August 28, 2014

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

Re: Project No. 34-1E, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions

Dear Sir:

The Michigan Government Finance Officers Association (MGFOA) has reviewed the Proposed Statement of the Governmental Accounting Standards Board on the Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. We support the Board's efforts to improve the accounting and reporting standards for postemployment benefits other than pensions. We would like to offer the following comments and observations:

I. Cash Payments in Lieu of Other Postemployment Benefits

It is common for an OPEB plan to offer cash to beneficiaries in lieu of receiving the OPEB benefits. Current GAAP has led most to consider this a separate plan from the OPEB benefit, and our understanding of the exposure draft is that this treatment is not changed. However, the intent of the offer is to reduce the costs of providing OPEB by incentivizing beneficiaries to utilize other methods of obtaining health care coverage (spousal coverage, etc.). Accordingly, these cash payments are often made by the OPEB plan itself.

We believe that paragraphs 28 should be modified to indicate that in situations where the payments in lieu of health care coverage could be legally paid from the Plan (or the Trust), then it should be considered part of the OPEB benefit (that is, as a cost of the OPEB plan, in lieu of the higher health care cost that will not be paid).
II. Determination of the Number of OPEB Plans in Existence (Para. 21)

The Committee observed that the determination of the number of OPEB plans in existence is similar to that determination of the number of defined benefit pension plans under GASB Statements 68, Para. 14. The exposure draft, in Para. 21, outlines how to determine the number of OPEB plans; however, this section appears to only apply to plans administered through a trust. For plans not administered through a trust (paragraphs 141-201), there is no definition of the number of plans. This might make a difference in determining the allowability of the alternative measurement method in paragraph 202. As a result the Committee thinks that clarification should be provided on how to determine the number of OPEB plans in existence when assets are not accumulated solely for the payment of benefits.

III. Allocation of OPEB Liability Within the Entity

The Committee observed that guidance was not present expressly addressing how the OPEB liability should be allocated between the governmental activities, business-type activities, enterprise funds and internal service funds. NCGA Statement 1 provides a general principle that long term liabilities should be recorded in the funds that they are ultimately expected to be paid from. However, the absence of a direct comment on this relative to OPEB will cause a divergence in practice (as may already be occurring relative to GASB 68). We believe that the final standard should expressly provide guidance on allocating the OPEB liability between the relevant governmental activities, business type activities, and funds that use the economic resources measurement focus and accrual basis of accounting.

IV. Actuarial Methods – Level Percent of Pay Instead of Level Dollar (Para. 40)

The Committee observed that each employee's service costs are proposed to be allocated to the period of service based on a level percentage of that employee's projected pay. In the event an employee does not have projected pay, the projected inflation rate should be used in place of the projected rate of change in salary. The Committee believes the level dollar method would be a better allocation method, since the factors involved in driving the cost of retiree health care are unrelated to compensation levels. While we bring this to your attention, we do not believe the level percentage of payroll method is in variance so much as to produce inappropriate results; we do not object to its use.

V. Clarification of Age Adjusted Premiums (Para. 31, 74, 150)

The Committee observed that Para. 31, 74, and 150 reference the term "age-adjusted premium" but the term is not explicitly defined in the exposure draft. The Committee understands that the term age-adjusted premiums is defined in the actuarial literature but feels it may be beneficial to define the term in glossary of the final standard.

In addition, paragraph 42 should also clarify that contributions made after the measurement date should be valued at the age-adjusted amount rather than the nominal amount.

VI. Reiteration that Healthcare Benefits Paid from Pension Plan Must be Bifurcated and Accounted for as a Separate OPEB Plan (Para. 21)

The Committee feels it would be beneficial to reiterate in Para. 21 that healthcare benefits paid from a pension fund must be treated as a separate plan from the pension plan, for financial accounting and reporting purposes.
VII. Recognition of Plan Provision Changes Between Reporting Periods (Para. 28)

The Committee observed that circumstances exist when substantive changes in plan provisions are enacted after the balance sheet date but before the issuance of the financial statements. Para. 28 indicates that such changes should not be taken into consideration in the calculation of the total OPEB liability.

However, this appears to conflict with guidance provided in the Comprehensive Implementation Guide - 2013-2014, Q&A 8.19.1. The guidance provided in Q&A 8.19.1 states:

"... An actuary generally should include the in the projection of benefits any changes in plan terms that have been made and communicated to plan members through the time when the actuary models the plan (emphasis added) as part of the actuarial valuation process..."

The Committee feels that substantive changes in plan provisions made after the measurement date, but that are known at the date the actuarial valuation is completed, should be considered by the actuary in calculating the accrued actuarial liability. The Committee views this as a subsequent event that requires realization as outlined in GASB Statement No. 56 because changes in plan provisions are typically contemplated and negotiated over extended periods of time.¹

These comments represent the consensus opinion of the MGFOA's Accounting Standards Committee and have been approved by our Board of Directors. Thank you for your consideration and the opportunity to express our point of view.

Very truly yours,

Thomas Skrobola, President
Michigan Government Finance Officers Association

¹ Statement No 56 Para 12 states "Subsequent events affecting... the settlement of estimated liabilities will ordinarily require adjustment of the financial statements because such events typically represent the culmination of conditions that existed over a relatively long period of time."