Letter of Comment No. 041
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From: Jeffrey Halis
To: GASB Director <director@gasb.org>
Subject: Project No. 3-25

Dean Director Bean,

I understand that the Board is in the process of hearing comments on Project No. 3-25

As a former member of the New York Financial Control Board I have had a close-up view of the budgetary problems caused by bad accounting.

As you probably know, New York City approached bankruptcy 40 years ago. As a result, reforms were instituted including a legal requirement that the budget be balanced and that the Financial Control Board (FCB) annually certify the balanced budget. However there is a “catch” though no one thought of it as a “catch” at the time. The catch is that the certification has to use the standards of municipal GAAP.

Municipal GAAP does not account for unspent post-retirement health care costs. The direct result of this shortfall of accounting was that New York City was able to make promises to compensate city workers in the future for work performed today without any recognition of the future cash expenditures. Clearly this violates the basic principles of accounting.

The distortion of operating practice is not unique to New York City. However, in the case of NYC, this bad accounting led to an essentially unfunded accrued retiree health care benefit of $100 Billion. $100 Billion!!!

The relevant NYC financial statement footnotes follow.

22. Other Postemployment Benefits

Other Postemployment Benefits (OPEB) cost for retiree healthcare and similar, non-pension retiree benefits, is required to be measured and disclosed using the accrual basis of accounting (see Note E.4), regardless of the amount recognized as OPEB expense on the modified accrual basis of accounting. Annual OPEB cost is calculated in accordance with GASB Statement No. 75.

Funded Status and Funding Progress. As of June 30, 2018, the most recent actuarial measurement date, the funded status was 4.6%. The total OPEB liability for benefits was $103.3 billion, and the plan fiduciary net position was $4.8 billion, resulting in a net OPEB liability of $98.5 billion. The covered payroll (annual payroll of active employees covered) was $26.2 billion, and the ratio of the net OPEB liability to the covered payroll was 375.5%. Actuarial valuations of an ongoing plan involve estimates of the value of reported and future amounts based on assumptions about the probability of the severity and occurrence of events far into the future. The determined actuarial valuations of OPEB incorporated the use of demographic and economic assumptions among others as reflected below. Amounts determined regarding the funded status and the annual expense of the City vary from year to year as actual results are compared with past expectations and new estimates are made about the future. The schedule of changes in the net OPEB liability and related ratios shown in the RSI section immediately following the notes to financial statements, present GASB Statement No. 75 results of OPEB valuations for Fiscal Years 2018 and 2017.

Actuarial Methods and Assumptions. The actuarial assumptions used in the Fiscal Years 2018 and 2017 OPEB valuations are classified as those used in the New York City Retirement Systems (NYCRS) pension valuations and those specific to the OPEB valuations. NYCRS consist of: (i) New York City Employees’ Retirement System (NYCERS); (ii) Teachers’ Retirement System of The City of New York (TRS); (iii) New York City Board of

Education Retirement System (BERS); (iv) New York City Police Pension Fund (POLICE); and (v) New York City Fire Pension Fund (FIRE). The OPEB valuations incorporate only the use of certain NYCRS demographic and economic assumptions. The NYCRS demographic and economic assumptions are unchanged from the prior OPEB valuation. For purposes of determining pension obligations, the demographic and economic assumptions requiring NYCRS Board approval (available on the website of the Office of the Actuary at www.nyc.gov/actuary) were adopted by each respective Board of Trustees during fiscal year 2012 (the Silver Books), with revisions proposed by the Actuary and adopted by each respective Board of Trustees in fiscal year 2016. Chapter 3 of the Laws of 2013 enacted those actuarial assumptions and methods that require New York State Legislation.

It is essential that municipal budgets fully reflect the cost of promises made which have not yet required cash expenditures – and proper accounting is essential if that is to happen. New York has a huge problem; other states and cities have a similar problem. Only proper accounting stands in the way of this problem growing further.

Sincerely,

Jeffrey Halis

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