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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 governmentwide 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.

I agree that that component entities and the government wide entity should discuss and analyze key measures from the basic financial statements. For social insurance programs, however, any "closed group" measure should not be included unless the nature of the program dictates it.

For example, any reporting on the financial status of the OASDI program should not include it. The excess of the present value of future benefits over revenues for the closed group has no value. It is commonly understood that the current structure of social insurance programs need to be changed. The amount of change necessary is measured by looking at the present value of future benefits over the present value of future revenue for a specific time period not a specific group of people.

The OASDI and HI Trustees have historically measured the financial status of the program over a variety of time periods. However, primary focus has been given to the set of 75-year estimates. The ability to properly measure the difference between funding and benefits will decrease as the time horizon expands. Thus, incredibly long time horizons such as one covering infinity, are impractical and of little value. However, to be of value to policy makers the time horizon must cover something more than a few years or budget cycles. Thus the current SOSI measure of 75 years appears to be practical, although very rationale arguments can be made for using a somewhat shorter period.

An example where a “closed group” measurement would be valuable would be in the accounting for pensions and retirement benefits of Federal employees.

- 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 A139—A142 in the basis for 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.

Amounts on the balance sheet should be limited to assets and liabilities of the federal government. Creating new classifications or line items below the net position would reduce the clarity of the financial statements.

In addition, the balance sheet should not include the closed group measure for Social insurance. As mentioned in the answer to question 1, the government’s responsibility in respect to these programs is to bring revenue in line with benefits. Thus the government’s liability is equal to the excess of the present value of future benefits over future tax revenue. For example, the 2008 OASDI Trustees Report shows that the present value of scheduled benefits exceeds the present value of future income by \$5.7 trillion over the next 75 years. This is the amount that the federal government is obligated to reduce benefits or increase taxes by to bring the program into balance and its value should be shown on the balance sheet. This line item should not be included below the net position, but rather it should be shown with the other liabilities/assets of the federal government.

Showing the closed group measure tends to be biased towards showing a larger deficit. For example, if the federal government enacted sufficient reform so that the present value of future benefits equaled the present value of revenue, the program would be in balance. However, the closed group measure could still show a significant deficiency. A key requirement of any Social Insurance value on the balance sheet should be that if the present value of future inflows equal future outflows the values

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

on the balance sheet should be zero. To the extent, such inflows exceed projected outflows the government should show a net asset. To the extent, that such outflows exceed inflows, the government should record a liability.

- 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.

The current SOSI is an elegant presentation of the financial status of social insurance programs and truly represents one of FASAB’s greatest accomplishments. It presents the size of the government’s obligation to facilitate change, while at the same time allowing an inclined user the ability to calculate the amount of any intergenerational transfer. These generational components allow such interested parties to develop the closed group constructs if they wish, and SFAS 17 requires that they be given instructions on how to do so. Under the current SOSI configuration, users instantly realize the magnitude of the funding gap/surplus these programs face. Additional information on the face of the statement should not be added. Therefore, the SOSI should not be altered to include additional measures such as the closed group.

However, presenting the amounts on the SOSI with some additional context may be warranted. For example, showing the amounts as a percentage of GDP may be warranted and should be examined.

- 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 A116 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.

I agree with the alternative view. I believe showing the reasons for the changes in the SOSI amounts is practical and should be reported. However, I would hope rather overloading the users of the financial statements with information on each line item, only the changes in the total present value of benefits and total present value of revenue be shown. Both should be measured on an “open group” basis only. The use of a “closed group” measure has no context, given the current construction of social insurance programs.

At a minimum, the following changes and the resulting impact of each should be disclosed:

- i. Changes in the valuation period.
- ii. Changes in assumptions.
- iii. Changes in methodology.
- iv. Changes in law.
- v. Actuarial gains and losses.

In addition, I would like each change in assumption and method broken out separately. For example if mortality and inflation assumptions were both changed, it would be valuable to see the impact of each change separately. The same would apply to changes in assumptions. Changes in assumptions should be shown separately from changes in data. Where the data comes in differently than expected, those changes should be reported as and actuarial gain or loss.

- 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 A117—A123 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.

The accrued benefit obligation provides no value in the context of these programs and should not be used. The government is not obligated to provide these benefits. Since the inception of social insurance programs, the federal government has exercised its sovereign power to remove, reduce, or modify the benefits and taxation structure of these programs. The only measurement of any relevance is the difference between the program’s future inflows and outgoes. That is where the government’s

true obligation lies. One way or the other, the federal government will be obligated to reduce benefits or increase revenues. These are the amounts that are of importance to financial statement users and policy makers.

- 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.

Again the closed group measure has no meaning in the context of these programs. The SNC should not include the increase in the closed group obligation. However, including the increase in the open group measure would add value and provide the proper context for measuring the federal government's actions or inaction over the prior year in regard to these programs. Again, the increase in the open group liability should be shown as expense not some pseudo-expense below the SNC. Adding all of these pseudo expense/liability numbers on the government's financial statements will make the statements useless to all but the most knowledgeable parties. I doubt the general public will understand the nuances between items below and above the net position or net cost.

- 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.

No I do not agree with the Board. The open group measure is the only appropriate measure to use in the new statement of changes in social insurance. It is also the only number that should and must be included on the balance sheet.

Changes to the closed group measurement, by themselves do not indicate the change in the government's obligation. Again, for the OASDI program the current measure of the government's obligation is \$5.7 trillion, which is the difference between the present value of future benefits and revenue. This is the amount by which changes in benefit levels or taxation need to be made. Any other measure is irrelevant outside of this context. Thus the FASAB should discourage the presentation of closed-group measures rather than dictate their usage.

- 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 A125—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.

Sensitivity analysis should be required and presented in the supplemental information of the financial statements. This analysis should only be presented on an open-group basis. As stated in the answers to previous questions, closed group measures for Social Insurance programs are inappropriate.

Consolidating the information presented is an admirable goal. However, given the complexity of the calculations involved, a certain amount of detail is necessary. Therefore any sensitivity analysis needs to isolate the potential effects of changes to significant assumptions separately. The

goals of the sensitivity analysis are to provide the user with the magnitude of change that could be expected given a change in one of the key assumptions not to merely present a wide range of scenarios that may be within some confidence interval. Showing a single range of stochastic scenarios instead of the current individual sensitivity analysis would remove information that is currently available and useful to financial statement users.