August 29, 2014

Mr. David R. Bean
Director of Research and Technical Activities
Governmental Accounting Standards Board (GASB)
401 Merritt 7
Norwalk, CT 06856-5116

Re: Project No. 34-1E

Dear Mr. Bean:

On behalf of the Association of Government Accountants (AGA), the Financial Management Standards Board (FMSB) appreciates the opportunity to provide comments to the Governmental Accounting Standards Board (GASB or the Board) on the exposure draft entitled Accounting and Financial Reporting for Post Employment Benefits Other Than Pensions (Statement or ED) issued on May 28, 2014. The FMSB is comprised of 24 members (list attached) with accounting and auditing backgrounds in federal, state and local government, as well as academia and public accounting. The FMSB reviews and responds to proposed standards and regulations of interest to AGA members. Local AGA chapters and individual members are also encouraged to comment separately.

The FMSB has reviewed this ED and find the proposals in the ED to be conceptually sound as many of the salient provisions of GASB Statement No. 67 and 68 are incorporated in the proposals. The FMSB has reviewed this proposed Statement and generally agrees with the positions adopted by the Board relative to the measurement and recognition of OPEB liabilities, deferred outflows and inflows of resources and expense/expenditures. We also wish to compliment the Board regarding the approach allowed in paragraph 52 of the ED regarding disclosure of OPEB plan information. Paragraph 52 allows the government, in certain circumstances, to refer a user to other financial reports for information on the plan. This avoids needless duplication. The FMSB supports this approach.

Based on our review of the ED, we have several questions regarding the guidance and suggestions where the guidance could be clarified to assist the preparers of financial statements. Our comments and recommendations are referenced to specific paragraphs in the ED.
Paragraph 30 of the ED states, “Projected benefit payments also should include taxes or other assessments expected to be imposed on benefit payments using the rates in effect at the measurement date or, if different rates have been approved by the assessing government to be applied in future periods, the rates approved by the assessing government associated with the periods in which the assessments on the benefit payments will be imposed. However, projected benefit payments should not be reduced by subsidies expected to be received for making benefit payments other than those received for providing Medicare benefits.”

Our interpretation of the aforementioned paragraph, which was confirmed by paragraphs 39 and 40 in the Basis for Conclusions, is that it is intended to provide guidance for computing projected health insurance benefit payments relative to the effect of excise taxes required under the provisions of the Patient Protection and Affordable Care Act (PPACA). Although we agree with the proposed treatment of these taxes or assessments, we believe that the paragraph should reference this legislation to insure that the preparers and users of this Statement are clear as to its intended purpose. We suggest that language from paragraphs 39 and 40 in the Basis for Conclusion section be incorporated into paragraph 30 to make its meaning more explicit.

Paragraph 31 the ED states that, “Projected benefit payments should be based on claims costs, or age-adjusted premiums approximating claims costs, in accordance with Actuarial Standards of Practice issued by the Actuarial Standards Board.” In reviewing this paragraph, and paragraph 45 in the Basis for Conclusion, GASB cites a recent change in the Actuarial Standards Board statement No.6 which states, “the actuary should reflect the full age-specific cost, including the implicit subsidy, regardless of the size of the group being valued”. We believe that this provision will eliminate the effect of the implicit subsidy in the projected benefit payments and believe that GASB should explicitly clarify this matter in the ED.

Also, the FMSB has significant reservations regarding the disclosures proposed in paragraph 51. The disclosure requirements, as outlined in paragraph 51, would require the government to provide information on the OPEB liability for 9 different scenarios. Calculations must be made assuming that there is a 1 percent change (both up and down) in both the healthcare cost trend rate and the discount rate assumptions. Although providing users with this form of a sensitivity analysis seems useful in theory, it will result in a complicated disclosure for very large cost-sharing multiple – employer plans that will be difficult to display.

Matters shall also be further complicated if interpretation AU-C Section 9805 released by the American Institute of Certified Public Accountants is also extended to engagements relative to OPEB employers and plans. We understand that this circumstance is not part of the GASB’s scope. However, there will likely be calls for a similar audit procedure in determining allocable OPEB amounts to cost-sharing employers. As an alternative, we suggest that paragraph 51 be modified to require that the preparer disclose only the information for the factor that results in the largest change to the net OPEB liability and if the factor changed from prior years. This would provide the user with the most conservative estimate (largest) regarding any liability.

The FMSB also believes that the GASB should add a visual aid to the final document to assist preparers in determining what provisions apply to what type of OPEB plans. Such visual aids have been used by other authoritative bodies to convey information and provides guidance when implementing a new standard. Most recently, the U.S. Office of Management and Budget used this approach when issuing its new OMNI circular.
We appreciate the opportunity to comment on this document and would be pleased to discuss this letter with you at your convenience. A majority of the FMSB members approved of the issuance of this letter of comments. If there are any questions regarding the comments in this letter, please contact Steven E. Sossei, CPA, and AGA’s staff liaison for the FMSB, at ssossei@agacgfm.org or at 518-522-9968.

We also request to testify on this letter at the public hearing on September 10, 2014 in New York. We will likely testify by conference call.

Sincerely,

Lealan Miller, CPA,
Chair- AGA Financial Management Standards Board

cc: William Miller, CGFM
   AGA National President
Association of Government Accountants
Financial Management Standards Board

July 2014 – June 2015

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