



Searching for the Truth  
in broad daylight

Sheila Weinberg

Non-Federal - Other

# Institute for Truth in Accounting

April 13, 2007

Wendolyn Comes, Executive Director  
Federal Advisory Standards Board  
441 G Street NW, Suite 6814  
Mailstop 6K17V  
Washington, DC 20548

Dear Ms. Comes:

Subject: Response to Preliminary Views issued October 23, 2006  
Accounting for Social Insurance, Revised

The Institute for Truth in Accounting (IFTA) thanks the Federal Accounting Standards Advisory Board (FASAB) for the opportunity to respond to this Preliminary Views (PV) document. The Institute, founded in 2002, is a nonprofit organization with no political affiliations. It is made up of business, academic, governmental and other community leaders who are committed to high standards of ethics and integrity, and who support these principles in the private as well as in the public sector. Our mission is to enhance the credibility of public and private sector financial reporting by encouraging the issuance of understandable, reliable and relevant information. The federal government of the United States of America (the Government), being the largest fiscal organization in the world, should be the leader in providing such information. To be active participants in their democracy, citizens need such information. To promote the accountability of elected officials, the Government has a special responsibility to provide the public with information that allows for the evaluation of the decisions made by those elected officials.

## Overall Response

A fisherman can distinctly see any fish that are near the surface. The deeper in the water the fish, the less clearly one can see them. If the fish are deep enough, even if one knows they are there, the fish can become invisible.

Today there is a great emphasis on transparency in financial reporting. IFTA finds the Primary View presentation of Social Insurance costs and liabilities to be the more transparent of the two views presented in the October 23, 2006 Preliminary Views document. While additional Social Insurance information would be provided in the Alternative View, its proposed government-wide financial statement presentation resides deeper in the federal government's financial report and is, at best, translucent.

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IFTA agrees with the Primary View's recognition of benefit costs being accrued over the period of covered employment starting from the point of full insurance benefit qualification. This is the proper recognition, because it is the covered work period that determines the qualification for and amount of benefits. Fundamentally, the Social Security and Medicare programs remain premised on the promise that an individual's "contribution" to the program is held by the Government in trust and then paid out in retirement. These programs to date are not billed to be forms of taxation separated from and independent of the benefits to which one is entitled upon retirement or disability. Starting the recognition of benefit costs from the point of full insurance benefit qualification also recognizes that those who have not achieved full qualification do not receive tax refunds if they ultimately fail to qualify. Also benefits bases do not increase after the covered work period has ended. We reject, therefore, the Alternative View that benefits paid are non-exchange transactions.

IFTA would, however, use the Primary View's pro forma financial statements as the basis for a statement of sustainability rather than as a financial statement. We are particularly impressed with the transparency of the interperiod inequities (for example comparing line "c" to line "k" on page 102 of the PV) as it relates to sustaining social insurance.

The financial reporting liability should be the accrued liability for current participants (for example, for Social Security line "g" on page 102 of the PV). The cost reported on the face of the financial statements for any fiscal year should include actuarial current costs. To facilitate the public's ability to evaluate elected officials' decisions, any actuarial cost of benefit level adjustments enacted during that fiscal year should also be included. Since any social insurance "trust fund" investments are in U.S. obligations and such investments are eliminated in the government-wide consolidation, market value fluctuations are not a cost factor.

IFTA does not agree that the "present value of future payroll taxes and income taxes to be paid" should be included in the calculations of the accrued liability and related current year cost. These "earmarked" taxes are commonly used to pay for non-social insurance benefits and services. The "present value of future benefits attributable to current and future participants' future work in covered employment..." should also not be included. While inclusion of these two items is useful as part of a statement of sustainability, a balance sheet liability is a condition at one point in time.

IFTA finds more transparency in the Primary View in that government-wide entity liability and expense recognition are the same as for the component entity and therefore are closer to the surface in the financial report. The line items displayed on the consolidated government-wide entity's financial statements are also the same as for the component entities, including SOSI. The government wide statement of net cost would not have the detailed allocation of cost components which may be included in each component entity's statement of net cost.

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IFTA agrees with the Alternative View that recognition of future social insurance benefits, which have vested due to a covered work period, on the financial statements would diminish significantly the relative size and importance of other expenses and liabilities shown on the financial statements. This should not be considered negatively. This is a reality citizens need to know. Omitting what currently are monstrous costs and liabilities from the face of the government-wide financial statements grossly distorts the presentation of the Government's true financial position from the perspective of the constituency from who these reports are most directly useful—the American citizens. This inappropriately shifts the focus away from the most financially significant programs managed by Federal agencies.

IFTA would consider, but likely still disagree, with the Alternative View about the timing of the recognition of the liability and cost if the following steps were taken by the Government:

- 1) The 7.65% in specific social insurance payroll taxes and related employer payroll taxes were canceled;
- 2) The discontinuation of the use of the term "trust fund" by Government employees and officials, including members of Congress and the Administration, to describe funds that the Government has custody and control of and does not take on a fiduciary responsibility to hold in trust for beneficiaries;
- 3) A massive, straight-forward education program to help the American public and their elected officials to understand that:
  - a) social insurance benefits are not guaranteed and can be canceled or reduced at any time and,
  - b) payroll taxes taken out of private companies' employees' paychecks are forms of taxation, not "contributions" maintained in separate "trust fund" accounts;
- 4) The cessation of issuing personalized annual Social Security Statements of estimated benefits and;
- 5) The enactment of a law that would consider it felony fraud for any Government employee or officials, including members of Congress and the Administration, to imply the continuation of social insurance programs and the solvency of "trust funds."

It is well established that the promise of social insurance benefits is a legitimate "social contract." 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.

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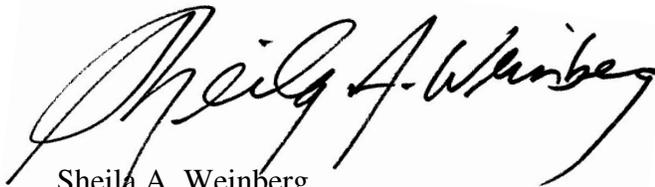
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For more than 20 years the Financial Accounting Standards Board (FASB), recognizing the onset of challenges in private sector pension and other post employment benefits plans, has been working to improve financial reporting of benefits earned during a covered work period but paid after the close of that covered work period. More and more of these costs and liabilities swim closer to the surface of private company financial reports. This transparency has led to more informed decision-making in the private sector. Such transparency should be the goal of the Government and would strengthen our democracy by providing citizens essential financial information. This knowledge would facilitate greater citizen participation in the decision-making processes that are critical to the posterity of our country. Citizens need to be able to clearly see all of the relevant facts about our country's financial position on a timely basis and in an understandable format. Just like a fisherman who can't see a shark deep in the water, what we can't see can hurt us.

IFTA's responses to FASAB's specific questions are attached.

Members of the Institute for Truth in Accounting look forward to testifying at FASAB's hearing on May 23, 2007. Thank you again for the opportunity to comment on this Preliminary Views document. Please do not hesitate to contact us, if you have any comments or questions.

Sincerely,

A handwritten signature in black ink that reads "Sheila A. Weinberg". The signature is written in a cursive, flowing style.

Sheila A. Weinberg  
Institute for Truth in Accounting  
Founder & CEO

**Specific Responses to FASAB Questions**

*Q1. Which obligating event do you believe creates a liability and expense that should be recognized?*

Answer to Q1: IFTA agrees with the Primary View, which would recognize cost and liability when participants become fully insured under the terms of the programs. For Social Security and Medicare, fully insured status essentially occurs at 40 quarters or equivalent of work in covered employment and this would be considered the first obligating event. Additional obligating events would occur as fully insured participants continue work in covered employment. IFTA also agrees with the Primary View that conditions for receiving a future benefit are substantially met when the participants become fully insured, and the omission of the effects of these events results in an incomplete reporting of costs and liabilities. Waiting to recognize the cost and liability associated with Social Insurance benefits until the benefits are "due and payable," grossly understates those costs and liabilities. This recognition does not give the financial report readers the relevant information needed to make timely decisions.

*Q2. Do you believe that the Social Security and Medicare obligations are measurable for purposes of recording a liability after 40 quarters or equivalent of work in covered employment as proposed in the Primary View?*

Answer to Q2: Social Security and Medicare obligations are measurable for purposes of recording a liability after 40 quarters or equivalent of work in covered employment. Actuaries deal with these issues all the time. Population demographics are estimable from employer tax filings. Current benefits statutes are known. Actuarial longevity tables are readily available. This information is currently available and used as a source in the preparation of personalized annual Social Security Statements. Potential future increases or decreases to benefits, while relevant to a statement of sustainability, are irrelevant to measuring Social Security and Medicare obligations once a particular fiscal year has closed.

*Q3. Do you believe that the Primary View proposal to add line items to the SOSI that tie to revised expense and liability amounts reported on the statement of net cost and the balance sheet, respectively, should be adopted?*

As outlined in our overall response, IFTA agrees with the Primary View proposal.

*Q4. The Alternative View proposes that a statement of fiscal sustainability be presented in the consolidated Financial Report of the United States Government. The statement would be included as required supplementary information. (See Appendix C for an illustration.) The new statement would provide sustainability information on the entire Government, including*

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*information to assess the sustainability of social insurance programs and information on intergenerational equity. Do you believe the proposal should be adopted?*

Answer to Q4: A statement of fiscal sustainability presented in a management discussion and analysis would be useful especially if interperiod inequities were transparent. Because such a statement of fiscal sustainability would require estimations of population, demographics, etc., IFTA questions whether this statement would be auditable.

*Q5. Do you believe that the Board should consider recognizing deferred revenue for earmarked revenues in excess of related program costs?*

Answer to Q5: The recognition of deferred revenue for earmarked revenues in excess of related program costs should not be considered. Recognizing deferred revenues would imply a liability to those taxpayers who paid the "earmarked" taxes, when in fact these taxes have already been distributed to those taxpayers and their beneficiaries in the form of government services and benefits.

*Q6. The Primary and Alternative Views include detailed guidance on measurement (including selection of assumptions), display, disclosure and required supplementary information. Please offer any comments that you wish to make on the Primary and Alternative Views provisions.*

Answer to Q6: There are substantial basic accrual accounting and financial reporting issues that need to be addressed before details are worked on.