



December 23, 2016

Mr. David R. Bean
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 Mr. Bean:

Members of the American Institute of Certified Public Accountants (AICPA) State and Local Government Expert Panel have reviewed the Governmental Accounting Standards Board (GASB) Exposure Draft (ED), *Implementation Guide No. 201X-X, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and are pleased to offer our comments. We have arranged our comments in the order they appear in the ED versus the level of importance. To assist the Board in identifying our more significant comments, we have identified those comments using a **bolded underlined font**.

We have also included the relevant questions within each comment for simplicity and to help put our comments into context. In some cases we provide markups of changes we are recommending to various questions using red font.

Question 4.13. We have significant concerns about the appropriateness of the guidance provided in this question and whether it is capable of consistent application in practice. The Board should perform research and outreach to determine whether this question is necessary and, if so, what criteria would effectively partition a trust.

While we acknowledge there is a similar question at 8.72.1 of *Implementation Guide 2015-1*, the heightened focus with implementation of GASB Statement No. 74, as well as the potential implications to participating employers when they implement GASB Statement No. 75, creates a need to reconsider whether such a circumstance is actually possible and whether more specific guidance is needed.

This question implies there are circumstances in which OPEB benefits (e.g., health insurance for retired employees) may meet the criteria in paragraph 3 of GASB Statement No. 74 to be reported as a plan, even though they are administered through a single trust that also provides benefits to active employees (e.g., health insurance for active employees). However, we are unclear as to what criteria (i.e., steps to be taken to ensure that the assets are dedicated solely to OPEB) should be used in evaluating whether a “partition” of the trust would meet the criteria in paragraph 3 of Statement 74. We assume the term “partition” in the context of a single trust means that a mechanism within the trust document exists such that the segregated (allocated) assets are legally restricted to only paying OPEB benefits.

However, the answer states that “once initially allocated to OPEB, are dedicated solely to providing OPEB” and we are unclear whether “dedicated” as used here is the same as “legally restricted.” (*Emphasis* added in excerpt below.)

We believe there is inconsistent application in practice today under GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which, if carried forward, would have a much more significant impact under the new OPEB standards. We recommend the Board perform additional research and outreach before proceeding with this question, including analysis of trust documents that are believed to meet the criteria for being “legally restricted” so that more clarity can be provided in the question and answer.

Q—If postemployment healthcare benefits (classified as OPEB) and some other benefit that is not OPEB (for example, pensions or active employee healthcare) are administered through a single trust, can that arrangement be considered as meeting the requirements of paragraph 3b of Statement 74—that is, that “OPEB plan assets are *dedicated* to providing OPEB to plan members in accordance with the benefit terms”?

A—The OPEB *partition* of the trust would meet the criterion of paragraph 3b of Statement 74 (regarding dedicated purpose) *only if steps have been taken to ensure that the assets, once initially allocated to OPEB, are dedicated solely to providing OPEB* until the point in time at which all benefits provided through the OPEB plan have been paid. That is, in the context of Statement 74, dedicated purpose should be understood as referring to the purpose of providing OPEB through a single plan rather than, for example, providing OPEB and some other benefit such as pensions or active employee healthcare. (Emphasis added).

Question 4.15. We suggest the answer strike the phrase, “Even though the benefit is defined in terms of a dollar amount or formula” as it does not appear to be a qualifying condition of the answer. Striking the phrase makes the answer more direct.

Q—The terms of a postemployment benefit plan provide that those who retire from service will receive an amount, defined in terms of dollars or a formula, that may be used only (a) to offset the retiree’s cost of premium payments for participation in the employer’s healthcare insurance group with active employees or (b) for reimbursement of other healthcare costs, if the plan members provide proof of healthcare insurance costs or direct healthcare claims that are not reimbursed by others. Should the benefit be classified as OPEB for financial reporting purposes?

A—Yes. ~~Even though the benefit is defined in terms of a dollar amount or formula, b~~Because the benefit is limited to the provision of postemployment healthcare, it should be classified as OPEB for financial reporting purposes.

Question 4.23. We suggest the guidance provided in this question be more explicit with regard to how sick leave would be converted to healthcare benefits to improve understanding. The last sentence of the answer could be interpreted as implying the conversion of unused sick leave to defined benefit OPEB is a straight reclassification which we understand is not the intent. We suggest, for clarity, that the final sentence be revised to say the conversion “should be excluded from a compensated absence liability and instead, be included by the actuary in their projection of the total OPEB liability for financial reporting purposes.”

Q—Instead of converting an employee’s unused sick leave hours to an individual retiree healthcare account at a rate based on the employee’s salary rate at the time of termination of employment, an employer has an ongoing arrangement to provide, as part of the total compensation to the employee, postemployment healthcare benefits. The amount of the postemployment healthcare benefit for each employee is determined based on the employee’s unused sick leave balance in hours at the time of termination of employment. Unused sick leave is converted to postemployment healthcare benefits at the rate of one month of healthcare premiums, up to a stipulated maximum monthly amount, for each eight hours of unused leave. The employer does not otherwise provide postemployment healthcare benefits and does not otherwise compensate employees for unused sick leave. How should the benefits provided under these terms be classified for financial reporting purposes?

A—The benefits to which unused sick leave is converted in this case—employer-paid healthcare benefits for the specified number of months for which each terminating employee is eligible—are defined benefit OPEB. Footnote 6 of Statement 74 specifies that, in circumstances in which a terminating employee’s unused sick leave credits are converted to provide defined benefit OPEB (for example, defined benefit postemployment healthcare benefits), the resulting benefit or increase in benefit should be included in the measures of OPEB liabilities for purposes of Statement 74. Therefore, in the circumstances described in this question, the portion of sick leave expected to be converted to healthcare benefits, ~~rather than taken as absences, should be classified as~~ should be excluded from a compensated absence liability and instead, be included by the actuary in the projection of the total OPEB liability for financial reporting purposes.

Question 4.41. We suggest the answer to this question focus on the trusts themselves instead of the funds and that the last sentence of the answer be deleted. The rationale for deleting “funds” at the end of first sentence of the answer is because the accounting fund structure is irrelevant to the answer. As for the last sentence of the answer, we believe it to be unnecessary since GASB Statement No. 74 applies whether or not separate financial statements are issued for a plan.

Q—If more than one trust that meets the criteria in paragraph 3 of Statement 74 has been established to accumulate assets for purposes of providing OPEB through a single-employer OPEB plan and assets in any of the trusts may be used interchangeably to provide benefits to any plan member, does Statement 74 apply to the separate reporting of each trust?

A—No. Absent a legal restriction that limits the use of the assets of any of the trusts to paying benefits for a specific subset of plan members, the arrangement described is one OPEB plan that is administered using multiple trusts ~~s funds~~. The net position of all of the trusts (in the aggregate) constitutes the plan net position of the OPEB plan. ~~Therefore, Statement 74 would apply only if financial statements are issued for the OPEB plan, which would present one set of plan financial statements that incorporates the balances and activities of all the trusts.~~

Questions 4.42-.44. We suggest clarifying within the answers to these questions that the concept of the limitation on access to Trust B only upon instruction from the employer negates its ability to qualify as a trust dedicated to OPEB. We believe the criteria in paragraph 3(b) of GASB Statement No. 74 would not be met because the employer retains control of whether or not Trust B assets are indeed moved to Trust A to provide OPEB. However, some of our members interpreted these examples to mean that Trust B could qualify under paragraph 3a-3c of GASB Statement No. 74 as an OPEB trust or equivalent. Therefore, we recommend the Board incorporate our suggested revision below to provide clarity on this point.

4.42. Q—An employer provides OPEB through a single-employer OPEB plan that is administered through a trust that meets the criteria in paragraph 3 of Statement 74 (Trust A). Benefits are paid through Trust A, and the trustees of Trust A establish contribution requirements based on the resources accumulated

in Trust A. The employer establishes a second trust (Trust B) to accumulate resources to “stabilize” the amount of its general fund resources that it will need to use to meet contribution requirements to Trust A in the future. Assets in Trust B are restricted to use for that purpose and can be moved to Trust A only upon instruction from the employer. Assets accumulated in Trust B are irrevocable by the employer and are protected from creditors of the employer. Should the balances and activities of Trust A and Trust B be included in the balances and activities of the single-employer OPEB plan?

A—No. In this circumstance, only the balances and activities of Trust A should be reported as part of the single-employer OPEB plan. In the circumstance described, benefit payments can be made to plan members only through Trust A, and Trust A cannot directly access the assets of Trust B. Trust B does not meet the criteria in paragraph 3 of Statement 74 to be considered a trust or equivalent arrangement because the plan assets are not dedicated to providing OPEB to plan members in accordance with the benefit terms. Rather, the plan assets are dedicated to providing future contributions to an OPEB plan at the discretion (control) of the employer. Therefore, the balances and activities of Trust B are not part of the OPEB plan. Instead, the assets in Trust B, which will benefit the employer through reduced future cash flow demands on that employer’s general fund resources, continue to be assets of the individual employer.

4.43. Q—Would the answer in Question 4.42 be different if, instead, Trust A is used to administer an agent multiple-employer OPEB plan and Trust B is established by one agent employer to accumulate resources to stabilize the amount of its general fund resources that it will need to use to meet its contribution requirements to Trust A in the future?

A—No. For the same reasons discussed in the answer in Question 4.42, only the balances and activities of Trust A should be reported as part of the agent multiple-employer OPEB plan. The assets in Trust B, which will benefit the employer through reduced future cash flow demands on that employer’s general fund resources, continue to be assets of the individual employer.

4.44. Q—Would the answer in Question 4.42 be different if, instead, Trust A is used to administer a cost-sharing multiple-employer OPEB plan and Trust B is established by one cost-sharing employer to accumulate resources to stabilize the amount of its general fund resources that it will need to use to meet its contribution requirements to Trust A in the future?

A—No. For the same reasons discussed in the answer in Question 4.42, only the balances and activities of Trust A should be reported as part of the cost-sharing multiple-employer OPEB plan. The assets in Trust B, which will benefit the employer through reduced future cash flow demands on that employer’s general fund resources, continue to be assets of the individual employer.

Question 4.57. We suggest an edit to the second sentence of the answer to emphasize that the payment of age adjusted premiums *less amounts paid by retirees* are the true deduction for the plan. There are often circumstances in which an employer makes contributions to a trust, as well as pays part of the current year benefit payments (insurance premiums) out of their own resources. In this case, the contributions to the plan are the only true additions to the plan and the payment of age adjusted premiums (less amounts contributed by retirees) are the deductions.

Q—A government makes contributions to a defined benefit OPEB plan that is administered through a trust that meets the criteria in paragraph 3 of Statement 74. The government also remits premiums to insurers for active-employee and retiree healthcare coverage and then bills for and receives payment from the trust in reimbursement for the portion of those premiums related to retirees (the portion of age-adjusted premiums approximating claims costs for retirees in excess of amounts required to be paid by retirees for those benefits). Should the OPEB plan report an employer contribution for both the receipt of resources from the employer and the payment of benefits by the employer?

A—No. In the circumstances described, the OPEB plan should report an employer contribution only for amounts received by the trust from the employer. The reimbursable portion of the employer’s remittance of premiums to insurers (that is, the age-adjusted premiums approximating claims costs for

retirees less amounts paid by retirees) should be reported by the OPEB plan as a deduction from fiduciary net position (a benefit payment) and either (a) a liability (a payable to the employer) or (b) a reduction of assets (when reimbursement is made to the employer).

Question 4.58. We suggest revisions to both the question and answer to clarify that the plan being discussed is administered through a trust that meets the criteria in paragraph 3 of GASB Statement 74 and that the purchase of insurance is made directly from resources of the employer. See also our similar edits proposed on Question 4.66 below.

Q— ~~An employer has established a trust for OPEB benefits that meets the criteria in paragraph 3 of Statement 74. Additionally, the employer arranges to purchase healthcare coverage from its own resources for both active and inactive employees (without reimbursement from the trust) based on a blended rate. In a healthcare plan that covers active employees and inactive employees (retirees), the amounts to be paid by the employer, active employees, and retirees are stated in terms of the blended premium rates for all covered members.~~ What amount of the total current-period (blended) premiums paid for active employees and retirees should the OPEB plan report as employer contributions?

A—The OPEB plan generally should report employer contributions for the benefits paid directly by the employer for the difference between (1) the total claims costs, or age-adjusted premiums approximating claims costs, for the retirees in the group for the current period and (2) the amounts required to be paid by the retirees for that period. If (a) the total of the blended premiums paid by the employer, active employees, and retirees differs from (b) the total of the claims costs, or age-adjusted premiums approximating claims costs, for active employees and retirees, any portion of the difference that is not specifically identifiable with payments for active employees or payments for retirees should be allocated between the employer's payments for active-employee healthcare and the employer's contributions for retiree healthcare. Statement 74 does not establish a requirement for a specific allocation approach for those amounts. Therefore, an accounting policy should be adopted related to the allocation, and that policy should be applied in a consistent manner from period to period.

Question 4.59. We suggest the following edits for clarity.

Q—Should a defined benefit OPEB plan report amounts collected from inactive plan members that are receiving benefits as an addition in the statement of changes in fiduciary net position?

A—No. Amounts collected from inactive plan members for the applicable benefits period are recorded by the OPEB plan as an asset and a liability when received, and the asset and liability balances are reduced when benefits are paid. Therefore, amounts received during the period from inactive plan members related to benefit payments during the period should not be reported by the OPEB plan in its financial statements. The portion, if any, of amounts from inactive plan members that is received in advance of the period to which the payments relate and that is held at the end of the reporting period should be reported as a liability in the OPEB plan's statement of fiduciary net position.

Question 4.66. We suggest similar edits to those in Question 4.58 above.

Q— ~~An employer has established a trust for OPEB benefits that meets the criteria in paragraph 3 of Statement 74. Additionally, the employer arranges to purchase healthcare coverage from its own resources for both active and inactive employees (without reimbursement from the trust) based on a blended rate. In a healthcare plan through which an employer provides benefits to active employees and inactive employees, the amounts to be paid by the employer, active employees, and inactive employees receiving benefits are stated in terms of the blended premium rates for all covered individuals.~~ What amounts should the OPEB plan report as benefit payments for the period?

A— ~~Except in the limited circumstances addressed in Actuarial Standard of Practice (ASOP) No. 6, Measuring Retiree Group Benefits Obligations and Determining Retiree Group Benefits Program Periodic Costs or Actuarially Determined Contributions, benefit payments should be measured~~ The OPEB plan generally should report benefit payments for amount of benefits paid directly by the

~~employer for period~~ as the difference between (a) the ~~total~~ claims costs, or age-adjusted premiums approximating claims costs, for the ~~retirees inactive employees~~ in the group for the ~~current~~ period and (b) the amounts ~~paid by the retirees required to be paid by the inactive employees~~ for that period. (An example of this approach is presented in Illustration B1-1 in nonauthoritative Appendix B of this Implementation Guide.)

Question 4.108. We suggest the answer include examples of relevant demographic assumptions for non-vested members (e.g., a factor for those that are non-vested and will never become vested and acceptance of the benefits). Unlike pensions, participants are more likely in OPEB plans to decline the benefits due to cost or other coverage. Note that the markup below does not include specific edits to this point.

We also suggest replacing “include” with “consider” when discussing assumptions as they are not always explicitly inputted, but rather considered for their impact.

Q—Should OPEB be excluded from the determination of the actuarial present value of total projected benefit payments for purposes of applying Statement 74 for any of the following reasons: (a) the benefits are not vested, (b) the plan documents include a provision that specifies that the employer can unilaterally decide to amend or discontinue the benefits, (c) the benefits or employer contributions for benefits are collectively bargained, or (d) the benefits are substantially financed as they come due (sometimes referred to as “pay-as-you-go” financing)?

A—No. The projection of benefit payments should ~~consider include~~ all benefits provided for under the current substantive plan, including changes that already have been made and announced to the plan members at the OPEB plan’s fiscal year-end. The projection should ~~consider include~~ both vested and nonvested plan members, ~~considering relevant with appropriate~~ demographic assumptions with regard to all plan members, and the requirements of Statement 74 related to the projection of benefit payments apply without regard for the timing or method of an employer’s financing of the benefits.

Question 4.121. We suggest the first sentence of the answer be rephrased to say “assuming” rather than “only if” as the “only if” language may imply a higher burden to prove an implicit rate subsidy exists.

Q—With regard to the scenario in Question 4.120, if the employer’s stated payment for the active-employee healthcare benefits is capped and the employees are required to pay the difference, if any, between the blended premium and the amount of the employer’s stated payment, would the active employees be subsidizing the inactive-employee benefits?

A—~~Assuming Only if~~ the amounts expected to be paid by active employees exceed the expected claims costs, or age-adjusted premiums approximating claims costs, on an ongoing basis ~~can~~ it be concluded that the active employees are subsidizing the inactive-employee healthcare benefit. Otherwise, the amount of the benefit payments that is used as the basis for the projection of the total OPEB liability is determined in the manner discussed in Question 4.120. That is, generally, the first step is to determine the claims costs, or age-adjusted premiums approximating claims costs. (An example of this approach is presented in Illustration B1-2 in nonauthoritative Appendix B of this Implementation Guide.)

Question 4.123. We suggest the references to other questions be done in the question portion of the item. As drafted, the reference to the other questions appears in the first paragraph of the answer when the reference is also relevant to the subsequent paragraphs. We also suggest cross-referencing between questions 4.123, 4.124, and 4.125, so that readers are more clearly aware the three questions are related.

Q—What is the difference between a cap on benefit payments and a cap on employer contributions in an OPEB plan for which an employer makes contributions to a trust that meets the criteria in paragraph 3 of Statement 74? [\(See also Questions 4.124 and 4.125.\)](#)

A—A cap on the benefit payments explicitly imposes an upper limit on the amount of per capita benefit payments in each period. For example, the contractual agreement between an employer and the employees' union for retiree healthcare stipulates that the employer's per capita benefit payments should not exceed \$4,000 per year per retiree. Such a benefit cap is part of the definition of the benefits to be provided to current active and inactive plan members through the OPEB plan in accordance with the current substantive plan and, thus, potentially should be considered in the computation of the actuarial present value of total projected benefit payments. [\(See also Questions 4.124 and 4.125.\)](#)

To illustrate the effect of including a benefit cap in the projection of benefit payments for purposes of Statement 74, assume that the employer in the example currently provides benefits equal to an average of \$3,000 per retiree per year and that its historical pattern of sharing the benefit-related costs with retirees has been to adjust the benefit terms to pay for 80 percent of the anticipated total per capita benefit payments for retirees for the year. In the absence of a benefit cap, that pattern of sharing benefit-related costs would be assumed to continue as total per capita benefit payments for retirees are assumed to continue to increase. However, inclusion of the benefit cap described in the example would result in capping the benefit payments at \$4,000 per retiree per year in any year in which a higher amount otherwise would have been projected.

In contrast, a cap on the employer's contributions imposes an upper limit on the amount that the employer will pay into a plan through which defined benefit OPEB is provided. For example, a state statute might limit an employer's rate of contributions to a defined benefit retiree healthcare plan to not more than 6 percent of the payroll of active plan members. Unlike a cap on benefit payments, such a cap on contributions is not part of the definition of benefits to be provided to retirees in accordance with the current substantive plan—nor is it a part of the established pattern of practice with regard to the sharing of benefit-related costs with inactive plan members (although it potentially will affect that pattern at some point in the future). Accordingly, a cap on employer contributions should not be considered in the projection of benefit payments until such a cap is enforced and thereby begins to alter the established pattern of sharing of benefit-related costs with inactive plan members that should be considered to be part of the substantive plan in subsequent valuations.

Question 4.138. We suggest this question be deleted. 4.137 addresses the concept highlighted in 4.138. Further, if 4.138 were read in isolation, the answer could be misleading.

~~Q—A defined benefit OPEB plan is administered through a trust that meets the criteria in paragraph 3 of Statement 74. If an employer makes benefit payments from its own resources, how should the direct benefit payments be treated in the determination of the discount rate?~~

~~A—For purposes of determining the discount rate, amounts that are expected to be paid by the employer from its own resources should be included in the determination of the discount rate as projected cash outflows for benefit payments—that is, a reduction of the OPEB plan's fiduciary net position.~~

Additional Question to Consider: We recommend the Board add a question regarding circumstances in which the “long-term expected rate of return on plan assets” assumption is lower than the yield or index rate for 20-year, tax-exempt, general obligation muni bonds with an average rating of AA/Aa or higher. Consider the following suggestion:

~~Q - A defined benefit plan is administered through a trust that meets the criteria in paragraph 3 of Statement 74. The employer(s) provide minimal advance funding and the assets are invested on a relatively short-term basis. Accordingly, the long-term expected rate of return on plan assets is less than the yield (or index rate) for 20-year, tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher. What rate should be used to discount future projected benefit payments?~~

A – All of the projected benefit payments in this example should be discounted using the yield (or index rate) for 20-year, tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher. In effect, this rate serves as a de facto floor (minimum rate) for the long-term expected rate of return on plan assets because in no circumstance, should a discount rate be lower than if the plan was not administered through a trust or equivalent arrangement (e.g. funded on a pay-as-you-go basis).

Appendix B, Example B-2: Determination of the Discount Rate in Circumstances in Which Benefit Payments Are Made by the Employer with Its Own Resources. We strongly suggest that this illustration present a nearer term crossover point, closer to five years. As drafted, the crossover point is achieved in year 16 despite beginning fiduciary net position really only being sufficient for two years of benefit payments. While the scenario illustrated is possible (e.g., a relatively new government with few retirees), providing an illustration showing a crossover point closer to five years would be much more representative of common scenarios.

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The AICPA appreciates the opportunity to comment on the ED. Due to the comprehensive nature of this ED, this comment letter was prepared by members of the AICPA's State and Local Government Expert Panel and was not reviewed by the AICPA's Financial Reporting Executive Committee. Therefore, this response represents only the views of individual members of the State and Local Government Expert Panel and is not an official position of the AICPA. Representatives of the State and Local Government Expert Panel would be pleased to discuss these comments with you at your convenience.

Sincerely,



Heather S. Acker
Chair
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Mary M. Foelster
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cc: State and Local Government Expert Panel
Dan Noll