#41 Congressmen Rangel, McNulty and Stark Federal-Other

Congress of the United States
U.S. House of Representatives
COMMITTEE ON WAYS AND MEANS
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April 16, 2007

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

Dear Ms. Comes:

We write to express our views concerning the exposure draft of the preliminary views of the Federal Accounting Standards Advisory Board (FASAB) of proposed revisions to the standards for accounting for federal social insurance programs. For reasons explained below, we oppose some of the changes proposed in the Primary View to federal social insurance benefits.

The exposure draft contains two views, the Primary and Alternative Views, which share the goal of greater transparency in the reporting of potential outlays for federal social insurance programs. They differ, however, in the criteria for how federal liabilities for social insurance expenses would be recognized. The Primary View would recognize a liability when participants in a social insurance program meet the minimal insurability conditions for possible future eligibility for social insurance benefits. The Alternative View would recognize a liability when the beneficiary becomes eligible and the benefits are actually due and payable. While we are sympathetic with the goal of providing comprehensive financial information to policy makers, including Members of Congress who are charged with stewardship over the nation's social insurance programs, the Primary View's proposal to change the existing standard for determining liability would fail to provide greater clarity to the financial condition of the United States government.

We agree that users of financial statements should be provided with comprehensive and accurate reports of the financial status of the federal government. As users of the reports currently provided on an annual basis, including the Social Security and Medicare Trustees Reports, the Financial Report of the United States Government, the Statement of Social Insurance, and the Federal Budget documents, we are fully aware of the current and expected future state of social insurance programs and understand the need to address future shortfalls in the presently scheduled funding for these programs. The proposed revisions in the Primary View would not make our understanding any more clear; and at the same time, they could serve to mislead the public about the federal government's capacity to make necessary adjustments to the programs and their funding sources.

The proposed revisions in the Primary View would implement accounting standards for federal social insurance programs that are currently applied to private sector pensions and retirement health benefits. But the federal government is a unique entity, unlike the private pension and health plans, with characteristics that make such accounting standards impractical and inappropriate.

The federal government is able to modify its obligations through unilateral changes in scheduled benefits or financing through legislative action. The nature of these benefits is not that of a contractual obligation, so listing them as liabilities decades prior to their actually being payable would present a misleading picture of the sustainability of federal social insurance programs.

More troubling is that the Primary View would include potential future social insurance benefits on the balance sheet as liabilities today, while potential future social insurance revenues that would cover a significant portion of the costs of future benefits would be prohibited by existing accounting rules from also being included as assets. This asymmetrical treatment would result in an inaccurate presentation of federal social insurance programs that is not very useful to its users.

Further, the Primary View treats future potential federal outlays inconsistently, which belies the goal of providing greater clarity in federal financial statements. For instance, the proposal would not apply the new accounting standard to Medicaid, also an entitlement program with long range obligations, but would apply it to Medicare. The proposal would also exempt defense spending as a federal obligation, but the common defense is required by the Constitution as a federal duty.

Finally, we are disturbed by the Alternative View's statement that "sustainability can be assessed by whether there is an infinite horizon shortfall." Unfortunately, it suggests presenting the shortfalls calculated over the infinite future – a massive number – as amounts per current worker in existence in the current year. This is inappropriate for two reasons. First, the shortfalls over this infinite future period cannot be met by today's workers and no one has suggested that they should be. Thus, expressing the infinite horizon future projected shortfalls as a ratio to workers today is a gross mis-characterization. Second, an aggregate calculated over a long period of time - whether 75 years or infinity - does not inform us about the timing and trend of annual shortfalls or surpluses that may be projected. It is the trend of projected annual shortfalls, however, not the aggregate figure, that is the better indication of unsustainability. We urge the Board to forego this proposal.

In summary, we oppose the Primary View's proposal because it underestimates the power of the federal government to adjust future benefits and revenue, and because it would count future benefits but not future revenue sources, thus painting an incomplete picture. As Members of the House Committee on Ways and Means, which has jurisdiction over social insurance benefits and financing, we urge that the Board reject the proposed Primary View.

Sincerely,

Charles B. Rangel
Chairman
House Committee on Ways and Means

Michael R. McNulty
Chairman
House Committee on Ways and Means
Subcommittee on Social Security

Pete Stark
Chairman
House Committee on Ways and Means
Subcommittee on Health