



December 19, 2016

David Bean  
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: Project No. 34-1E – Exposure Draft of *Implementation Guide No. 201X-X, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans***

Dear Mr. Bean:

Bartel Associates, LLC is a California based actuarial consulting firm specializing in preparing OPEB and pension actuarial valuations and consults for public agencies. We reviewed the Governmental Accounting Standards Board's *Exposure Draft of the Implementation Guide No. 201X-X, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. Our comments and suggestions are:

**Question 4.12**

We suggest modifying this Q&A to address reimbursements for payments made by the employer on behalf of plan members in order to avoid giving an impression that only reimbursements made directly to plan members are consistent with paragraph 3a and propose the following modification to GASB's answer to this question:

A – Yes. Reimbursements paid to the employer from the trust for benefit payments made directly to, **or on behalf of,** plan members by the employer in accordance with the benefit terms should not be considered to be a reversion of trust assets to the employer for purposes of evaluating whether the trust meets the criteria in paragraph 3a of Statement 74.

**Question 4.35**

In addition to GASB's proposed Q&A on this topic, we suggest adding a follow-up Q&A:

Q—If in Q&A 4.35, separate accounts are maintained for each of the other governments and the assets in each of the separate accounts legally are available to pay the benefits of only the employees of the government or governments whose assets are maintained in the separate account, and if in addition, each separate employer has its own separate Board administering the OPEB provided, including setting eligibility for OPEB and amount of OPEB, is this a single-employer, agent multiple-employer, or cost-sharing multiple-employer plan?

A—Each employer maintains a separate single-employer plan for financial reporting purposes. Because the OPEB for each employer is governed by a separate governing body and



the assets can legally only be used to pay OPEB for each employer, the arrangement is a collection of single-employer plans rather than multiple-employer plan.

#### **Question 4.42**

In Q&A's 4.42 to 4.44 we agree that Trust B assets should not be reported as part of the OPEB plan. However, for purposes of employer reporting for both pension and OPEB, we believe the opposite conclusion should be reached: both Trust A and Trust B assets could be included as part of the fiduciary net position. There are several reasons why we take this position for employer reporting:

1. We do not believe the intent of the employer should be relevant to the outcome.
  - a. For example, the employer could make supplemental contributions to Trust A to be used solely as needed to mitigate future contribution volatility. Under GASB's proposed answer above, those funds would be included.
  - b. Some employers established Trust B's for other reasons, for example to immediately fully fund their pension or OPEB liability. Would these employers be permitted to include Trust B assets?
2. We disagree with the Board's implied reasoning (in the answers to Q 4.42, 4.43, and 4.44) that because assets in Trust B will benefit the employer through reduced future cash flow demands on the employer's general fund resources, they should not be counted as part of the OPEB plan. Any amounts contributed to any Trust associated with an OPEB (or pension) plan is expected to reduce the employer's future cash flow demands, consequently it does not make sense to exclude amounts from being plan assets on that account.
3. The answers to the 3 questions also seem to focus on the fact that benefit payments can be made only from Trust A and not Trust B. We think this fact should not be relevant to the answer. Trust B benefits can only be used as contributions to Trust A, and once in Trust A, they can only be used to pay plan benefits. Therefore Trust B assets will be used to pay plan benefits.
4. One of the basic concepts of Statement 75 is that OPEB expense is no longer directly related to employer contributions. OPEB expense is an independent measure of plan costs. It does not then make sense to disregard employer contributions different than the actuarially determined contribution, even if their intent is to stabilize or otherwise alter the employer's future contribution pattern to benefit the employer.

For employers participating in multiple-employer plans, this is an important issue. Many multiple employer plans cannot or will not accept contributions from an employer in excess of the legally required or actuarially determined amount. If an employer wishes to make additional contributions there is no vehicle possible other than a second Trust. For example, if the legally required contribution is less than the actuarially determined contribution, the employer might wish to contribute the ADC every year. To do this, the employer would need to establish a Trust B. Alternatively, consider an OPEB plan with few trust assets and increasing benefits due. A participating employer might project the plan's insolvency and want to set aside funds to continue providing promised OPEB to its employees in that event.



#### **Question 4.58**

Although the question is addressing additions to the trust, the current wording may be more appropriate for a plan that is not being administered through a trust. In that situation, the answer given above would properly produce the same amount to be reported as employer contributions as the amount to be reported as benefit payments as described in the proposed answer in Question 4.66. For example, consider a modification to the situation in Question 4.58 where the plan's OPEB trust was funded with a large initial contribution years ago. The employer makes no additional cash contributions and the trust pays out the amount of (blended) premiums due from the employer for retirees, but does not pay the claims or age-adjusted premiums. In this situation, we believe the logical answer is for the plan to report benefit payments in accordance with Question 4.66 of the sum of (a) the retiree (blended) premiums due from the employer for retirees and paid from the trust plus (b) the difference between (i) the claims costs, or age-adjusted premiums approximating claims costs and (ii) the retiree (blended) premiums due from the employer for retirees and paid from the trust. Following the same logic, the employer should report employer contributions only equal to (b) above: the difference between (i) the claims costs, or age-adjusted premiums approximating claims costs and (ii) the retiree (blended) premiums due from the employer for retirees and paid from the trust. We suggest a more general answer to this question be:

The amount to be reported by the plan as employer contributions is the sum of:

1. Amounts paid by the employer to the trust in cash
2. Amounts paid by the employer directly to or on behalf of retirees as premium payments, claims payments, or other payments due under the OPEB plan,
3. The difference between (i) the claims costs, or age-adjusted premiums approximating claims costs and (ii) the retiree (blended) premiums due from the employer for retirees if any, to the extent any such difference is not paid or reimbursed to the employer by the trust (in cash).

We also believe the proposed answer in Question 4.58 should have the same ASOP 6 exception language as Question 4.66.

#### **Question 4.86.**

In general, we agree with the answer that actual benefit payments should be used. However, our underlying concern is that for many OPEB plans, while actual cash-paid premiums and other cash-paid benefit amounts are available, it may be unreasonably difficult to obtain actual benefit payment information for claims or age-adjusted premiums as of the year-end reporting date. For example, fully insured plans would need to rely on information provided from the insurer and would also require the insurer to track active and retiree claims separately. In these cases, it may be difficult to get this information from the insurer especially for smaller groups. There are many other instances where it may be difficult to obtain as well. Therefore, we feel that the answer should acknowledge that if circumstances are such that the actual benefit payment information is unreasonably difficult to obtain then an



estimate of the benefit payments is appropriate to use. We feel that it is important to recognize this since it may be a common problem for many OPEB plans.

Furthermore, from a broader standpoint, using roll-forward techniques for the total OPEB liability may have the same problem in regards to using actual payment information versus estimated benefit payments. As appropriate, we would like GASB to acknowledge that using estimated or partially-estimated benefit payments in the roll-forward is appropriate if obtaining the actual benefit payment information is unreasonably difficult. Regardless, the measure of the benefit payments should be consistent throughout the calculation of the roll-forward including in the reconciliation of plan assets (if any).

#### **Questions 4.137 and 4.138**

It is our understanding that Question 4.138 is intended to address the proper reflection in the discount rate determination of benefit payments paid directly by the employer, while Question 4.137 is intended to address amounts reflected as employer contributions in that calculation. However, the difference in the intent of these two questions was not readily apparent to us. We request that the Board change the wording of the questions to highlight the distinction.

#### **Question 4.140**

We suggest expanding the answer to this question or adding another question in order to clarify desired treatment of DROP participation.

We agree with the answer that generally “the end point of the attribution period would not be a single age or single date.” However, we think it would be helpful to add another Q&A covering when employees have a DROP provision in their pension plan. This can provide for clarification about whether joining a pension DROP is treated as an exit age for the OPEB valuation.

Paragraph 54d requires that “The service costs of all OPEB should be attributed through all assumed ages of exit from active service.” We think the OPEB standard may best be read as saying the exit age is when the member is no longer employed (not when a member joins DROP). Almost always, the DROP exit age is when active health care benefits stop and OPEB benefits start for those going immediately into retirement. Members often will be accruing additional OPEB credits while in their pension DROP.

One more reason for including another Q&A is that GASB did not adopt this DROP exit age rule for pension plans. GASB 68 provides that “*In pension plans in which the benefit terms include a **deferred retirement option program (DROP)**, for purposes of this Statement, the date of entry into the DROP should be considered to be the employee’s retirement date.*”

As a simple illustration, consider that an actuary assumes that all members join DROP at 25 years of service and exit employment 5 years later. For funding purposes the actuary might assume 100 percent retirement at 25 or 30 years of service, but for GASB 68 purposes must



assume 100 percent at 25 years with potentially some type of deferral of payment. For GASB OPEB purposes it would seem that the assumption should be that the retirement decrement would be 100 percent at 30 years of service when they are assumed to exit from active service.

We suggest adding the following Q&A to address this issue:

Q—If some or all members in the OPEB valuation are in a pension plan that offers a DROP, should the retirement rates reflect the pension plan’s DROP entrance or exit age assumptions?

A—Since the OPEB plan does not itself contain a DROP provision, retirement rates for GASB OPEB purposes should reflect the DROP exit age assumptions. We acknowledge that this may lead to different attribution periods for OPEB purposes than for pension purposes.

#### **Question 4.146**

We agree with GASB’s answer, but we suggest modifying it to identify a potential source of credible retirement rates. Many smaller governmental entities participate in larger, often statewide, retirement systems. Those retirement systems perform periodic experience studies resulting in decrement rates used in the subsequent actuarial valuations. It may not be immediately obvious to users of the alternative measurement method that retirement rates developed by actuaries for the retirement systems are often the best estimates available. We suggest highlighting that fact in the answer. We propose the following modification:

Q—Paragraph 56b of Statement 74 permits simplification of the assumption about the expected point in time at which benefit payments will begin to be made. In an OPEB plan that requires members to attain a certain age in order to qualify for benefits but that does not have a years-of-service requirement, how could the expected point in time at which benefit payments will begin to be made be determined?

A—The expected point in time at which benefit payments will begin to be made should be determined using information about the covered group (if credible experience data are available, **such as retirement rates developed by the actuary based on actual experience from the retirement system, when applicable and suitable**) and the benefit terms. Paragraph 56b of Statement 74 indicates that the assumption may incorporate a single assumed age for active plan members. Therefore, in the case of a plan that has only an age requirement (no length-of-service requirement), the point in time at which benefit payments will begin to be made to plan members may, for example, be set at an age equal to the historical average retirement age of plan members that qualified for benefits if the benefit terms provide that benefit payments begin at retirement.

We suggest similar modifications be made in Questions 4.147 and 4.148.



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**Question 4.155**

The proposed answer may lead some of the readers to believe that the implicit rate subsidy needs to be measured only when premium rates quoted for retirees are the same as rates given for active employees. We suggest modifying part of the answer to encompass the situation when the difference is relatively small:

A—The method described in paragraph 57c of Statement 74 may be used to calculate age-adjusted premiums approximating the claims costs for inactive plan members for purposes of the alternative measurement method in circumstances in which (a) postemployment healthcare benefits are provided by allowing inactive plan members to obtain health insurance in a plan that rates active and inactive plan members in a single group, (b) the same premium rates (blended premium rates) are given for both active employees and inactive employees in the group, **or when unreduced premium rates published for inactive members of the group are relatively close to rates quoted for active employees**, and (c) the employer is unable to obtain information about claims costs, or age-adjusted premiums approximating claims costs, for inactive plan members from the insurer. Paragraph 57c(1) is for use in determining age-adjusted premiums for plan members that are younger than 65 years old; paragraph 57c(2) is for use in determining age-adjusted premiums for plan members age 65 or older.

Thank you very much for consideration of our suggestions.

Sincerely,

A handwritten signature in blue ink, appearing to read 'John E. Bartel'.

John E. Bartel  
President

c: Mary Beth Redding, Bartel Associates, LLC

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