

February 9, 2009

Wendy M. Payne
Executive Director
Federal Accounting Standards Advisory Board
441 G Street NW, suite 6814
Washington, D.C., 20548

Dear Ms. Payne:

I write today to provide my comment to the Federal Accounting Standards Advisory Board (FASAB) on its Exposure Draft (ED) on *Accounting for Social Insurance, Revised*.

I would first like to express my admiration to FASAB for their leadership on this issue. The compelling case for an enormous, deficit-financed government response to our nation's current financial and economic woes adds a new urgency to the need to address our long-term social insurance imbalances. It is my belief that fully incorporating the scheduled benefits of Social Security and Medicare as liabilities during the working lives of the participants for purposes of the Financial Report of the United States Government will give policymakers – like myself – a better chance of facing up to, and ultimately overcoming, the challenge of putting these programs on a more sustainable footing.

Again, I commend FASAB for its work on this issue. Each day that goes by, the result of its deliberation becomes more important to the future viability of the American economy.

Attached is my expanded response to the request for comments contained in the ED.

Sincerely,

Jim Cooper
Member of Congress

Q1. Do you believe that key measures should be presented in the MD&A as described in this exposure draft?

Yes. It is fundamental that the financial information presented in both the component and governmentwide entities be given narrative context in their respective MD&A. The MD&A's role as translator of the "vital few" matters contained in the financial statements to policymakers and the public clearly warrants a description of the key measures proposed: costs, position, social insurance commitments, budgetary information, and, in the case of the consolidated Financial Report, the fiscal gap.

Q2. Do you believe that the balance sheet should present a line item for the closed group measure as described in this exposure draft?

Yes. This is critical. For purposes of stewardship – for the keeping of the public trust – including the closed group measure as a line item in the balance sheet is the best of those views presented in the ED.

I prefer the view (represented by the Primary View from FASAB's October 2006 *Preliminary View: Accounting for Social Insurance, Revised*) replacing the "due and payable" standard with "fully insured" for a liability and expense in accounting for social insurance programs, and thus bringing them fully onto the balance sheet.

Recognizing the lack of consensus for moving forward with that view, and further recognizing issues associated with the lack of an exchange transaction, I believe this compromise takes a necessary step toward clearly reporting the comprehensive financial condition the nation. And this is the entire purpose of such reporting, after all.

Q3. Do you believe that the SOSI should have a summary section as described in this exposure draft?

The inclusion of a summary in the SOSI of the consolidated Financial Report over the last two years has been a clear success. It has added significantly to the report's clarity (albeit with some confusion between definitions of "open" and "closed group"). It should be required, and the requirement should be harmonized with the component entities.

Q4. Do you believe there should be a new basic financial statement explaining changes to the present value amount included in SOSI?

Though a narrative description of major changes should be included in the MD&A, a new basic financial statement for changes in the SOSI could be an important feature.

In the rare cases where legislative or significant methodological changes occur, this statement will provide a record for policymakers and the public to track over time. Among the more difficult theoretical issues to overcome in any financial statement is how changes in underlying assumptions change the final report. A statement of changes that pulls out discrete categories of changes may well provide a better tool for understanding the nature of social insurance programs.

Q5. Do you believe that an accrued benefit obligation should be disclosed as described in this exposure draft?

I wholeheartedly endorse the inclusion of a note on the accrued benefit obligation calculated consistent with the Primary View in FASAB's *Preliminary Views*.

Individuals receive their Social Security Statement with the caveat:

“Your estimated benefits are based on current law. Congress has made changes to the law in the past and can do so at any time. The law governing benefit amounts may change because, by 2041, the payroll taxes collected will be enough to pay only about 75 percent of scheduled benefits.”

It is difficult to understand the belief that, despite such a caveat in their personal Social Security Statement, those sophisticated enough to scour a document like the Financial Report would be overwhelmed or confused by the inclusion of a note on the accrued benefit obligation.

Further, I am still of the opinion (as I stated in my answer to Q2) that “due and payable” are not the proper criteria for recognizing a liability for social insurance for reasons stated in my comments and testimony on the *Preliminary Views*.

Q6. 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?

I disagree with the decision to not include such a line item. Including a line item for the change in the closed group measure (especially if the closed group measure is similarly displayed on, but sequestered from, the balance sheet) would tie the relevant financial statements together.

The argument that a good or service is not provided by the change in the closed group measure of social insurance ignores the political reality and public perception of the programs. A meaningful accounting standard should, in my opinion, attempt to approach this reality and perception.

Q7. Do you agree with the Board's decision to feature the closed group measure?

Yes. Again, I prefer a shift from "due and payable" to "fully insured" criteria for determining an expense and liability for social insurance. But, as FASAB has chosen to focus on net present value of future expenditures in excess of future revenue, I believe the closed group measure more accurately displays the current state of these programs for the purposes of financial reporting. The closed group measure more accurately encapsulates the broader social commitment and "sacred promise" political status of these programs, despite the lack of a legally irrevocable commitment.

Q8. 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?

I have no opinion on this question at this time.