

October 23, 2006

Ms. Wendy Comes, Executive Director
Federal Accounting Standards Advisory Board
Suite 6814
441 G Street NW
Washington DC 20548

Dear Wendy,

Thank you for the opportunity to provide comments on the preliminary views of members regarding a proposed Statement of Federal Financial Accounting Standards entitled *Accounting for Social Insurance, Revised* (preliminary views document).

General Observations

Many years ago, I recall reading that when a location for the Financial Accounting Standards Board (FASB) was being considered New Haven was rejected in favor of Stamford so that FASB would not be regarded as an ivory tower institution. The idea was that FASB should be a standard setting body that was practical in orientation – not the domain of pure intellectuals. My comments on the preliminary views document reflect what I think are common sense notions – I confess that I don't have the brain power to be an intellectual. My hope is that FASAB will take a common sense approach to the issues raised in the preliminary views document so that people like me can understand the result.

When I was serving in the Army in Viet Nam in 1969, I did not pay income tax, I did not pay for postage, but I did make Social Security and Medicare contributions. From 1959 – 1963, I worked as a caddy at Belmont Country Club in Belmont Massachusetts. During those years I also worked inside the club house as a houseboy (earned \$119 in 1960), a dishwasher (earned \$161 in 1961), and a busboy (earned \$237 both in 1962 and 1963). In the 1960's I also worked as a packer, a mover, a salesclerk, and a security guard – all very low paying jobs. I never had to file tax returns in the 1960's but I made Social Security and Medicare contributions. Common sense tells me that those contributions were not taxes – no legislature would enact tax laws that would tax such small amounts – especially small amounts earned serving one's country in a combat zone. Those contributions were exchange transactions – I was exchanging dollars I really needed for benefits that I would receive in retirement or if I became disabled. I don't think this notion is hard to understand and there are houseboys, dishwashers, and busboys in 2006 who understand what their contributions provide for them – namely an entitlement to benefits.

Since the benefits provided by law are not sustainable, changes will have to be made (in fact my Social Security benefits have been greatly reduced by the Windfall Elimination Provision since I'm eligible to receive a federal pension) but to say that nothing is owed is not a common sense conclusion. The liability should be recognized in accordance with

the benefits provided by law – when changes in the law are made, the amount of the liability should be recalculated. I don't accept the proposition that no liability should be recognized because benefit changes are inevitable. Such matters should be addressed in the notes that serve to explain the numbers that appear on the financial statements.

(I am aware that the proposed definition of a liability set forth in the exposure draft entitled *Definition and Recognition of Elements of Accrual-Basis Financial Statements* does not require an exchange transaction. I agree with the proposed definition but I definitely see exchange transactions occurring in social insurance programs.)

There is a need for a full roll-out of federal accrual accounting so numbers can be reported that reflect the financial position of the Federal Government - the cash basis numbers do not begin to tell the story. The vehicle for reporting the accrual-based numbers is the Financial Report of the United States Government (CFR). Citizens and citizen intermediaries understand basic financial statements so it is important that the basic statements include the important accrual-based numbers. FASAB standards can require full accrual-based numbers. If the accrual-based numbers reported on the basic financial statements do not include full accruals for social insurance programs, I don't think the CFR will be considered credible even after all audit issues are resolved.

Specific Responses to Questions

Q1. Which obligating event do you believe creates a liability and expense that should be recognized?

Response: I think work in covered employment is the correct obligating event. This obligating event allows for a full accrual of the liability consistent with real world experience. The fully insured obligating event is less enticing since almost everyone becomes fully insured - you need 40 credits and it's possible to receive 40 credits by working several days per year for 10 years if you make enough money during those several days (e.g., to receive 4 credits for 2006 the amount of income needed is \$3880). The fully insured obligating event is acceptable to me since it approximates the work in covered employment obligating event – the other two possibilities are unacceptable since there would be incomplete reporting of costs and liabilities.

Q2. Do you believe that the Social Security and Medicare obligations are measurable for purposes of recording a liability after 40 quarters or equivalent of work in covered employment as proposed in the Primary View?

Response: The Statement of Social Insurance (SOSI) is a primary statement (full audit) and actuarially determined amounts are reported on the SOSI. If amounts are measurable for the SOSI, I would expect that amounts are measurable for reporting a liability on the balance sheet.

Q3.1 Do you believe that the Primary View proposal to add line items to the SOSI that tie to revised expense and liability amounts reported on the statement of net cost and balance sheet respectively, should be adopted?

Response: It's a good idea to tie amounts – it promotes understanding. These are important numbers and these are primary statements so doing this is worthwhile.

Q3.2 Do you believe that the reasons for changes in SOSI amounts during the reporting period should be reported and, if so, do you favor such reporting (1) as proposed by the Primary View, or (2) as proposed by the Alternative View; or (3) some other approach?

Response: I believe that the reasons for changes in SOSI amounts during the reporting period should be reported since these are huge programs – this is not adding unnecessary clutter. The Alternative View proposes a Statement of Changes in Social Insurance that provides useful information – I support the Alternative View proposal.

Q4. Do you believe the proposal (Statement of Fiscal Sustainability) should be adopted?

Response: Yes, the proposal should be adopted. Fiscal sustainability issues are very important and a Statement of Fiscal Sustainability will provide a helpful focus.

Q5. Do you believe that the Board should consider recognizing deferred revenue for earmarked receipts in excess of related program costs?

Response: The Primary View allows for appropriate matching of revenues with costs. I don't think the deferred revenue approach is very helpful – it doesn't go far enough.

Q6.1 Please offer any comments that you wish to make on the Primary View provisions.

Response: I have no additional comments.

Q6.2 Please offer any comments you wish to make on the Alternative View provisions.

Response: I have no additional comments on the Alternative View provisions but I do have a comment on paragraph A135 in Appendix A. That paragraph asserts that an exchange transaction must be voluntary. That's contrary to the definition of exchange transaction in SFFAS 5 (defined in the glossary). An exchange transaction need not be voluntary and to assert otherwise misleads reviewers of the preliminary views document and undermines due process.

Congratulations to you, the Board, and your staff for producing such a splendid document. It is a privilege to comment on it.

Sincerely,

Allan Lund, CPA, JD