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Eric J. Klieber

Non-Federal - Other

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Attached are my comments. A signed paper copy will come in the mail.

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Response to FASAB
"Accounting for Social Insurance, Revised, Preliminary Views (October 23, 2006)"

Eric J. Klieber
April 16, 2007

I appreciate the opportunity to comment on the preliminary views document and hope to contribute to a constructive and useful outcome.

Recognition of future benefits under Social Insurance as liabilities is not appropriate for the Federal Government. The Federal Budget and most of its programs are not constructed with such "advance funding" in mind. In particular, Social Security operates essentially as a "pay-as-you-go" system – which is appropriate for the Federal Government. The Federal Government can change Social Security benefits or contribution funding at any time. Thus, such benefits cannot be classified as liabilities, as suggested by the Primary View. Rather, Social Insurance scheduled benefits for the future should continue to be referred to only as non-binding obligations.

Answers to the specific questions raised in the FASAB preliminary views document are below:

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

I support the Alternative View which states that only liabilities and expenses under the Social Security program that are both due and payable should be recorded as a liability.

The Primary View suggests that a liability and expense should be recognized for a worker under the Social Security program when the worker first attains "fully insured status" under the program. While insured status is necessary for benefit receipt, it does not qualify as an obligating event, for the following reasons: (1) even under current law, a worker can lose fully insured status after having attained it; and (2) the law can be changed at any time to change the eligibility requirements for fully insured status and the benefits payable once fully insured status is attained. Therefore, I recommend against adopting the Primary View on this point.

I believe the Alternative View correctly identifies the appropriate liability recognition point as the time when a benefit for a given month becomes due and payable. The Federal Government has the ability to alter or even eliminate the potential future benefit obligations that have accrued. Thus, it is simply not possible under these programs to declare that there has

been an obligating event for recognizing a liability for benefits for any month of eligibility until the worker is due benefits for that month. Prior to that time there is no binding commitment over which the worker has control and so no liability can be recognized.

2. *Do you believe that 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 Views (see paragraphs 16-18 and especially subparagraph 16g in the standard; also see A54-S55 in basis for conclusions.*

Social Security and Medicare future obligations reflecting the intended (scheduled) benefits in current law are in principle measurable, and are in fact currently measured in a number of different forms. But these future obligations are not "*measurable for the purposes of recording a liability*" until they become due and payable on a month-by-month basis because of the high probability that Congress will enact changes to these programs over time.

3. *The primary view proposes to change the SOSI by (1) adding line items tying to (or articulating with) the revised expense and liability amounts reported on the SNC and BS; and (2) adding a new section to the SOSI that would explain the changes in the SOSI amounts from the beginning to the end of the reporting period. (Paragraph 16 and Appendix B for illustration).*

The Alternative View proposes to leave the SOSI unchanged but to add a new principle financial statement entitled "statement of changes in social insurance" which could be combined with the SOSI. The new statement would provide an explanation for changes to the present value amount included in the statement of social insurance.

- 3.1 *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?*

No. Adding line items to the SOSI that tie to the revised expense and liability amounts reported on the statement of net cost and the balance sheet would result in inconsistencies which would distort the results shown in these statements. (1) Since Social Insurance obligations for future months of eligibility do not meet the definition of a liability, showing these amounts on the balance sheet would be misleading and inappropriate. (2) Deeming potential future benefits as liabilities would be inconsistent with the actual funding mechanism of the Social Insurance programs. Because future benefits can be paid on a current cost basis only if future tax collections are made at the same time, consistency would require such

future taxes be deemed current assets if future benefits are deemed current liabilities. (3) Consistency would also require that expenditures for other programs under which the government has future obligations be included on the statement of net cost and the balance sheet. For example, while Social Security and Medicare expenditures are an obligation under law, national defense expenditures are an obligation under the Constitution, and therefore are more certain to be made. Yet no suggestion has been made to include future defense expenditures.

3.2 Do you believe that the reasons for changes in SOSI amounts during the reporting period should be reported and, if so, do you favor such reporting (1) as proposed by the Primary View (2) as proposed by the alternative view or (3) some other approach?

The Alternative View approach to illustrating changes in SOSI is superior. The Alternative View table of change would highlight on the first line the extent to which the SOSI balance changes just because of the change in valuation date. The other categories of change are logical, informative, and readily available as they coincide with values already computed and provided in the annual Trustees Reports for Social Security and Medicare. The Alternative View wisely adopts this carefully thought out approach. This table would be a useful addition to the required supplementary information in the financial statements.

4. *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 provide sustainability information on the entire Government, including information on intergenerational equity (See paragraphs 43 in the standard and A163 in the basis for conclusions for a discussion of the proposal and Appendix C for an illustration). Do you believe the proposal should be adopted?*

No, I don't believe a statement of fiscal sustainability would be a useful addition to the consolidated Financial Report of the United States Government. Many competing views exist concerning the future direction of the US economy. Any statement of fiscal sustainability would require the government to make a choice among these competing views. I do not think this is an appropriate role for the government. Rather the government should make available the information necessary for others to make this analysis. In fact, this information is already available through the Social Security Administration and the Center for Medicare and Medicaid Services.

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

I believe that the Board should research this question as a separate project.

6. *The Primary and Alternative Views include detailed guidance on measurement (including selection of assumptions), display, disclosure and required supplementary information (paragraphs 15-37 Primary view; 64-84 Alternative view). Please make any comments that you wish on both views.*

6.1 Comments on the Primary View

I disagree with the Primary View position of adding line items to the Balance Sheet and Statement of Net Cost that would create a new and different liability calculation in financial statements. As stated above, reporting future Social Insurance benefits as liabilities on the balance sheet would be inappropriate and misleading.

In addition I disagree with the Primary View regarding the Statement of Change.

Finally, and most importantly, I strongly recommend against the Primary View on inclusion of future benefits as liabilities. Such benefits are correctly recorded as a liability upon becoming both due and payable. There is no basis for extending the concept of liability beyond the long-held view of due and payable benefits. The government retains the unique ability to alter these benefits and revenues unilaterally. Further, there has been no suggestion that future expenditures for which the government has a stronger obligation, such as national defense, be included as liabilities.

6.2 Comments on the Alternative View

I agree with the approach for liability recognition in the Alternative View, which is to continue the long held practice of recognizing Social Insurance benefits for any month of eligibility as liabilities only once such benefits are due and payable.

Social Insurance information displayed in government financial statements for Social Security and Medicare should be consistent with the information presented in the annual Trustees Reports for these programs. To this end, I encourage the inclusion as supplementary information a Statement of Changes in Social Insurance as presented in the Alternative View, entirely consistent with the Trustees Reports.

However, I disagree that a statement of sustainability for all Federal programs would be a useful and informative addition to the Consolidated Financial Statement for the entire Federal Government.

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