December 19, 2016

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

Dear Director:

I am writing to you on behalf of Segal Consulting in response to the Governmental Accounting Standards Board (GASB) Proposed Implementation Guide No. 201X-X (Project No. 34-1E).

Founded in 1939, Segal Consulting has extensive experience in providing independent, results-driven actuarial and consulting services to state and local governments. For 75 years, we have developed innovative total reward approaches that provide quality health care, secure retirement, and competitive compensation programs for public employees.

We thank you for the opportunity to comment on the Proposed Implementation Guide. We commend the GASB and project staff for their efforts in assisting public sector plans and employers in transitioning to the new Statement through the questions and answers provided. While we agree with most of the responses in the Guide, we do ask for clarification of certain sections of the Guide. These sections deal with:

- Employer Group Waiver Plans (EGWP) covering prescription drugs
- Blended Discount Rate calculations
- Measurement Date vs. Actuarial Valuation Date

Employer Group Waiver Plans (EGWP)

We would like to get some clarification in regards to Questions 4.126, 4.127 and 4.128, regarding treatment of EGWP plans covering prescription drugs for Medicare eligible participants. In order to facilitate our understanding, we are providing an illustrative example EGWP Plan XYZ, with the same data shown in the table below. The Table shows two potential plan design cases:
1. Case 1 provides benefits through an EGWP Medicare Part D plan design plus a Wrap portion that pays additional costs for participants that are not covered by the Standard plan design.

2. Case 2 provides benefits through an EGWP Medicare Part D standard plan design only, with no wrap program.

<table>
<thead>
<tr>
<th></th>
<th>Case 1: EGWP plus Wrap</th>
<th>Case 2: Standard Part D EGWP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Plan Paid Drug Cost (net of member cost share)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Wrap</td>
<td>$1,000</td>
<td>$0</td>
</tr>
<tr>
<td>EGWP Part D</td>
<td>$3,000</td>
<td>$3,000</td>
</tr>
<tr>
<td>Plan Paid Cost Before Subsidies</td>
<td>$4,000</td>
<td>$3,000</td>
</tr>
<tr>
<td>Federal Direct Subsidy</td>
<td>(320)</td>
<td>(320)</td>
</tr>
<tr>
<td>Federal Reinsurance Payments</td>
<td>(250)</td>
<td>(250)</td>
</tr>
<tr>
<td>Coverage Gap Discount (Brand Manufacturers)</td>
<td>(530)</td>
<td>(530)</td>
</tr>
<tr>
<td>Plan Cost Net of Subsidies</td>
<td>$2,900</td>
<td>$1,900</td>
</tr>
<tr>
<td>Wrap Administrative Fee</td>
<td>40</td>
<td>0</td>
</tr>
<tr>
<td>EGWP Administrative Fee</td>
<td>120</td>
<td>120</td>
</tr>
<tr>
<td>Total Net Plan Cost with Administration</td>
<td>$3,060</td>
<td>$2,020</td>
</tr>
</tbody>
</table>

In reviewing the responses to Questions 4.126 through 4.128 in the Draft Implementation Guide, we want to ensure that we are interpreting the intended answer correctly. To us, there appears to be two possible interpretations.

Interpretation A would value only the benefits and administrative costs of the Wrap portion of the plan and ignore all costs and fees of the EGWP portion. Interpretation B would include all claim costs of both the Wrap and EGWP portions, but exclude the federal and manufacturer subsidies provided by the EGWP, as well as the administrative fees for the EGWP.
Per Capita Cost Valued for GASB 74 Total OPEB Obligation

<table>
<thead>
<tr>
<th>Interpretation</th>
<th>Case 1</th>
<th>Case 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interpretation A—Wrap Claims/Fees Only</td>
<td>$1,040</td>
<td>$0</td>
</tr>
<tr>
<td>Interpretation B—All Claims and Wrap Fees</td>
<td>$4,040</td>
<td>$3,000</td>
</tr>
</tbody>
</table>

**Interpretation A**

The proposed answer to questions 4.126 says that “projection of benefit payments for prescription drug benefits should include only the benefit provided through the wrap” which indicates Interpretation A, where all EGWP benefits, subsidies, and administrative fees are ignored. As a result, the cost valued in Case A is $1,000 + $40 = $1,040. Since Case 2 has no Wrap component, the cost valued is $0.

While this result appears to be consistent with the literal Answers to 4.126 through 4.128, that would result in a $0 Total OPEB Obligation for the Plan in Case 2. Such a result seems counterintuitive and very susceptible to “gaming”, in order to avoid potential OPEB liability. In fact, a Plan might attempt to provide all benefits under an Enhanced EGWP arrangement, which could produce the same total $4,040 plan cost as in Case 1, but with a $0 liability, due to having no Wrap component.

**Interpretation B**

One might also interpret the proposed answers to Questions 4.126 through 4.128 as intended to mean the claims of both Wrap and EGWP portions are included, and that just the EGWP subsidies and administrative fees are excluded. In this interpretation, the cost valued in Case 1 is $4,000 + $40 = $4,040. Case 2 would value $3,000.

**Alternative Interpretation**

Although not the intent of the answers provided in the Proposed Implementation Guide, we would like to suggest a third approach to valuing and EGWP plan that provides prescription drug benefits to Medicare eligible retirees. We suggest that all the associated claims, subsidies and admin costs be valued in totality. Such an approach would lead to valuing a cost of $3,060 in Case 1 and $2,020 in Case 2. We suggest such an approach for the following reasons:

- This interpretation will not lead to counterintuitive answers that may “game” accounting results, such as Case 2 of Interpretation A, where a $0 liability is valued, even though the plan is clearly providing a benefit.
- This will not lead to the incongruous situation produced by Interpretation B, where EGWP cash flows providing benefits are valued, but offsetting negative cash flows from the same EGWP mechanism are ignored.
This interpretation is identical to the treatment of group Medicare Advantage Plans, where plans receive monthly federal subsidy payments (in the form of lower insurance premiums) based on the groups calculated health risk adjustment.

Please confirm the interpretation of answers 4.126 through 4.128 of the Proposed Implementation Guide. Should it be Interpretation A or B? In addition, we ask that you reconsider the guidance in this section and consider the Alternative Interpretation provided, where all cash flows are reflected in the valuation. To the extent that you believe this interpretation is not appropriate, please explain how the situation is different from the direct subsidies from the federal government that a Medicare Advantage plan receives and passes through to a plan in the form of lower premium rates. To us, this is the same way an insured EGWP that provides prescription drug coverage operates as discussed in Questions 4.128.

**Blended Discount Rate Calculations**

Questions 4.136 addresses projections of contributions for a plan in which benefits are financed substantially on a pay-as-you-go basis. Illustration B2 demonstrates how this calculation should be performed. Service costs (as a percentage of payroll) are determined for future employees, and projected employer contributions are reduced by that amount for purposes of projecting the Plan’s Fiduciary Net Position. We understand why projected contributions for future employees should be excluded from projections of Net Fiduciary Position for purposes of determining the discount rate under the provisions of GASB Statement No. 74. However, in this example, it seems arbitrary to assign contributions in this manner, when the employers contribution policy is directly related to paying benefits for current plan members, and has nothing to do with future employees’ normal costs. It appears that in prescribing this method of allocating employer contributions, the Statement is in effect dictating an aspect of an employer’s funding policy, which would seem at odds to the GASB’s stated intent of remaining silent on funding in promulgating these standards.

**Measurement Date vs. Actuarial Valuation Date**

We are seeking clarification on Question 4.105 in the Proposed Implementation Guide. Our understanding is that there are 3 dates to consider: reporting date, measurement date and actuarial valuation date. The reporting date is the fiscal year end date of the plan or the employer. The measurement date is the date at which the Net OPEB liability is determined. For Statement 74, this is the fiscal year end reporting date. The actuarial valuation date is the date at which the total liability is determined. The proposed guide discusses projecting the liability forward to the measurement date from the valuation date. Our question and/or request for clarification regards having an actuarial valuation date after the measurement date. Specifically, if the fiscal year end is June 30, and the Plan Sponsor has open enrollment effective September 1, plan changes are better reflected using the September 1 enrollment data, with liabilities calculated as of September 1. The liabilities would then be rolled back to June 30 (using a discount rate calculated at June 30). We think this is a reasonable process when the enrollment data is not long after the fiscal year end, but realize that mortality experience can sometimes impact the applicability of the figures (life insurance in particular). To adjust for this, we include actual benefits paid during the rollback period. We would like confirmation that this process would be considered reasonable in complying with the Statement.
We appreciate all of the work that has gone into the Proposed Implementation Guide and the opportunity to submit comments for consideration.

Sincerely yours,

Mary P. Kirby, FSA, FCA, MAAA
SVP and Consulting Actuary