Federal Accounting Standards Advisory Board

March 16, 2006

TO: Members of FASAB

FROM: Richard Fontenrose, Assistant Director

THROUGH: Wendy Comes, Executive Director

SUBJECT: Social Insurance – Tab D

The staff objective for the March social insurance session is to continue the discussion of the remaining questions from the January meeting and of the draft exposure draft (ED) at Tab D1.

Regarding the remaining questions, the "Table of Questions and Board Views" is again presented (Tab D2) to summarize the questions raised by the staff to date and the members' views thereon. Once again the staff summary of members' views is subject to members' revisions. By the staff count there are six questions remaining from that table, nos. 19-24.

The changes in the ED reflect the Board's discussion at the January meeting. The ED is presented in "track changes" format to highlight changes. The changes include a revision to the basis for conclusions to incorporate the notion of multiple obligating events rather than only one; the deletion of the adjective "stand ready" as a modifier for "obligation;" and the changes with respect to the requirements for the governmentwide entity, e.g., the operating statement display now specifies only one line item per cost component. Also regarding the governmentwide entity, the sensitivity analysis requirement now reflects a preliminary draft of a pro forma graph that would combine the effects of all assumptions, which was suggested at the January meeting.

Also, the statement of social insurance (SOSI) pro forma illustration has been updated. It now reflects the expanded presentation described in the ED. Also, staff is proposing an introductory paragraph to the SOSI illustration that relates certain SOSI line item amounts to similar amounts presented in the Social Security Trustees' Annual Report, e.g., the unfunded open and closed group obligations, and SSA's Actuarial Note No. 4, i.e., the "Maximum Transition Cost" available on SSA's Web site.

The staff is presenting more analysis of Medicare Parts B and D at Tab D3. The staff had presented three questions in January with respect to Medicare accounting the consideration of which has been continued for the March session. The three questions from January are:

Question #19 – Does the Board agree that Medicare HI should be recognized at 40 QC; or, should Medicare HI costs be spread evenly over the participant's working years in covered employment?
Question #20 – Does the Board agree that the accounting treatment for Medicare HI and Medicare SMI should be the same?
Question #21 – Does the Board agree that Medicare SMI should follow accounting standards for short-duration or long-duration insurance contracts?

As a tool to focus the consideration of these questions the staff presents at Tab D3 the pros and cons of two alternatives approaches for accounting for Parts B and D:

(1) the current ED approach where a present obligation for Medicare HI, Part A, occurs at 40 quarters of work in covered employment and a present obligation for Medicare SMI, Parts B and D, occurs when incurred events occur after the participants enrolls; and alternatively,

(2) an approach that would employ 40 quarters for all three Parts.

Also in Tab D3 staff has included a "fact sheet" on Medicare similar to those presented in prior briefing books follows for reference.

The Medicare fact sheet includes a reference to Medicare Advantage and/or Part C. To date the social insurance discussion has not included "Part C." The Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (MMA) created the Medicare Advantage (MA) program that is sometimes referred to officially as Part C. MA provides Parts A, B, and now D through private health insurance plans. Those who are entitled to Part A and enrolled in Part B may choose to join a MA plan, if there is a plan available in their area. MA plans have their own providers or a network of contracting health care providers. All MA plans are currently paid a per capita premium, assume full financial risk for all care provided to Medicare beneficiaries, and must provide all Medicare covered services. Many MA plans offer additional services such as prescription drugs, vision and dental benefits to beneficiaries. MA costs were $44.5 billion of the total $329.8 billion in Medicare benefit costs in FY 2005. A substantial increase in Medicare Advantage plans is projected for 2006 as the provisions of the MMA give higher payments to MA plans.

The staff proposes to include a reference to Part C in the discussion henceforth. Staff believes that the federal government's commitment for components of Part C (i.e., hospital, physician, drugs) would be the same as for Parts A, B, and D and should be accounted for accordingly. Without objection the staff will include the necessary references to MA and/or Part C in the ED.

Continuing with the overview of the Tabs, the Board asked for an update regarding the IPSASB's work on accounting for social policies. Tab D4 presents a summary of the IPSASB "accounting for social policies" project. At the Cape Town meeting in November and December 2005 the IPSASB agreed to combine the accounting standards for basic/welfare pensions and general/contributory pension into one ED. Under this approach the obligating events for the basic/welfare pension, the general/contributory pension and other age related cash transfers would be the same: the satisfaction of all eligibility criteria and the date at which the amount "due" becomes legally payable. The IPSASB also directed that additional disclosures be developed to assess the present value of future cash transfers to current participants of pension programs and major age-related cash transfers, which appears to be similar to the statement of social insurance.

Finally, the FASAB staff asked the staffs at the Social Security Administration (SSA), the Center for Medicare and Medicaid Services (CMS), and the Railroad Retirement Board (RRB) to review the draft ED. All three agencies agreed to provide comments. However, the Social Security and Medicare Trustees' annual reports are published in March and the SSA actuarial staff was not able to provide comments on the ED as yet but will provide them as soon as possible. Comments from the CMS and RRB staffs are presented at Tab D5. The staff has incorporated their suggestions regarding the wording for the discount rate requirement and the sensitivity analysis and is considering their other comments. For example, the RRB staff raises an issue with respect to the reporting of assets set aside to pay beneficiaries for which legislation has created a separate entity. (See their items A1 and A2 at Tab D.) The issue appears to be a matter of form over substance since the assets are clearly intended to fund Railroad Retirement benefits. Staff told these agencies that additional comments at any time during the process – now, or as soon as possible, or pursuant to the formal period for the ED – would be welcome.