December 12, 2016

Director of Research and Technical Activities
Government Accounting Standards Board
401 Merritt 7
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Norwalk, CT 06856-5116

RE: Project 34-1E

This letter is in response to the Proposed Implementation Guide No. 201X-X (Project 34-1E).

The California State Association of County Auditors has reviewed the Governmental Accounting Standards Board (GASB) Exposure Draft Proposed Implementation Guide No. 201X-X, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans (ED) and is pleased to offer its comments. We fully support the GASB’s efforts to incorporate other postemployment benefit obligations in governmental accounting and reporting standards.

Our comments are specific to GASB’s response to question 4.42. The question posed is whether an irrevocable trust (Trust B) set up to accumulate funds which can only be used to provide resources to the trust (Trust A) which will be making benefit payments should be included as an OPEB plan asset when determining the plan’s net obligation. GASB’s response currently states that the assets of Trust B should not be reported as part of the OPEB plan.

In examining GASB’s response, we have the following thoughts for consideration:

- Trust B meets all of the requirements included in paragraph 3 of Statement No. 74. Contributions to Trust B would be irrevocable. The assets would be dedicated to providing OPEB to plan members in accordance with benefit terms. Assets of Trust B 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, plan assets also are legally protected from creditors of the plan members.

- The conclusion reached in 4.42 seems to contradict the position taken in question 4.7 of the Proposed Implementation Guide. The response to 4.7 states, “The applicability of Statement 74 is not dependent on the number of entities that are associated with the functions of an OPEB plan. A variety of plan structures may arise in practice to fit specific circumstances.” The response provides examples through which assets can be accumulated and managed for OPEB and how benefit payments may be made by multiple entities. The response states, “Therefore, in circumstances in which plan functions are not carried out by a single entity, entities associated with plan functions should evaluate whether they should report the OPEB plan.”

- We understand GASB’s position for not including the resources of Trust B in the accounting and financial presentation of the Plan. However, we do not believe Trust B’s resources should be omitted from the Plan Sponsor’s calculations of net OPEB liability.
• The financial vehicles available for meeting all of the government's financial obligations are few and leave little leeway as to how those obligations are funded. An irrevocable trust, like Trust B, allows governments to take advantage of a financial vehicle that was created to encourage efforts to improve and advance the funded status of the overall OPEB plan. Disallowing the use of an irrevocable trust for net OPEB obligation purposes eliminates an opportunity to address the poorly funded status of most OPEB plans throughout the country.

• While it is the GASB's role to provide standards that guide governments to present fairly the financial condition of their respective government; disallowance of financial vehicles such as Trust B for Net OPEB calculations and reporting distorts unfairly the reporting government's actual financial commitment to addressing the costs of retirement.

• We believe the inclusion of irrevocable trusts should be allowed, at a minimum, for Plan Sponsor financial reporting and should be applied consistently for both OPEB and pension liability calculations.

The California State Association of County Auditors appreciates the opportunity to comment on these EDs.

Sincerely,

Jim Erb
Chair
Accounting Standards Committee