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Thank you for the opportunity to comment on the above Exposure Draft  
(ED).

Attached are the Department of Housing and Urban Development's comments  
and responses to the questions in the "Accounting for Social Insurance"  
ED.

Please direct any questions concerning our response to me at the number  
listed below, or to my Financial Policy Division Director, Mr. Jerry  
Tucker, at 202-402-3710.

Frank Murphy

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Department of Housing and Urban Development

**DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT****Request for Comments on FASAB Exposure Draft: *Accounting for Social Insurance, Revised*** (dated November 17, 2008)

## 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 A-75-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.**

HUD agrees with the described key measures for the MD&A in this exposure draft.

The key measures provide a transparency (to experts and non-experts) of the entity's financial statements related to responsibilities about risk and risk exposure. Moreover, the critical measures described in paragraphs 26-30 provide a guiding framework for reporting entities to use in determining risk disclosures in their MD&A analysis.

Social insurance spending continues to impact the United States' current budget, as well as a likelihood of its continued future impact. As proposed, key measures of the MD&A would offer lawmakers the opportunity to review the long-term measures of social insurance liabilities and associated policy changes, such that the lawmakers would assess reforms over the short term and long term. Such analyses would also show whether or not the nation is maintaining fiscal sustainability, or that it is performing worse than the preceding year and why.

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.<sup>1</sup> 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

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

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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.**

HUD does not concur with the Board's position.

Alternatively, HUD agrees with the views expressed by Mr. Patton that a liability exists per SFFAC 5, and therefore, should be reflected in the balance sheet for the reasons Mr. Patton stated in paragraph A139.

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.**

HUD suggests that a summary section should be included in the SOSI.

Incorporating the new closed and open group measures into the summary statement of the SOSI would clarify the relevancy of the net present value of cash flows to and from current participants, as well as the magnitude of obligation to current participants and the projected funding amount to be financed by future participants.

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.

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**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.**

HUD agrees that there should be a new basic financial statement.

HUD proposes blending the views expressed by the Board and the alternative view members to be consistent with the Statement of Social Insurance. Specifically, in conjunction with HUD's response to question 3, the "statement of changes in social insurance amounts" should incorporate information for both the closed and open group measures, as in the summary section of the SOSI.

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 A126 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.**

HUD concurs with the Board's proposal for reasons noted in paragraphs 38 and A123, as this provides greater transparency. However, we propose that the trend analysis should incorporate data for 10 years, as this helps project the future generational benefit obligation and aids the budgetary process in Federal financial reports.

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?**

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HUD concurs with the Board's position. The change in the reported period for the closed group measure is not considered a cost incurred for goods or services. Including this line item would misconstrue the reader's understanding of the statement of 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** (OGM) (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.**

In conjunction with our answer to question 2, we do not agree that the (CGM) should be incorporated below the assets, liabilities and net position on the balance sheet. However, HUD would like to reiterate its support for Mr. Patton's position that the CGM should be incorporated in the liabilities portion of the financial statement for those individuals that (for example) have accumulated at least 40 quarters of work in covered employment for Social Security. In addition, the liabilities should include those individuals who are already receiving payments from the federal government or whose health care is already provided under Medicare based on their already fulfilling the eligibility criteria.

The CGM and OGM should be discussed in management's discussion and analysis and in the new statement of changes in social insurance using both group measures as noted in our earlier responses to ensure consistency in presentation between statements. Furthermore, HUD believes that incorporating both the open and closed

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group measures, respectively, will provide a greater level of transparency regarding cash flows and will guide policy decisions as they impact the budget, in present and future predictions. Together, the closed and open group measures are critical to the financial statement analysis and should be used together.

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.**

HUD agrees with the Board's position. Sensitivity analysis will provide qualitative and quantitative benefits measures of the cash flow projections, sustainable solvency and overall benefits of the social insurance contributions to the general public. In addition, sensitivity analysis will provide entities with the microeconomic and macroeconomic impact of social programs and project future benefits based for the existence of such programs.

In paragraph A131, the Board suggests that entities use a "very general approach" for illustrating uncertainty. HUD believes that the Board should provide examples of some sensitivity modeling approaches that are acceptable, so that entities would have a guiding framework as to the acceptable methods of analysis which should be employed.