August 28, 2014

Mr. David R. Bean
Director of Research and Technical Activities
Government Accounting Standards Board (GASB)
Project No. 34-1P
401 Merritt 7, PO Box 5116
Norwalk, CT 06856-5116

Re: Proposed Statement of the Governmental Accounting Standards Board on Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans

Dear Mr. Bean,

The Association of Local Government Auditors (ALGA) appreciates the opportunity to respond to the GASB’s exposure draft on the Proposed Statement of the Governmental Accounting Standards Board (GASB) on Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans. Our organization represents 345 audit organizations, totaling more than 1,900 members. This topic is of interest to our members, and we encourage individual audit organizations and members to comment independently should they choose to do so.

We have reviewed the exposure draft in its entirety. In general, the proposed Statement appears reasonable. However, we offer the following comments for your consideration:

OPEB Liability, Present Obligations, and Financial Statements

Paragraph B15 of the Exposure Draft indicates that Concepts Statement 4 defines liabilities as “present obligations to sacrifice resources that the government has little or no discretion to avoid” (paragraph 17). The Exposure Draft paragraph then suggests that for the OPEB obligations to be considered liabilities and recognized on the statement of fiduciary net position, they are also required to be present obligations—a condition that requires the event creating the liabilities to have taken place. This statement appears to be an aggressive interpretation of Concepts Statement 4. Based on this interpretation, the Board has concluded that the event making a portion of the OPEB obligation a present obligation is the date that a benefit payment is due to a plan member. As such, the Exposure Draft stipulates that projected future OPEB benefit payments be disclosed in the footnotes to the financial statements as opposed to being presented on the face of the statements as a liability.

Beyond the interpretation of the Concepts Statements, it does not appear that the occurrence of benefit payment dates is the sole event that would qualify OPEB obligations as present obligations. The circumstances by which OPEB plans are established and administered vary significantly. OPEB payments could be negotiated
Association of Local Government Auditors
Comments on Exposure Draft: Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans

and thereafter mandated as part of collective bargaining agreements. There could be other circumstances in which OPEB payments are contractually mandated. It may be necessary for governments to continue to make OPEB payments unless some action is taken by the government. Based on these facts, a present obligation to make OPEB payments could exist regardless of whether an actual benefit payment date occurs. Consequently, it seems that at least an analysis of facts and circumstances on a case-by-case basis would be necessary in order to determine whether the entire amount of projected future OPEB payments should be considered a liability and be reflected on the face of the financial statements.

However, it would be more conservative to interpret “little or no discretion to avoid” (Concepts Statement 4) to mean that payment is expected to be made. OPEB plans are only included in the scope of the proposed Statement to the extent that:

- Contributions from employers and nonemployer contributing entities and earnings on those contributions are irrevocable;
- OPEB plan assets are dedicated to providing OPEB to plan members in accordance with the benefit terms; and
- OPEB plan assets are legally protected from the creditors of employers, nonemployer contributing entities, and the OPEB plan administrator.

If the plan is a defined benefit OPEB plan, the plan is only included in the scope of the proposed Statement to the extent that plan assets also are legally protected from creditors of plan members. Clearly, OPEB plans are only established for the purpose of making OPEB benefit payments, and are only included in the scope of the proposed Statement, when OPEB benefit payments are expected to be made. Based upon the aforementioned conservative implementation of Concepts Statement 4, the entire amount of projected future OPEB benefit payments should be considered a liability and be reflected on the face of the financial statements.

We believe that a conservative interpretation of Concepts Statement 4 is warranted. Conservatism is an accounting convention that is rightfully pervasive in generally accepted accounting principles. For example, accountants are to be conservative in evaluating and recording contingent liabilities. The objective of conservatism is to limit the amount of risk in the financial information. There is risk associated with not recognizing the true cost of OPEB in the periods in which the benefits are earned, in that it would likely be more difficult for governments to set aside funds now to finance these future obligations. Not fully recognizing the liability also could lead governments to avoid addressing whether or not they can afford the OPEB obligations that they’ve taken on. Footnote disclosure is simply not enough. Aside from the fact that not everyone reads the footnotes, inconsistency in the OPEB liability reflected on the face of the statements and in the footnotes could lead many financial statement users to conclude that the future OPEB obligations are not that relevant at the present time, and can simply be addressed later on down the road -- the same type of thinking that has resulted in a large number of severely underfunded pension plans across the United States.

**Comments on Specific Elements**

- Paragraph 29 states that dividends from allocated insurance contracts should be treated as a reduction of benefit payments in the financial statements. If a government entity made the decision to discontinue the use of allocated insurance contracts and begin “traditional” funding of the entity’s OPEB obligations, the benefit costs would appear higher in the
financial statements of future periods even though there was no real change in the entity’s underlying OPEB obligations. Consider revising the accounting treatment of dividends from allocated insurance contracts so they do not reduce current period benefit payments. This would be consistent with the revised guidance’s objective to increase transparency of OPEB liabilities in the financial statements of OPEB Plans.

- Paragraph 56(b) – Sub-items (1) to (3) are very clear on what information must be disclosed. Sub-item (4) however, requires “additional information, including the total OPEB liability for benefits provided through the OPEB plan.” The term “including” implies there is more information to disclose without providing any guidance. To enhance the clarity of this section, consider listing all required disclosures and removing the word “including”.

Respectfully submitted,

Harriet Richardson
Chair, Professional Issues Committee

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