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Date: January 5, 2009

Comments on exposure draft, *Comprehensive Long-Term Projections for the U.S. Government*

Q1. This exposure draft proposes reporting that would support FASAB Objective 3, Stewardship, and in particular, Sub-Objective 3B:

> Objective 3: Federal financial reporting should assist report users in assessing the impact on the country of the government's operations and investments for the period and how, as a result, the government's and the nation's financial condition has changed and may change in the future.[1]
>
> Sub-Objective 3B: Federal financial reporting should provide information that helps the reader to determine whether future budgetary resources will likely be sufficient to sustain public services and to meet obligations as they come due.[2]

More detailed discussion of the reporting objective and the objectives of fiscal sustainability reporting can be found in paragraphs 1 through 8.

Do you believe that the proposed reporting adequately supports the above objectives? Are there different reporting requirements that might better support the above objectives or that you believe should be added to the proposed requirements in this exposure draft? If so, please explain.

In paragraph 6 of the exposure draft, the thrust of the Statement is characterized as "Fiscal Sustainability Reporting." The paragraph further indicates that reporting should address whether future budgetary resources will likely be sufficient to sustain public services and meet obligations as they come due. Paragraph 8 indicates that the reporting should be "easily understandable to the 'average citizen' who has a reasonable understanding of federal government activities and is willing to study the information with reasonable diligence."

With these stated objectives, Illustration 3 in Appendix 3 comes by far the closest to meeting these criteria. This example compares on a year-by-year basis the projected revenues and obligations of the federal government under "current policy without change." However, the example has two shortcomings that are highly misleading and

[1] SFFAC 1, par. 134.
[2] SFFAC 1, par. 139.

should be changed. The first is simple. The obligations should not be described as spending. The ED indicated understanding that much of the shortfalls of revenue would in fact preclude spending, particularly in the OASDI and HI programs, once their Trust Fund assets are exhausted under current law. Thus, the full obligations cannot be referred to as spending per se, and the obligations should be referred to as such, "obligations."

The second problem with Illustration 3 is the inclusion of interest accruals in the graph as if they are "spending." This is highly misleading. The comparison in the graph should be actual expected tax (and premium) revenue to expected obligations for services of the government. In the scenario depicted, the "interest" would not in fact be "spending" at all, but rather borrowing. The difficulty of the presentation with the interest included can be seen by considering the case where non-interest obligations were met by relatively modest increases in receipts after 2010. In this case, the large growth in interest accruals would not occur. Thus, by including these accruals, the graph is in effect double counting, or more, the extent of the fiscal shortfalls that must be met on an annual basis in order to avoid overwhelming growth in debt and interest. These changes should be made to Illustration 3, and then this could be the principal illustration of the sustainability of federal obligations: it will show both the extent of the obligations as a percent of the GDP on a year-by-year basis and the level of expected receipts on an annual basis under current policy.

Given the stated objectives, measures summarizing large amounts of receipts and obligations over a number of years on a present-value basis should be either eliminated entirely or greatly deemphasized. Such summary numbers that run into trillions of dollars have little meaning to the average citizen, as does the concept of present value. Relationships of receipts and obligations, one year at a time, are far more accessible and understandable. In addition, they illustrate the timing and trend in projected obligations, shortfalls, and surpluses that are critical to any concept of "sustainability."

Q2. In this proposed Statement, projections are prepared not to predict the future, but rather to depict results that may occur under various conditions. Accordingly, projections require assumptions to be made about the future. This exposure draft proposes broad and general guidance for selecting policy, economic, and demographic assumptions for long-term projections with a primary focus on the future implications of the continuation of current policy without change for federal government public services and taxation. The guidance begins at paragraph 19. Paragraph 28 explains that although current law is a reasonable starting point in selecting policy assumptions, a simple projection of "current law" would not always reflect current policy without change. Examples are provided.

Do you believe that the guidance for assumptions is appropriate? If not, please suggest alternative guidance. Please provide the rationale for your response.

Overall, the guidance for allowing the preparer to use judgment in selecting the assumptions is appropriate. The statement that "projections are not forecasts or predictions; they are designed to depict results that may occur under various conditions" provides a clear distinction between the goals of projections and the role of assumptions in developing those long-term projections. The definitions and examples provided for policy, economic, and demographic assumptions are very clear and understandable, specifically the examples of the assumptions applied to the Social Security program in paragraph 26.

The guidance in paragraph 31 regarding the selection of economic and demographic assumptions for the Social Security and Medicare programs is also appropriate. The assumptions used in the SOSI have been thoroughly vetted and audited and are therefore a practical and sound choice for the basic financial statement.

However, selection of policy assumptions using the "current policy without change" concept is quite problematic in some cases relative to the law. In cases where discretionary spending authority expires, the concept is clear. But where current law is explicit on limitations on spending, such as in OASDI and HI, obligations beyond what the law can support for spending must be qualified as only obligations and cannot be depicted as spending per se. Similarly, where the tax law is specific, as in the indexation of personal income tax brackets, this specific legal guidance must be reflected, in this case with increasing receipts as a percent of GDP per the CPI indexing of brackets. This projection of the "obligations" for payment of personal tax liability under current law is analogous to the depiction of the obligation to provide benefits under Social Security and Medicare at an increasing level relative to GDP. In both cases, the law specifies that these increases and the obligations can be altered only with a change in law. To depict only one of these increases in obligations and not the other would be highly misleading and biased in representation. If, for example, current policy were deemed to maintain the receipts and obligations of each element at their current level as a percent of GDP, then the depiction of sustainability would show no change through time. Such clear changes through time as in the benefit obligations of a defined benefit program like Social Security and the tax obligations of a well-defined tax schedule like that for personal income tax should be reflected directly and should not be presumed to be representable as a simple constant percent of GDP in either case.

Q3. This exposure draft proposes a basic financial statement[3] and disclosures. (Description begins at paragraph 35 and an illustrative example of the basic financial statement is provided in Appendix B.) The Board has indicated that the primary audiences for the consolidated financial report of the U.S. Government (CFR) are citizens and citizen intermediaries such as journalists and public policy analysts.

Do you believe that the basic financial statement and disclosures would be understandable and meaningful for the primary audiences of the CFR? Please note any changes that you believe should be made to the proposed requirements for the basic financial statement and/or the disclosures.

[3] The basic financial statement will be presented as RSI for a period of three years and subsequently as a basic financial statement.

First, this report should not be classified as a basic financial statement. The information is based on projections and assumptions and should not be held to the same audit standards as conventional financial reports.

One specific change is essential, as described above in response to Question 1. The obligations indicated must not be referred to as "spending" because of the recognized limitations on spending in certain programs (OASDI and HI) under current law. In addition, as described above, the "Rest of Federal Government" category must reflect the obligation under current law and must not be limited to the current percent of GDP as some concept of current policy.

However, the information proposed to be presented is understandable and meaningful to the primary audiences of the CFR, even if not to the general public. Particularly, the breakout of receipts and spending between Medicare, Medicaid, and Social Security is valuable, as these programs generally draw the most media attention and concern. The use of "% of GDP" is a useful measure and can be understood by the basic user. Likewise, the comparison to the prior year is a useful measure for the basic user. However, the concept of "present value" is complex and may not be understood by many users. The calculations that are involved in developing a present value figure, such as selection of interest rates and the time value of money, are detailed and complex for the average citizen to understand.

Q4. The Board is proposing that the basic financial statement display the difference between projected revenue and projected spending, and that the fiscal gap (the change in non-interest spending and/or revenue that would be necessary to maintain public debt at or below a target percentage of gross domestic product (GDP)) must be reported either on the face of the basic financial statement or in a disclosure. Also, the fiscal gap may be reported for a specific debt level or over a range of debt levels (see paragraph 38). Both options for reporting fiscal gap are illustrated in Appendix B (see pages 51 (narrative on the face of the financial statement) and 61 (disclosure)). See paragraphs A60-A63 in the Basis for Conclusions for an explanation of the pros and cons of the options.

a. Do you agree with the flexible requirements for reporting fiscal gap?

While "fiscal gap" is appealing at a conceptual level, it introduces a complication that requires additional explanation and care in calculation. Maintaining public debt to GDP at a constant ratio would be simple if GDP itself rose at the rate used for interest discounting, or, in other words, if the present value of GDP for any future year were a constant value, equal to this year's GDP. In this special case, maintaining annual revenue exactly equal to annual obligations would precisely maintain the current ratio of public debt to GDP. But in a world where real GDP is projected to grow at roughly 2 percent in the future, and where interest discounting is done at a real rate of about 3 percent, the present value of GDP is smaller the farther we look into the future. Thus, to maintain public debt at a constant percentage of GDP in the future, we would need annual receipts to exceed annual obligations by the amount needed to slow the growth of public debt to the growth rate of GDP. The additional receipts over annual obligations would be roughly 1 percent of the amount of public debt each year. While this is analytically straightforward, it is a complication that requires explanation.

In order to show what is necessary to "maintain" public debt at a given percent of GDP, the "fiscal gap" should be considered on an annual basis. It would indicate the small adjustment to the gap between receipts and obligations needed to adjust the public debt level to maintain debt at the target percentage of GDP. However, the cost and complexity of presentation would be large in relation to the added value of the measure.

On a summary level for a period of many years, there is a perfect analog to the fiscal gap concept that has been in long use for OASDI and HI programs. The Social Security and Medicare Trustees have targeted generally a trust fund level equal to a constant 100 percent of expected annual obligations. Because annual obligations, like GDP, grow at a rate different from the annual interest (discount) rate, the relationship between annual cash-flow balance (receipts minus obligations) and the ratio of the trust fund assets to annual outgo is complicated. To address this complication, the Trustees use the concept of "actuarial balance," which when precisely achieved, will result in having a ratio of trust fund assets to annual expenditures at the end of the summary period at the target level (100 percent).

For total federal government operations, a summary "fiscal gap" concept could be derived that is analogous to the actuarial balance. For a given period (say a 75-year projection period), this would be equal to the PV of projected obligations over the period minus the PV of projected receipts over the period plus the current amount of public debt minus the PV of the target level of public debt at the end of the period. Thus, the difference between this "fiscal gap" measure for a period and the more usual balance between the PV of receipts and obligations for the period is just the difference between the amount of the current-year public debt and the PV of the "ending year" target level of public debt. This difference is likely to be fairly small relative to the balance between receipts and obligations, and so it may be questionable whether the complication is on balance desirable for the financial statement. If this concept is to be included as a summary measure at any level, then the precise nature of the measure, in relation to starting and ending levels of public debt, must be made clear and explicit. Moreover, if this summary measure for a substantial time period is presented, it must be clear that attaining the target level of public debt to GDP is only assured for a single point in time (the end of the period), and that maintaining the target level is in no way indicated by reducing the fiscal gap to zero for the period as a whole. If "maintaining" a fiscal gap at a given level is desired, then an annual presentation of the fiscal gap is essential.

b. Do you believe that the illustrative disclosure (Illustration 8 in Appendix B) is clear and understandable?

Illustration 8 would be confusing to the target audience. The graphs show a varying fiscal gap (Illustration 8a) and varying needed changes in revenue or non-interest spending (Illustration 8b) based on a range of debt to GDP ratios. Both graphs present a significant amount of complex information in a not particularly useful or easily understandable way. Moreover, these illustrations do nothing to indicate the actual changes over time that would be needed to maintain a constant ratio of public debt to GDP.

A far simpler illustration of the fiscal gap concept that would actually be related to sustainability would be to show the annual amount needed each year in addition to projected receipts to cover annual obligations and to maintain the public debt at the current level as a percentage of GDP. As indicated above, this would, in general, be about the difference between projected obligations and revenues for each year, plus about 1 percent of the amount of public debt that is targeted for the year. This illustration, while somewhat complex, would at least have relevance to sustainability as it would show both the timing and trend in annual gaps.

A summary measure of fiscal gap might be useful, but requires care in description and explanation. The measure should be analogous to the actuarial balance used for the OASDI and HI Trust Funds. That is, it should be equal to the PV of projected obligations over the period minus the PV of projected receipts over the period plus the current amount of public debt minus the PV of the target level of public debt at the end of the period. But as with the "actuarial balance," this value should not be presented in present value dollar terms. To show a summarized gap for many years in PV dollars provides no useful context to the average citizen. The PV dollar gap should be presented only as a percentage of a similar summary measure over the same period, which would most usefully be the PV of GDP over the period. The measure would thus be interpreted as "the average gap as a percent of GDP over the period as a whole." Care would need to be taken to assure the reader understood that reducing this gap to zero with either a flat percentage change in future tax rates or in future benefit levels would not suffice to maintain a constant ratio of public debt to GDP. It would only serve to assure that the ratio of public debt to GDP would be the same at the end of the summary period as at the beginning, with no assurance at all as to the levels of public debt through the period, and not to the trend in the ratio of public debt to GDP at the end of the period. Thus, such a summary measure must be understood not to relate to sustainability, and so should not be included on the face of the financial statement.

Q5. Finite and infinite time horizons for fiscal projections are discussed in the Basis for Conclusions, paragraphs A53 through A59. This exposure draft proposes the following requirements regarding time horizons for projections: (a) the projections presented in the basic financial statement should be "sufficient to illustrate long-term sustainability" (for example, traditionally the Social Security program has used a projection period of 75 years for long-term projections); (b) projections for both a finite and an infinite horizon should be provided, one in the basic financial statement and the other in the disclosures; and (c) either the basic financial statement or the disclosures should include projections for Social Security and Medicare based on the time horizon used for long-term projections for Social Security and Medicare in the Statement of Social Insurance (SOSI).

a. Do you believe that the above requirements for time horizons are appropriate to meet the reporting objectives of Fiscal Sustainability Reporting?

Specifically, do you believe that data for both finite and infinite horizon projection periods should be reported? If not, please explain.

Neither the finite nor the infinite summary measure is useful in assessing sustainability because neither addresses the timing or trend in levels of cost or shortfalls or surpluses. These can only be discerned from the annual estimates of receipts and obligations (exclusive of interest), or from a series of annual gap measures described above. The summary measures over the next 75 years provide a useful indication of the expected adequacy of future receipts to provide for obligations over the period as a whole. However, failure of this summary measure to indicate the time within the period for which resources may be adequate and the time for which resources are expected not to be adequate renders the measure a highly limited indicator. In effect, the measure provides only one unambiguous indication: that is, whether the accumulated account between receipts and obligations over the entire period will be in balance at the very end of the period. The status at any point within the period cannot be determined or suggested by the value for the summary measure. As limiting as this is for the usefulness of the summary measure over 75 years, it clearly renders the summary measure over the infinite future period useless and effectively meaningless.

Therefore, to the extent that any summary measure is included, it should be limited to at most the 75-year period used by Social Security and Medicare in the SOSI. Infinite period measures should be eliminated from any serious consideration. Moreover, in order to address sustainability, it is critical to have a measure that actually addresses the timing and trend in any gaps and thus can illustrate where and how much change is needed. Here an analog to the Social Security test of "sustainable solvency" would be useful. The analog for the federal government consolidated account would be the combination of (1) the 75-year summary measure (fiscal gap), indicating the overall adequacy of receipts to cover obligations for the period as a whole with the targeted level of public debt at the end of the period, and (2) the sequence of annual levels of public debt as a percent of annual GDP, in order to see if the trend in the ratio is stable, and thus sustainable. By far the most critical part of the measure is the latter portion. To address sustainability of the financing of the federal government consolidated operations, a graph of the projected annual gaps between expected receipts minus obligations and the necessary excess of receipts over obligations to maintain the target level of public debt would be necessary and sufficient. Anything more would only serve to complicate the presentation.

b. Do you believe that there should be a specific time horizon requirement (for example, 75 years) for the basic financial statement for Fiscal Sustainability Reporting and/or the SOSI? If so, what time horizon do you believe should be required?

There should be a specific time horizon requirement of 75 years for the basic financial statement for Fiscal Sustainability and/or the SOSI. This is consistent with the 75-year period used in both the Social Security and Medicare Trustees Reports, and has a long history of acceptability and usefulness. With the annual gap concept presented as a percent of GDP for this period, the average citizen would have a simple, straightforward presentation of the magnitude and timing of the gaps that the country faces for the future.

Q6. The Board's mission is to issue reporting requirements for the federal government's general purpose financial statements, and not to recommend budget policy. This exposure draft proposes a title for the basic financial statement: "Long-Term Fiscal Projections for the U.S. Government." An alternative title, "Statement of Fiscal Sustainability," might imply to some that the Board has established or plans to establish specific rules that define "fiscal sustainability" and/or budget rules that would result in fiscal sustainability. However, others have indicated that the "plain English" meaning of the words "fiscal" and "sustainability" should be adequate, and that the title "Statement of Fiscal Sustainability" might be more appropriate.

The Board's working definition of "fiscal sustainability" is explained in the Basis for Conclusions, paragraph A3. The concept of "Financial Condition" is explained in the Basis for Conclusions, paragraphs A7 and A8.

Which of the following do you believe that the basic financial statement should be titled?

a. Long-Term Fiscal Projections for the U.S. Government
b. Statement of Fiscal Sustainability
c. Statement of Financial Condition
d. A title not listed above (please specify)

Please explain the reasons for your choice.

The most appropriate title for the basic financial statement as currently written is "Long-Term Fiscal Projections for the U.S. Government." The other two titles presented include the word "statement," which is not appropriate for an illustration that consists of projections and hypotheticals, which is much different from a balance sheet or statement of budgetary resources, which present the results of operations at the current time or that have already occurred. In addition, the statement as currently written does not truly address fiscal sustainability in terms of the timing and trend of future receipts and obligations, and thus should not be titled as such.

If the measures presented were indeed modified to address timing and trend of gaps as described above, then "Statement of Fiscal Sustainability" might be appropriate.

Q7. This exposure draft proposes a minimum level of disaggregation for the basic financial statement. For projected receipts, major programs such as Medicare and Social Security would be shown separately from the rest of government. For projected spending, major programs such as Medicare, Social Security, and Medicaid would be shown separately from the rest of government. (See paragraphs 36 and A46-A49.)

a. Do you believe that the above general guidance provides for an appropriate level of disaggregation in the basic financial statement? Please explain the basis for your view.

While showing Medicare, Medicaid, and Social Security is an excellent starting point, additional disaggregation would be useful. In the example presented in Appendix B, the "All Other Receipts" and "Rest of the Government" categories represent significant portions of total receipts and total "spending" that should be disaggregated further. By not doing so, the statement appears to be "hiding" or "burying" totals for other programs.

Moreover, combining all other programs invites oversimplification of the type that would lead to assuming that receipts or obligations might remain a constant percentage of GDP in the future. The statement should be more rigorous if it is to be useful beyond the already well-developed projections of receipts and obligations for Social Security and Medicare. Specific projections with explicit assumptions should be required for all major federal programs, including defense expenditures and health spending.

b. Do you believe that specific line items (instead of or in addition to the "major programs" required by paragraph 36 of the ED) should be disaggregated in the basic financial statement? If so, please identify the line items and explain your reasoning.

No, disaggregation by "major programs" is sufficient. However, the "major programs" should not be limited to those listed. While projecting future costs for programs like defense may be difficult, the statement will have no significance beyond already available projections for Social Security, Medicare, Medicaid, and SSI without the further identification of specific federal programs.

Q8. This exposure draft proposes that disclosures should explain and illustrate the major factors impacting projected receipts and spending (such as the rising cost of health care) (see paragraph 42(a)). Illustrative examples in Appendix B begin on page 52).

a. Do you believe that an explanation and illustration of the major factors impacting projected receipts and spending will be helpful to readers? Please explain the basis for your view and note any recommended changes in the requirements.

An explanation and illustrations will be helpful to users. Users of the statements should be aware of the major factors that may affect projected receipts and spending. However, with such additional disclosures goes the obligation to provide balanced and thorough analysis. Even when assumptions and projections are appropriate and balanced, wrong impressions may be conveyed by inappropriate factor analysis.

b. Do you believe that the display of a range for major cost drivers and/or major programs, as shown in Illustrations 1a and 1b in Appendix B should be optional or mandatory? Please explain the basis for your view.

The specific displays of major cost drivers and/or major programs as shown should be altered, and should certainly be optional. These displays raise too many different scenarios and hypotheticals that may be more confusing than they are useful. The graphs attempt to present too much information; a narrative explanation could be much more effective.

Note for example that Illustration 1b is extremely misleading. The “Effect of the Aging of the Population” line assumes that per person health care spending rises only with per capita GDP. Because the number of workers per person in the population is declining, per capita GDP is growing at a slower rate than average employee compensation in the projections. This seriously underrepresents the implications of aging of the population by assuming for that factor that health costs would grow only by per capita GDP. This is inappropriate as most health spending is highly labor-intensive and so the per service price increases in health under an aging-only scenario should be assumed to at least keep up with average employee compensation growth in the economy. Doing this would increase the share of the overall health cost growth that is attributed in this illustration to aging.

Also, Illustration 1a may be misleading because it suggests that health spending growth rates are appropriately measured relative to the growth in GDP. Because health spending is related mainly to individuals who are old and disabled and are not working, while GDP is related mainly to the efforts of those who are working, there is not a necessary relationship between these rates of growth, other than that total health care cost cannot readily exceed total GDP.

Q9. This exposure draft proposes that the results of alternative scenarios be provided. Paragraph 42(d) provides that the present value of projected receipts, spending and the net of receipts and spending be presented for each alternative scenario. Optionally, projections for alternative scenarios may be displayed in a table format (see Illustration 7 in Appendix B).

a. Do you believe that the proposed requirement for alternative scenarios is appropriate? Please explain the basis for your view.

The proposed requirement for alternative scenarios is appropriate. Specifically, the tables presented in Illustration 7 are useful in allowing the reader to compare different scenarios and to see the corresponding effect on receipts and obligations. We note again that the word “spending” should be replaced by “obligations.”

A number of alternative scenarios are currently presented in the Social Security Trustees Report. Included are low-cost and high-cost scenarios which look at the impact of changing several assumptions at once, and sensitivity analysis on individual assumptions (fertility, mortality, CPI, etc.). Including alternative scenarios as a disclosure in this statement would be consistent with the Trustees’ approach.

b. Do you believe that the requirements for additional information regarding alternative scenarios are sufficient? If not, please explain the basis for your view and what additional information you propose.

Yes, these requirements are sufficient. Paragraph 42(d) appropriately specifies that "alternative scenarios presented should consider both those that result in larger as well as those that result in smaller net differences," which ensures that lower-cost and higher-cost scenarios will be presented. Selection of the particular assumptions to be varied and in what combination and magnitude is left to the preparer's judgment.

Q10. This exposure draft proposes disclosures consisting of narrative and graphic displays to communicate effectively to the reader historical and projected trends and to help the reader understand the major drivers influencing projected receipts and spending. The requirements begin at paragraph 39 and illustrations begin on page 52.

a. Do you believe that the disclosures would help the reader understand the basic financial statement?

These disclosures will be essential in helping the reader understand the basic financial statements. It is important for the user to be aware of the numerous limitations involved in projections; otherwise, the information presented could be misleading. In addition, definitions of how present values were calculated, significant policy assumptions, etc., will allow the user to be fully informed.

b. Are there any items that you believe should be added to, or deleted from, the disclosures? If so, please explain.

There is no reason to include paragraph 40(d) in the disclosures: "Fiscal Sustainability Reporting is limited to the activity of the federal government, and does not include the activities of state and local governments." While this statement is valid at a superficial level, this should be obvious to all users. On the other hand, activities of state and local governments have specific indirect effects on the CFR that cannot be ignored or dismissed. As one example, it is within the capability of state and local governments whose employees are not covered by Social Security to require their employees to be covered under Social Security. Such change by any of the state and local government entities that are not currently covered would have specific financial consequences that would be reflected in the CFR.

Paragraph 41(e)3 should also be eliminated. This paragraph suggests inclusion of "Information that may be helpful to readers in assessing whether financial burdens without related benefits were passed on by current-year taxpayers to future-year taxpayers." First, it is not the purpose of the CFR to assess what federal obligations constitute benefits. In addition, assessment of who benefits from any obligation or ultimately bears the burden of paying taxes is highly judgmental and has no place in the CFR.

c. Do you believe that the final accounting standard should include an appendix that displays illustrative disclosures (see Appendix B)? Why or why not?

We believe that some illustrative disclosures can be useful. However, several of the graphs chosen to be included in Appendix B of the exposure draft are not necessarily useful or illuminating:

- Our objections to Illustrations 1a and 1b are described above in response to Question 8.

- Illustration 2 is not particularly useful and the scale is misleading. Showing numbers on the x-axis rather than percentages would foster a better understanding of the changing U.S. population. The narratives surrounding the graphs are helpful, in particular the discussions of the dependency ratio and demographic trends outside the U.S.

- Our objections to Illustration 3 are described above in response to Question 1. We do believe that, with alterations, Illustration 3 could be the principal illustration of the sustainability of federal obligations.

- Illustration 4 has a similar problem as Illustration 3, in that it includes interest accruals as if they are "spending." Both illustrations should show either the annual deficit of receipts relative to obligations or the annual fiscal gap, which would include also the small additional amount needed to maintain public debt at the constant percentage of GDP.

- Illustration 5 reaches the ridiculous conclusion that federal debt held by the public will reach over 700% of GDP by 2080. There is no historical basis for speculating on a debt ratio at this level, and it should not be presented even in a hypothetical context. Rather, the annual levels of additional receipts or obligation reductions (i.e., the annual fiscal gap) should be presented in modified versions of Illustrations 3 and 4.

- Illustration 6 has value but only if described much more carefully in the title and elsewhere. The title should be changed to "Average Percentage Reductions in Obligations over Increasingly Limited Periods to Eliminate the 75-Year Projected Revenue Shortfall (Fiscal Gap)."

- Illustration 7 is useful, but should be expanded to provide a breakout of projections for all major cost centers in the government.

- Our objections to Illustration 8 are described above in response to Question 4.

Q11. The Frequently Asked Questions (FAQs) at Appendix C provide a "plain English" explanation of terms and concepts used in long-term projections.

a. Do you find the FAQs helpful?

The terms and concepts associated with this proposed standard can be difficult to understand, and therefore these FAQs are useful in providing concise answers to some common questions. However, there is a significant amount of repetition between Appendix C: FAQs and Appendix E: Glossary. Combining and/or consolidating these appendices should be considered.

b. Should the Treasury Department be encouraged to include any of the FAQs in the CFR to promote understandability of the terms and concepts? If so, please specify the FAQs that should be considered for inclusion (and/or exclusion).

In keeping with the goal of being "easily understandable to the 'average citizen' who has a reasonable understanding of federal government activities and is willing to study the information with reasonable diligence," the FAQs should be considered for inclusion in the CFR. As mentioned above, perhaps the FAQs and Glossary should be combined.

Q12. Effective Date and Phased Implementation: This proposed Statement would be effective for periods beginning after September 30, 2009 with earlier implementation encouraged. This proposed Statement would require that the financial statement and the disclosures be included in Required Supplementary Information (RSI) for the first three years of implementation, and basic information (for example, basic financial statement, and disclosures) for all subsequent years.

a. Do you believe that this implementation date is reasonable and appropriate?

We believe there are significant shortcomings in the exposure draft that must be addressed before implementation can be considered.

b. Do you agree with the phased implementation period (3 years)?

No, we believe any information required by this statement should remain RSI even after 3 years. The information is based on projections and assumptions and should not be held to the same audit standards as conventional financial reports.

c. Do you believe that some or all of the required information should remain as RSI after the 3-year implementation period? If so, please explain the basis for your view.

We believe that all of the required information should remain as RSI after the 3-year implementation period. Because of the uncertainties and assumptions involved in fiscal sustainability reporting, it is not appropriate for it to be subject to the same audit scrutiny as the other basic financial statements. The essential information proposed here for the Social Insurance programs is already basic information in the agency and consolidated statements. The balance of the information included in the proposed disclosures here would be even more highly speculative, and thus should not be considered basic information.

Q13. A significant minority of members supported a proposal that there should be RSI regarding trends in the proportion of U.S. Treasury debt held by foreign investors. This information would remain as RSI and would not be subject to the phased-in implementation in paragraph 44. (See paragraphs A64 – A68 in the Basis for Conclusions for a discussion of this proposal and Illustration 10 in Appendix B.)

a. Do you believe that including RSI regarding the foreign holdings of U.S. Treasury debt would be relevant and useful in meeting the objectives of fiscal sustainability reporting? Please explain why or why not.

Including RSI regarding the foreign holdings of U.S. Treasury debt for historical periods is of some interest, but it is not relevant or useful in meeting the objectives of sustainability reporting. Specifically, identifying the portion of U.S. Treasury debt held by foreign investors in the past does little in assisting readers to determine if "future budgetary resources will likely be sufficient to sustain public service and to meet obligations as they come due." Moreover, this historical information is available in other federal government publications and would raise too many political and policy-related issues. Any attempt to project the proportion into the future would be so speculative as to be worthless.

b. Do you believe that the illustrative example provided in Appendix B is clear and understandable?

The illustrative example provided in Appendix B is clear and understandable by even the most novice user.

Q14. A minority of members supported a proposal that if the proposed Comprehensive Long-Term Fiscal Projections for the U.S. Government indicate a significant fiscal gap, RSI (not subject to the phased-in implementation in paragraph 44) should include the identification, explanation, and fiscal impact of one or more policy alternatives that would reduce the fiscal gap. (See paragraphs A68–A74 in the Basis for Conclusions for a discussion of this proposal.)

Do you believe that if the proposed Comprehensive Long-Term Fiscal Projections for the U.S. Government indicate a significant fiscal gap, the statement and disclosures be accompanied by RSI that includes identification, explanation, and fiscal impact of one or more policy alternatives that would reduce the fiscal gap? Please explain why or why not.

It is not appropriate to include identification, explanation, and fiscal impact of one or more policy alternatives that would reduce the fiscal gap. As suggested by a majority of the Board in Appendix A, including such policy alternatives would effectively "endorse" a specific policy. FASAB's role is to establish accounting standards, and the role of the Executive Branch of the federal government in preparing the CFR is to determine the financial status. Neither FASAB nor the Executive Branch is charged with recommending policy alternatives in the context of the CFR. Including specific policy alternatives in the CFR would inevitably reflect political views. Given the enormous range and variety of potential policy alternatives, it would be impossible for the FASAB to provide clear guidelines on how to select a limited but balanced subset for inclusion in the CFR. There exist in the law requirements for the President to submit to Congress recommended legislative changes under certain conditions through means other than the CFR. These other means are clearly political vehicles. Political influence in the CFR should be discouraged in every way by the FASAB rather than encouraged. Inclusion of policy alternatives would inevitably introduce at a minimum the appearance of political influence. For this reason, inclusion of optional analysis of factors that lead to fiscal gaps must be done with extreme care and objectivity.

Q15. This exposure draft proposes that additional information that may be helpful to readers in assessing whether financial burdens without associated benefits were passed on by current-year taxpayers to future-year taxpayers (sometimes referred to as “inter-period equity” or “inter-generational equity”) be included as one way to meet a disclosure requirement for providing context for the data in paragraph 41(e). (See paragraphs A75 - A78 in the Basis for Conclusions for a discussion of this proposal.)

Do you believe that such information should be optional (as proposed in the exposure draft) or required? Do you believe that further research and analysis should be performed by FASAB to improve the disclosure of such information? Please explain the basis for your views and note any recommended changes for the presentation of inter-period or inter-generational equity.

In our answer to Question 10, we indicated that it would be inappropriate for the FASAB to encourage, even at an optional level, analysis that would purport to assess the fairness and the incidence of benefit and burden in the CFR. Thus, analysis of “inter-generational equity” should not be required information, nor should it be suggested as optional information. The goal of this standard is to assist readers in determining whether “budgetary resources of the U.S. Government will likely be sufficient to sustain public services and to meet obligations as they come due,” not whether the distributions of financial burdens are “fair” or not. FASAB should not do any further research on this topic. Judgments about what constitutes a benefit, and who receives that benefit, are required for generational analysis of financial costs and benefits. The complexity of federal government obligations and the passage of benefits across generations, both directly and indirectly, make anything appearing to be an analysis of generational equity an exercise in judgment and a statement of political perspective. Whether, for example, current expenditure for a new rifle, or for a new highway, or for a school subsidy, or for a tax reduction benefits current taxpayers or future generations is entirely a matter of interpretation, perspective, and ultimately belief systems. This kind of analysis has no relevance to the CFR.

Other/Summary Comments:

Thank you for the opportunity to comment on this exposure draft. There is much here that is positive and would contribute to understanding of interested citizens willing to invest some time and effort into understanding the material presented in the report.

However, a number of items proposed would be far too complex, potentially misleading, or political in nature, and thus should be modified or eliminated from the standard. To summarize, our main recommendations for changing the draft standard are as follows:

- The concept of "current policy without change" can be problematic and may result in inconsistent reporting among various major programs. This concept cannot, for example, be allowed to result in obligations shown to be increasing in cost as a percent of GDP even when the law would not permit the cost to be realized, while at the same time failing to reflect increases in receipts as a percent of GDP that would be required by current law. This kind of inconsistency would result in biased reporting of financial condition and should be avoided.

- There must be a distinction made between "spending" and "obligations." Shortfalls of revenue will preclude spending in the OASDI and HI programs once their Trust Fund assets are exhausted under current law. Thus, the full obligations for these programs cannot be referred to as spending. The clear solution is to use the term "obligations" rather than "spending" throughout the statement. In addition to this technical point for OASDI and HI, this change would also impart the sense that all federal obligations for the future are subject to consideration and change over time. Such future obligations should not in any case be specifically presumed to represent certain future spending at any level.

- Overall, the Standard does not appropriately address the concept of fiscal sustainability. Too much emphasis is placed on present values and the summary measure of "fiscal gap." In a basic sense, sustainability is defining an objective, meeting that objective, and then continuing to meet that objective. In order to assess sustainability, we need to be able to project and monitor the timing and trend of any measure of sustainability, or shortfall in attaining sustainability. The simplest and most easily understood way to do this is to present any measure on an annual basis. Specifically, the concept of "fiscal gap" can be readily translated into an annual gap that would be meaningful to interested citizens and would provide specific and useful information on the timing and trend of future financial burdens and shortfalls in scheduled financing.

- Present value measures are not understandable to the target audience and should be presented only as secondary measures. Summary measures, whether over a 10-year period or a 75-year period, are inappropriate and ineffective for portraying sustainability. A summarized value for a period can only indicate the cumulative financial status at the end of the period, providing no information about the levels or trends within or beyond the period. In particular, a summary measure over the infinite horizon provides no useful information whatsoever concerning sustainability and should be omitted from the draft. The "fiscal gap" summary measure presented in the exposure draft is the precise analog to the "actuarial balance" that has long been presented in the Social Security and Medicare Trustees Reports. The measure is useful to a degree, but limited. The Trustees have for some time now recognized that in addressing and assessing

- Numerous disclosures identified in the draft standard would be potentially useful. But many would be subject to misinterpretation and even political influence. In particular, disclosures relating to disaggregation of or explanation of the factors contributing to changes in obligations or receipts as a percent of GDP must be done in a comprehensive, objective, and balanced way. Otherwise, such disclosures can readily be subject to political agenda and influence. One example of a specific disclosure that should be discouraged or excluded from the CFR is analysis of "generational equity." It is simply not possible to assign unambiguously the burden of a current tax or a future obligation to any specific generation. Thus, this kind of analysis is at best highly limited, and at worst open to use for advancing political agenda.