August 29, 2014

Director of Research and Technical Activities Project No. 34-1P
Governmental Accounting Standards Board (GASB)
PO Box 5116
Norwalk, CT 06856-5116

Dear Sir:

Thank you for the opportunity to respond to the Exposure Drafts, dated May 28, 2014, detailing the proposed changes to GASB Statements 43, 45, and 57 related to accounting and reporting of Other Post Employment Benefits (OPEB). This letter presents the California Public Employees' Retirement Systems' (CalPERS) comments and concerns regarding the proposed changes.

CalPERS is the nation’s largest public pension fund with approximately $300 billion in market assets and administers an agent multiple-employer OPEB plan with over 430 participating employers and $4 billion in market assets.

The California Employers' Retiree Benefit Trust (CERBT), is one of the nation's largest agent multiple-employer OPEB trusts. Our experience in working with an extensive number of accounting and actuarial firms, has helped us gain a keen understanding of how employers, accountants and auditors interpret and implement the GASB standards.

We support the efforts of GASB to align OPEB reporting so that it mirrors the newly released pension accounting and reporting requirements contained in GASB Statements 67 and 68. Specifically, we applaud the change which detaches the actuarial valuation date from the measurement date. This added flexibility will also assist in the workload requirements for actuarial firms and improve the ability of public employers to obtain their data in a timely manner.

Our comments and concerns are focused on areas where we believe, based on our dealings with employers, accountants, and auditors, the standards could be more specific or clear. In the event that you do not view these proposals to be significant enough to make changes to the proposed Standards Section, we ask you to consider their inclusion in the Basis for Conclusions section or in the Implementation Guides. Although we submit this letter in response to Project 34-1P (Plan reporting) some of our comments below relate to employer reporting.
Implicit Subsidy Payments are another type of benefit payment

An area for your consideration is to add language to the OPEB standards to explain that "benefit payments" might also include an Implicit Subsidy payment made as part of the active employee benefit expense. The Implicit Subsidy can represent a significant portion of the employer's total OPEB liability, so as plans account for benefit payments, the Implicit Subsidy should be included. Because the proposed standards do not expressly include the "Implicit Subsidy payments" in addition to "benefit payments," many employers might fail to include them as part of their OPEB reporting.

For example, in the Exposure Draft for OPEB Plans, paragraph 33(a)(6), related to the schedule of Changes in Net OPEB Liability, could be enhanced by simply adding the phrase "including implicit subsidy payments where applicable." For example, Paragraph 33(a)(6) of the Plan Exposure Draft could be as follows:

*Contributions from employers, including amounts for OPEB as the benefits (including the implicit rate subsidy where applicable) come due that are paid by (or due and payable from) employers and that will not be reimbursed to the employers using OPEB plan assets.*

Based on our experience dealing with employers and auditors, accounting for the Implicit Subsidy is not understood. We believe that adding this language to the new OPEB standards will help reinforce the fact that in cases where an implicit subsidy exists, a portion of payments made for active medical premiums are actually payments toward OPEB rather than the employee benefit expense, and should be accounted for in the OPEB accounting and disclosures.

Reporting cash flows that bypass the trust

The accounting treatment proposed in the Plan Exposure Draft continues the requirement from GASB 43 for the fiduciary fund to report (as both an inflow and outflow) amounts that never actually passed through the trust; specifically, for payments made directly by the employer for OPEB expenses or implicit subsidy when those payments were not reimbursed by the trust. Additionally, the OPEB Exposure Drafts would require all employers (and plan reporting for cost-sharing and single employer plans) to report these cash flows as part of the Schedule of Changes in Net OPEB Liability. Because this new schedule would include disclosure of unreimbursed benefit payments, including "payments" made for the implicit subsidy and made directly by employers but which did not flow through the trust, we believe that this disclosure as part of the Required Supplementary Information is sufficient to inform readers of financial statements. Therefore, fiduciary fund reporting of cash flows which bypass the trust is not necessary.
As an administrator of an agent multiple-employer OPEB trust, one of the main obstacles we face when compiling data for year-end financial reporting of our OPEB fiduciary fund is the collection of data from all participating employers for our reporting of these "outside of the trust" cash flows. Given that even more employers will soon recognize an implicit subsidy due to the recent change to the Actuarial Standards of Practice which eliminated the Community Rating exemption, we anticipate the year-end data collection process will be made even more difficult as employers compile unreimbursed pay-go payments and calculate implicit subsidy payments made as a part of the employee expense. In many cases, these calculations might require the assistance of an actuary and could extend this data collection process well beyond the fiscal year-end of the plan (trust).

Beyond the issue of timely reporting, the proposed standards will not allow the plan to accrue receivables for amounts related to formal commitments, as allowed under GASB 43. This proposed change to disallow accrual for formal commitments is based on the argument that these receivables do not meet the definition of an asset as defined in Concept Statement 4 because "formal commitments for contributions do not represent resources in the control of the OPEB plans." However, in the same Exposure Drafts for OPEB, you propose that plans add to the Statement of Changes in Fiduciary Net Position, as both inflows and outflows, amounts related to unreimbursed pay-go and implicit subsidy payments despite the fact that those cash flows did not pass through the trust and were never "resources in the control of the OPEB plans." This does not appear to be consistent.

We suggest that GASB give consideration to changing the proposed standards so that unreimbursed OPEB payments made outside of the trust (directly by employers), including both unreimbursed pay-go and implicit subsidy payments, should not be recorded as inflows and outflows (netting to zero) in the plan Statement of Changes in Fiduciary Net Position. We suggest that these unreimbursed employer payments directly reduce the Net OPEB Liability reported on the employer financial statements and be reported in the Notes and Required Supplementary Information. Because the proposed standards require discreet disclosure of all of the elements of change within the Schedule of Changes in Net OPEB Liability, any unreimbursed pay go and implicit subsidy payments will be disclosed there. We believe eliminating the requirement to include these cash flows as part of the fiduciary fund reporting would facilitate year-end closing activities for both the employers and fiduciary trusts operating as OPEB plans. Their omission within the fiduciary fund reporting would not diminish the value of the fiduciary fund financial statements.
Inconsistencies of employer reporting when the assets reside in private sector trusts

The proposed standards include language, in Paragraph 52 of the Employer Exposure Draft, which says the employer can avoid some of the detailed reporting requirements related to fiduciary net position if financial statements are available on the internet and the financial statements “includes disclosure about the elements of the OPEB plan’s basic financial statements.” We suggest you make a slight change to include the phrase “GASB compliant disclosure” in order to reinforce the requirement so that if the external financial statements are not presented in compliance with GASB reporting requirements, the employer should then pick up responsibility for that reporting. Guidance as to what specific additional reporting should be picked up by the employer in this instance would provide the necessary and important clarity. For example, assuming you require the fiduciary fund to add both the inflow and outflow for unreimbursed pay-go and implicit subsidy payments (something we hope you will not do), those cash flows should be reflected in the externally presented financial statements. We have seen cases where employers with OPEB funds invested in a Third Party Administrator (TPA) do not report a fiduciary fund on their own financials and do not provide full disclosure related to invested assets even though the financials of the TPA are not compliant with GASB 43 reporting requirements. In many cases, the reader of the employer’s financial statements are therefore unable to obtain information related to the OPEB fund investments. We believe these simple changes can go a long way toward improving disclosure.

Conclusion

Thank you for the opportunity to submit our comments and concerns. We support the objectives of the proposed changes and acknowledge that many of the decisions made during the due process were difficult. It is clearly evident that the GASB does listen and consider inputs from all parties. Also, we would like to acknowledge the significant efforts made by the GASB staff and appreciate how much hard work has gone into the development of these proposed standards.

If you wish to discuss these comments or have any questions, please contact me directly at 916-795-1112 or my email at Cheryl_eason@CalPERS.ca.gov.

Sincerely,

CHERYL EASON, MBA, CPA, CGA, RPA, DMC
Chief Financial Officer