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Ms. Wendy Comes, Executive Director
Federal Accounting Standards Advisory Board
441 G Street, Suite 6914 (Mail stop 6K17V)
Washington, D.C. 20548

Dear Wendy:

Re: Preliminary Views, Accounting for Social Insurance, Revised

Thank you for the opportunity to respond to the FASAB's Preliminary Views paper on Accounting for Social Insurance. I strongly support the Primary View. Recognizing expenses and recording liabilities for fully insured participants provides a reasonable estimate of annual expenses and year-end liabilities for social insurance programs, and is surely a major improvement over the current standard.

I personally think it is more appropriate to start recognizing expenses and liabilities when participants start working in covered employment. In pension accounting, we don't wait until employees vest to start recognizing expenses, and, from an accounting perspective, I really see no difference between social insurance and pension accounting. Nevertheless, I'm in full agreement with the Primary View because it is a step in the right direction, gets the great bulk of the liability onto the financial statements, and is infinitely superior to the "due and payable" notion expressed in the current standard and the Alternative View.

I saw no logic in the "due and payable" notion when I served on the FASAB more than 10 years ago and I still don't. The obligation for benefits earned by fully insured participants under social insurance programs is surely a governmental liability. (When I use the term "liability," I prefer the SSFAS 5 definition – a probable future outflow or other sacrifice of resources as a result of past transactions or events – because I think it is clearer than the proposed new definition.)

The Alternative View seems to be based on the theory that social insurance programs are two nonexchange transactions – the compulsory payment of taxes and the subsequent payment of benefits. The implication of this view is that the collection of the tax is completely *separate from and unrelated to* the subsequent payment of taxes. This theory is bolstered by the notion that the sovereign United States government is free at any time to walk away from the commitments made to the citizenry. Whether you look at this from an accounting perspective, a public administration perspective, or a political perspective, the Alternative View is unsupportable.

a. The accounting perspective. The notion of "going concern" is basic to accounting. The United States is certainly a going concern and there is no evidence that the social insurance programs will disappear. The United States may indeed walk away from its commitments. But the question is: What is the likelihood of that happening in the foreseeable future? The answer is "not likely." For example, Supplemental Information to the U.S Government 2006 financial statements shows that OASDI trust funds have sufficient assets to cover payments through 2040 and that income under present tax rates is sufficient to pay 74% of scheduled benefits until 2080 and 70% beyond that. The fact is that payment of Social Security benefits is certainly "probable" not only in the near future, but also in the far future.

b. The public administration perspective. The suggestion that the collection of Social Security and Medicare taxes and the payment of benefits are two separate nonexchange programs is completely inconsistent both with citizen perception of these programs and with the way the programs have been administered over the past 70 years. Social Security and Medicare are two of the more successful governmental programs. Citizens have supported them because they believe that, in *exchange* for the taxes they pay today, they will receive benefits when they retire. That perception has been reinforced over the years by actions of Congress and by the communications people receive from the Social Security Administration. For example, the citizens were told that the Social Security "fix" in 1983 would be sufficient to ensure benefit payments for the next 75 years.

c. The political perspective. Regardless of whether one thinks social insurance programs are exchange, nonexchange or quasi-exchange, the *public* has been led to believe that social insurance programs are like private insurance, where you pay currently in exchange for future benefits. This perception is the reality and every elected official is aware of it. Further, Social Security and Medicare will become increasingly significant in the future as the private sector continues to reduce its participation in pension and post-employment benefit plans. Despite the well-publicized problems, many observers think Social Security can be readily fixed. So, from a political perspective, it is highly probable that future outflows under social insurance programs will continue for the foreseeable future.

Supporters of the Alternative View suggest [Executive Summary, item (3) on page 8 of the paper] that benefits beyond the due and payable amount should not be recorded as expenses or liabilities because current benefit payments without current financing are "unsustainable" and "amounts of benefit payments are uncertain and not reliably estimable." This argument is grossly misleading, based on the data from the 2006 U.S. financial report that I cited in subparagraph a., (accounting perspective) above.

The argument in item (1) on page 8 regarding a "mismatch" is inappropriate. The "future social insurance benefits" that would be recognized as expenses under the Primary View are indeed current expenses because the benefits are being "earned" currently by the recipients, even though the cash will be received in the future. In this sense, the social insurance programs are like pension and post-employment health care plans.

The argument in item (2) is equally without merit. Social insurance revenues and expenses are already significant; just because they may be higher on the accrual basis of accounting is hardly an argument for not reporting them. Further, I would argue that it is misleading not to report the obligation as a liability.

Regarding the specific questions raised in your Request for Comments:

Q1. For the reasons noted above, I think it is more logical to recognize the expense and liability when participants begin work, but I fully accept the Primary View.

Q2. The liability is certainly measurable. These are actuarial calculations and actuaries have made such measurements with reasonable accuracy for many years. Further, the specific proposal made in the Primary View (recognition after 40 quarters) will result in greater accuracy than the current 75-year calculations because the economic and demographic assumptions are less complex and extend over a lesser period of years.

Q3. Yes, I think the Primary View proposals are sound.

Q4. Data on fiscal sustainability is useful for policy-makers and academic researchers. This should be a separate project after the Primary View is adopted as a standard.

Q5. and Q6. No comment.

Sincerely,

Martin Ives
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