July 26 2017

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

Re: Attribution Period Proposed by Implementation Guide No. 201X-Z

Dear Director, Staff, and Board Members:

Cavanaugh Macdonald Consulting, LLC (CMC) thanks the Governmental Accounting Standards Board (the GASB) for inviting us to comment on the GASB’s recent Exposure Draft (ED) setting forth a proposed Implementation Guide for Statements No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, and No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. We value the due process procedures the GASB has developed and greatly appreciate the time and effort put forth by the GASB.

The proposed Implementation Guide includes 507 questions and answers intended to help users with the interpretation of GASB 75. Additionally the proposed Implementation Guide is being used to amend the previously issued Implementation Guide for GASB 74. Given what we believe to be the urgency associated with the proposed guidance on the attribution period (Q&As 4.109, 4.245, 4.387, 5.3, and 7), the following comments are being made in hopes of clarification by the GASB prior to the anticipated November approval date of Implementation Guide No. 201X-Z. We will review the remainder of the ED and, if we believe it is appropriate, we will provide additional feedback on the remainder of the proposed guidance at a later date.

Attribution Period

Q&As 4.109, 4.245, 4.387, and 5.3 are identical and address the attribution period for a final retirement age that extends beyond the period in which an OPEB plan’s benefits are payable.

Q—If the OPEB plan terms specify that an employee becomes ineligible for benefits upon attaining a specified age but there is an expectation that the employee will continue to be employed past that age, should the attribution period include employment periods in which the employee will no longer be eligible for benefits?
A—No. For purposes of Statement 75, the employee’s active service under the plan terms does not extend past the point at which the employee becomes ineligible to receive benefits (including refunds of employee contributions). Therefore, the attribution period should not include employment periods after the employee becomes ineligible for benefits. Consequently, for purposes of paragraph 42d of Statement 75, the date at which the employee becomes ineligible to receive benefits under the plan terms should be the last assumed date of exit from active service. For example, if the plan terms provide that an employee is eligible to receive postemployment healthcare benefits until only age 65 and there is no expected refund of employee contributions, the end of the attribution period is the date at which the employee will attain age 65, regardless of whether the employee is expected to remain employed past that date.

First, we believe an attribution period based upon an employee’s entire career is consistent with the basic principle that the event that makes a portion of the obligation for OPEB a present obligation, and therefore a liability, of the OPEB plan is the occurrence of a date that a benefit payment is owed to a plan member. The allocation of the benefit payment’s obligation is dictated by the actuarial cost method used. Here, the GASB elected the entry age normal actuarial cost method in which “service costs should be level as a percentage of that member’s projected pay” and “service costs of all OPEB should be attributed through all assumed ages of exit from active service”. Depending on the nature of the OPEB (e.g., long-term disability), either of these cost method attributes may result in the allocation of OPEB liability in arrears when viewed at the level of a specific individual.

Additionally, we believe the use of “all assumed ages of exit from active service” is consistent with attribution prior to and after eligibility, as outlined by the answer to Q&A 4.108.

A The exchange of benefits for services generally is viewed as related to an employee’s entire career. Therefore, the attribution period should include all periods of an employee’s projected service for an employer that provides benefits through the OPEB plan, regardless of whether additional benefits are expected to be earned after eligibility requirements are fulfilled.

Last, the nature of an OPEB plan is to pool the financing of benefit for the entire group. As such, we believe it is consistent to include those active employees not eligible for benefits due to working beyond the point when benefits are available with those employees not eligible for benefits due to ending employment prior to earning a right to such benefits.

**Additional Clarification**

Should the GASB elect to adopt the attribution period proposed by Q&As 4.109, 4.245, 4.387, and 5.3, we believe the GASB needs to provide additional specification for the attribution period. Specifically, it is unclear what the terminal attribution age should be when a plan’s OPEB differ by benefit type, attained age, and/or benefit tier.

- **Different benefit types**: Health care and life insurance are sometimes provided by the same OPEB plan. Is the terminal attribution age unique to each benefit type, or the later terminal age of the two benefit types?
- **Different benefit by attained age**: Health care is provided under the employer’s plan until the retiree is Medicare-eligible and then the retiree is covered by a Medicare supplement plan. Is the
terminal attribution age unique to each benefit (both health care, but with different delivery mechanisms), or the later terminal age of the two benefits?

- **Different benefits by tier:** For one class of employees within an OPEB plan, health care is provided under the employer’s plan for life and for another class of employees in the same OPEB plan (those hired after a specific date), the benefit is a flat dollar subsidy (no access to the employer’s plan) payable until the retiree is Medicare-eligible. Is the terminal attribution age unique to each class of employees, or the later terminal age of the two classes?

The answers to these questions not only affect the liability valued, but are also relevant to the determination of the expected remaining working lifetime used to determine how certain items are recognized. In the first bullet above, the use of different terminal ages forces a separation of gains and losses, etc. by sub-plan, which in turn requires the allocation of assets by sub-plan.

**Transition**

The transition that is provided by the proposed implementation Guide is a measurement date of the (collective) net OPEB liability on or after June 15, 2018 for Q&As 4.109, 4.245, 4.387, and 5.3. Given the use of a biennial valuation cycle by many OPEB plans, we believe the transition period should be extended to measurement dates on or after June 15, 2019, if the corresponding valuation date is prior to the adoption of the proposed guidance. Many plans have already prepared valuations to develop the disclosures under GASB 74, and without this additional transition relief, these plans would either need to revise their valuations or demonstrate (probably by conducting a revised valuation) that results are not materially changed.

In closing, CMC thanks the GASB for this opportunity to comment. If you have questions regarding this letter, please do not hesitate to contact me.

Sincerely,

Eric H. Gary, FSA, FCA, MAAA
Principal and Chief Health Actuary