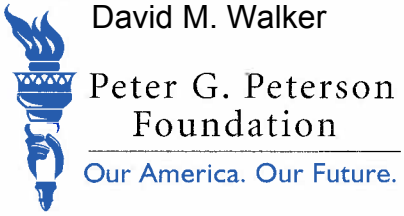


**David M. Walker**
PRESIDENT AND CEO

January 19, 2009

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

Dear Ms. Payne;

The following represents my responses to the questions listed by the FASAB in its Exposure Draft on Accounting For Social Insurance, Revised dated November 17, 2008.

Response to Question 1:

I agree that key measures from the basic financial statements relating to major social insurance programs should be included in the Management Discussion and Analysis section of the annual report.

Response to Question 2:

I do not believe that a "closed group measure" regarding major social insurance programs should be presented on the balance sheet or in any basic financial statement. Closed-group measures are typically used for employer sponsored pension and retiree health programs where individuals perform services in exchange for such benefits as part of their total compensation package. In fact, such is already the case for the employer sponsored programs of the federal government. However, closed-group calculations are not meaningful for social insurance programs since no such exchange has occurred and no such irrevocable commitment exists. Including such information on the face of the balance sheet would, at a minimum, result in confusion among financial statement users, and could even be viewed as misleading.

Response to Question 3:

As noted above, closed group measures are not meaningful in connection with social insurance programs. Therefore, they should not be included on the face of any basic financial statements. However, including such information along with appropriate explanatory comments in the notes to the financial statements could be acceptable.

Response to Question 4:

As noted above, the basic financial statements should not include any closed-group amounts for social insurance programs. Therefore, the "Statement of Changes in Social Insurance Amounts" should focus solely on open-group calculations.

Response to Question 5:

I do not believe that accrued benefit obligation amounts should be included in the notes to the financial statements. Such amounts do not reflect the realities of a social insurance program and would not provide meaningful information to the readers of the financial statements. The financial statements already include

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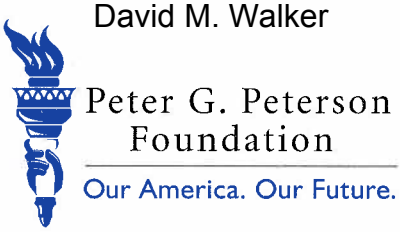


extensive information on social insurance programs. There is a limit as to how much information can be reasonably absorbed. Candidly, I believe that, absent any realistic possibility of the federal government terminating these programs in a manner similar to an employer sponsored pension plan, which is what this measure implies, including accrued benefit obligation information would both inappropriate and a step in the wrong direction

Response to Question 6:

As discussed above, closed-group measures should not be included in any of the basic financial statements.
Response to Question 7:

No, I do not agree with the Board's decision to focus on the closed-group measure for the reasons outlined above.

Response to Question 8:

I agree that a general requirement is acceptable provided that it only relates to open-group measures and adequate guidance is provided to help ensure effective and consistent compliance.

Additional Response:

In my view, there are additional amounts that should be recognized in the basic financial statements in connection with several major social insurance programs (e.g., Social Security and Medicare). Specifically, the federal government should be recording a liability in connection with the bonds in the Social Security and Medicare "trust funds". While, in my view, the trust fund concept being employed by the federal government is misleading, the related bonds represent irrevocable commitments of the federal government. They are backed by the full faith and credit of the federal government and are guaranteed both as to principal and interest. Therefore, they will be honored absent a default by the federal government. Furthermore, individuals paid related payroll taxes with the express understanding and an express federal government commitment that such taxes would be used solely to fund the applicable social insurance programs.

Failure to recognize the above liability results in a material understatement of the federal government's debt, and total liabilities, as well as a material distortion of related ratio analyses (e.g., Debt/GDP). It also results in a material understatement of the net operating cost of the federal government and related ratio analyses (e.g., Net Operating Cost/GDP).

In my view, this is a major flaw with current federal financial reporting that needs to be addressed in an expedited manner. The plain and simple truth is that the federal government is telling the American people that these obligations are as good as debt held by the public but then the federal government does not show them as a liability. In my view, this is wrong and it should be changed.

I hope that the Board and the staff find this information useful. Please let me know if you have any questions or would like me to provide any additional information.

Sincerely,

David M. Walker

David M. Walker
President and CEO