August 28, 2014

Director of Research and Technical Activities
Governmental Accounting Standards Board
401 Merritt 7, PO Box 5116
Norwalk, CT 06856-5116

Re: Project No. 34-1E Exposure Draft on Accounting and Financial Reporting for Postemployment Benefits Other than Pensions

Dear Director:

On behalf of the National Conference on Public Employee Retirement Systems (NCPERS), we are writing in response to the GASB’s request for comments on the Exposure Draft Accounting and Financial Reporting for Postemployment Benefits Other than Pensions (Exposure Draft).

NCPERS is the largest trade association for public pensions, representing more than 500 funds throughout the United States and Canada. It is a unique non-profit network of public trustees, administrators, public officials and investment professionals who collectively manage nearly $4 trillion in pension assets. Founded in 1941, NCPERS is the principal trade association working to promote and protect pensions by focusing on advocacy, research and education for the benefit of public sector pension stakeholders.

NCPERS respectfully suggests the current Statements 43 and 45 that were implemented beginning in 2006 are adequate for accounting for OPEB and the proposed Exposure Draft is inappropriate for the reasons described below.

The Exposure Draft closely follows the concepts outlined in Statements 67 and 68. This approach implies that the payment and amount of OPEB is equally as certain as the payment of pensions. Experience shows that the payment and amount of OPEB is far less certain than the payment of pension benefits.

The following lists a variety of ways that pensions and OPEB (particularly retiree health) differ from each other:

- Pension plans have accrual formulas that cause the pension to gradually build up over the employee’s career. For OPEB benefits, the concept of “accrual” is limited; usually a retiree is either eligible or not for OPEB. There are few such retiree benefits where only a portion of the benefit can be earned based on years of service. For some plans, there is a limited variability of the retiree’s contribution level based on years of service.
• Pension vesting is often relatively rapid. OPEB benefits have a typically longer period, and the meaning of “vesting” is less well defined and less standardized.

• Pension benefits have legal protections and are constitutionally guaranteed in many states. OPEB benefits are typically not constitutionally guaranteed.

• Pension designs are typically static, with infrequent revisions, generally in the form of improvements. OPEB benefits may be revised and updated as frequently as annually, with significant impact on the calculated value of future benefits.

• Pension benefits are typically very well defined in laws, ordinances, and/or plan documents. On the other hand, OPEB benefits are valued based on the “substantive plan” which is usually defined administratively and according to communications to participants with limited legal documents describing the benefits or limiting changes.

• Employees typically contribute to pension benefits while they are working. However, retirees contribute to OPEB benefits after retirement, making participation an optional retiree choice.

• Pension benefits are usually pay-related benefits. OPEB benefits are not typically pay-related.

• Pension benefits are typically not directly related to other governmental benefits such as social security. Social security may affect plan design, particularly if retirees are not eligible for any social security benefits, but once the design is set, changes in social security do not directly affect pension payouts. However, OPEB benefits are usually heavily integrated and coordinated with governmental benefits such as Medicare. Changes in Medicare and similar laws after retirement can directly affect the value of OPEB, as can changes in federal decisions on how the coordinated benefits are subsidized or financed.

• The value of pension benefits generally increase as the employee works longer, making pensions logically related to the employee’s working career. OPEB benefits typically have its maximum value at the earliest possible retirement age and the value declines from there. Some OPEB plans may vary the retiree’s contributions toward OPEB based loosely on bands of years of service, but many do not. Retirees tend to either be eligible for OPEB, or not, limiting the concept of accruing benefits over a career.

• The value of a pension is based on specific dollar commitments. Retiree choices are limited to a one-time benefit form election. The value of OPEB is based on numerous assumptions regarding retiree behavior, choice of where to live, choice among plan options, and willingness to share in premium payments. Retiree choices are
unknowable until they happen, and even then, the choices can be revised annually in many plans. Retiree choices may also be influenced by unknown benefits available through a spouse’s employer.

- For pension benefits, management action to change liabilities is typically limited to modifications to benefits earned in the future only, often for future hires only, thus limiting management’s ability to significantly change reported liabilities in the short run. OPEB liabilities can be changed by millions or even billions of dollars by virtue of a routine change in the benefits offered.

The issues identified above call into significant question the decision usefulness of the Total OPEB Liability calculation because it can vary widely from year to year for reasons unrelated to any decisions made about the OPEB plan. The exposure draft attempts to address the uncertainty through the disclosure of nine different versions of the valuation results. As confusing as these many calculations are likely to be to the readers of the financial statements, the nine versions only address the variability of the discount rate and the trend rates. They do not address the significant probability that the benefits valued could easily be substantially changed or eliminated before they are ever paid in the form anticipated by the actuary’s calculations. The lack of certainty in these numbers can limit their decision usefulness, or worse, lead to unfortunate or inappropriate decisions.

The current OPEB statements take a more reasonable approach for moving OPEB liabilities onto the balance sheet through the use of the Net OPEB Obligation calculation. It seems to us that some variation of that approach, rather than the approach taken in GASB 68 for pensions, would be a better approach for showing estimated obligations related to OPEB.

So, in conclusion NCPERS respectfully suggests the current Statements 43 and 45 are adequate for accounting for OPEB and should be used as is or modified only slightly rather than the wholesale revision as proposed in the Exposure Draft. We feel the approach in the Exposure Draft creates too much uncertainty and volatility.

Thank you for allow NCPERS to provide our views on the Exposure Drafts. If you have any questions or follow ups I can be contacted at hank@ncpers.org or 202-624-1456.

Sincerely,

Hank Kim, Esq.
Executive Director & Counsel