

>>> "Glenn-Croft, Mary" <Mary.Glenn-Croft@ssa.gov> 1/23/2009 1:57 PM >>>

> Dear FASAB,

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> Attached are our comments on the Exposure Draft Accounting for Social Insurance, Revised. You may receive a separate set of comments from SSA's Office of the Chief Actuary.

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> Staff questions can be addressed to Christina Lilly at christina.lilly@ssa.gov or 410-965-1263. Thank you for the opportunity to comment.

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> Mary Glenn-Croft

> Chief Financial Officer

> Social Security Administration

Social Security Administration – Office of Chief Financial Officer
Comments on *Accounting for Social Insurance* Exposure Draft

Q1. The Board proposes to require social insurance component entities and the government wide entity to discuss and analyze key measures from the basic financial statements in their management’s discussion and analysis (“MD&A”). See paragraphs 26-30 in the proposed standard and paragraphs A75-79 in the basis for conclusions. **Do you believe that key measures should be presented in the MD&A as described in this exposure draft? Please provide the rationale for your answers.**

SSA agrees that a discussion on financial statements in the MD&A is warranted. In accordance with SFFAS 15, *Management’s Discussion and Analysis*, the purpose of the MD&A is to increase the understandability and usefulness of an entity’s financial reports; communicate managers’ insights about the reporting entity; and include forward-looking information about the future effects of existing demands, risks, uncertainties, events, conditions, and trends. However, we do not agree that the standard should specify exactly what measures should be discussed. The ED seems too prescriptive when outlining the requirements for the MD&A discussion. In addition, SSA believes that it is inappropriate to use the closed group measure as the primary focus for social insurance reporting, and therefore, we disagree with its discussion in the MD&A.

Additionally, we do not believe that the draft *Accounting for Social Insurance* standard is the proper venue to discuss MD&A requirements not related to the Statement of Social Insurance. Because the Social Insurance standard only applies to a very limited number of preparers and auditors, there is a risk that only a subset of stakeholders will consider the full range of MD&A changes proposed in this standard. Users of FASAB standards may find it disjointed to have some MD&A requirements related to historical statements reside outside of SFFAS #15, *Management’s Discussion and Analysis*.

Q2. The Board is proposing to add a line for the **closed group measure** to the balance sheet below assets, liabilities, and net position and not included in the totals for these classifications.¹ See paragraphs 31-32 and A81-A100. Two members have submitted alternative views on this issue. See paragraphs A139-A142. Mr. Patton and other members believe that a liability greater than due and payable should be recognized on the balance sheet. See paragraph A144. **Do you believe that the balance sheet should present a line item for the closed group measure as described in this exposure draft? Please provide the**

rationale for your answers.

We do not believe that a “closed group measure” line item should be added to the balance sheet. The intention of the balance sheet is to show the government’s financial position at a certain point in time and this includes showing only liabilities that are present obligations. By including this new line item, it would appear to be including future benefits as a liability. Likewise, we disagree with Mr. Patton’s view that a liability should be recorded on the balance sheet for future benefits. Our longstanding position is to record only those liabilities and expenses that are due and payable. In the case of the Social Security program, attaining fully insured status (40 quarters of coverage) is not an obligating event because of uncertainties that exist related to survival to retirement age, subsequent work activities, etc. In addition, a liability can only occur when the entity does not have the ability to single handily alter the liability. In the case of the Social Security program, the federal government retains the right to alter the benefit up until the point when the benefit is due.

Furthermore, we support the alternative view presented by Mr. Werfel. Including a commitment line item on the balance sheet would be misleading to the reader; no clear definition of a commitment exists in accounting literature issued by FASAB or OMB. We believe the SOSI is the appropriate vehicle for presenting the open group line item since the SOSI’s purpose is to “illustrate the extent to which future revenues will be sufficient to pay future benefits.” It does not seem appropriate to “crosswalk” between items presented on the balance sheet and on the SOSI, since the statements are trying to convey information over different points in time. In addition, the ED seems inconsistent in not proposing to add other significant long-term commitments, such as those for defense and education.

Q3. The Board proposes to add a new summary section of the statement of social insurance (“SOSI”) to present the closed and open group measures. See paragraphs 34-35 and A114-A116. **Do you believe that the SOSI should have a summary section as described in this exposure draft? Please provide the rationale for your answers.**

We do not believe that the SOSI should have a summary section as described in paragraphs 33-35 of the ED. Currently, the SOSI emphasizes the open group measure by displaying the future income and costs of the various programs. Presenting a “closed group” measure in the summary section would be misleading to the reader, as expressed in our other responses. The current SOSI provides sufficient data to allow the reader to compute a “closed group” measure if they so chose.

Q4. The Board proposes a new basic financial statement entitled “statement of changes in social insurance amounts.” The new statement would explain the changes during the reporting period in the present value amounts for the closed group measure included in the statement of social insurance. See paragraphs 36-37 and A116. The alternative view believes the new standard should focus on changes in the open group measure and not the closed group. **Do you believe there should be a new basic financial statement explaining changes to the present value amount included in SOSI? Please provide the rationale for your answers.**

While we agree with the ED’s proposal to introduce a new basic financial statement entitled “statement of changes in social insurance amounts,” we believe the statement should focus on the open group measure as opposed to the closed group measure. As stated in Mr. Werfel’s alternative view, social insurance reporting should address program sustainability and should include projections of all future cash flows over a given time horizon. The use of a closed group measure does not accomplish this, since it reflects only current program participants and assumes the program is closed to future participants. By not including the receipt of taxes from future participants, it would appear that a majority of benefits due to participants in the closed group would not be payable. In addition, since open group is used for evaluating changes in social insurance by Congress and other policy makers, based on estimates in the Trustees’ Reports, it seems appropriate to use only the open group measure in the new basic financial statement.

Q5. The Board proposes to disclose an accrued benefit obligation in notes to the financial statements. This information would include a five year trend when the standard is fully implemented. See paragraphs 38 and A117-A123. The alternative view expressing opposition to the disclosure is in paragraph A146. **Do you believe that an accrued benefit obligation should be disclosed as described in this exposure draft? Please provide the rationale for your answers.**

We do not believe that an accrued benefit obligation should be disclosed. As noted in Mr. Werfel’s alternative view, the term “obligation” may be misleading to users in this context since it implies that the government has an “obligation” or liability to participants. In addition, the accrued benefit obligation is calculated based on current participants only (closed group), not considering the current cost financing principle of Social Security.

Q6. The Board considered but decided not to propose adding a line item to the

statement of net cost (“SNC”) for the change during the reporting period in the closed group measure that would be presented below exchange revenue and expenses and not included in the totals for these classifications. Some argue that this measure should not be presented on the SNC because it is a fundamentally different measure. Others believe the change is an economic cost that belongs on the SNC, and that including this number at the bottom of the SNC appropriately links all basic financial statements. See paragraphs A101-A113. **Do you believe that the SNC should not include a line item for the change during the period in the closed group measure, which would be presented below exchange revenue and expenses and not included in the totals for these classifications? Please provide the rationale for your answers.**

We agree with the board’s decision to not include a line item “below the line” on the SNC showing the change during the period of the closed group measure. Neither should the SNC show a “below the line” item for changes in the open group net obligation for social insurance programs. The SNC should reflect the matching of government costs of operations with services provided by the government during that particular year. Showing expenses for future benefits, even if only below the line, is not consistent with this principle and would be misleading to the user. Again, we reiterate our objections to using the closed group measure.

Q7. The Board decided to present the **closed group measure** (CGM) (defined in paragraph 19) as a common thread among the proposed new reporting. The proposal requires that the CGM and other key measures from the financial statements be discussed in management’s discussion and analysis; that the CGM be presented on the balance sheet below assets, liabilities and net position (without being included in the totals for those categories); and that the changes in the CGM during the reporting period be presented and explained in the new summary section of the statement of social insurance and the new statement of changes in social insurance. The Board considered the **open group measure** (defined in paragraph 24) instead of the closed group measure as the focus for the disclosure. This exposure draft discusses both the closed group measure and the open group measure throughout. See paragraphs A69-A74 and the alternative view in paragraph A145. **Do you agree with the Board’s decision to feature the closed group measure? Please provide the rationale for your answers.**

We strongly disagree with the Board’s proposal to feature the closed group measure. As previously mentioned, the use of an open group measure is essential in performing an accurate sustainability analysis, by projecting all future cash flows over a given period. The closed group measure only includes current

program participants and assumes the program is closed to future participants. This concept fails to reflect the financing principle of the Social Security program, where working individuals pay the benefits of retired or disabled individuals. By ignoring this concept, payments from future participants necessary to pay current participants are not included in the measure, making it appear that benefits to current participants would not be payable to a far greater degree than is appropriate. In addition, social insurance sustainability, policy, and other related changes are more accurately illustrated in changes to the open group measure for all participants.

Q8. The Board is proposing to change the requirement currently in SFFAS 17 for specific sensitivity analysis. The standard will require the entity to provide sensitivity analysis of the closed and open group measures appropriate for its particular social insurance program but will not specify a particular approach for the analysis. See paragraphs 42-43 and A125-A137. **Do you believe that a general requirement that allows flexibility in the sensitivity analysis presented will produce better information regarding the sensitivity of social insurance programs? Please offer any comments that you wish to make on these provisions.**

Yes, we believe that allowing flexibility when preparing sensitivity analysis, on an open group basis only, will produce better information. Preparers will be able to present their sensitivity analysis in a more concise format that is understandable to readers.