>>> "Cummings, Joseph - OIG" <Cummings.Joseph@oig.dol.gov> 4/17/2007 4:22 PM >>>
Ms Comes:

Attached is the Department of Labor (DOL) - Office of Inspector General (OIG) response to questions posed by FASAB on the primary and alternative views document related to Accounting for Social Insurance. We understand that FASAB requested these comments by COB yesterday, April 16, 2007. Please forgive our lateness as other priorities affected our ability to meet the due date. If you have any questions on DOL-OIG's comments, please do not hesitate to contact me at (202) 693-7013 or Michael T. McFadden, Director, Office of Accountability Audits (OAA) at (202) 693-5164.

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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 Primary 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.

Questions for Respondents:

Q1. This Primary 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.

DOL OIG Response: We agree with the primary view that the obligating event for liability recognition should be the point when a participant becomes fully insured for the Social Security and Medicare programs. Social Security and Medicare have similar characteristics to contributory defined benefit plans and other post-retirement benefits that many private sector companies provide their employees and/or retirees. Financial Accounting Standards Board (FASB) Statement Number 87 defines the requirements private companies must follow when they account for and report defined benefit pension plans in their annual financial statements. FASB Number 87 states "net periodic pension cost has several components that reflect different aspects of the employer's financial arrangement as well as the cost of benefits earned by employees." Components that make up the reporting for defined benefit plans include the service component cost (the acturial present value of benefits attributed by the plan's benefit formula), interest cost, actual return on plan assets, amortization of unrecognized prior service cost and gain or loss. Employees become eligible for benefits when they meet the vesting requirements as stated in the employer's plans.

Social Security participants who become fully insured for program benefits are similar to employees who become vested in their companies defined benefit pension plans. Due to this fact, Social Security benefits could be estimated based on the accounting and reporting requirements in FASB Statement Number 87. The Social Security Administration can make actuarial assumptions based on participants who have become fully insured. The primary view would ensure complete reporting of costs and liabilities for the program. The primary view would also allow consistent accounting and reporting between Federal and Private Sector financial statements.

The primary view established different reporting rules for certain social insurance programs. In our opinion, liabilities should be recognized for participants once they have been deemed eligible for benefits under the Black Lung or UTF programs as well. Accounting standards should provide a standard accounting

treatment for a like group of accounts or programs. Both views presented in this document provide for different treatment of the same type of information for the various social insurance programs. If the differences in treatment are due to materiality concerns, then the views presented should set materiality limits rather than select specific programs for specific treatment.

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.**

***DOL OIG Response**: We agree obligations for Social Security and Medicare obligations are measurable for purposes of recording a liability after 40 quarters or equivalent work in covered employment. As stated in our answer to question number one, the Social Security Program is similar to defined benefit pension plans that many companies provide their employees. FASB Statement No 87 requires that employer, who provide defined benefits plans, account for and report the actuarial present value of benefits attributed to the plans benefit formula to services rendered by employees during the period. We*

know of no reason that would prevent the calculation of the actuarial value of benefits for those who meet or have previously become fully insured for Social Security and Medicare benefits. One concern we have relates to the fact the 40 quarter requirement does not take into account other benefits provided by the Social Security Program. The Social Security Program also provides other payments, such as disability, surviving spouse and/or other dependent benefits, which may or may not be subject to the requirements of 40 quarters or equivalent in covered employment. By not including or estimating the liability for these additional benefits, inconsistencies could result in both the Social Security Administration's Consolidated Financial Statements and the Consolidated Financial Report of the U.S. Government.

Likewise with Black Lung and UTF, once participants meet the eligibility requirements for these programs future obligations can be reasonably estimated. Participants, spouses, and in some cases dependents, can receive payments when a participant is diagnosed with Black Lung. The Black Lung program also pays medical expenses of participants for medical conditions related to the disease diagnosis. The liability for these payments can be estimated based on actuarial projections. Participants in the UTF receive benefits for a limited period of time, usually not more than one year. For participants deemed eligible for UI payments, an estimate of those payments should be made. As we indicated in our answer to question number one, accounting standards should provide a standard accounting treatment for a like group of accounts or programs.

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 statement entitled "statement of changes in

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

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?

DOL OIG Response: We do not believe FASAB should add line items to the SOSI. We believe the current presentation of the SOSI is clear and provides a complete picture of future revenues, liabilities, and the net difference.

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?

Please provide the rationale for your answers.

DOL-OIG Response: We favor the reporting proposed by the Alternative View. The Alternative View would require that the significant reasons for changes and related amounts be presented rather than just the change in the various reporting categories. We believe that this provides readers with the ability to better understand changes from year to year.

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.

DOL OIG Response: We agree with the Alternative View that the Consolidated Financial Report of the U.S. Government should include a statement of fiscal sustainability as required supplementary information. DOL's Consolidated Financial Statement includes required supplemental information that shows the tax revenues on sales of coal will not provide sufficient revenues to pay promised future benefits and related interest payments for the Black Lung Program. The supplemental information clearly indicates the lack of sustainability of the Black Lung Program at the current tax rates. In order to pay future benefits, additional revenues will be needed from higher tax rates on coal sales or from general tax receipts of the U.S. Government, or forgiveness of the interest on the trust fund debt.

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 nonearmarked 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.

DOL OIG Response: If revenues for earmarked funds belong to the federal government, we believe that the current treatment of identifying earmarked funds separately in net position is appropriate. If, however, the revenues for earmarked funds would need to revert back to a non-federal source of the revenue in the case of the program ceasing to exist, then a liability would be appropriate.

Regardless, if FASAB considers recognizing deferred revenue for earmarked revenues in excess of related programs costs, it should be done as a separate project. A change of this magnitude would require revisions of SFFAS No 7 and this change would affect all earmarked funds, not just earmarked funds of Social Insurance programs.

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.

DOL OIG Response: We have no comments on the primary view provisions.

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

DOL OIG Response: We have no comments on the alternate view provisions.

DOL OIG General Comments on the preliminary views document:

- ***This preliminary views document does not address the revenue matching principle. Instead, the two opposing views***

address the recognition of liabilities only in the financial statements.

- ***Accounting standards should provide a standard accounting treatment for a like group of accounts or programs. Both views presented in this document provide for different treatment of the same type of information for the various social insurance programs. If the differences in treatment are due to materiality concerns, then the views presented should set materiality limits rather than select specific programs for specific treatment.***