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April 16, 2007

Wendolyn Comes, Executive Director
Federal Accounting Standards Advisory 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

This response to the Revised October 23, 2006 Preliminary Views of the Federal Accounting Standards Advisory Board (FASAB) is written by me as an individual only. I, alone, am responsible for its contents.

My Bachelor of Science in Accounting from the University of Illinois at Chicago was completed in 1970. In 1975, I passed the Illinois CPA exam. Though I am not in public practice, I am a Registered Certified Public Accountant in the State of Illinois. I served as a finance officer for two local government agencies between 1976 and my retirement in 2004. During my professional career, I was a frequent responder to Governmental Accounting Standards Board (GASB) proposed accounting statements. I testified before GASB in 1992 supporting Statement 11, which was the precursor to GASB Statement 34.

Starting in 1937, officials of the federal government have led the American people to believe that social insurance programs are a contract to receive future benefits in exchange for "contributions" paid during their covered work periods. Legally this is not true. Now, the continued cloaking of the unsustainable nature of current social insurance programs is becoming impossible. This is causing some, but certainly not many, federal public officials whose terms in office may, ultimately, include the period of collapse of these programs to try to reverse 70 years of federally sanctioned economic misconception.

Legally, social insurance is not guaranteed and can be canceled or reduced at any time. However, these programs have been set up as continuing appropriations so it requires congressional action to end or reduce them. Such brave action has not been taken. Current (and past) elected federal officials are benefiting (and have benefited) at the ballot box from the "courage to be provided" by future elected federal officials.

These social insurance programs thus create public economic expectations much like other types of insurance annuities where premiums are paid today for future cash returns. As such, the actuarial cost and liabilities should be recorded on the face of the financial statements despite the potential for deferred legalities.

I agree with 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

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recognition because it is covered work period that determines the qualification for and amount of benefits. This also recognizes that those who do not achieved full qualification do not receive "contribution" refunds. Benefit bases do not increase after the covered work period has ended. For these reasons, I reject the alternative view that benefits paid are non-exchange transactions.

I would use the primary view's proforma financial statements as the basis for a statement of sustainability rather than as a financial statement. I am 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, 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 and any actuarial present value cost of benefit level adjustments enacted during that fiscal year. Since any social insurance so-called "trust fund" investments are in U.S. obligations, which are eliminated in the governmentwide consolidation, market value fluctuations are not a cost factor.

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. Potential future increases or decreases to benefit levels, while relevant to a statement of sustainability, are irrelevant to measuring Social Security and Medicare obligations once a particular fiscal year has closed.

A statement of fiscal sustainability presented in a management discussion and analysis would be useful especially if interperiod inequities were transparent. But, because such a statement of fiscal sustainability would necessarily require future projections of population, demographics, etc., such a statement is unauditable.

I also find more transparency in the primary view in that governmentwide 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 governmentwide entity's financial statements are also the same as for the component entities, including SOSI, except that disaggregation into cost components for each component entity would not be required for the operating statement.

Appalled! That is my reaction to the alternate view that recognition of future social insurance benefits, which have vested due to a covered work period, on the financial statements would

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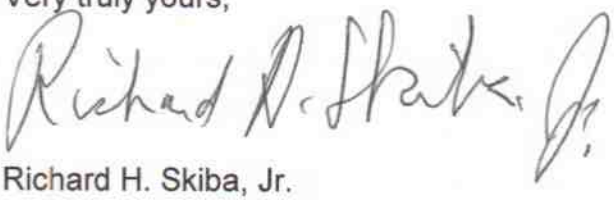
diminish significantly the relative size and importance of other expenses and liabilities shown on the financial statements. This trickery shifts the focus away from the most financially significant programs managed by federal agencies. Omitting these gargantuan costs and liabilities from the face of the governmentwide financial statements intentionally deceives the American public about the federal government's true financial position for the sole purpose of avoiding taxation on those Americans presently eligible to vote. This applies a more devious method of taxation without representation to our disenfranchised posterity than that which the British applied to our armed Colonial ancestors.

The U.S. Constitution, which public officials entering office swear to uphold, calls for not just for the promotion of general welfare, but also the securing of the blessings of liberty to us and our posterity. The preponderance of public policy in America's "social insurance era" gives testimony, as to "our posterity," of malfeasance in office by the politicians who enacted and expanded these social insurance programs.

For nearly 20 years, the Financial Accounting Standards Board (FASB), recognizing the onset of private sector problems with pensions and OPEB, has been working to improve financial reporting of benefits earned during a covered work period and paid after the close of that covered work period. More and more these costs and liabilities are being reported on the face of the balance sheets and income statements of private company financial reports. This transparency has led to informed decision making in the private sector.

The primary view on social insurance accounting goes farther toward securing of the blessings of liberty for our unlobbied posterity. Unlike FASB GAAP which is now better designed to protect stockholders, current FASAB GAAP is not designed to protect the public sector stockholder equivalent: citizen stakeholders. FASAB GAAP, to which the alternate view seeks to cling, is designed to protect officeholders.

Very truly yours,



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