August 29, 2014

Director of Research and Technical Activities, Project No. 34-1P
Government Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 08856-5116

Sent via email to: director@gasb.org

Dear Director of Research and Technical Activities:

Response to Exposure Draft Supplement on the Proposed Statement of the Governmental Accounting Standards Board: Financial reporting for Postemployment Benefits Other than Pension Plans

The Teacher Retirement System of Texas (TRS) appreciates the opportunity to comment on the GASB’s Exposure Draft on OPEB accounting and financial reporting.

In general, we believe that the current GASB 43 and 57 standards adequately inform financial report users about the financial condition of OPEB plans. We disagree with the proposed treatment for the following reasons:

- The new Net OPEB liability (NOL) will be significantly larger than the Net OPEB obligation and will most likely create confusion for users in identifying the “true” liability. We encourage the GASB to proceed with caution since the proposed changes are a significant departure from the current standards for state and local governmental employers. Though opportunities for improvement to Statements 43 and 57 do exist, TRS believes that the current reporting requirements generally meet the needs of our stakeholders.

- Another major concern is that the proposed standard would be burdensome to implement and comply with and increase internal administrative and external actuarial costs dramatically without providing a corresponding increase in decision usefulness to the users of the financial statements.

- Specifically, the more costly activities would be preparing adequate information for employer’s amortizations and note disclosures, and the calculation of the discount rate. In addition, it would have an adverse effect on over 1,000 employer school districts. Currently, the TRS-Care cost sharing, multiple-employer, defined benefit OPEB plan accounts for approximately 237,000 members.

There are elements of the proposed standards which TRS supports, including:
• The standardization of actuarial assumptions which will improve consistency in reporting and comparability between plans and between employers.
• Note disclosure of the employer policy for determining contributions and authority under which employer contributions are established or may be amended.

TRS has serious concerns related to the following elements of the ED proposed:

• The value of placing the NOL on the face of the financial statements. Measurement of the OPEB liability has inherent uncertainties, since it is based on assumptions about the future. In addition, the severing of reporting from funding and certain actuarial smoothing techniques will result in a more volatile figure. Inclusion of such an estimate in the financial statements could reduce the confidence in other areas of the financial statements.
• Reporting a liability equal to the long-term proportionate share of the collective net OPEB liability. The state’s constitution sets the parameters for the state’s contributions, but does not do the same for employer school districts. School districts can declare bankruptcy, but their proportionate share of the collective liability is not dischargeable. Continued note disclosure would be more appropriate.
• The level of detail required for cost-sharing, multi-employer plans. The deferring inflows/outflows related to changes in their proportionate share of the collective liability, because that ratio will change every year.

The above comments are in regard to what GASB has proposed to date and TRS’ agreement or objection with those proposals. The following information represents an alternative approach with which TRS would be agreeable. Assuming the GASB is not inclined to change their position regarding presentation of the NOL in the financial statements, TRS could support the following:

• Report the liability in the financial statements.
• Report the expense in the financial statements. We believe the “change in liability portion of the expense” is best reported on a separate row similar to the “Net Change in Fair Value of Investments”, so that it could be easily excluded for analytical purposes when a near term result of operations is desired.
• Continue the practice of having one actuarial valuation per year at the plan’s fiscal year end.
• Do one annual allocation of the resulting net OPEB obligation from the single valuation performed at the plan’s fiscal year end using the employer contribution ratios from that fiscal year end.
• No paid on-behalf revenue recognition for Texas’ special funding situation.
• Limited new note disclosures as appropriate based on the above approach.
We encourage the GASB to proceed with caution since the proposed changes are a significant departure from the current standards for state and local governmental employers.

Sincerely,

Don Green  
Chief Financial Officer  
Teacher Retirement System of Texas