

SSA/OIG comments

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Federal Accounting Standards Advisory Board

On September 2, 2008 the Federal Accounting Standards Advisory Board released the exposure draft, *Reporting Comprehensive Long-Term Fiscal Projections for the United States Government*. Specifically, the Board asked responses to 15 questions.

Attached you will find the comments from the Social Security Administration (SSA) Office of the Inspector General (OIG).

Thank you for the opportunity to review this document. We look forward to the future progress of this project. If you have any questions please contact me on 410-965-9701.

Thank you

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**SSA/OIG Comments on  
FASAB Exposure Draft, Reporting Comprehensive Long-Term  
Fiscal 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.<sup>1</sup>
- 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.<sup>2</sup>

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.

Yes we believe the proposed reporting adequately supports the FASAB objectives. We have no recommendations for better reporting requirements. However, with respect to Social Insurance we believe the current Statement of Social Insurance addresses the reporting objective.

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

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<sup>1</sup> SFFAC 1, par. 134.

<sup>2</sup> SFFAC 1, par. 139.

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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.

We believe that the projection should be based on continuation of current policy without change for federal government public services and taxation.

- Q3. This exposure draft proposes a basic financial statement<sup>3</sup> 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.

We believe that the proposed financial statement and disclosures provides information for the financial community; however, we are concerned that the average citizen may not be willing to read through a financial volume. In our opinion, short high level disclosures are better, such as those included in the summary PAR. In addition, we believe the statement should be disclosed as RSI. If CFR auditors (GAO) will be required to give an opinion, auditing standards need to be developed before the statement is implemented. Presenting the statement as basic information would mean estimates would be placed on the face of the financial statements. Since estimates are based on subjective as well as objective factors; it may be difficult for agencies to establish controls over them, thus creating more skepticism from the auditors.

- 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

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

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

a. Yes, as long as the requirement is consistently applied by the U.S. Treasury across the federal government.

b. No. Fiscal Gap is not a common term and we are concerned that the average citizen would not understand the range of debt level graphs in Appendix B, section 8. We suggest no graphs and no discussion of the continuum of debt. We feel that discussion using examples is better.

Q5. Finite and infinite time horizons for fiscal projections are discussed in the Basis for Conclusions, paragraphs A53 – 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.
- 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?

a. No. We believe that the Fiscal Sustainability statement should be over a finite horizon not to exceed 75 years. We believe that the finite financial statement would show, and the average citizen would be able to draw a reasonable conclusion, as to whether future budgetary resources will likely be sufficient to sustain public services and meet obligations as they come due. Additionally, while financial analysts may find it interesting, we believe it is too much

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information for the average citizen and irrelevant. We further believe that something will have to be done to correct the situation prior to the 75 year horizon, and that the infinite horizon is not realistic.

b. Yes. The time horizon should not exceed 75 years. We believe that the average citizen's understanding of projections, is that the closer in time (such as 50 years versus 75 years) the more accurate the projection. Conversely, the further out the horizon, the less faith the average person will put in the projection. In addition, if not already developed, the development of costs to run programs over the next 75 years would be cost prohibitive, labor intensive, and very judgmental. The factors used to develop the costs for these programs would be too uncertain to measure with confidence. There are many things that are very difficult to project/measure, such as natural disasters, disease, military necessity, etc.

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.

We like answer a, Long-Term Fiscal Projections for the U.S. Government. This title seems more plain English and understandable. Also, it indicates that the numbers provided are merely projections and does not imply that the programs are sustainable or that the future financial condition can be reasonably estimated.

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

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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.
- 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.

a. Yes, at a minimum, Social Security, Medicare and Medicaid should be broken out. However, if these are the only programs that will be disaggregated, it appears to have significant duplication to the Statement of Social Insurance.

b. We believe that the citizens would like to see a breakout of a few more major programs such as defense, food stamps, and unemployment.

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.
- 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.

a. We believe that the major factors impacting projected receipts and spending may be helpful if it includes programs other than just Social Security, Medicare, and Medicaid. However, we believe that this should be brief and in the form of high level, simple graphs and written discussion as presented in the summary PARs.

b. Optional. Illustrations 1a and 1b are fairly easy to understand. However some data and graphs are not, such as Illustrations 8a and 8b. Therefore, it should be left as an option. Also, it could be too much information for the average reader.

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- 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.
  - 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.
- a. No. We believe that there should be only two alternate projections, one to show the increase in revenues needed to sustain the current level of service, and the other to show the cut in spending needed to sustain the current level of service, as the two options are fairly generic. We are concerned that providing other projections would reduce the credibility of the statement. The readers could perceive the alternative scenarios as:
- An endorsement of the alternate policies,
  - Political in nature, and
  - Subjective, open to speculation, and not factual.
- b. We believe that the only alternative scenarios that should be presented are to increase revenues and to decrease spending as they are generic.
- 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 52.
- a. Do you believe that the disclosures would help the reader understand the basic financial statement?
  - 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?
- a. Yes we believe that some of the disclosures would be helpful to the reader.

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b. We do not believe that the projections should be for an infinite horizon because it is not realistic to assume this programs can continue indefinitely without policy changes. We also believe projections should be based on current policy.

c. Yes, we believe that examples are always helpful. However we believe that the illustration should be used as a guide (i.e. not mandatory format and wording).

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?

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).

a. Yes we find the FAQs helpful.

b. All of the FAQs presented in the ED should be included, plus a FAQ for Fiscal Gap. However, we believe the FAQs should be included in GAO’s Guide to Understanding the Annual Financial Report of the United States Government. We believe this is a more appropriate place for FAQs than in the CFR itself.

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?

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

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.

a. No, we do not believe that FY 2010 is reasonable. We believe that 1) impacted entities need more than a few months to develop and document such a

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statement; 2) auditing standards need to be developed before such a statement becomes basic information.

- b. No, we prefer that the required information remain RSI.
- c. Yes, we believe all of the required information should remain RSI, as there are projections in the information, which can be considered speculative, and might not be auditable. Presenting the statement as basic information would mean estimates and projections would be placed on the face of the financial statements. Since estimates are based on subjective as well as objective factors; it may be difficult for agencies to establish controls over them, thus creating more skepticism from the auditors.

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 holding of U.S. Treasury debt would be relevant and useful in meeting the objectives of fiscal sustainability reporting? Please explain why or why not.
  - b. Do you believe that the illustrative example provided in Appendix B is clear and understandable?
- a. Yes, we believe that it would be meaningful to present a schedule showing trends in U.S. Treasury debt held by foreign investors. This information would show the reader the impact foreign countries could have on the U.S. economy.
  - b. The illustration in Appendix B is clear and understandable. However, we believe the readers would like to see which countries are the top investors, and the percentages held by each of them.

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,

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explanation, and fiscal impact of one or more policy alternatives that would reduce the fiscal gap? Please explain why or why not.

We believe that a significant fiscal gap could be shown in the RSI. We believe the public would be interested in a top level discussion of the comparison of fiscal gap to GNP, and what the percentage was at other points in time (for comparison purposes). However we do not think alternate projections should be made at this time. It seems inappropriate to predict future government policy. We are concerned that there will be too much information for the reader. In addition we feel that at this time, there is no defined target percentage for fiscal gap as it relates to the United States. Further, these types of policy issues may be better addressed in a separate report completed by GAO.

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.)

- a. Do you believe that such information should be optional (as proposed in the exposure draft) or required?
- b. 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.

a. Yes, it should be optional.

b. If it is optional, inter-generational equity can be added at a later date. However, we believe that no further research is needed. We believe the readers already understand this concept. As an example, we believe that many of the young readers do not expect to receive any Social Security benefits, as they believe there will be no money left for them by the time they retire, unless there are current policy changes.

**Other Comments and Concerns:**

Paragraph	Comment
7	Paragraph 7 states that assessing future budgetary resources has social and political implications. We have a concern that the term “political implications” detracts from

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	the purpose of the statement.
<b>10</b>	It is not clear who will make the determination of materiality. Is it intended that Treasury will decide which items to include, and will Treasury seek input from Federal agencies?
<b>12</b>	This paragraph defines fiscal gap. However, it does not address who determines what the “target” percentage of debt to gross domestic product (GDP) should be. It also does not address how often the target percentage changes, such as every 5 years, etc.
<b>18</b>	Paragraph 18 states that the report requirements in this statement apply to the consolidated financial statements. How will Treasury calculate the individual component entity level information? Will Treasury contact the individual component for this information? If so, who will audit this information?
<b>32</b>	It is not clear if there can be different valuation dates for each program or if the same valuation date is expected for all programs in the statement.
<b>33</b>	The language in the second sentence, “If not feasible, the entity should disclose...” may be somewhat confusing. Disclosures to the public would be included with the statement in the CFR and not in the PARs for individual entities. Should this be revised to say that departments or agencies should disclose this information to Treasury?
<b>42</b>	This paragraph states that historical and projected trends should begin at least 20 years before the current year. We understand that FASAB believes that 20 years are needed in order to show a trend. However, since the Chief Financial Officers (CFO) Act (Public Law 101-576) was signed in 1990 or only 18 years ago, we have a concern that not all agencies have readily available financial data that is reliable prior to 1990.