

#38

Ron Queen

Non-Federal - Other

Ron Queen

Division of Local Finance

615.401.7862

Comptroller of the Treasury

615.532.5232 (fax)

Suite 1700 James K Polk Building

ron.queen@state.tn.us

505 Deadrick Street

Nashville, TN 37243

Request for Comments

The FASAB encourages you to become familiar with all proposals in this proposed Statement before responding to the questions in this section. The paragraphs cited in parentheses in a question are particularly relevant to that issue, but other portions of the document also may enhance your understanding of the question.

The Board also would welcome your comments on other aspects of the proposals in this preliminary views document. Because the proposals may be modified before an exposure draft is issued, it is important that you comment on the proposal that you agree with as well as the one that you disagree with and/or any aspects of either. Comments that include the reasons for your views will be especially appreciated.

The questions in this section are available in a Word file for your use at www.fasab.gov/exposure.html. Comments should be sent by e-mail to comesw@fasab.gov. If you are unable to respond electronically, please fax your responses to (202) 512-7366 and follow up by mailing your responses to:

*Wendy M. Comes, Executive Director
Federal Accounting Standards Advisory Board
Mailstop 6K17V
441 G Street, NW, Suite 6814
Washington, DC 20548*

All responses are requested by April 16, 2007.

#38

Ron Queen

Non-Federal - Other

Ron Queen

Division of Local Finance

615.401.7862

Comptroller of the Treasury

615.532.5232 (fax)

Suite 1700 James K Polk Building

ron.queen@state.tn.us

505 Deadrick Street

Nashville, TN 37243

Questions for Respondents:

Q1. This preliminary views document presents two views of an accounting standard for social insurance. The key difference between the views is the timing of expense and liability recognition for social insurance programs.

The Primary View would change the expense and liability recognition point established in SFFAS 17, *Accounting for Social Insurance*, (as amended) for Social Security, Medicare, and Railroad Retirement (see pars. **Error! Reference source not found.** and **Error! Reference source not found.** for the proposed standard). Under the Primary View, expense and liability would be recognized when participants become **fully insured** under the terms of the programs. (See pars. **Error! Reference source not found.**–**Error! Reference source not found.** in the basis for conclusions for more.) 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. The Primary View is 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.

Under the Alternative View, the obligating event for liability recognition would continue to be considered the point when the participant meets all eligibility requirements for benefits and benefit payments become “due and payable.” (See pars. **Error! Reference source not found.**–**Error! Reference source not found.** for the proposed standard). Thus, the Alternative View would not change the SFFAS 17 liability recognition.

There are at least two other possible obligating events for liability recognition: (1) when participants begin work in covered employment and continuing as long as such work continues (see pars. **Error! Reference source not found.** –**Error! Reference source not found.** in the basis for conclusions for more), and (2) “threshold eligibility” at age 62 for Social Security and 65 for Medicare (see par. **Error! Reference source not found.** in the basis for conclusions for more).

Which obligating event do you believe creates a liability and expense that should be recognized? Please provide the rationale for your answer.

The Primary View that expense and liability would be recognized when participants become **fully insured** under the terms of the programs meets recognition standards used for pensions and other post

#38

Ron Queen

Non-Federal - Other

Ron Queen

Division of Local Finance

615.401.7862

Comptroller of the Treasury

615.532.5232 (fax)

Suite 1700 James K Polk Building

ron.queen@state.tn.us

505 Deadrick Street

Nashville, TN 37243

employment benefits. Once a participant has become fully insured a liability exists because OASDI will be paid to the participant. The estimated liability should be recognized in the financial statements so a user can see future calls on the United State's resources.

Ron Queen

Division of Local Finance

615.401.7862

Comptroller of the Treasury

615.532.5232 (fax)

Suite 1700 James K Polk Building

ron.queen@state.tn.us

505 Deadrick Street

Nashville, TN 37243

Q2. The recent FASAB exposure draft regarding a Statement of Federal Financial Accounting Concepts entitled *Definition and Recognition of Elements of Accrual-Basis Financial Statements*¹ (*Elements ED*) explained that satisfying the definition of a financial statement element such as a liability is a necessary but not sufficient condition for an item to be recognized in financial statements (*Elements ED*, par. 6). In other words, under the proposed liability concept, it would be possible for an item to meet the liability definition but not be recognized in the financial statements because it is not capable of being measured or for other reasons discussed in the ED should not be recognized (see *Elements ED*, pars. 6—8). [Also, see Alternative View Basis for Conclusions paragraphs **Error! Reference source not found.** – **Error! Reference source not found.** for a discussion of the effect of uncertainty on expense and liability recognition.]

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 (see pars. Error! Reference source not found. – Error! Reference source not found. and especially subpar. 16g in the standard; also see Error! Reference source not found. –Error! Reference source not found. in the basis for conclusions)? Please provide the rationale for your answer.

Yes, an accounting estimate can be made in a similar manner to those for OPEB or pension benefits. This estimate will change based on policy makers' changes in program benefits and other actuarial assumptions used in developing the estimate; however, an estimate of the future liability is the only way to see the effect of current policy by decision makers. Additionally, both views intended to include 75 year projections of expenses. Showing the impact on the balance sheet would assist users' in determining impact of these obligations.

Q3. 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 statement of net cost and the balance sheet, respectively; 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. (See par. **Error! Reference source not found.** in the standard and Appendix B for an illustration.) The Alternative View proposes to leave the SOSI unchanged but to add a new principal financial

¹ The *Elements ED* is available at www.fasab.gov/exposure.html.

Ron Queen

Division of Local Finance

615.401.7862

Comptroller of the Treasury

615.532.5232 (fax)

Suite 1700 James K Polk Building

ron.queen@state.tn.us

505 Deadrick Street

Nashville, TN 37243

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. (See par. **Error! Reference source not found.** in the proposed standard and Appendix C for an illustration.)

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?

Yes, the overall impact on operations is easier to see when included in the statement of net costs and balance sheet.

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?

I favor the approach proposed in the Alternative View. The Alternative View Statement of Changes in Social Insurance because it provided changes in a convenient table format by type and by program. I think this is a more understandable way to show the reason for changes.

Please provide the rationale for your answers.

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 information to assess the sustainability of social insurance programs and information on intergenerational equity. (See pars. **Error! Reference source not found.** in the standard and **Error! Reference source not found.** 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? Please provide the rationale for your answer.

Yes, in policy terms the sustainability of the program should be reported to decision makers both in terms of the program and the government as a whole. This would help in making a decision today whether to modify or discontinue the program based on available

Ron Queen

Division of Local Finance

615.401.7862

Comptroller of the Treasury

615.532.5232 (fax)

Suite 1700 James K Polk Building

ron.queen@state.tn.us

505 Deadrick Street

Nashville, TN 37243

resources. This perspective is important in terms of services provided by a government since resources are frequently limited.

Q5. In addition to recognizing the due and payable amount, members supporting the Alternative View believe that the Board should consider recognition of deferred revenue for earmarked revenues in excess of related program costs, for social insurance and other earmarked funds, but as a separate project. Such recognition would require revising portions of SFFAS 7, *Accounting for Revenue and Other Financing Sources*, and the supporting arguments also may apply to numerous other funds with such “excess” earmarked revenues. Recognition of deferred revenue as a liability would result in a change to the balance sheet from existing standards. Under existing standards, there is no difference in the timing of revenue recognition between earmarked and non-earmarked revenues. Also under existing standards, component entities display the portion of cumulative results of operations attributable to earmarked funds on their balance sheets and the U.S. governmentwide balance sheet displays separately the portion of net position attributable to earmarked funds. In developing this document, the Board did not deliberate on the merits of recognizing deferred earmarked revenue. [See pars. **Error! Reference source not found.** in the standard and **Error! Reference source not found.** -- **Error! Reference source not found.** in the basis for conclusions for the rationale for this View.]

Do you believe that the Board should consider recognizing deferred revenue for earmarked revenues in excess of related program costs? Please provide the rationale for your answer.

Recognizing deferred revenue for earmarked revenues in excess of related program costs would help to address the unfunded liability created by social insurance programs. The Board should consider recognizing deferred revenues to help address this problem.

Q6. The Primary and Alternative Views include detailed guidance on measurement (including selection of assumptions), display, disclosure and required supplementary information. (See pars. **Error! Reference source not found.** – **Error! Reference source not found.** for the Primary View and pars. **Error! Reference source not found.** – **Error! Reference source not found.** for the Alternative View.)

6.1 Please offer any comments that you wish to make on the Primary View provisions.

I like the guidance provided by the Primary View for measurement (including selection of assumptions), display, disclosure and required

#38

Ron Queen

Non-Federal - Other

Ron Queen

Division of Local Finance

615.401.7862

Comptroller of the Treasury

615.532.5232 (fax)

Suite 1700 James K Polk Building

ron.queen@state.tn.us

505 Deadrick Street

Nashville, TN 37243

supplementary information. I think showing this information in the financial statements would make a significant difference for decision makers.

6.2 Please offer any comments that you wish to make on the Alternative View provisions.

The sustainability reporting in the Alternative View is very appealing because this information is vital to decision makers in determining the future course of social insurance in terms of the total government's sustainability of operations.