) food stamp program investigations and prosecutions, and (8) implementing and operating the immigration status verification system.[50] States can also earn a performance bonus for meeting certain performance criteria established by FNS relating to administration of the Food Stamp Program.[51]

[47] Food Stamp Program: Steps Have Been Taken to Increase Participation of Working Families, but Better Tracking of Efforts Is Needed (GAO-04-346, March 5, 2004)
[48] Public Law 108–199—Jan. 23, 2004
[49] FOOD STAMP ACT OF 1977 [As Amended Through P.L. 108–199, Jan. 23, 2004] §18
[50] FOOD STAMP ACT OF 1977 [As Amended Through P.L. 108–199, Jan. 23, 2004] §16
[51] FOOD STAMP ACT OF 1977 [As Amended Through P.L. 108–199, Jan. 23, 2004] §16

Appendix 3 – Facts Sheets on Select Government Programs

Temporary Assistance for Needy Families (TANF)

Temporary Assistance for Needy Families provides assistance and work opportunities to needy families by granting states the federal funds and wide flexibility to develop and implement their own welfare programs.

Summary

In 1996, the Congress created the Temporary Assistance for Needy Families (TANF) program, which was enacted under the Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA), replacing the Aid to Families with Dependent Children and related welfare programs. TANF is a $16.5 billion a year block grant to the States. Promoting work was the key to the 1996 law, which required minimum levels of work participation and included bonuses for high performance. States were given significant flexibility in designing the eligibility criteria and benefit rules, which require work in exchange for time-limited benefits.[52]

Under the TANF structure, the federal government provides a block grant to the states, which use these funds to operate their own programs. States can use TANF dollars in ways designed to meet any of the four purposes set out in federal law, which are to: "(1) provide assistance to needy families so that children may be cared for in their own homes or in the homes of relatives; (2) end the dependence of needy parents on government benefits by promoting job preparation, work, and marriage; (3) prevent and reduce the incidence of out-of-wedlock pregnancies and establish annual numerical goals for preventing and reducing the incidence of these pregnancies; and (4) encourage the formation and maintenance of two-parent families."[53]

Eligibility[54]

States have broad discretion to determine who will be eligible for various TANF-funded benefits and services. The main federal requirement is that states use the funds to serve families with children. A state can set different eligibility tests for different programs funded by the TANF block grant. For example, a state could choose to limit TANF cash assistance to very poor families, but provide TANF-funded child care or transportation assistance to working families with somewhat higher incomes.

An exception to the broad flexibility that states generally have to establish TANF eligibility rules is that federal law bars states from using federal TANF dollars to assist most legal immigrants until they have been in the U.S. for at least five years. This restriction applies not only to cash assistance, but also to TANF-funded work supports and services such as child care, transportation, and job training. A significant percentage of poor children have non-citizen parents who are ineligible for TANF benefits and services. States can use state funds to provide benefits to recent

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[52] TANF Fifth Annual Report to Congress at http://www.acf.dhhs.gov/programs/ofa/annualreport5/chap01.htm
[53] Center on Budget and Policy Priorities "An Introduction to TANF" by Martha Coven at http://www.cbpp.org/1-22-02tanf2.htm
[54] Center on Budget and Policy Priorities "An Introduction to TANF" by Martha Coven at http://www.cbpp.org/1-22-02tanf2.htm

immigrants, but fewer than half do so. Prior to the 1996 welfare law, legal immigrants generally were eligible for benefits, although the income of an immigrant's sponsor was factored in for the first three years.

Two other key elements of state TANF programs are work requirements and time limits, both of which apply to "basic" assistance (cash and other assistance designed to meet basic ongoing needs). Federal law requires that half of the families receiving assistance under TANF must be engaged in some kind of work-related activity for at least 30 hours a week. States get credits for reduced caseloads, however, and are currently effectively required to have much less than half of families engaged in federally-defined work activities. Nonetheless, states have generally exceeded the minimum federal requirements for the number of families participating in work activities.

On time limits, the general rule is that no family may receive federally-funded assistance for longer than five years. States are allowed to use federal TANF dollars to extend time limits, but only so long as no more than 20 percent of the caseload has exhausted the five-year limit. Families receiving assistance funded entirely with state funds are not subject to the federal time limit. While about 20 states have established time limits shorter than five years, states often provide exceptions and exemptions for some groups of families meeting specified criteria.

Not every state currently is required to comply with all of the federal TANF rules. Several states are exempt or partly exempt from TANF requirements because they are operating under a "waiver" already in effect when the 1996 welfare law was enacted. (Prior to the 1996 law, some states had received waivers to change the rules of their AFDC programs.) The rules covered by the waivers and the waiver expiration dates vary by state. States with waivers include Hawaii, Massachusetts, Montana, and Tennessee.

Benefits[55]

The TANF program provides tremendous flexibility for funding a wide variety of activities, supportive services, and benefits to accomplish the purposes of the program. The following lists identify some possible uses of Federal TANF or State MOE funds:

Support for Work Activities

- Provide job search, job placement, transportation, and child care services to TANF applicants from the beginning of the TANF application period;
- Provide work experience and case management to individuals with employment barriers, such as little or no work history;
- Subsidize wages directly or through an employer. Provide subsidies to help pay for the creation of community jobs for needy parents in private, non-profit or community agencies;
- Help unemployed needy noncustodial parent by providing job skills training, re-training, job search, employment placement services, or other work-related services;

[55] "Appropriate Uses of Funds", HHS, at http://www.acf.dhhs.gov/programs/ofa/funds2.htm#additional.

- Provide job retention services or post-employment follow-up services, such as counseling, employee assistance, or other supportive services;
- Pay refugee services providers to provide linguistically and culturally appropriate services that help refugee TANF recipients obtain employment or participate in work activities;
- Provide specialized training for supervisors or job coaches in private industry on how to work with newly hired TANF individuals who have serious barriers to employment—or reimburse employers for the time supervisors spend in such training;
- Subcontract with business organizations or associations to expand participation of employers in welfare-to-work initiatives and encourage the hiring of TANF recipients;
- Conduct a State public awareness campaign designed to inform employers about the benefits of hiring TANF recipients and encourage employers to alert the TANF office when they have job openings;

Child Care

- Transfer Federal TANF funds into the Child Care and Development Fund to support "quality activities," e.g., to help child care providers attain accreditation and increase monitoring and unannounced inspections of child care settings;
- Counsel needy parents about health, safety, educational, social, and emotional development issues to consider in selecting child care;
- Provide full-day/full-year high quality child care services for young children in needy families by expanding or extending the hours of programs with high educational and developmental standards, such as Head Start and accredited pre-kindergarten;
- Increase child care subsidy levels, especially for infant and toddler care, to expand the availability of care for needy families;
- Increase child care payment rates for child care offered during non-traditional hours in order to expand the availability of such care;
- Expand child care staff recruitment activities to increase the availability of care for needy families, especially in areas of short supply such as care for children with special needs, sick-child care, care in rural areas, and care during non-traditional work hours;
- Fund after-school and summer recreation activities that provide supervision and developmental services for children and youth while their needy parents work;

Transportation

- Provide transportation allowances to cover incidental expenses and participation-related expenses for unemployed families;
- Provide transit passes or tokens;
- Arrange with another agency to use its buses or vans or share in the costs of purchasing transportation services;
- Invest in reverse commute projects and other local initiatives to improve the existing transportation network so that needy parents can access jobs;
- Reimburse clients for mileage, auto repairs, or auto insurance to facilitate finding employment and job retention;
- Contract with a private organization or service to refurbish previously owned cars and provide the cars to TANF recipients or provide financing support that enables recipients to purchase a car;
- Subsidize costs of transporting needy children to child care;

Education and Training

- Train employed recipients, former recipients, and noncustodial parents in job-related vocational and literacy skills needed for regular, full-time employment;

- Fund education or job training activities at colleges and secondary and technical schools that promote advancement to higher paying jobs and self-sufficiency;
- Share with employers the costs of on-site education, such as ESL or literacy classes;
- Provide classes for new, unskilled, and semi-skilled workers to teach new skills or enhance existing skills in order to improve their chances of job retention and advancement;

Mental Health/Substance Abuse

- Use Federal TANF funds to provide appropriate counseling services (e.g. mental health services, anger management counseling, non-medical substance abuse counseling services) to family members with barriers to employment and self-sufficiency;
- Use Federal TANF or State MOE funds to provide non-medical substance or alcohol abuse services, including room and board costs at residential treatment programs;
- Use State MOE funds (that have not been commingled with Federal TANF funds) to pay for medical services (e.g., for treatment of substance or alcohol abuse not paid by Medicaid) or to provide medical coverage for families that lack medical benefits (e.g., for families ineligible for transitional Medicaid or for adults whose children are served by Medicaid or CHIP);

Domestic Violence

- Use TANF or MOE funds to help victims of domestic violence relocate somewhere else in the State or outside the State where employment or safe housing has been secured;
- Collaborate with domestic violence service providers to screen and identify victims; develop safety and services plans; provide appropriate counseling, referrals and other related services; determine the need for waivers of TANF program requirements; establish procedures that will maintain confidentiality of case-record information and ensure safety; and develop appropriate staff training;

Developmental and Learning Disabilities

- Arrange for the State's vocational rehabilitation agency or similar provider to provide assessment, evaluation, assistive technology and equipment, and vocational rehabilitation services to needy individuals who have physical or mental disabilities, but would not otherwise receive services (Such services may also be important to parents or caretakers who receive SSI, while their children receive TANF.);
- Provide cash assistance during the waiting period for SSI benefits for a disabled parent or disabled child in the family;

Enhancing or Supplementing the Family Income or Assets

- Make loans to needy families to provide stable housing, secure a car, or for other reasons that are reasonably calculated to meet a purpose of the program;
- Create a State refundable Earned Income Tax Credit Program, using State MOE funds to pay for the refundable portion of the credit;
- Fund a supplemental unemployment insurance program for unemployed workers in needy families who are not eligible for benefits under the State's regular unemployment insurance program;
- Provide stipends to needy parents who combine education/training and work;
- Increase earnings disregards for employed parents and adult caretaker relatives;
- Match the contributions of TANF eligible individuals in Individual Development Accounts (IDAs) developed either under the TANF provisions or the Assets for Independence Act of 1998;

NOTE: IDA benefits are not "assistance." Also, IDA benefits and assets may be disregarded in determining TANF eligibility and benefits.

- Pass through to the family (and disregard) some or all of the State's share of the assigned child support collection or pass through the full amount of the child support collection by using the State's share of the assigned child support collection for part of it and using additional State MOE funds to pay the remainder;
- Provide weatherization assistance or pay for home repairs;
- Provide rental assistance, including security deposits, application fees, and payments of back rent to prevent evictions;
- Provide a moving allowance (e.g., when a needy adult family member secures a job that is not close to the family's home);
- Inform families about the availability of the Earned Income Tax Credit and other ongoing supports for working families -- including food stamp benefits, Medicaid, and child care;

Child Welfare

- Collaborate with the child welfare agency to identify and serve children in needy families who are at risk of abuse or neglect (e.g., family counseling, vocational and educational counseling, and counseling directed at specific problems such as developmentally disabled needs);
- Provide cash assistance to needy caretaker relatives or provide appropriate supportive services (e.g., referral services, child care, transportation, and respite care) to caregiver relatives who can provide a safe place for a needy child to live and avoid his or her placement in foster care;
- Screen families who have been sanctioned under TANF for risk of child abuse or neglect and provide case management services designed to eliminate barriers to compliance;

Family Formation and Pregnancy Prevention

- Fund responsible fatherhood initiatives that will improve the capacity of needy fathers to provide financial and emotional support for their children;
- Provide parenting classes, premarital and marriage counseling, and mediation services;
- Provide counseling services or classes that focus on teen pregnancy prevention;
- Fund State or local media campaigns to encourage young people to delay parenting or to encourage fathers to play a responsible role in their children's lives;
- Change TANF eligibility rules to provide incentives for single parents to marry or for two-parent families to stay together;

Community Development

- Issue grants to local welfare planning councils for their use in addressing TANF recipient needs within a specific locale;
- Provide loans to small businesses if they agree to hire and train TANF recipients
- Fund a micro-enterprise development initiative;
- Fund Community Development Corporation (CDC) projects or community-based organizations that employ TANF clients, e.g., by covering the appropriate share of planning, development, and implementation costs;

General

- Use Federal TANF funds for activities for which the State had been specifically authorized per the State's approved AFDC plan, JOBS plan, or Supportive Services plan as of September 30, 1995, or, at State option August 21, 1996 -- e.g., foster care or juvenile justice activities;

- Use funds to purchase food stamp benefits from the U.S. Department of Agriculture for legal aliens who are not eligible for benefits under the Federal food stamp program;
- Provide outreach activities that will improve access of needy families to medical benefits provided under the Medicaid or CHIP programs;
- Contribute State MOE funds to Tribal TANF programs;
- Provide training to counselors in employee and family assistance programs about the needs of the population leaving welfare.

Funding[56]

Rather than requiring an annual appropriation, the law that created TANF provided for mandatory block grants to the states totaling $16.5 billion each year for six years. This is a flat dollar amount, not adjusted for inflation. As a result, the real value of the block grant has already fallen by more than 11 percent. The TANF law authorized the block grant through fiscal year 2002; Congress has been regularly extending this authorization for short periods at a time since then.

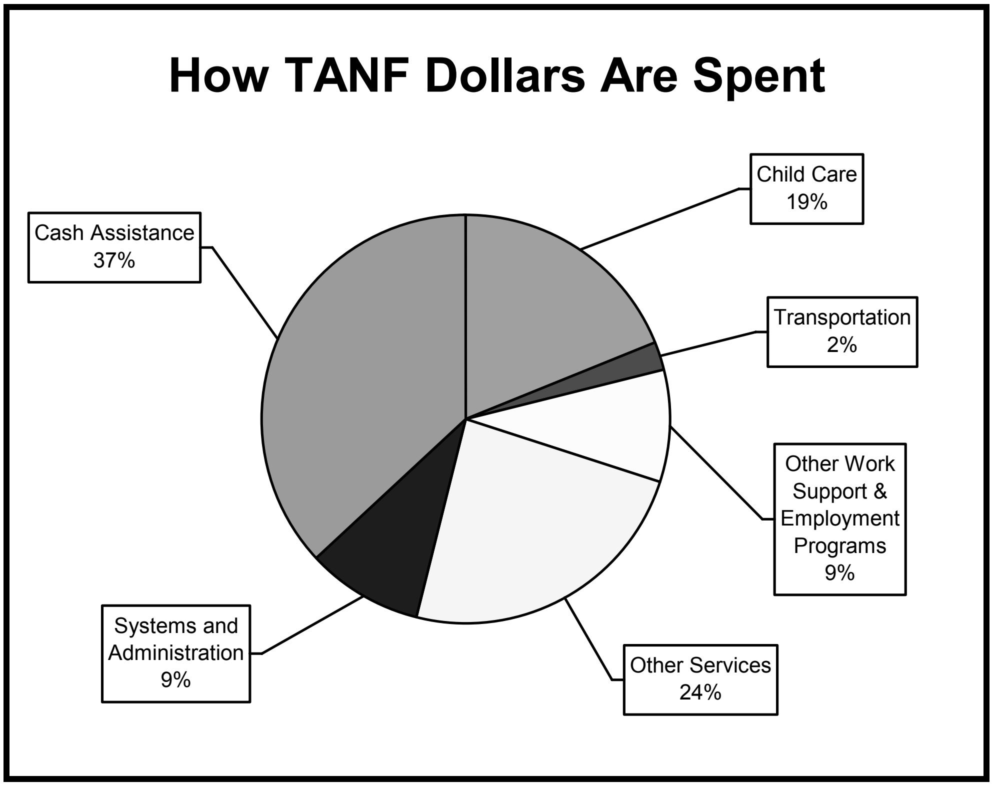
The 1996 law also created supplemental grants for certain states with high population growth or low block grant allocations relative to their needy population, as well as a contingency fund to help states weather a recession.

Finally, the 1996 law created two "performance bonuses." The first, known as the "high performance bonus," rewards states for meeting employment-related goals like job entry, job retention, and wage progression. The second is a bonus for reductions in non-marital births.

In order to maintain the shared federal-state responsibility that was built into the AFDC program, states must continue spending at least 75 percent of their 1994 contribution to AFDC-related programs. This is the "maintenance of effort" (MOE) requirement, and it totals roughly $10.5 billion.

States have used their TANF funds in a variety of ways, including: cash assistance (including wage supplements); child care; education and job training; transportation; and a variety of other services to help families make the transition to work. In addition, in order to receive TANF funds, states must spend some of their own dollars on programs for needy families. This is what is known as the "maintenance of effort" (MOE) requirement.

[56] Center on Budget and Policy Priorities "An Introduction to TANF" by Martha Coven at http://www.cbpp.org/1-22-02tanf2.htm



Reflects fiscal year 2002 expenditures of TANF and MOE funds (totaling $28.4 billion)

The law that created the TANF block grant authorized funding through the end of federal fiscal year 2002 (September 30, 2002). Since 2002, Congress has been working on legislation to reauthorize the block grant and make some modifications to the rules and funding levels. However, no final agreement has yet been reached on reauthorization legislation. In the meantime, TANF funding has been temporarily extended several times.

Appendix 3 – Facts Sheets on Select Government Programs

Supplemental Security Income (SSI)

Supplemental Security Income (SSI) is a Federal income supplement program administered by the Social Security Administration but funded by general tax revenues (not Social Security taxes):

- *It is designed to help aged, blind, and disabled people (adults and children), who have little or no income; and*
- *It provides cash to meet basic needs for food, clothing, and shelter.*

Summary

Unlike Social Security benefits, SSI benefits are not based on your prior work or a family member's prior work. SSI is financed by general funds of the U.S. Treasury--personal income taxes, corporation taxes and other taxes. Social Security taxes withheld under the Federal Insurance Contributions Act (FICA) do not fund the SSI program. In most States, SSI beneficiaries also can get Medicaid (medical assistance) to pay for hospital stays, doctor bills, prescription drugs, and other health costs. SSI beneficiaries may also be eligible for food stamp benefits in every State except California. In some states, an application for SSI benefits also serves as an application for food assistance. SSI benefits are paid on the first of the month for the entire month. To get SSI benefits, one must be disabled, blind, or at least 65 years old and have "limited" income and resources. In addition, to get SSI benefits, one must:

- be a resident of the United States;
- not be absent from the country for more than 30 days; and,
- be either a U.S. citizen or national, or in one of certain categories of eligible non–citizens.

The medical standards for disability are the same in both programs for individuals age 18 or older. There is a separate SSI definition of disability for children under age 18. Both programs pay monthly benefits. SSA administers both programs.[57]

Eligibility[58]

An individual who is:

- aged (age 65 or older);
- blind; or,
- disabled.

And, who:

- has limited income;
- has limited resources;

[57] Understanding Supplemental Security Income SSI Overview at http://www.socialsecurity.gov/notices/supplemental-security-income/text-over-ussi.htm
[58] Understanding Supplemental Security Income SSI Eligibility Requirements at http://www.socialsecurity.gov/notices/supplemental-security-income/text-eligibility-ussi.htm

- is a U.S. citizen or one of certain categories of aliens;
- is a resident of one of the 50 States, including the District of Columbia, and the Northern Mariana Islands;
- is not absent from the country for a full calendar month or more than 30 consecutive days;
- agrees to apply for any other cash benefits for whom he or she may be entitled; and,
- meets certain other requirements.

may be eligible to receive SSI benefits.

Limited income includes money earned from work; money received from other sources, such as Social Security, worker's compensation, unemployment benefits, Department of Veterans' Affairs, friends or relatives; and free food, clothing, or shelter.[59]

Resources include items owned such as cash; bank accounts; land; vehicles; personal property; and life insurance and are subject to the following limits:

Individual	$2,000
Couple[60]	$3,000

Examples of individuals that are **not** eligible to receive SSI include, but are not limited to:

- Fugitive felons;
- Individuals currently in prison or jail;
- Individuals who sacrifice resources in order to meet resource limitations;
- Non-citizens who fail to meet alien status; or,
- Someone who is absent from the country for more than 30 consecutive days.

It is important to note that potential recipients of SSI must also apply for all other benefits or payments for which they may be eligible such as pensions or Social Security.

There is a benefit eligibility screening tool (BEST) available on the SSA web page.[61]

Participants are required to report a change that could affect their eligibility status within 10 days after the month in which the change occurs. The various changes that participants are required to report are listed on the SSI web site at http://www.ssa.gov/pubs/11011.html#part2.

Benefits

The basic monthly SSI payment is the same nationwide and changes annually. For fiscal 2004, it is:

- $564 for one person; or
- $846 for a couple.

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[59] SSA does not count all kinds of income for SSI, but most income that it does count reduces the SSI benefit amount.

[60] A couple means two SSI-eligible persons residing together.

[61] BEST is located at http://best.ssa.gov/.

Not everyone gets the same amount. A participant who lives in a state that supplements the federal SSI payment would receive more than a participant who lives in a state that either does not supplement the federal SSI payment or supplements it at a lower rate. A participant may receive less if he or his family has other income. Also, the location of one's household and other household members can determine if one qualifies for SSI and can make a difference in the amount of the SSI payment.[62]

It is interesting to note that there is a detailed discussion of an individual's right to appeal decisions made about their eligibility for SSI in the Social Security Handbook Chapter 21, §§2192-2195.

Funding

SSI benefits are financed from the general funds of the United States Treasury. They are not paid out of the Social Security or Medicare trust funds. States that supplement the Federal benefits make these supplemental payments from State funds.[63]

There are two types of State supplementary payments: mandatory and optional. If a participant was converted to SSI from a State assistance program, the State must supplement the SSI amount. The amount of the supplement is what is necessary to provide the participant with the same level of payment he had before he was converted to SSI. These mandatory payments may be issued directly by the State or the State may elect Federal administration where the Federal Government combines the mandatory payment and the SSI payment into one payment.

In addition, any State may make an agreement with SSA to administer its supplementation program. SSA would pay the State supplementary amounts along with the basic SSI benefits. Each month, SSA charges the State an administration fee for every State supplementary payment issued during that month. For fiscal year 2004, the fee is $8.77 per payment. The rate will remain $8.77 per payment until SSA decides upon an appropriate rate for later years.[64]

All of the states (and DC) listed below have an agreement with SSA to pay supplementary payments on their behalf for an administrative fee:[65]

- California
- Delaware
- The District of Columbia
- Hawaii
- Iowa*
- Massachusetts
- Michigan*
- Montana
- Nevada
- New Jersey

[62] "You May be Able to Get Supplemental Security Income" pamphlet at http://www.ssa.gov/pubs/11069.html.
[63] Social Security Handbook Chapter 21, § 2105
[64] Social Security Handbook Chapter 21, § 2106
[65] Understanding SSI – SSI Benefits at http://www.ssa.gov/notices/supplemental-security-income/text-benefits-ussi.htm

- New York*
- Pennsylvania
- Rhode Island
- Utah
- Vermont*

* Dual administration State. Both Social Security and these States administer some State supplements.

Most States provide optional supplementary payments to SSI recipients. These payments vary from State to State and reflect differences in regional living costs. Supplementary payments may be made directly by the State or combined with the SSI payment (by mutual agreement of SSA and State agencies).[66]

The following states do not pay a supplement to people who receive SSI benefits:

- Arkansas
- Georgia
- Kansas
- Mississippi
- Tennessee
- West Virginia
- Northern Mariana Islands

[66] Social Security Handbook Chapter 21, § 2181

Appendix 4 - Veterans Affairs Liabilities and Other Obligations

The next several pages contain excerpts from the Department of Veterans Affairs Performance and Accountability Report for Fiscal Years 2003 and 2002:

DEPARTMENT OF VETERANS AFFAIRS
CONSOLIDATED BALANCE SHEETS (DOLLARS IN MILLIONS)
AS OF SEPTEMBER 30,

		2003		2002
ASSETS				
INTRAGOVERNMENTAL				
Fund Balance with Treasury (Note 3)	$	17,795	$	15,076
Investments (Note 5)		13,941		14,135
Accounts Receivable, Net (Note 6)		196		114
Other Assets		96		95
TOTAL INTRAGOVERNMENTAL ASSETS		**32,028**		**29,420**
PUBLIC				
Investments (Note 5)		201		214
Accounts Receivable, Net (Note 6)		859		1,199
Loans Receivable, Net (Note 7)		4,655		4,541
Cash (Note 4)		41		40
Inventories (Note 8)		73		82
General Property, Plant and Equipment (Note 9)		10,949		11,028
Other Assets		29		28
TOTAL PUBLIC ASSETS		**16,807**		**17,132**
TOTAL ASSETS	**$**	**48,835**	**$**	**46,552**
LIABILITIES				
INTRAGOVERNMENTAL				
Accounts Payable	$	61	$	74
Debt		2,854		3,026
Other Liabilities (Note 13)		3,506		2,016
TOTAL INTRAGOVERNMENTAL LIABILITIES		**6,421**		**5,116**
PUBLIC				
Accounts Payable		2,907		2,564
Liabilities for Loan Guarantees (Note 7)		4,756		5,662
Federal Employee and Veterans Benefits Liability (Note 11)		956,688		850,963
Environmental and Disposal Liabilities (Note 12)		375		271
Insurance Liabilities (Note 15)		12,640		12,870
Other Liabilities (Note 13)		6,309		6,090
TOTAL PUBLIC LIABILITIES		**983,675**		**878,420**
TOTAL LIABILITIES		**990,096**		**883,536**
NET POSITION				
Unexpended Appropriations		4,233		3,366
Cumulative Results of Operations		(945,494)		(840,350)
TOTAL NET POSITION		**(941,261)**		**(836,984)**
TOTAL LIABILITIES AND NET POSITION	**$**	**48,835**	**$**	**46,552**

The accompanying Notes are an integral part of these financial statements.

10. Liabilities Not Covered By Budgetary Resources

The total amount of VA liabilities not covered by budgetary resources was $959.6 billion and $853.8 billion as of September 30, 2003 and 2002, respectively. The following table contains the components of the balance sheet liability:

Components of Unfunded Liabilities as of September 30,

	2003		2002
Workers' Compensation*	2,239	$	2,105
Annual Leave	1,097		1,042
Judgment Fund	528		625
Environmental and Disposal	375		271
Accounts Payable – Canceled Appropriations	6		4
Veterans Compensation and Burial	954,800		849,200
Insurance	581		549
Total	959,626	$	853,796

* The actuarial estimate for workers' compensation provided by DOL was computed using interest rates of 3.84 percent for FY 2003 and 5.20 percent for FY 2002.

11. Federal Employee and Veterans Benefits

Federal Employee Benefits

Imputed Expenses-Employee Benefits years ended September 30,		2003		2002
Civil Service Retirement System	$	351	$	257
Federal Employees Health Benefits		641		576
Federal Employees Group Life Insurance		2		2
Total Imputed Expenses-Employee Benefits	$	994	$	835

Veterans Benefits

Certain veterans who die or are disabled from military service-connected causes, as well as their dependents, receive compensation benefits. Also, veterans are provided with burial flags, headstones/markers, and grave liners for burial in a VA national cemetery or are provided a plot allowance for burial in a private cemetery. These benefits are provided in recognition of a veteran's military service and are recorded as a liability on the balance sheet.

Federal Employee and Veterans Benefits Liabilities as of September 30,		2003		2002
FECA	$	1,888	$	1,763
Compensation		951,600		845,800
Burial		3,200		3,400
Total Federal Employee and Veterans Benefits Liabilities	$	956,688	$	850,963

VA provides certain veterans and/or their dependents with pension benefits, based on annual eligibility reviews, if the veteran died or was disabled from nonservice-connected causes. The actuarial present value of the future liability for pension benefits is a non-exchange transaction and is not required to be recorded on the balance sheet. The projected amount of future payments for pension benefits (presented for informational purposes only) as of September 30, 2003 and 2002 was $102.7 and $91.6 billion, respectively.

Assumptions Used to Calculate the Veterans Benefits Liability

Several significant actuarial assumptions were used in the valuation of compensation, pension, and burial benefits to calculate the present value of the liability. A liability was recognized for the projected benefit payments to: (1) those beneficiaries, including veterans and survivors, currently receiving benefit payments; (2) current veterans who will in the future become beneficiaries of the compensation and pension programs; and (3) a proportional share of those in active military service as of the valuation date who will become veterans in the future. Future benefits payments to survivors of those veterans in classes (1), (2), and (3) are also incorporated into the projection.

All future benefits were discounted. Discount rates were based on rates for securities issued by Treasury on September 30, 2003, ranging from 1.15 to 4.91 percent, and on September 28, 2002, ranging from 1.53 to 4.75 percent. Benefit payments were assumed to occur at the midpoint of the fiscal year.

All calculations were performed separately by attained age for the Compensation and Pension programs, while the Burial liability was calculated on an aggregate basis.

Life expectancies of beneficiaries collecting benefits from the Compensation and Pension programs were based upon studies of mortality experience of those beneficiaries between 1995 and 2003. Life expectancies of veterans not yet collecting these benefits used in the cal-

What does the Board think about this disclosure regarding VA pensions?

culation of the liability for future beneficiaries are based on mortality derived from the 1990 U.S. decennial census and beneficiary mortality experience. Applying mortality improvements at a rate of 1 percent per annum brought both sets of mortality rates forward. In addition, rates of benefit termination of beneficiaries due to reasons other than mortality are also reflected.

The amount of benefits by category and age were based on current amounts being paid and future cost of living adjustments (COLAs) to determine the average benefits per veteran for each future time period. A COLA of 2.1 percent was assumed for FY 2004. For fiscal years after 2003, COLAs have been determined from OMB's estimates prepared in conjunction with the Administration's annual budget. Expected changes in benefits due to other reasons were also reflected.

Expected benefit payments have been explicitly modeled for the next 75 years. This period is approximately the same as that used by the Office of the Actuary of the Social Security Administration (75 years). However, unlike Social Security, estimates of expected benefit payments after this 70-year period were incorporated in the liability based on extrapolations reflecting expected aggregate experience by beneficiary category between the years 65 and 70. The 2002 liability was not changed to 75 years because the change is deemed immaterial.

13. Other Liabilities

Funded liabilities are generally considered to be current liabilities. Unfunded liabilities are generally considered to be non-current liabilities.

Other Intragovernmental Funded Liabilities as of September 30,	2003	2002
Deposit and Clearing Account Liabilities	$ (73)	$ (13)
Accrued Expenses - Federal	99	46
Deferred Revenue	446	234
Resources Payable to Treasury	404	467
Custodial Liabilities*	2,260	879
General Fund Receipts Liability	12	20
Accrued VA Contributions for Employee Benefits	2	41
Total Other Intragovernmental Funded Liabilities	$ 3,150	$ 1,674

* The Custodial Liabilities Accounts include subsidy reestimates for loans made after September 30, 1991, which are subject to the provisions of the Credit Reform Act of 1990. The liability provision for future losses on credit reform guaranteed loans is comprised of a funded subsidy for each loan guaranteed at the rate equal to the amount of the present value of estimated loss to the Government for the cohorts of loans. The subsidy amount for each cohort is reestimated annually to ensure amounts reflect the actual losses on guaranteed loans. Based on the reestimated amounts, additional subsidy funds are provided for or excess funds are returned.

Other Intragovernmental Unfunded Liabilities as of September 30,	2003	2002
Accrued FECA Liability	$ 356	$ 342
Total Other Intragovernmental Unfunded Liabilities	$ 356	$ 342

Other Public Funded Liabilities as of September 30,	2003	2002
Accrued Funded Annual Leave	$ 10	$ 10
Accrued Expenses	2,159	1,988
Accrued Salaries and Benefits	420	292
Contract Holdbacks	16	17
Deferred Revenue	1	3
Unredeemed Coupons	1	1
Deposit and Clearing Account Liability	17	42
Unearned Premiums	118	124
Insurance Dividends Left on Deposit and Related Interest Payable*	1,673	1,636
Dividend Payable to Policyholders	254	279
Capital Lease Liability	9	27
Total Other Public Funded Liabilities	$ 4,678	$ 4,419

* Interest earned on dividends left on deposit is paid annually to insurance policyholders on the policy anniversary dates.

Appendix 4 - Veterans Affairs Liabilities and Other Obligations

Other Public Unfunded Liabilities as of September 30,	2003	2002
Annual Leave*	$ 1,097	$ 1,042
Accounts Payable from Cancelled Appropriation	6	4
Judgment Fund-Unfunded**	528	625
Total Other Public Unfunded Liabilities	$ 1,631	$ 1,671

* Annual leave is accrued when earned and is adjusted at the end of the fiscal year to reflect current pay rates of cumulative leave earned but not taken. Sick and other types of leave are expensed as taken.
** The Judgment Fund liability amount represents the estimate for future payments on legal cases that will be paid by the Treasury Judgment Fund on behalf of VA.