September 30, 2014

David R. Bean, CPA
Director of Research and Technical Activities
GASB
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Re: May 28, 2014 Exposure Draft of Proposed Statements of the Governmental Accounting Standards Board:
- Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (OPEB Employer ED) [Project No. 34-1E]
- Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans (OPEB Plans ED) [Project No. 34-1P]

Dear Mr. Bean:

One of the objectives that the Council of the American Institute of Certified Public Accountants (AICPA) established for the PCPS Executive Committee is to speak on behalf of local and regional firms and represent those firms’ interests on professional issues in keeping with the public interest, primarily through the Technical Issues Committee (TIC). This communication is in accordance with that objective. These comments, however, do not necessarily reflect the positions of the AICPA.

TIC appreciated the opportunity to discuss its comments on the OPEB Employer and OPEB Plans EDs with the GASB Chair and staff at the GASB/TIC Liaison Meeting on September 17, 2014. TIC is now providing the following written comments for your consideration.

**GENERAL COMMENTS**

For large plans (those that have more than 200 participants), TIC is generally supportive of the accounting principles underlying the OPEB Employer ED and the OPEB Plans ED, which rely heavily on the principles in GASB Statement 67, Financial Reporting for Pension Plans, and GASB Statement 68, Accounting and Financial Reporting for Pensions.

However, TIC believes that the EDs do not go far enough to provide cost relief for smaller plans (those with less than 200 participants) and has proposed a number of
simplifications that would have the effect of reducing costs without sacrificing benefits to financial statement users. TIC also has some major concerns with the readability of the documents and encourages the Board to address these issues before the proposed standards are finalized. Finally, TIC is recommending clarification of certain paragraphs or definitions, some of which should be carried over to the pension standards.

SPECIFIC COMMENTS

Major Benefits

TIC is especially supportive of the following changes adopted for the OPEB EDs:

- The requirement to display the net unfunded OPEB liability on the face of the financial statements.
- The elimination of the “annual required contributions of employer(s)” measurement, which has proved to be very confusing for many governments.
- Clarification of the requirement to calculate the implicit rate subsidy. When governments are self-insured for OPEB, they are often confused about whether they have an implicit rate subsidy. The ED now clarifies this.

Major Concerns/Disagreements with the EDs

Clarity and Readability of the Document

TIC found both EDs to be very difficult to read and comprehend. The writing style was extremely confusing such that TIC had difficulty understanding which type of plan was being discussed and which paragraphs of the EDs applied to which plan type. Based on the guidance provided in paragraph 11 of the OPEB Plans ED, TIC had difficulty following the disclosure requirements for single-employer, agent, and cost-sharing OPEB plans. Similar issues also exist with many of the disclosure requirements in the Employer ED. The writing style used throughout the EDs is inconsistent. There’s a lot of duplication in certain sections of the EDs, but also liberal use of cross references (in lieu of duplication) in other sections. This hybrid approach is not workable and, if retained, will create implementation issues for preparers.

TIC recommends the Board adopt one of two equally acceptable style conventions for the final standard. One suggestion is to add a matrix or a decision-tree flowchart to the final standard to indicate which paragraphs would apply to the various plan types and plan characteristics. TIC has prepared a sample flowchart as an appendix to this letter for the Board’s consideration. In addition, a grid, similar to the one in GASB Statement 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, Appendix D, Illustration 1 (P50.902), would be another useful addition to summarize the note disclosures and required supplementary information for employer reporting. Much of the existing duplication could then be eliminated. Alternatively, the requirements and guidance could be repeated, as appropriate, for each applicable plan.
This alternative would result in a longer standard, but extensive cross referencing could be eliminated.

**Biennial Actuarial Valuations**

Paragraph 26 of the OPEB Employer ED states, in part:

> For accounting and financial reporting purposes, an actuarial valuation of the total OPEB liability should be performed at least biennially. More frequent actuarial valuations are encouraged.

Today, small governments are reluctant to obtain an actuarial valuation every three years, as required. Therefore, TIC expects that auditors will have a very difficult time convincing smaller governments why they need to spend the money to have an actuarial valuation done every two years (as proposed in the ED). These small plans tend to have 200 participants or less, to be closed to new participants and to cover just current retirees. Also, in recent years, these plans generally do not adopt plan amendments.

TIC recommends, at a minimum, that closed plans with less than 200 participants be given the option to perform a triennial actuarial valuation. However, TIC requests that consideration be given to extending this option to all government employers/plans having less than 200 participants. The resources (dollars, time and talent) of smaller governments are limited. While the alternative measurement method provides relief, frequently, it is not a realistic option because of the limited resources of the government.

TIC is very concerned that small governments that currently comply with the requirements of GAAP may opt for an accountant’s report that includes a GAAP departure instead of complying with the new requirements as proposed. The additional costs associated with a biennial actuarial study versus a triennial actuarial study in many cases will be difficult to justify. The requirement for a full actuarial study can also create issues regarding the timely completion of the audit. Some TIC members reported that some of their small governments have experienced a delay in the issuance of their audited financial statements because the valuation specialist prioritized the valuations of larger governments over the smaller ones.

For many smaller governments, the cost of updating an actuarial valuation is quite reasonable compared to the cost of a complete actuarial valuation. The information contained in the three-year valuation is reliable and will provide the needed information to the users of the financial statements.

**Alternative Measurement Method**

Although the number of governments using the alternative measurement method may be relatively small now, TIC believes more governments will switch to this method if the Board decides to adopt the proposed requirement for a biennial actuarial valuation. The alternative measurement method can be an excellent option for small plans that do not
want to obtain actuarial valuations but are looking for a cost-effective way to comply with GAAP. The method is a vital alternative for smaller governments whose plans are comprised of a relatively small group of participants. The OPEB liability is material to their financial statements but not particularly complex in the long-term, since the benefits drop off significantly or are completely eliminated after age 65. To force these plans to have frequent actuarial valuations would not be a wise use of their limited resources. Although many small governments do not have the in-house expertise to develop the calculations on their own, some of them can utilize standard spreadsheets and templates, thus providing a cost-effective alternative that helps them determine their required contribution for the current year.

In the interest of achieving further cost reductions in the use of the alternative measurement method, TIC believes that new guidance and additional simplifications will be necessary when the EDs are finalized. An illustrative tool should be developed based on the provisions of the new standard to assist smaller entities in implementing the alternative measurement method. Currently, the GASB Statements 43/45 Resource Center contains a link “Alternative Measurement Method Calculations” to a vital Excel template that assists with these calculations. TIC emphasizes the need for it to be updated to reflect the changes adopted by the Board. In addition, Appendix 8-6 (Illustrations of Calculations Using the Alternative Measurement Method) in the 2013-14 GASB Comprehensive Implementation Guide (the Implementation Guide) provides a number of helpful spreadsheets that small governments find very useful in applying the method today.

As mentioned above, if actuarial valuations will be required more frequently (i.e., biennially instead of triennially), more small governments may decide to use the alternative measurement method. TIC believes that some of the proposed recognition, measurement and disclosure requirements for the alternative measurement method add unnecessary cost to the financial reporting process for smaller governments, since financial statement users are unlikely to derive any benefit from the information that is currently proposed under the ED. In particular, TIC recommends that the following simplifications be incorporated into the alternative measurement method:

- Eliminate the disclosure of the sensitivity analysis of the OPEB liability which involves the calculation of nine combinations of the discount rate and the assumed healthcare cost trend rate (paragraphs 51, 92, 129, 165 and 194). If the sensitivity disclosures are to be required for all governments, then the illustrations, particularly the alternative measurement method, should include illustrations of these calculations.
- Change the timing of the recognition of the difference between the projected and actual earnings on OPEB plan investments. Under the proposal, that difference would be recognized in OPEB expense using a systematic and rational method over a closed five-year period, beginning in the current reporting period. The amount not recognized in OPEB expense would be reported as deferred outflows of resources or deferred inflows of resources related to OPEB. TIC believes
recognition of this difference over multiple periods creates unnecessary complexity and recommends that small governments (i.e., those with plans having fewer than 200 participants) have the option to recognize the entire amount of the difference in OPEB expense in the current period.

- Simplify the discount rate. For governments using the alternative measurement method for a defined benefit plan, TIC believes additional simplification is needed with respect to the discount rate to be used in determining the actuarial present value of projected benefit payments. Paragraph 34(b) of the proposal specifies that governments would use:

  \[ \text{a yield or index rate for 20-year, tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher... to the extent that the conditions in paragraph 34a are not met.} \]

To reduce complexity, TIC suggests eliminating the evaluation under paragraph 34(a) and allowing governments applying the alternative measurement method to use the rate in paragraph 34(b). Effectively, determining the discount rate based on a default to paragraph 34(b) would represent a conservative approach that would yield a lower rate (higher present value). The majority of the small plans either have limited OPEB plan investments or no investments. In most cases, however, the discount rate will be a high-quality municipal bond rate. TIC requests an expedient to allow this rate to be utilized in all cases to simplify the selection of a discount rate.

- Clarify the disclosure requirement in paragraph 41(a). The Board’s intent in Paragraph 41a is unclear and should be revised to clarify that if the alternative measurement method is used, the changes/differences described in paragraph 41(a)(1) and 41(a)(2) should be reported as deferred outflows of resources or deferred inflows of resources related to OPEB. TIC also recommends that all necessary requirements related to the alternative measurement method be placed together in one section.

Although the alternative measurement method already simplifies certain assumptions to allow a nonspecialist to apply it, TIC believes there is room for additional improvement. Small governments and their primary financial statement users often have difficulty understanding the notes to the financial statements and would not find decision-useful some of the recognition and measurement conventions proposed in these EDs.

TIC also believes that the above simplifications may be equally applicable to the pension standards and recommends that the Board consider amending GASB Statements 67 and 68, as appropriate.

**Disclosure of the Composition of the OPEB Plan’s Board**

TIC believes the following proposed disclosure requirement from paragraph 31(a)(3) of the OPEB Plans ED should be deleted:
Information regarding the OPEB plan’s board and its composition (for example, the number of trustees by source of selection or the types of constituency or credentials applicable to selection).

TIC believes the disclosure of the composition of the plan’s Board adds unnecessary detail to the financial statements and should be deleted. TIC noted that a required disclosure of the Board’s authority is already included in paragraph 31(a)(5), which requires the government to state “the authority under which benefit terms are established or may be amended....” This disclosure is much more relevant than providing details about the composition of the Board.

Criteria for Reporting Separate Defined Benefit OPEB Plans

Paragraph 14 of the OPEB Plans ED, second sentence, states:

A separate defined benefit OPEB plan should be reported for a portion of the total assets, even if the assets are pooled with other assets for investment purposes, if that portion of assets meets both of the following criteria:

a. The portion of assets is accumulated solely for the payment of benefits to certain classes or groups of plan members or to plan members who are the active or inactive employees of certain entities (for example, state government employees).

b. The portion of assets may not legally be used to pay benefits to other classes or groups of plan members or other entities’ plan members (for example, local government employees).

TIC questions whether the plan would have the information to perform this allocation. TIC noted that when GASB Statement 43, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, was being implemented, plans said that all of that information was pooled together, and they didn’t know how to allocate the collective amounts to each plan. TIC suggests that the final standard include guidance on how this allocation (for example, investment income) could be performed in a manner that would be consistently applied.

Clarifications Requested

Measurement Date Definition

TIC noted that the term “measurement date” was not defined in the OPEB Employer ED. The determination of a measurement date is a critical step in the recognition and measurement of a pension liability, and the Board should not assume that its meaning is universally understood by its constituents. The specific measurement dates selected by individual governments can vary, but the process of selecting the date should be consistent among governments.
Paragraph 25 of the OPEB Employer ED offers a partial explanation of the measurement date, as follows:

*The net OPEB liability should be measured as of a date (measurement date) no earlier than the end of the employer’s prior fiscal year, consistently applied from period to period.*

The explanation is incomplete because it defines the earliest parameter for the measurement date without also providing a true definition of what the date represents and how it would be identified. Such guidance is critical to understanding why one government would select a measurement date as of the end of the prior fiscal year v. a measurement date as of six months prior to the end of the current year.

Without a consistent definition, governments will question whether they are defining it correctly in the context of this proposed standard, which could present difficulties in determining the appropriate measurement period. TIC believes the definition is too important not to be included in the glossary, and encourages the Board to provide a formal definition of the term in the final standard to mitigate potential diversity in practice.

**Separate Accounts for Defined Contribution Plans**

Paragraph 10a of the OPEB Employer ED states:

*Defined contribution OPEB is OPEB having terms that provide an individual account for each employee.*

TIC believes the definition of “defined contribution plan” in the OPEB Employer ED (as well as GASB Statement 45) is unclear as to whether a physical separate account has to be established in the participant’s name to qualify as “defined contribution OPEB.” Some governments contribute to an investment pool on behalf of specific employees, but separate investment accounts are not established. Some local governments that have OPEB plans that are not administered by trusts maintain a subsidiary ledger that tracks each participant’s account balance but do not separately invest the funds on a participant-by-participant basis.

TIC conducted a search of the 2013/14 Implementation Guide but was unable to locate any clarifying guidance on this issue. TIC recommends that the definition be amended to clarify the meaning of separate accounts and the documentation that the employer must maintain to be considered a defined contribution plan. If the definition is not amended, TIC recommends adding appropriate guidance to the Implementation Guide.

**Financial Reports Available on the Internet**

TIC noted that the OPEB Employer ED would require certain financial reports to be made available on the Internet rather than “publicly available,” as is currently required in GASB
Statement 25, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans, and GASB Statement 45. Paragraph 52 of the OPEB Employer ED states:

However, if (a) a financial report that includes disclosure about the elements of the OPEB plan’s basic financial statements is available on the Internet, either as a stand-alone financial report or included as a fiduciary fund in the financial report of another government, and (b) information is provided about how to obtain the report, reference may instead be made to the other report for these disclosures.

TIC believes the proposed change will be a problem for some small governments. A number of small governments do not have Internet sites. Although the initial set-up cost for an Internet site may be small, a government would need a person with the skills to establish and maintain the site, including the ability to post Adobe Acrobat files containing the financial statements on a recurring basis. These governments may not have these internal resources now and would not want to spend the money to obtain them. Also, as a matter of policy, some small governments that do have web sites do not wish to post financial information online. Their web sites are just used for general information. TIC believes governments should have a choice in how financial information is made publicly available and should not be forced to incur the expense for a web site. TIC therefore recommends that the reference in paragraph 52 to “available on the Internet” be changed to “publicly available.”

Definition of "a Substantial Proportion of the Collective Total Pension Liability"

Paragraph 125 of the OPEB Employer ED states, in part:

The information identified in paragraphs 126-131 should be disclosed, and information required in paragraphs 132 and 133 should be presented as required supplementary information, for benefits provided through each defined benefit OPEB plan for which the governmental nonemployer contributing entity recognizes a substantial proportion of the collective net OPEB liability.

The phrase “substantial proportion of the collective net OPEB liability” is also included in other paragraphs of the ED. The meaning of “substantial” in this context is unclear. Illustration 3 on page 154 of the Employer ED assumes, for purposes of the example, that the State’s proportionate share of the net OPEB liability is 80%. Paragraph C1 (Illustration 3) on page 137 captions this disclosure as a “Substantial Proportion of Collective Net OPEB Liability.” The illustration appears to equate “substantial” with 80% or higher (i.e., “significant”). TIC believes this interpretation may not be what the Board intended.

TIC recommends that the Board clarify the meaning of the term in the Employer and Non-Trust EDs either by providing a definition of the term or by providing application guidance so that the term is not misunderstood. “Substantial” could start, for example, at 40% or 60% for some, but could be viewed as 80%+ by others. Use of the term without...
additional guidance as to how it should be applied will result in diversity in practice among governments.

Additional Illustrative Guidance

As an added benefit for small governments and potentially others, TIC suggests that illustrations be provided for each type of OPEB plan discussed in the EDs, including a multi-employer plan not administered through a trust and a defined contribution plan. TIC believes full illustrations of each type of plan would be important, even if disclosures among them would be repetitive.

TIC understands that it may not be possible to include each illustration in the final OPEB Employer standard. Therefore, TIC recommends that the Implementation Guide include each of the illustrations from the final standard plus additional examples as requested above—thus having at least one source that includes all illustrative financial statements.

Employers That Do Not Have a Special Funding Situation for a Defined Contribution OPEB Plan

Paragraph 208 of the OPEB Employer ED states:

Except as provided in paragraph 219, in financial statements prepared using the economic resources measurement focus and accrual basis of accounting, the following should be recognized by employers that do not have a special funding situation for defined contribution OPEB....

Paragraphs 208 and 219 are examples of how extensive cross-referencing can obscure the meaning of the requirements in the ED. Paragraph 208 implies that if you meet the conditions in paragraph 219, the government would have different recognition requirements than those specified in paragraph 208. However, paragraph 219 refers to paragraphs 212 and 213, which duplicate the recognition requirements from paragraph 208. The use of cross-referencing does nothing to clarify how the recognition requirements for employers that do not have a special funding situation would compare to nonemployer entities that have a legal obligation to make contributions or benefit payments through the plan. TIC suggests using repetition, not cross-referencing, to clarify the Board's intent.

Clarity Issue—Clarifying the Plan Type Addressed by the Requirement

Paragraph 18 of the OPEB Employer ED, last sentence, states:

Requirements for governmental nonemployer entities that have a legal requirement to provide financial support directly to an OPEB plan that is used to provide OPEB to employees of another entity but that do not meet the criterion in either paragraph 17a or paragraph 17b, and for the employers to which they provide support are presented in paragraphs 136, 137, 200, 201, 219, and 220.
Unlike other sentences in this paragraph, the type of plan being referenced is not explicitly stated. Language should be added to paragraph 18 to clarify that this is referring to a defined benefit plan only.

Avoiding Unnecessary Duplication in Note Disclosures

Footnote 9 on page 9 of the OPEB Plans ED, which relates to the notes in the statement of changes in fiduciary net position, Footnote 11 on page 13 of the ED, which relates to the RSI schedule and footnote 15 on page 24 of the ED, which relates to defined contribution plan disclosures, state:

If (a) a defined benefit OPEB plan is included in the financial report of a government that applies the requirements of the related Statement for benefits provided through the OPEB plan and (b) similar information is required by this Statement and the related Statement, the government should present the disclosures in a manner that avoids unnecessary duplication.

The above paragraph encourages governments to avoid unnecessary duplication but does not provide any guidance on how governments would do that. TIC recommends that either the final standard or the Implementation Guide provide such guidance. One example would be to permit incorporation by reference when similar information is required for the Plan and Employer financial statements. The Board also needs to be clearer as to what disclosures are needed for each type of plan and provide more guidance when a defined benefit OPEB plan is included in the financial report of a government that is subject to the disclosures under the OPEB Employer ED, so that overall the volume of disclosures can be reduced.

Deferred Inflows/Outflows in the Statement of Fiduciary Net Position

Paragraph 15 of the OPEB Plans ED indicates that the statement of fiduciary net position would include information about deferred outflows of resources and deferred inflows of resources as of the end of the plan’s reporting period. TIC members could not think of any deferred items that would apply and request examples on when this category of assets and liabilities would be recorded in this type of plan. Since OPEB plans would not normally undertake transactions that would be classified as such, TIC recommends that this paragraph be clarified to indicate that deferred inflows/outflows of resources would be a rare occurrence in this financial statement. Potential examples should also be provided.

Presentation of Contributions from Active and Inactive Plan Members in the Statement of Changes in Fiduciary Net Position

Paragraph 23(c) of the OPEB Plans ED states:
The additions section of the statement of changes in fiduciary net position should include separate display of contributions from active plan members and inactive plan members not yet receiving benefit payments, including those transmitted by employers.

TIC believes paragraph 23(c) may include an error since it would be unnecessary to present separately contributions between active plan members and inactive plan members. This presentation presumes that the inactive plan members are making their contributions directly to the plan. However, that is not always the case. Some inactive members make their contributions directly to the employer or to a third party (not to the plan). TIC recommends that paragraph 23(c) be revised to say: "...contributions from all plan members, including those transmitted by employers."

Salary Expense v. Contribution expense

Paragraph 4a, footnote 2, of the OPEB Employer ED states:

In some circumstances, contributions are made by the employer to satisfy employee contribution requirements. If the contribution amounts are recognized by the employer as salary expense, those contributions should be classified as employee contributions for purposes of this Statement. Otherwise, those contributions should be classified as employer contributions.

It's unclear why the GASB is trying to draw a distinction between salary expense and OPEB expense for contributions that an employer makes on behalf of an employee. The calculation of the plan fiduciary net position includes "contributions - employer" within the illustrations. It appears as though the distinction within this footnote will lead to inconsistent amounts being used to determine this element.

Required Terms for a Defined Contribution Plan

Paragraph 10 of the OPEB Employer ED, last paragraph, states:

If the OPEB to be provided has all of the terms identified in (a)–(c) above, the requirements of this Statement for defined contribution OPEB apply. If the OPEB to be provided does not have all of the above terms—for example, if the OPEB is a function of factors other than those identified in (c) above—the requirements of this Statement for defined benefit OPEB apply.

The example in boldface type is not considered necessary for the understanding of the requirements for this program and we suggest eliminating it.

Editorial Corrections

- Paragraph 8 of the OPEB Plans ED defines the terms for a defined contribution OPEB plan, which includes paragraph 8(b):
Define the contributions that an employer or nonemployer contributing entity is required to make (or credits that it is required to provide) to an active plan member’s account for periods in which that member renders service.

TIC suggests that paragraph 8(b) should be changed to: Define the amount of contributions that an employer... to be consistent with the pension plans section of the GASB Implementation Guide No. 20XX-1 ED, Chapter 5, Pensions—Plan and Employer Accounting and Reporting.

- Paragraph 28 of the OPEB Plans ED states:

The deductions section of the statement of changes in fiduciary net position should separately display, at a minimum, (a) benefit payments to plan members (including refunds of plan member contributions and amounts for OPEB as the benefits come due that are paid by, or due and payable from, employers or nonemployer contributing entities) and (b) total administrative expense. Benefit payments should exclude amounts paid by inactive plan members.

TIC did not understand how benefit payments paid by inactive plan participants are different from contributions from inactive members. TIC believes there may be a typographical error in this sentence and suggests the following revision: Benefit payments should exclude amounts paid to inactive plan members.

TIC appreciates the opportunity to present these comments on behalf of PCPS member firms. We would be pleased to discuss our comments with you at your convenience.

Sincerely,

Scot Phillips, Chair
PCPS Technical Issues Committee

cc: PCPS Executive and Technical Issues Committees
Appendix to 9/30/14 TIC Comment Letter on GASB OPEB EDs

Type of Plan

Defined Benefit
- Special Funding Requirements
  - Yes: Apply Par. 19-24, 97-135, 138-140, 141-143, 170-199
  - None
- Apply Par. 205-207

Defined Contribution
- Special Funding Requirements
  - Yes: Apply Par. 136, 137, 200, 201, 219, 220
  - No

Defined Benefit
- Insured Benefits
  - Yes: Apply Par. 19-20, 141-180, 200
  - No: Apply Par. 19, 20, 141-180, 200
- Multi-Employer
  - Trust that meets requirements
    - Yes: Apply Par. 19, 20, 141-180, 200
    - No
- Single Employer
  - Trust that meets requirements
    - Yes: Apply Par. 19-24, 57-96, 107-113, 136, 138-140 (If 202 met, 203 and 204)
    - No: Agent Multi-employer OPEB Plan
      - Yes: Apply Par. 19-56, 97-106, 136, 138-140 (if 202 met, 203 and 204)
      - No
- Nonemployer Entity
  - Apply Par. 212-213

Nonemployer Entity

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