

>>> "Cotton, David L." <dcotton@cottoncpa.com> 3/7/2007 4:31 PM >>>
Tom (and Wendy),

"Tireless" I am not.

In answer to your question. The obligation for the government to pay something in the future gets recognized by Joe Sixpack once he works 40 quarters and has put his hard-earned money into the system; willingly (if not gladly) because of the promise (it used to be explicit**, but now has become "implied" because the government has started posturing to renege) that the money will be there for him when he retires. (Door #2)

**I recall quite well when Pat McNamee and I testified at some earlier iteration of this endless consideration. Pat had his "Here's how much we're gonna pay you when you retire" letter from the SSA with him. He read it to FASAB. It sure sounded like a government promise to pay to everyone in the room. And, since there were SSA folks in the room, the letter was changed the next year and started to quietly warn us that the rules could be changed. I won't argue that getting the SSA to be more honest was one of the most memorable benefits we've had from the whole FASAB adventure, but, it surely was a move toward the truth, and it was directly linked to FASAB's efforts.

In anticipation of the argument that Congress can change the deal at any time (dredge up the Supreme Court decision if you want), I would point out that the Supreme Court has never had an accountant on it and does not realize that a balance sheet is a snapshot of assets and liabilities at a point in time. If Congress changes the rules, then a new balance sheet is needed based on Congress's new rules. But, until the right numbers get into the accounting equation, Congress will continue to say, "look at the GAAP-basis balance sheet, there are no unfunded liabilities, so there's no problem." The balance sheet should be based on the best information available as of the balance sheet date. This is why actuaries get the big dollars.

I also understand the "tastes great--less filling" arguments about SS not being a pension program, but an income transfer program. Both sides might be right on that argument: SS has elements of both exchange transactions and nonexchange transactions. So, if you want to be real sophisticated about it, separate the two components and treat them accordingly. I don't really care much about that. Get a liability number into the accounting equation. It just needs to be big and in the ballpark. Y'all can worry about the metaphysics of how much the true pension portion is later, while Congress is fixing the problem.

And please let's not get bogged down in semantics about any of this. If calling it a "liability" causes problems, call it something else. Just get it in the equation. (My nomenclature vote would be "Ponzi Scheme." That might get some attention.)

Our country is well-served by dedicated professional like you two who are willing to truly work "tirelessly" on issues like this. We'd be in bad shape if we had to rely on patience-impaired geezers like me. Keep up the valiant work.

--Dave

From: Paula Allen [<mailto:tlandpballen@yahoo.com>]
Sent: Wednesday, March 07, 2007 3:59 PM
To: Cotton, David L.; Wendolyn M Comes
Subject: Re: FW: FASAB Chairman Seeks Your Input

David, Thanks for your tireless efforts to improve the federal government. I think FASAB could consider this a response if you would be willing to send it to Wendy rather than me and indicate that it is your response, consistent with your prior responses which they can look to again if they (fasab) wants details. If you are willing to turn this into a response, I would ask you to answer one specific question and that is, what event gives rise to a liability recognition. 1-someone entering the work force and paying the s.s. taxes, 2- someone working the 40 quarters necessary to be eligible for benefits, 3- someone reaching the age that they can start drawing benefits, or, 4-- they month the benefits is due to be paid--but for some reason isn't paid until the next month... One sentence is enough--a little more if you have time.
Thanks Tom

"Cotton, David L." <dcotton@cottoncpa.com> wrote:

Hi Tom,

I applaud your efforts on this windmill tilt.

I would like to submit a formal response on this, but simply cannot muster any more energy for it. I think I testified 2 or 3 times on this issue and submitted formal responses on several occasions--some as chair of the (now-defunct) AICPA Federal A&A Committee, some as managing

partner of C&C, some as a concerned taxpayer. I think my views on this are well-known and probably no longer wanted. In a nutshell: until we get the unfunded liabilities (or social commitments or implicit exposures or whatever anyone wants to call them) into the accounting equation ($A-L=E$) so that the country's true slide into deeper and deeper debt can be measured from year to year and is visible, we'll never get anyone to make the hard decisions needed to fix the problems. (Just as bad if not worse, Congress will continue piling worse decisions onto the nation. See prescription drug benefits.) And the longer we delay, the more difficult and painful the fixes will be. This has been and continues to be the single most important matter for FASAB to address, and FASAB continues to punt. It's easier and more satisfying to rearrange the deck chairs and get a (false) sense of accomplishment. (Sorry for mixing so many metaphors.)

Hang in there my friend.

--Sancho Panza

PS: attached is an article I penned about FASAB some years back. You might find it amusing.

--dlc