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**Comptroller General
of the United States**

**United States Government Accountability Office
Washington, DC 20548**

Statement on FASAB's Preliminary Views document
October 24, 2006

From David M. Walker, Comptroller General of the United States:

The U.S. Government Accountability Office (GAO) has long supported more transparent financial reporting on Social Security, Medicare, and other social insurance programs. I have made numerous public statements about the unsustainability of the federal government's current fiscal policy, including social insurance programs.

As Comptroller General and a former trustee of Social Security and Medicare for 5 years, I personally encouraged the Federal Accounting Standards Advisory Board (FASAB) to develop the current Statement of Social Insurance. Furthermore, with GAO's full support, the FASAB made the Statement of Social Insurance a principal financial statement subject to a full audit beginning with fiscal year 2006. The Statement of Social Insurance provides important information about the present value of the projected revenues and scheduled benefits for social insurance programs over the next 75 years. As reported in last year's financial statements, social insurance benefits were projected to exceed revenues by over \$35 trillion. As of the beginning of this year, this shortfall increased by \$3.3 trillion to \$38.9 trillion.

The U.S. government is already a global leader in accounting for and reporting on social insurance, and we want to continue in a leadership position. In the Preliminary Views document released on October 23, all FASAB members support improvements to financial reporting for social insurance programs, but how that is accomplished matters a lot.

GAO strongly supports, as an integral component of social insurance reporting, the Alternative View that Federal financial reporting should communicate additional important information, in a transparent manner, about the long-term financial condition and sustainability of social insurance programs and of the U.S. government overall, including annual changes therein. Specifically, additional reporting should include:

1. A Statement of Changes in Social Insurance—disclosing the reasons for significant changes during the year in scheduled social insurance benefits & funding, and

2. A Statement of Fiscal Sustainability--providing a long-term look at the sustainability of social insurance in the context of all federal programs because of the significant interrelationship between the two. The Statement of Fiscal Sustainability would show the relationship between the present value of projected revenues and outlays for social insurance and for all other federal programs, for both 75-year and infinite horizons. Also, such reporting would include additional information that will assist in understanding the sustainability of social insurance and other federal programs, including (1) key measures of fiscal sustainability and intergenerational equity, (2) projected annual cash flows, and (3) changes in fiscal sustainability during the reporting period.

In addition, I believe that earmarked Social Security and Medicare taxes that have not yet been used to pay benefits should be recorded as deferred earmarked revenue in the financial statements, which would result in an additional liability for such social insurance-related obligations. Currently, such excess amounts are invested by the respective trust funds in special intragovernmental U.S. Treasury securities that are eliminated in the consolidated financial statements of the U.S. government.

My position is that the Alternative View would provide more complete and consistent information about the federal government's long-term fiscal condition and the unsustainable nature of the social insurance programs as they are currently structured.

In addition, to assist the public in understanding the federal government's fiscal condition, we believe that the federal government should produce a summary annual report that would present, in a clear, concise and transparent manner, key financial and performance information for the federal government.

It is important to note that FASAB standards deal with financial statement reporting—not with the budget treatment or budget reporting. GAO has been and remains supportive of improvements in budget reporting and analysis to increase the understanding of the long-term costs of policy proposals before they are adopted. Both financial statements and budget information are necessary to evaluate the financial health of the nation.

Requesting public comment on the Preliminary Views document is just the first step in a deliberative process to determine the best way to report on social insurance. A final standard is most likely two years away. We are confident that, through this deliberative process, a reasoned and reasonable solution to this important issue will be attained.

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