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

Introductory Comments

I strongly believe that the “accrued benefit obligation” should be an amount reported as a liability on the balance sheet and the related cost should be reported as an expense on the statement of net activities.

Translucency at best was not the goal the Board set for itself in 2003, when it first committed to improving how these social insurance liabilities are reported. Social insurance benefits are set automatically through continuing appropriations. Congressional action is required to increase or decrease these benefits. Reporting the social insurance liability on the face of the balance sheet and related cost on the statement of net cost would allow the public and their elected officials to straightforwardly identify increases or decreases in promised benefits. Then the public could easily evaluate their elected officials’ decisions to adjust benefits.

Please keep in mind my strong views on reporting a social insurance liability as a liability on the face of the balance sheet, which considering my answers to the questions below.

Questions for Respondents:

Q1. The Board proposes to require social insurance component entities and the governmentwide entity to discuss and analyze key measures from the basic financial statements in their management’s discussion and analysis (“MD&A”). See paragraphs **Error! Reference source not found.—Error! Reference source not found.** in the proposed standard and paragraphs **Error! Reference source not found.—Error! Reference source not found.** 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.

The key measures could be presented in the MD&A. The “Budget Results” could be moved to the top of the key measures, so it is next to the “Costs”. The term “Costs” could be changed to “Financial Results”. Using the term “Costs” would not be conducive, if the government reported a “surplus”. (We can always hope.) To make the table more readable, I would recommend the “Social Insurance Commitments” be changed to “Change in Social Insurance Commitments” and only have the “Change”. I assume a large portion of “Federal employee & veterans benefits” is a net present value calculation, but in the “Net Position” portion of the table the NPV is not mentioned. I would also not mention the NPV in the “Change in Social Insurance Commitments” portion of the table. I would have a line for “Change in Medicare” and “Change in Social Security”, then a total “Change in Social Insurance Commitments”.

A better format of this information can be found on page 11 of the 2004 CFR. I have also prepared possible format. (See attachment “Key Measures for ED)

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 **Error! Reference source not found.—Error! Reference source not found.** in the proposed standard and paragraphs **Error! Reference source not found.—Error! Reference source not found.** in the basis for conclusions. Two members have submitted alternative views on this issue. See paragraphs **Error! Reference source not found.—Error! Reference source not found.** in the basis for 3conclusions 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 **Error! Reference source not found.** 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.

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

The closed group should be used. I don't believe people who are not current participants in the programs should be included in the calculations.

- 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 **Error! Reference source not found.—Error! Reference source not found.** in the proposed standard and paragraphs **Error! Reference source not found.—Error! Reference source not found.** 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.

I don't believe people who are not current participants in the programs should be included in these summaries.

- 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 **Error! Reference source not found.—Error! Reference source not found.** in the proposed standard and paragraph **Error! Reference source not found.** 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 **Error! Reference source not found.** 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.

To avoid adding complications to the basic financial statements, such a schedule should be included in RSI.

- 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 **Error! Reference source not found.** in the proposed standard and paragraphs **Error! Reference source not found.—Error! Reference source not found.** in the basis for conclusions. Mr. Werfel and other members have an alternative view expressing opposition to this disclosure. See paragraph **Error! Reference source not found.** 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. The “accrued benefit obligation” is the most truthful amount of the Social Security and Medicare “obligation”. This amount should be presented on the face of the balance sheet as a liability. The “present value of future payroll taxes and income taxes to be paid” should not be included in the calculations of the accrued liability and related current year cost. These “earmarked” taxes are “earmarked” in name only. In reality these taxes are just like any other tax, because they are commonly used to pay for non-social insurance benefits and services.

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 **Error! Reference source not found.—Error! Reference source not found.** 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.

A line item to the SNC should be added. I wholeheartedly agree with paragraphs A101-A109.

Q7. The Board decided to present the **closed group measure** (CGM) (defined in paragraph **Error! Reference source not found.**) 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 **Error! Reference source not found.**) 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 **Error! Reference source not found.-Error! Reference source not found.** 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 **Error! Reference source not found.** 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.

I don't believe people who are not current participants in the programs should be included in the reporting of social insurance programs.

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 **Error! Reference source not found.—Error! Reference source not found.** of the standard and paragraphs **Error! Reference source not found.—Error! Reference source not found.** 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.

No comment.