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

The Governmental Executive Committee (Committee) is pleased to comment on the projects Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans and Accounting & Financial Reporting for Postemployment Benefits Other Than Pensions. The organization and operating procedures of the Committee are outlined in Appendix A to this letter.

FINANCIAL REPORTING FOR POSTEMPLOYMENT BENEFIT PLANS OTHER THAN PENSION PLANS ED

Overall Note – The Committee agrees with the overall consistency between most provisions of this exposure draft and the provisions in the recently issued GASB Statement No. 67.

1. Paragraph 3 states that if OPEB is provided through an OPEB plan in which assets are accumulated in a trust that meets the above criteria and OPEB provided from the same OPEB plan also is paid with assets other than those from that trust the OPEB plan should still be reported as an OPEB plan administered through a trust. For the nontrust assets used to provide OPEB, can they be considered “plan assets” for purposes of determining the discount rate in paragraph 45?

2. Paragraph 5 will cause confusion for some governmental entities by using the phrase “insured plans.” The definition should be included in paragraph 5 with clarification that it is not intended to exclude plans wherein the employer subsidizes the purchase of insurance for retirees.

3. Paragraph 17 needs some clarification, as to the phrase “due pursuant to legal requirements” should be included here, footnoted, or in the implementation guide. For example, if a government has a separate line item on its property tax levy to make OPEB contributions, and some or all of the levy has been collected, is that considered “due pursuant to legal requirements?”

4. Paragraph 20 has three criteria to be met to exclude allocated insurance contracts from OPEB plan assets. If one or more of the criteria are not met, are the contracts reported as Plan assets at cash surrender value? The terminology in this paragraph expands from the guidance in GASB Statement No. 59, making it unclear.

5. Paragraph 28 needs clarification on when “benefit payments should exclude amounts paid by inactive plan members.” Is this indicating that cash payments to the Plan from inactive members would not be reported as member contributions, and additionally, benefits paid from those contributions would not be reported as an expense (i.e. amounts would be netted)?
6. Paragraph 32 requires the footnote disclosure of nine measures of the OPEB liability. This requirement is excessive and would cause unwarranted confusion to the users of the financial statements.

7. Paragraph 42 requires that the projection of benefit payments include taxes or other assessments expected to be imposed on benefit payments. This seems to be added to the OPEB and was not required with the pensions. Is there a reason OPEB would be handled differently than pensions in this respect?

8. Paragraph 43 states that projected benefit payments should be based on claims costs, or age adjusted premiums approximating claims costs. Examples of what is meant by “claims costs” and how this should be determined would be helpful. Also, renaming them to “retiree claims costs” would also help.

9. Paragraph 52-54’s provisions of the alternative method are extremely complicated and would not benefit the population they are intended to serve, primarily small governments with limited resources.

ACCOUNTING AND FINANCIAL REPORTING FOR POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS ED

Overall Note – The Committee agrees with the overall consistency between most provisions of this exposure draft and the provisions in the recently issued GASB Statement No. 68.

1. Regarding Paragraphs 4-6, do the provisions of this statement apply to discretely presented component units that are not for profit entities, if the employees are provided OPEB through the “single employer” governmental plan? Would it apply in the primary government financial statements? What about separately issued component unit financial statements?

2. Paragraph 17 states “Special funding situations do not include circumstances in which resources are provided to the employer, regardless of the purpose for which those resources are provided.”

Some OPEB Trusts are also an employer whose employees are provided benefits through the same OPEB Plan. Does this impact the designation as a special funding situation for the OPEB as an employer, when a non-employer entity makes contributions directly to the OPEB Trust?

If the OPEB Trust is reported as an OPEB Trust fund of a primary government, are the non-employer contributions considered to be paid directly to the primary government employer, or is the formation of a trust a sufficient barrier?

If the Trust does not meet all the criteria in paragraph 4 and is thus reported as an agency fund in the primary government financial statements, are payments to the agency fund considered payments to the employer?

3. Paragraphs 30 and 73 require that the projection of benefit payments include taxes or other assessments expected to be imposed on benefit payments. This seems to be added to the OPEB and was not required with the pensions. Is there a reason OPEB would be handled differently than pensions in this respect?
4. Paragraph 40(a)’s attribution based on level percentage of projected pay does not usually coincide with the period when benefits fully vest. Isn’t this inconsistent with the accounting for other employee granted benefits, such as compensated absences?

5. Paragraph 51 requires footnote disclosure of nine measures of the OPEB liability. This requirement is excessive and would cause unwarranted confusion to the users of the financial statements.

6. Paragraphs 64 and 65, dealing with contributions to the OPEB plan to separately finance specific liabilities of the individual employer, is extremely confusing. An illustration in an Appendix would be extremely helpful.

7. Paragraph 74 states that projected benefit payments should be based on claims costs, or age adjusted premiums approximating claims costs. Examples of what is meant by “claims costs” and how this should be determined would be helpful. Also, renaming them to “retiree claims costs” would help.

8. Paragraph 125 uses the phrase “substantial proportion.” The term “substantial” is overly subjective and will result in vast differences in application.

9. Paragraph 130’s last sentence is extremely confusing. First, please clarify that the measurement date is the employer’s measurement date, which does not coincide with the Plan’s year end (investment statements). Second, please add examples of items to be disclosed, such as investment valuation, investment risks, etc.

10. Paragraph 139 is not clear if this paragraph is meant for all employers as indicated in the title. For example, wouldn’t it also include benefits due and there are insufficient assets in the trust to provide for those benefits? The definition stated seems more conducive to cost-sharing plans.

11. Paragraph 155(b) needs to explain how the amounts paid should be accounted for.

12. Paragraph 156 requires that administrative costs be recorded as OPEB expense (for plans not administered through a trust). This will be difficult for many smaller governments that do not have the means to track this information. What if a non-employer funding entity pays all or a portion of the costs?

13. In Paragraph 168(c), it would be misleading to include actuarial contribution information for plans that are not trusts and the information is not relevant. It’s also unclear why this would be useful information whereas a statutorily required contribution would not.

14. Paragraph 170 is extremely difficult to navigate with so many references to other paragraphs.

15. Paragraph 20’s provisions of the alternative method are extremely complicated and would not benefit the population they are intended to serve, primarily small governments with limited resources.

16. Paragraph 205 will be confusing to many preparers who do not read the definition of insured benefits.
In addition, we have noted some general comments as follows:

First, we understand that the proposed standard maintains the current 100 active/inactive employees alternative measurement method from GASB Statement Nos. 45 and 57. The Board notes in Paragraph B62 of the current proposed statement that this relative cost v. benefit analysis was "developed with input from members of the project task force at that time." As GASB Statement No. 45 was issued in July 2004, the Board continues to rely on a cost v. benefit analysis that is, at least, 10 years old (and likely much older, given the time for developing a proposed statement to final issuance of a new statement). The Board does not note anywhere in Paragraphs B62-B68 that it considered the impact, if any, the new standards would have on the costs of the actuarial calculation. The Board should reconsider the size of governments requiring an (relatively) expensive actuarial evaluation when compared to the benefits to be gained from the costs that will be incurred in complying with the new proposed standard. This analysis can be conducted by the Board using the same process used in GASB Statement No. 45, where the Board consulted with both the actuarial and accounting professions.

Second, we believe the adoption of this standard should result in the GASB reconsidering its positions within GASB Statement No. 16. While Footnotes 5 and 6 note the current termination payment methodology within GASB Statement Nos. 16 and 47 will not change with the implementation of this new statement, the concept of the existence of a constructive liability, as opposed to a legal liability, within Paragraph B29 should require a revisit to compensated absences. Currently, the liability for compensated absences is completely based upon the existence of a legal liability that will be extinguished by either the substantially guaranteed usage of benefit time or cash payment at termination. Further, the calculation of the liability is performed using current pay or salary rates in effect as of the date of the net position date, without considering that pay rates may change (in fact, may be contractually required to change even the day following the date of the Statement of Net Position) and the benefits provided to employees in one period may be used in another period without concern for whether the financial statements allow for the determination if a government's positive, negative, or perfect interperiod equity. For consistency with the general approach in both the new pension standards and the proposed OPEB standard, the Board should consider whether requiring all compensated absences, with the exception of sabbatical leave subject to the restricted/unrestricted time off concept within Paragraph 9 of Statement No. 16, to be calculated based upon management's estimate of actual benefit time usage, the cost discounted to today's dollars of the value of the future compensated absences earned by employees in the current period, and changes in assumptions impacting compensated absences earned by employees in prior periods recognizable in the current period would improve financial reporting.

Finally, a non-authoritative appendix which tabulates the required footnote disclosures and RSI, based on the plan type would be extremely helpful to preparers and auditors alike. This exposure draft was extremely difficult to navigate. Something similar in nature to Appendix D, Illustration 1 contained in GASB Statement No. 27.
The Governmental Executive Committee of the Illinois CPA Society (Committee) is composed of the following technically qualified, experienced members appointed from government and public accounting. These members have Committee service ranging from newly appointed to more than 20 years. The Committee is an appointed senior technical committee of the Society and has been delegated the authority to issue written positions representing the Society on matters regarding the setting of governmental accounting and auditing standards. The Committee’s comments reflect solely the views of the Committee, and do not purport to represent the views of their business affiliations.

The Committee usually operates by assigning Subcommittees of its members to study and discuss fully exposure documents proposing additions to or revisions of accounting standards. The Subcommittee ordinarily develops a proposed response that is considered, discussed and voted on by the full Committee. Support by the full Committee then results in the issuance of a formal response, which at times, includes a minority viewpoint.

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