August 29, 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 Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions

To: Director of Research and Technical Activities:

The State Teachers Retirement System of Ohio (STRS Ohio) appreciates the opportunity to comment on the Governmental Accounting Standards Board (GASB) Exposure Draft on Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.

STRS Ohio is a multiple employer cost sharing pension plan with approximately 1,200 employers, 330,000 active and inactive members and 152,000 retirees. STRS Ohio has also chosen to provide health care benefits to current retirees. The health care trust has been funded by allocating a portion of the employer contribution to the pension plan, participant premiums and by investment earnings on health care fund assets.

The exposure draft for OPEB reporting has been modeled after GASB Statement 68 for pensions with the underlying assumptions that pension and OPEB liabilities are substantially similar in their nature. STRS Ohio generally disagrees with the fundamental basis of the OPEB exposure draft for several reasons.

Under the Ohio Revised Code, there is a statutory obligation to pay pension benefits to public employees using defined formulas and factors. Health care coverage is provided solely at the discretion of each of the Ohio retirement systems. There is neither a legal obligation nor a promised benefit amount or formula. The system has been clear in its communication with members, employers and other stakeholders that health care benefits are not a required or a guaranteed benefit. The approach to health care funding by STRS Ohio has been to establish benefits to retirees based on the expected availability of resources. Actuarial valuations of the health care fund are prepared annually and used to evaluate the level of benefits provided with the intention of extending the longevity of the funds. The lack of a statutory requirement to pay an OPEB benefit contradicts the criteria that establishes this as a liability.

There are continual changes in the level of health care benefits provided by STRS Ohio. Changes to health care benefits are made to manage costs and to extend the life of available funds. In addition, the dynamics of health care are changing rapidly with the Affordable Care Act as plans shift to providing health care to supplement Medicare benefits. As a result, liabilities are not predictable and can be changed or eliminated solely by the discretion of the plan. These health care plan changes are typically
significant and would create volatility in financial statements diminishing their usefulness and comparability and making then more difficult to understand.

An employer’s obligation to contribute to the plan is fixed by statute and employers are not obligated to separately contribute to or determine what portion of their contributions are allocated to the health care fund. Current employees do not accrue or vest in any health care benefit based on their current employment. The current structure of the STRS Ohio health care benefit only provides a value to existing retirees. The system determines what benefits to provide to retirees and is therefore solely responsible for managing the health care plan. The employer is not agreeing to provide a post retirement benefit in exchange for the services of its current employees. Consequently any health care liability should not be an employer liability.

The continuing challenges in implementing GASB 68 have demonstrated the difficulty, complexity and the additional financial burden imposed by the new standard. Considerable time and money has been spent in employer communication efforts, auditor communications and consensus on interpreting GASB 67 and 68 and additional actuarial responsibilities. An evaluation of the proposed OPEB standard should be made considering the additional significant costs of implementation and compliance.

We recommend the issuance of any OPEB standards be delayed to allow sufficient time to implement and evaluate the impact of GASB Statement 68. To do otherwise does not allow proper due diligence into learning what would lead to developing better OPEB standards. We appreciate the opportunity to comment on this exposure draft. If you have any questions, please feel free to contact Paul Snyder (snyderp@strsoh.org) or Leo Wilhelm (wilhelml@strsoh.org).

Sincerely,

Paul Snyder, CPA
Deputy Executive Director and CFO
STRS Ohio