

>>> "Andrew J. Rettenmaier" <a-rettenmaier@tamu.edu> 2/9/2009 3:34 PM >>>
Dear Ms. Payne,

Attached are my comments on the exposure draft related to accounting for Social Insurance.

Thank you for the opportunity to participate.

Sincerely,

Andrew J. Rettenmaier, PhD
Executive Associate Director
Private Enterprise Research Center
Texas A&M University
College Station, TX 77843-4231

Request for Comments on FASAB Exposure Draft: *Accounting for Social Insurance, Revised*, dated November 17, 2008

All responses are requested by *February 9,*

2009. Questions for Respondents:

Q1 .The Board proposes to require social insurance component entities and the government wide entity to discuss and analyze key measures from the basic financial statements in their management's discussion and analysis ("MD&A"). See paragraphs 26-30 in the proposed standard and paragraphs A75-A79 in the basis for conclusions.

Do you believe that key measures should be presented in the MD&A as described in this exposure draft? Please provide the rationale for your answers.

Yes, the MD&A should include a discussion of key measures including social insurance. However, the treatment of social insurance in the proposed Table of Key Measures in Appendix B is too detailed. The NPVs for the closed group should be reported once, on the same date as the other measures in the table.

Q2.The Board is proposing to add a line for the **closed group measure** to the balance sheet below assets, liabilities, and net position and not included in the totals for these classifications.¹ See paragraphs 31-32 in the proposed standard and paragraphs A81-A100 in the basis for conclusions. Two members have submitted alternative views on this issue. See paragraphs AI 39-AI 42 in the basis for 3 conclusions for Mr. Patton's view. Mr. Patton and other members believe that a liability greater than the due and payable amount should be recognized on the balance sheet. See paragraph A144 in the basis for conclusions for Mr. Werfel's view. Mr. Werfel and other members believe that the closed group measure should not be presented on the balance sheet.

Do you believe that the balance sheet should present a line item for the closed group measure as described in this exposure draft? Please provide the rationale for your answers.

Based on my reading of the "basis for conclusions" the inclusion of the closed group measure was a compromise, particularly on the balance sheet. In the context of a balance sheet, assets and accrued liabilities as of the reporting date are more appropriate than the net closed group obligation given that it includes future accruals as well as future dedicated revenues. A balance sheet

¹ Definitions of certain terms are provided in the Definitions section and Appendix F: Glossary of this proposed standard.

of the United States Government, however, with no mention of Social Insurance Commitments would be incomplete. Thus, a balance sheet that includes the closed group obligation as a compromise is preferred to a balance sheet with no mention of social insurance commitments.

Q3. The Board proposes to add a new summary section of the statement of social insurance ("SOSI") to present the closed and open group measures. See paragraphs 34-35 in the proposed standard and paragraphs A114-A116 in the basis for conclusions.

**Do you believe that the SOSI should have a summary section as described in this exposure draft?
Please provide the rationale for your answers.**

Yes. In particular, the age-decompositions of benefit payments and tax revenues are valuable in assessing the generational consequences of social insurance.

Q4. The Board proposes a new basic financial statement entitled "statement of changes in social insurance amounts." The new statement would explain the changes during the reporting period in the present value amounts for the closed group measure included in the statement of social insurance. See paragraphs 36-37 in the proposed standard and paragraph AI 16 in the basis for conclusions. Mr. Werfel and other members have an alternative view. They believe the new statement should focus on changes in the open group measure and not the closed group measure. The question of the use of the appropriate measure is addressed in question 7 below. See paragraph A145 in the basis for conclusions.

**Do you believe there should be a new basic financial statement explaining changes to the present value amount included in SOSI?
Please provide the rationale for your answers.**

Yes. A statement of changes in the Social Insurance amount should be included and should be based on the closed group obligation, given that it is the focus the new reporting.

Q5. The Board proposes to disclose an accrued benefit obligation in notes to the financial statements. This information would include a five year trend when the standard is fully implemented. See paragraph 38 in the proposed standard and paragraphs AI 17-AI 23 in the basis for conclusions. Mr. Werfel and other members have an alternative view expressing opposition to this disclosure. See paragraph A146 in the basis for conclusions.

**Do you believe that an accrued benefit obligation should be disclosed as described in this exposure draft?
Please provide the rationale for your answers.**

Yes. Comprehensive financial reporting requires the inclusion of accrued benefit obligation measures for social insurance. Of all of the measures used to account for the financial status of these programs, only the accrued benefit obligations can be thought of as liabilities. It is unfortunate that the accrued obligations are relegated to a footnote in the proposed standard. The accrued benefits measures provide valuable information to the public regarding the current outstanding commitments of the federal government to beneficiaries. The accrued benefits, particularly Social Security payments to current beneficiaries are equivalent to the pension obligations of private and public sector employers. Though there are definitional issues to overcome in calculating accruals for current participants who are younger than the eligibility age, as well as more uncertainty in the estimates for Medicare, the accrued measures are necessary for a complete understanding of the current burden of social insurance.

Q6. The Board considered but decided not to propose adding a line item to the statement of net cost ("SNC") for the change during the reporting period in the closed group measure that would be presented below exchange revenue and expenses and not included in the totals for these classifications. Some argue that this measure should not be presented on the SNC because it is a fundamentally different measure. Others believe the change is an economic cost that belongs on the SNC, and that including this number at the bottom of the SNC appropriately links all basic financial statements. See paragraphs A101-A113 in the basis for conclusions.

Do you believe that the SNC should not include a line item for the change during the period in the closed group measure, which would be presented below exchange revenue and expenses and not included in the totals for these classifications?

Please provide the rationale for your answers.

Yes. The SNC should not include a line item for the change during the period. The information in Appendix E is sufficient.

Q7. The Board decided to present the **closed group measure** (CGM) (defined in paragraph 19) as a common thread among the proposed new reporting. The proposal requires that the CGM and other key measures from the financial statements be discussed in management's discussion and analysis; that the CGM be presented on the balance sheet below assets, liabilities and net position (without being included in the totals for those categories); and that the changes in the CGM during the reporting period be presented and explained in the new summary section of the statement of social insurance and the new statement of changes in social insurance. The Board considered the **open group measure** (defined in paragraph 24) instead of the closed group measure as the focus for the disclosure. This exposure draft discusses both

the closed group measure and the open group measure throughout. Paragraphs A69-A74 provide the basic rationale for the Board's selection of the closed group measure. Mr. Werfel and other members have an alternative view regarding the presentation of the closed group measure. They oppose the addition of the closed group measure to the balance sheet. Further, they believe the open group measure is the appropriate measure to use in the new statement of changes in social insurance and not the closed group measure. See paragraph A145 in the basis for conclusions.

Do you agree with the Board's decision to feature the closed group measure? Please provide the rationale for your answers.

Yes, as a compromise based on the reasons given in A69-A74, the closed group is preferable to the open-group. Please see general comments below.

Q8. The Board is proposing to change the requirement currently in SFFAS 17 for specific sensitivity analysis. The standard will require the entity to provide sensitivity analysis of the closed and open group measures appropriate for its particular social insurance program but will not specify a particular approach for the analysis. See paragraphs 42-43 of the standard and paragraphs A11 25-A137 of the basis for conclusions.

Do you believe that a general requirement that allows flexibility in the sensitivity analysis presented will produce better information regarding the sensitivity of social insurance programs?

Please offer any comments that you wish to make on these provisions.

Yes. Sensitivity analysis is valuable for the public, but there are various ways to estimate confidence intervals around current forecast, so flexibility in making the stochastic estimates is important.

General comments

The accounting for social insurance should identify the financial health of each entity as independent programs as well as identify their impact on the rest of the federal government's finances. The *Medicare and Social Security Trustees Reports* thoroughly account for the programs' financial status from the programs' perspectives while the *Financial Report of the United States Government* should report on the status from a unified perspective. These differing perspectives lead to different emphases. The *Financial Report* should provide a comprehensive perspective that allows the user to draw informed conclusions about the current and future state of federal finances. The Statement on Social Insurance as summarized in Appendix D provides, in general, a comprehensive

perspective by including the open and closed group measures. As mentioned in response to Question 5, however, accrued benefits could be more transparently presented. The SOSI as summarized in Appendix D could be modified by focusing on the current year and then decomposing the expenditures between those accrued as of the current year and those that are anticipated to be accrued in the future.

Opposition to reporting the more present-oriented measures (ie. the closed-group or accrued benefits) is typically based on the logic that in the context of the pay-as-you go financing such measures are not relevant or can be misconstrued. The presupposed financing method, however, should not determine whether a particular measure is reported. As long as the financial statements provide clear definitions of the different measures, users will have the necessary information to develop a comprehensive and unbiased understanding of the programs' financial positions.