UNITED STATES RAILROAD RETIREMENT BOARD

OFFICE OF INSPECTOR GENERAL

April 11, 2007

Ms. Wendy M. Comes
Executive Director
Federal Accounting Standards Advisory Board
411 G Street NW, Suite 6814 (Mailstop 6k17V)
Washington, DC 20548

Dear Ms. Comes:

We would like to thank the Federal Accounting Standards Advisory Board (FASAB) for the opportunity to comment on the proposed revisions to Statement of Federal Financial Accounting Standard (SFFAS) "Accounting for Social Insurance."

With respect to the accounting and reporting of Federal social insurance, we support the alternative view.

With respect to the scope of both the primary and alternative views, we agree that the retirement and survivor benefit programs mandated under the Railroad Retirement Act (RRA) should be included. The same issues of accountability and program sustainability apply to the single industry RRA program as to the larger nationwide Social Security and Medicare programs. However, we would like to express our concern about the impact of excluding the "RRB pension tier" from covered social insurance programs under both proposed views[1].

The "RRB pension tier" represented approximately 38% of the agency's total benefit expense incurred under the RRA in FY 2006 and all of the $29 billion shortfall of income over expenditures shown on the RRB's FY 2006 statement of social insurance. Neither the primary nor alternative views provide specifically for any alternative reporting/disclosure requirement for this benefit component.

If FASAB no longer classifies the "RRB pension tier" as Federal social insurance, it is not clear that any other existing standard would require such reporting/disclosure for this benefit component. The commonly used analogy comparing this benefit component to a private pension is not technically

[1] We interpret the Board's use of the term "RRB pension tier" as short reference to the non-social security equivalent benefit component of annuities paid under the RRA. An RRA annuity may have up to four components. Although Tier 2 is never a social security equivalent, Tier 1 is split between social security equivalent and non-social security portions. In some cases, an individual's Tier 1 benefit has no social security equivalent portion.

sufficient to construe coverage of the “RRB pension tier” under any other existing accounting standard.

Although the “RRB pension tier” is, in many respects, like a private pension, it has never been privatized and remains the responsibility of the Federal government which funds its payment with payroll taxes subject to collection and enforcement by the Internal Revenue Service. Participation in all program parts is mandatory for employers and employees covered by the RRA. The “RRB pension tier” and its funding are accounted for in special trust funds and reported as earmarked funds in the same manner as other benefit components not paid from annual appropriations of general revenue. Thus lies the difficulty in identifying other applicable accounting and reporting standards.

We would also like to suggest that this discussion not be lead by descriptions of the RRA benefit tier structure. An RRA annuity includes three benefit components not funded from annual appropriations: Tier 1, Tier 2 and supplemental benefits. These benefit components are distinguished by their funding sources. All three components are funded by payroll taxes mandated under the Railroad Retirement Tax Act. For purposes of this discussion, the major difference among them is that shortfalls of current funding over current expense for those benefits deemed social security equivalents are paid for by transfers from the Social Security trust funds under the financial interchange. We would like to note the following:

1. All social security equivalent benefits are classified as “Tier 1.”

2. All Tier 1 benefits are not social security equivalents.

3. Social security equivalents and non-social security equivalent benefits are accounted for in separate trust funds as provided by law. Surpluses in the former are available to pay shortfalls in the latter.

4. Actuarial forecasts for the RRA program assume the continued ability of the Social Security Administration to meet its obligations to cover funding shortfalls for social security equivalent benefits under the financial interchange.

We can understand FASAB’s decision to narrow the focus of the new standard to include only that portion of an RRA annuity that is considered a social security equivalent. However, we ask FASAB to give further consideration to the effect that excluding the “RRB pension tier” from the standard would have on the RRB’s entity-level financial reporting.

Absent a provision for reporting/disclosure of longterm future actuarial liabilities/surpluses for the "RRB pension tier," agency compliance with the standard as presently written would badly misrepresent the longterm financial outlook for the RRA program as a whole.

We ask FASAB to revisit its decision to exclude the "RRB pension tier" from the scope of the Federal social insurance standard. If the exclusion stands, we ask that the new standard (whether the primary or the alternative view):

1. describe the characteristics, program elements, and reporting objectives that led to the exclusion;

2. adopt nomenclature that is consistent with the underlying legislation by replacing the term "RRB pension tier" with "non-social security equivalent benefits;"

3. clarify FASAB's intention with respect to the accounting, reporting and disclosure of non-social security equivalent benefits; and

4. identify the specific accounting, reporting and disclosure standards that will be applicable to non-social security equivalent benefits.

Sincerely,

Martin J. Dickman

Martin J. Dickman
Inspector General