August 29, 2014

Director of Research and Technical Activities
Project No. 34-1E
Governmental Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Sent by email: director@gasb.org

Dear Members of the GASB:

The National Education Association, its state and local affiliates, and its members regularly use the financial information produced by retirement systems and state and local governments. We review comprehensive annual financial reports, actuarial valuations, and other financial documents to evaluate governments’ financial status and their pension and other postemployment benefit (OPEB) plans. In this context, the Association is pleased to submit these comments on behalf of its 3 million members.

The National Education Association understands that many of the changes proposed in the exposure draft follow closely the components introduced in Statement No. 68. We opposed many of those changes in the pension context because we believed they would introduce confusion and decision-clouding components to employers’ treatment of pensions. We believe the same is true in the OPEB context. For example, the severance of funding standards from accounting standards will result in the loss of decision-useful data currently found in financial statements; without an annual required contribution and net OPEB obligation, for example, politicians, policymakers, and the public will be left with potentially volatile data that do not accurately reflect the long-term nature of employers’ OPEB obligations. Short-term decision-making will replace the long-term analyses that OPEB require.
We are also concerned that, when plans are funded, use of the market value of assets to determine net OPEB liabilities will undermine the reliability and decision-usefulness of employers’ financial statements by capturing a volatile, point-in-time measure of assets; allowing plans to use a smoothed asset value would provide for a net OPEB liability measure more reflective of the long-term nature of OPEB plans and more useful to decision-makers and other stakeholders who use OPEB data.

Even given excellent work by actuaries, information about future retiree health care costs are simply too speculative to include OPEB liabilities in financial statements; the sensitivity of liabilities to factors such as health care cost trend and employer-employee decisions about future plan designs—factors that are either non-existent or muted in the pension context—stand to undermine the decision-usefulness of such estimates. We also believe that unduly volatile, unreliable, and short-term-natured OPEB liability information determined under the proposed standards would lead many employers to an inappropriate and unnecessary response: an attempt to eliminate or eviscerate their retiree health plans. As a result, the National Education Association strongly urges the GASB to continue to use Statement 45.

The conceptual inappropriateness of the proposed standards aside, we would like to flag for your consideration the following technical concerns related to the exposure draft.

- **The ACA’s excise tax on high-cost plans should not be included in projections of retiree health care costs.** The exposure draft calls for the inclusion in projected benefit payments of “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.” One such tax, the exposure draft notes, is the Affordable Care Act’s excise tax on high-cost plans, which begins in 2018.

  No draft or final regulations have been issued on the ACA’s excise tax provisions, the statute itself is vague on multiple aspects of how the cost of coverage is to be determined for excise tax purposes, and significant variation in taxable thresholds is possible depending on factors that cannot be determined in advance of the taxable period. As a result, it is inappropriate to include the excise tax within standards for accounting and financial reporting, as projections of the impact of this tax on future benefit payments cannot be reasonably accomplished.

- **Disclosure of alternative combinations of discount rate and health care cost trend should be scaled back.** The exposure draft calls for disclosure of every combination of alternative discount rate and health care cost trend within +1% and -1% of the rates actually used. The result is nine alternative combinations, which, rather than provide decision-useful information, will create confusion. Although we agree with the GASB that variations in these two key factors have a “potentially significant effect” on the results of measurements, we believe that it would be far more useful to have a more limited number of variations. Specifically, we believe that the following combinations...
would be sufficient, in addition to the baseline calculation: baseline – 1% health care trend; baseline + 1% health care trend; baseline + 1% discount rate; baseline – 1% discount rate.

Thank you for your consideration.

Sincerely,

Carolyn York
Director
Collective Bargaining and Member Advocacy Department