September 8, 2014

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

Dear Mr. Bean:

I am pleased to submit this letter to testify to the Governmental Accounting Standards Board on the OPEB exposure draft. My name is Mark Abrahams. I serve in three roles:

- I am President of The Abrahams Group that has provided governmental operational, financial and performance consulting services for the past 20 years.
- I am also President of AFS Associates, a company that provides online software for small OPEB plans utilizing the alternative measurement method (AMM). I am writing to you today in part from an AMM viewpoint and as a CPA, not an actuary.
- I also serve as the vice chair of the Town of Narragansett, Rhode Island Citizens Finance Advisory Committee. I will have a few comments from that viewpoint focusing on what I believe are unsustainable post retirement benefits.

1. I strongly agree that OPEB should follow the measurement approach used to measure pension liabilities and statement 68, keeping in mind that there is no AMM for pensions. I view pensions and OPEB as long-term liabilities that should have the same measurement approach.

2. The GASB has continued to propose that an AMM may be used to measure the OPEB liability if the OPEB plan has less than 100 plan members. I agree with this approach. We have approximately 200 OPEB clients that utilize our software. We find that the AMM has saved our clients money; that the AMM approach has been less expensive than a valuation performed by an actuary for the same plan. More importantly, because our clients enter the data, both members/retiree data and plan data, into our software and work with us relative to assumptions, we find that they are quite knowledgeable in the terminology and concepts of an OPEB valuation. They have a fundamental knowledge of what an OPEB valuation is, what the requirements are, and can explain the results of the evaluation. I believe that GASB should consider raising the eligibility of the AMM method beyond the 100 currently in place.
I commend the GASB for developing a simplified approach for the small plans to lessen the cost and complexity of the requirements.

3. I am also vice chair of the Narragansett Rhode Island Citizens Finance Advisory Committee. Speaking from this point of view and representing myself and not the Committee, nor the Town of Narragansett, GASB statements 43 and 45 made us aware of the significant OPEB liabilities that Narragansett has accrued. With that information, the Committee has advocated for plan changes to (1) reduce the pension and OPEB liabilities and (2) pushed to fully fund the pension and OPEB ARCs. I must share with you that this turned out to be a three (3) year process (total lapsed time) to gather the facts, work with the actuary, run scenarios, develop recommendations, inform the policymakers, and see some positive results. We are also implementing a citizens’ awareness process to inform the public about the amount of these liabilities. The information contained herein is from that awareness program.

4. Narragansett is now at the point where post-retirement benefits have become so large that they have begun to overwhelm other budget priorities and will have a detrimental impact on municipal services. The Town’s post-retirement benefits plans are severely underfunded (Pension is 43% underfunded and OPEB is 98% underfunded at the end of June 2013). There are several contributing causes to the underfunding of the Town’s post-retirement benefits. Beginning in 2001, and years subsequent, significant changes to employee benefit plans were approved by the then Town Councils. These benefit changes have resulted in what now are very costly and, in my view, unsustainable post-retirement benefits. Also contributing to the underfunding are the facts that individuals are retiring earlier and living longer, the impact of the recent economic recession and, most importantly, the failure of the Town to fully fund the annual required post-employment benefits costs.

5. As a result, the Town of Narragansett has accumulated a post-retirement unfunded accrued liability of $106 million at June 30, 2013. The $106 million unfunded accrued liability should be viewed as a long-term liability of the Town - an amount that it ultimately owes. Adding this amount to the Town’s other long-term bond debt obligations of $26 million dollars at June 30, 2013 results in total long term liabilities outstanding of $132 million, well above the Town’s internal debt limit policy, which does not consider amounts for post-retirement liabilities And, when you include $20 million of additional or proposed bond offerings over the next two years, the Town of Narragansett could accumulate long-term liabilities up to as much as $152 million. To put this amount into perspective, each Narragansett resident’s share (adults and children) of the Town’s total long-term liabilities would amount to $9,579 (based on 2010 census of 15,868 residents). Without the post-retirement unfunded accrued liability, the per capita amount would be $2,899 or 70% less.
6. To that end, I took Narragansett’s Net Assets at June 30, 2013 from the Statement of Net Position, deducted the pension and OPEB unfunded actuarial accrued liabilities, as an exercise, consistent with GASBS 67 and 68 and what I perceive to be the impact of the OPEB exposure draft. Narragansett’s Net Assets were reduced from about $123 million to about $8 million.

I look forward to discussing OPEB with you.

Sincerely yours,

Mark D. Abrahams, CPA
President