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Attached are our comments on the Exposure Draft Reporting Comprehensive Long-Term Fiscal Projections of the U.S. Government. You may receive a separate set of comments from SSA's Office of the Chief Actuary.

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1. Do you believe that the proposed reporting adequately supports the stewardship objectives, specifically 3B?

The Exposure Draft (ED) states that the objective of “Fiscal Sustainability Reporting” is to help the reader “determine whether future budgetary resources will likely be sufficient to sustain public services and to meet obligations as they come due” (paragraph 6). Furthermore, the ED indicates that the reporting should be understandable to the “average citizen” who has a reasonable understanding of federal government activities and is willing to study the information with reasonable diligence.”

Of all the illustrations presented in the ED, illustration 3 on page 57, “Projected U.S. Government Receipts and Spending” is the closest to meeting the objectives by making a year-by-year comparison of the projected revenues and obligations of the federal government under “current policy.” However, there are two important shortcomings with this presentation. First, obligations are incorrectly classified as spending. As implied in the ED, a shortfall in revenues would preclude spending once related assets are exhausted under current law. Therefore, it would not be appropriate to refer to these full obligations as spending, when this spending is not projected to occur. In addition, it is not appropriate to include interest accruals in the graph, as it would imply that it is “spending.” The inclusion is also flawed since it does not consider the possibility that if non-interest obligations were met, the growth in interest accrued would not occur.

If the above changes were made, the illustration would fairly present the sustainability of federal obligations by presenting obligations as a percent of the gross domestic product (GDP) that must support these obligations on a year-to-year basis, as well as the level of expected receipts on an annual basis under current policy. This illustration would also meet the criteria for sustainability by accurately showing the timing and trends in projected obligations, shortfalls, and surpluses.

Furthermore, measuring receipts and obligations over a number of years using a present value calculation should either be eliminated from the standard or given little emphasis. These extremely large numbers, in the trillions, and the complexity of present value figures have little meaning to the average citizen. A year-to-year comparison, as shown in illustration 3, is much more understandable.

2. Do you believe the guidance for assumptions is appropriate? If not, please suggest alternative guidance.

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 these long-term projections. The definitions and examples provided for policy, economic, and demographic assumptions are clear and understandable, specifically the examples of the assumptions applied to the Social Security program.

However, the concept of “current policy without change,” does not seem entirely plausible. In simple cases, such as where discretionary spending expires, the concept makes sense. However, as mentioned previously, there are instances, such as with the OASDI and HI programs, where current law sets limitations on spending, and any obligations incurred beyond those limits cannot be classified as “spending,” without a change in law. This is similar to the projection of “obligations” for payment of personal tax liability under current law. Since the law specifies that these increases and obligations may only be altered with a change in law, it would be misleading to show only one of these increases in obligations

3. 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 disclosures.

We do not believe this report should 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.

In addition, as mentioned previously, the obligations displayed in the various illustrations should not be referred to as spending because of the recognized limitations on spending in various programs, such as OASDI and HI, under current law. Moreover, “All Other Receipts” must reflect obligations under current policy and should not be limited to the current percentage of GDP.

The proposed presentation 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” among Medicare, Medicaid, and Social Security is valuable, as these programs seem to draw the most media attention and concern. The use of “% of GDP” is a useful measure and can be understood by the basic reader. 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 all users. The calculations that are involved in developing a present value figure, such as selection of interest rates, are detailed and complex for a reader to understand, particularly an average citizen.

4a. Do you believe in flexible requirements for reporting fiscal gap?

It seems as though there is too much flexibility in establishing fiscal gap, i.e. determining the appropriate level of public debt as a target percentage of GDP. While, we do not feel that the Board has the authority to establish a debt-to-GDP ratio, it seems that allowing the preparer to establish the appropriate level of debt-to-GDP is too subjective. Many readers will assume that having a zero debt-to-GDP level is preferable and may not understand the concept that some level of debt is often acceptable, if not preferred. As stated in the "Basis for Conclusion," it would be arbitrary to attempt to set a target debt level relative to GDP.

4b. Do you believe that the illustrative disclosures (ill. 8 in App b) is clear and understandable?

We believe that the concept of fiscal gap needs to be explained more clearly. It seems that the reader will have to invest a considerable amount of time to gain an understanding of the concept. If the reader is able to grasp the concept of fiscal gap, then the graph is both clear and understandable. The presentation allows for two different interpretations, i.e., fiscal gap presented in both present value dollars, as well as a percentage of debt to GDP. Likewise, the presentation of the changes in revenue or non-interest spending provides a clear explanation of changes that are necessary to maintain a specific debt to GDP ratio. Similarly, the current debt to GDP ratio comparison with the historically high debt to GDP ratio in 1946 is useful in allowing the reader to understand how the measure has evolved over the years.

5a. Do you believe that the 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.

We believe that data related to infinite horizons should not be presented in either the financial statements or disclosures. There is too much uncertainty in developing projections for an infinite horizon and there is little meaningful information gained from these models. We also believe that the finite measure is not entirely useful, because, as with a finite horizon, it does not address timing or trends in levels of costs, shortfalls, or surpluses, which can only be found in the annual estimates of receipts and obligations. While use of a finite measure provides an indication of the expected adequacy of future receipts to provide for obligations over the period as a whole, it fails to show whether resources may be adequate at any given point within the period presented. This measure only provides one clear indication of fiscal sustainability, i.e., whether or not receipts and obligations will be in balance at the end of a given period. Even with the limitation of the finite model, it is still more meaningful and effective than a model using an infinite horizon.

5b. Do you believe that there should be a specific time horizon requirement (i.e. 75 years) for the basic financial statement for Fiscal Sustainability Reporting and/or the SOSI? If so, what time horizon do you suggest?

We believe there should be a specific time horizon requirement of 75 years for the report and/or the SOSI. This would be consistent with the use of the 75-year horizon projection period used in both the Social Security and Medicare Trustees Report.

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

The most appropriate title would be the “Long-Term Fiscal Projections for the U.S. Government.” The other titles presented include the word “statement,” which does not seem appropriate for an illustration that consists of projections. These are much different from a balance sheet, statement of budgetary resources etc., which present the results of operations at a present time or that have already occurred.

7a. For projected receipts and spending, major programs such as Social Security and Medicare would be shown separately. Do you believe that the above general guidance provides for an appropriate level of disaggregation in the basic financial statements?

While showing Medicare and Social Security is an excellent starting point, it seems that additional disaggregation for total receipts would be useful. We believe that showing Medicare, Medicaid, and Social Security only for total spending is appropriate since these programs make up the majority of non-defense related dollars spent. Additionally, we believe that attempting to provide a 75-year projection of defense spending would not provide meaningful or valuable information.

7b. Do you believe that specific line items (instead of or in addition to the major programs required by paragraph 36) should be disaggregated?

“Individual income taxes” and “corporate income taxes” should be listed under the receipts category.

8a. Do you believe that disclosures explaining and illustrating 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 explanation and illustrations will be helpful to users. Users of the statements should be aware of the major factors considered that may affect projected receipts and spending.

8b. Do you believe that the display of a range of major cost drivers and/or major programs should be optional or mandatory. Please explain the basis for your view.

We believe that the display of major cost drivers and/or major programs as shown should 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 would be much more effective.

9a. The ED proposes that the results of alternative scenarios be provided. Para 42(d) provides that the PV of projected receipts, spending and net of receipts and spending be presented for each alternative scenario. Do you believe that the proposed requirement for alternative scenarios is appropriate?

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 its corresponding effect on receipts and spending.

9b. Do you believe that the requirements for additional information regarding alternative scenarios are sufficient?

Yes, these requirements are sufficient.

10. The ED 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. (Paragraphs 39/illustrations p. 52).

a. Do you believe the proposed disclosures consisting of narrative and graphic displays would help the reader understand the basic financial statement?

We believe these disclosures are helpful in aiding the reader in understanding 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 to users. 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 or deleted from the disclosures?

No items should be added to or deleted from the disclosures.

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

We believe that some illustrative disclosures can be useful. Some graphs such as illustration 3 “Projected U.S. Government Receipts and Spending” and illustration 4, “Projected Deficit (Surplus) as a Percentage of GDP,” are useful in allowing the reader to visualize the topics being discussed. However, the standard should caution the preparer when considering what information to display in the graphs. For example, in illustration 2 the “Age-Gender Pyramid,” the graph does not successfully illustrate any gender disparities nor is it clear if this information is relevant.

11a. Do you find the FAQ 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, such as “What is present value?” and “What is the nature of Federal trust funds?”

11b. Should Treasury include FAQs in the CFR to promote understandability of the terms and concepts?

No, Treasury should not be encouraged to include any of these FAQ’s in the CFR. Including these FAQ’s would be providing too much information and would seem to dilute the basic information presented. It appears that many of the answers to the FAQ’s can be easily incorporated, if they are not already, into the disclosures.

12a. Do you believe that September 30, 2009 is a reasonable implementation date?

The implementation date seems reasonable and appropriate. Federal agencies are already producing some of this information.

12b. Do you believe with phased implementation period (3 years)?

No, we believe this information 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.

12c. 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.

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 does not seem appropriate for it to be subject to the same audit scrutiny as the other basic financial statements.

13a. Do you believe that including RSI regarding the foreign holdings of US Treasury debt would be relevant and useful in meeting the objectives of fiscal sustainability reporting?

This information could perhaps be useful but we believe the issue would need to be studied more before a conclusion can be made. Clearly, a greater percentage of Treasury debt is held by foreign holders but is this trend consistent with other industrialized nations and perhaps an outcome of an increasingly global economy? If the U.S. current rate of debt held by foreign investors and the rate of decrease in holdings by U.S. investors over time is consistent with that of other nations, this would suggest that this information might not be particularly useful. Additionally, the decrease in domestic holdings of Treasury debt may be influenced by other factors such as an increase in opportunities for U.S. investors to invest abroad as seen by the increase in international mutual funds, exchange traded funds, and even the Thrift Savings Plan's International Stock Fund.

13b. Do you believe the illustrative example in Appendix B is clear and understandable?

Yes, the illustrative example provided in Appendix B on page 64 is clear and understandable; however, a line graph showing how the rate of foreign ownership changes over time would be much more informative than a pie chart which only shows two data points.

14. Do you believe that if the proposed Statement indicates 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. (See para. A68-A74 for a discussion on this).

It would not be appropriate to include identification, explanation, and fiscal impact of one or more policy alternatives that would reduce the fiscal gap. As already stated in the basis for conclusions, we believe that including such policy assumptions would seem to "endorse" a specific policy. FASAB's role is to establish accounting standards, not to establish policy standards that reflect various political views. In addition, it seems impossible to provide clear guidelines on how to select among the numerous possible policy alternatives.

15a. Do you believe that additional information regarding inter-generational equity should be optional or required?

While the concept of "inter-period equity" and "inter-generational equity" is interesting, it should not be required 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." Readers always have the option of doing such an analysis using this standard as a starting point, but this information would be inappropriate to include as required information in this projection.

15b. Do you believe further research and analysis should be performed to improve the disclosure of such information? Please explain the basis for your views and note any recommended changes for the presentation of inter-generational equity.

FASAB should not do any further research. It would not be appropriate to include these disclosures in the standard.