August 27, 2014

Mr. David R. Bean  
Director of Research and Technical Activities  
Project No. 34-1E  
Governmental Accounting Standards Board  
401 Merritt 7, PO Box 5116  
Norwalk, CT 06856-5116

Re: Comments concerning Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions

Dear Mr. Bean:

As Treasurer of the State of Connecticut, I appreciate the opportunity to comment on the Exposure Draft (ED) for the proposed statement that would replace the requirements of Statements No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, as amended, and No. 57, OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans, for OPEB. I serve as principal fiduciary of the State’s $29 billion Connecticut Retirement Plans and Trust Funds (“CRPTF”). In addition, I am responsible for the issuance of the State’s debt and management of its $20 billion debt portfolio. It is in these capacities that I submit my comments regarding GASB’s proposal to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions.

I commend GASB for its efforts to “improve the decision-usefulness of information in……entity financial reports” and to “enhance its value for assessing accountability… by requiring recognition of the entire OPEB liability and a more comprehensive measure of OPEB expense” as reported in the new OPEB Exposure Draft.

However, I am concerned generally that GASB has chosen to focus only on financial reporting that does not include guidelines governing actuarial funding for these

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long-term obligations at a time when greater discipline is critically needed. This is true of both the current Exposure Draft related to OPEB liabilities, as well as the prior GASB Statements No. 67 and No. 68 regarding pension standards. Specifically, GASB no longer addresses parameters for calculating the appropriate Annual Mr. Required Contribution, (ARC), to be provided by the plan sponsor to fund the plan on an actuarial basis.

As fiduciary of the newly created State Employees OPEB Trust Fund, and soon to be created State Teachers OPEB Trust Fund, a key factor in determining the OPEB Trust Funds’ investment strategy is the State’s funding and spending policies. As the trust funds’ investment horizon increases in length, so will its risk tolerance for higher return-seeking investments. The ability to execute the preferred investment strategy is contingent upon a solid commitment from the State to adopt a stronger funding policy.

The amount of the ARC being funded is an indicator of an OPEB plan’s health and is used by credit market and other analysts and users of financial statements. Eliminating the ARC eliminates a key ingredient of a government’s credit stability and discontinues a minimum standard for funding actuarial terms.

While plan actuaries will continue to calculate an ARC for funding purposes at the plan sponsor’s request, no longer will basic principles apply, most importantly the maximum 30-year amortization period, a critical outside repayment period for these long term obligations. In Connecticut, both of our OPEB plans are on a 24- and 26-year remaining amortization period, but without any limit, what is to keep a distressed government entity from choosing a 40, 50, or even a 100 year amortization period for funding, bringing into doubt whether the obligation will ever be funded?

In addition, financial markets experience normal swings and as a result, investment strategies are developed to produce the best results over a long term to maximize returns and minimize exposures. The proposed financial reporting provisions of the ED will record normal swings in market returns directly into financial statements in a way that may not be particularly meaningful or informative for these long term obligations. The GASB should continue to recognize the long term nature of these plans and the volatile nature of financial markets in financial reporting and allow asset value reporting with smoothing.
In closing, I have throughout my administration as Treasurer of the State of Connecticut, and previously as Treasurer of the City of Hartford, Connecticut, advocated for responsible pension and, more recently, OPEB funding. I commend GASB for its efforts in this area but I encourage GASB to focus on the importance of funding OPEB liabilities and recognition of the value of asset smoothing in its final OPEB Statement.

Sincerely,

Denise L. Nappier
State Treasurer

cc: The Honorable Kevin Lembo, State Comptroller
State Employees Retirement Commission