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Jim Cooper

Federal - Other

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May 15, 2007

Wendy M. Comes, Executive Director
Federal Accounting Standards Advisory Board
441 G Street NW, suite 6184 (mailstop 6K17V)
Washington, D.C., 20548

Dear Ms. Comes:

I write today to provide my comment to the Federal Accounting Standards Advisory Board (FASAB) on its Preliminary Views (PV) on *Accounting for Social Insurance, Revised*.

I would first like to express my admiration to FASAB for their leadership on this issue. While many in Washington privately fret over a looming wave of social insurance liabilities, public acknowledgement of this threat lags dangerously behind. Whatever the final decision of the Board, their effort to highlight the future imbalances in social insurance programs must be commended.

The purpose of the Financial Report is to give the American public a clear and comprehensive picture of the federal fiscal position. When considering any changes to its content, FASAB should avoid choices that unnecessarily complicate or limit. The distinction between the Primary and Alternative Views in the PV resides in their respective criteria for when a liability is recognized. The most instructive question is: *Which criteria best comport with the public understanding of social insurance?*

In answer to this question, and in accordance with the most open and honest disclosure of the federal fiscal position, I wish to express my support for the Primary View expressed in the PV.

Attached is my expanded response to the request for comments contained in the PV.

Sincerely



Jim Cooper
Member of Congress

Q1. Which obligating event do you believe creates a liability and expense that should be recognized? Please provide the rationale for your answer.

A1. The Primary View's *fully insured* criteria adequately characterize the obligating event creating a liability and expense. Completion of 40 quarters of covered work, the event at which individuals become fully insured, is consistent with the generally accepted public understanding of the point at which a worker has entered into exchange (quasi- or otherwise) with the federal government for future social insurance benefits.

Potentially, an actuarial model could predict the expectation that individuals completing discretely graduated increases in quarters worked would become fully insured. In such a case, the benefits of those individuals who have completed some positive number less than 40 quarters would have a weighted liability recognized. This weighted participation should be rolled into Current Participants not of retirement age or disabled, described in par. 16b, as each additional quarter worked moves them closer to that cohort and their recognized liability. The Primary View, on the other hand, would include these workers under Future Participants, described in par. 16c.

Q2. 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. 16 – 18 and especially subpar. 16g in the standard; also see A54 – A55 in the basis for conclusions)? Please provide the rationale for your answer.

A2. I believe these obligations are measurable for these purposes as proposed in the Primary View. This is especially true where it regards the inclusion of the present value of past work, but not future work, for those fully insured regardless of age or disability status (as described in pars. 16e-g). Future work for all groups (as described in pars. 16h-l) should be considered, but only as supplemental to the liability described in par. 16g, whether presented on their own line (par. 16h) or a subtotal line (pars. 16i,l).

Uncertainty in measurement is unavoidable. That same uncertainty, though admittedly applied to a smaller base, is already included in the statement of net cost through the measure of public employee retirement liabilities.

Q3. 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?

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.

A3. The articulating proposed by the Primary View should be adopted. As the purpose of the balance sheet and statement of net cost are to provide clear and comprehensive

information, the integration of these with the SOSI is warranted. A new principal financial statement, as proposed by the Alternative View, could complicate the presentation of these changes and is therefore unnecessary. The SOSI, balance sheet, and statement of net cost – the existing principal financial statements – should stand alone.

Q4. Do you believe the proposal should be adopted? Please provide the rationale for your answer.

A4. While the goal of a statement of fiscal sustainability is laudable, it exists outside of the essential function of the Financial Report. Infinite horizon projections, generational equity, and simple sustainability are all very relevant to conversations concerning social insurance. However, they can cloud the snap-shot approach to the federal fiscal position intended in this context. For these reasons, it should not be adopted.

Q5. 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.

A5. Deferred earmark revenues should be considered as a separate project, if at all. While I would not explicitly say they should not be considered outside of the expansive examination they receive in Note 20 of the Financial Report, any change to how they are treated deserves its own proposal.

Q6. 6.1 Please offer any comments that you wish to make on the Primary View provisions.

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

A6. Outside of suggested adjustments described in A1 and the statement provided at the beginning of my letter, I do not have any additional comments to make at this time.