

Name **Sheila A. Weinberg**
Title/Organization **Institute for Truth in Accounting**
Contact information **(847) 835-5200**
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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.

I do believe that the proposed reporting would adequately support the above objectives.

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.*

¹ SFFAC 1, par. 134.

² SFFAC 1, par. 139.

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

I do believe that the guidance for assumptions is appropriate.

Q3. *This exposure draft proposes a basic financial statement³ 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.

I do believe that the basic financial statement would be understandable and meaningful for the primary audiences. I am usually nervous about the use “GDP” when presenting information to the citizens, but this worry could be eased with the GDP definition presented below the Basic Financial Statement.

I would change the first paragraph below the schedule to “To address this fiscal imbalance, actions would need to be taken to increase revenues or decrease non-interest spending by the net present value of \$XX.X trillion or X% of GDP. To accomplish this . . .”

I am concerned about the financial report reader becoming overwhelmed, if numerous other disclosures were presented.

Rating of Illustrations: (1 - Intensely Dislike to 5 – Intensely Favorable)

Illustration 1a – 1

Illustration 1b – 1

Illustration 2 – 2

Illustration 3 – 3

Illustration 4 – 3

Illustration 5 – 3

Illustration 6 – 3

Illustration 7 – ?? What does this schedule represent . Not enough description of Illustration available

Illustration 8a – 1, too confusing

Illustration 8b – 1, too confusing

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

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 52 (narrative on the face of the financial statement) and 62 (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?*

The executive summary of the Fiscal Projections ED highlights the need for information that is helpful in assessing inter-period equity, which is a significant part of accountability. The core of this theory is that the current generation of citizens should not have the ability to shift the burden of paying for current-year services to future-year taxpayers. This implies that NO debt should be created by the current generation of citizens. By using 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 GDP), if the economy was expanding the fiscal gap could be maintained at or below a target percentage of GDP, even though the dollar amount of debt increased. Therefore, by measuring the fiscal gap in relation to a debt level of percentage of GDP, this standard would minimize the importance of inter-period equity.

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

No.

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.

No, only the infinite horizon project period should be reported.

- 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?*

Only the infinite horizon project period should be reported. Politicians have used very creative legislative verbiage to working around budget projection's periods. In the past legislation has been crafted that prescribes expenditures outside budget projection's period (5 or 10 years). This has enabled legislators to promise services or benefits in the future without having a financial impact during the budget projection period. By requiring an infinite time horizon requirement, the standard would not allow such trickery to be used in Fiscal Sustainability Reporting.

- 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..

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," or*
- d. A title not listed above (please specify).*

Please explain the reasons for your choice.

"Statement of Fiscal Sustainability" should be used. I believe the Balance Sheet, including the liability for Social Insurance programs would provide the "financial condition" information.

- 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 views.*

The Board should consider defining “major programs”, such as a program that is X% of the total.

- 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.*

“Material” programs should be disaggregated in the basic financial statements. As mentioned above “material” could be defined a percentage of the total receipts or spending.

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 53).*

- 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.*

The Board may want to define “major factors”, specific percentage or other criterion. The narrative of these factors would have to be understandable.

- 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.*

I consider myself a more sophisticated user of federal financial information, but I could not quickly figure out these schedules.

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.*

Alternative scenarios should be made available to the user. I am nervous about overwhelming the user. I would recommend that the totals “Spending in excess of receipts” for alternative scenarios be mentioned in the financial reports notes with reference to the detail of the scenarios.

- 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.*

Too many scenarios will just serve to confuse the user.

Q10. *This exposure draft proposes disclosures consisting of narrative and graphic displays to effectively communicate 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 53.*

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

I would only use Illustration 3. I would recommend this graph remain in the MD&A.

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

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

No need to overwhelm the user.

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?*

Yes. As mentioned previously, the basis of inter-period equity is that no debt be incurred by current taxpayers and passed on to future taxpayers. Therefore the nation’s ability to repay its public debt by comparing the size of its debt to the size of its economy is a meaningless discussion that thwarts the inter-period equity concept.

- 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).

No. The CFR should not be too voluminous. The reader could be directed where to find FAQs.

I would recommend a one line definition of GDP and PV as a footnote on the basic financial statements.

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?*

The proposed Statement should be effective immediately. Treasury already has the capacity and capability to present the Basic Financial Statement and Illustration 3. This is evident by the fact that Illustration 3 is from the FY 2007 CFR. Our country's current fiscal imbalance is massive and the American people need to be informed about this in the most understandable way as soon as possible.

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

No. The massive fiscal imbalance grows every day. People need to be informed ASAP.

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.*

I would recommend that verbiage similar to the "The Long-Term Fiscal Outlook" included in the MD&A of the 2008 CFR and Chart H (Illustration 3) be required in the MD&A section. All other disclosures, besides the Basic Financial Statement, should be required in RSI.

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.*

This is a very powerful trend. Hopefully, this is only a current trend and a required disclosure would become less necessary if foreign holdings were not at such a significant percentage.

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

This is a very clear and understandable illustration.

- 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.

No comment.

- 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.

Such information should be made readily available to the public, but not necessarily in the CFR.

Other comments: