



September 23, 2014

Mr. David R. Bean  
Director of Research and Technical Activities  
Project Nos. 34-1E and 34-1P  
Governmental Accounting Standards Board  
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Dear Mr. Bean:

The American Institute of Certified Public Accountants (AICPA) has reviewed the Governmental Accounting Standards Board (GASB) Exposure Drafts (EDs), *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (Employer ED) and *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* (Plan ED), and is pleased to offer its comments. We fully support the GASB's efforts to reexamine its postemployment benefits other than pensions (OPEB) accounting and financial reporting standards.

We agree with the Board's view that the employer's OPEB liability meets the definition of a liability and that the OPEB liability is measureable with sufficient reliability. However, while we support many of the overall tenets of the Board's OPEB EDs, we have a number of significant concerns that we believe should be addressed prior to the issuance of the final OPEB Statements. These concerns are addressed in the following section of this letter titled, "Significant Concerns." Additional concerns and related recommendations appear in the section below titled, "Other Comments and Recommendations." The final section of this letter titled, "Editorial Comments," includes areas we noted which could use clarification or editorial revision. Note that throughout this letter, we have also indicated when our comments pertain to OPEB plans that are not administered through trusts (non-trust OPEB plans) and OPEB plans administered through trusts.

Finally, to enhance consistency we generally support the Board's approach of using GASB Statement No. 67, *Financial Reporting for Pension Plans* and GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, as the starting point for the new standards on OPEB. However, as the Board is aware, we have raised a number of concerns related to the pension due process documents that we believe continue to be relevant to the OPEB EDs. Rather than repeat those comments in this letter, we have included new comments (in the "Significant Concerns" section below) on areas where we now have new perspective to add based on our experience with the implementation of GASB Statement Nos. 67 and 68. Other concerns that we continue to carry forward from our previous comment letter on the pension due process documents are summarized in Appendix A, "Relevant Comments from Previous Due Process Responses."

## **SIGNIFICANT CONCERNS**

***Essential Information Lacking for Employers Participating in Multiple-Employer OPEB Plans.*** Consistent with our response on the GASB pension EDs, we believe the Plan ED is flawed in that it lacks essential information in the basic financial statements of multiple-employer defined benefit OPEB plans. Employers participating in such plans require additional information, beyond what is proposed, which is critical to their understanding of the plan financial statements and related notes, as well as for preparing their own (employer) financial statements. We believe such information should be included as a basic financial statement or required note disclosure because it is essential for communicating with participating employers (a primary user of the plan financial statements) the financial position and inflows and outflows of resources of the plan in accordance with generally accepted accounting principles.

With regard to cost-sharing OPEB plans, we strongly recommend the final Plan Statement should require the inclusion of a statement of employer allocations and a statement of employer OPEB amounts as basic financial statements of the plan. With regard to agent OPEB plans, we strongly recommend the final Plan Statement should require the inclusion of a statement of changes in fiduciary net position by employer. As the Board is aware, we made similar recommendations relating to the pension EDs that the Board rejected. As a result of that decision, the AICPA was thrust into developing comprehensive “audit” solutions to address an accounting issue (i.e., the lack of essential information in multiple-employer pension plan financial statements under GASB Statement No. 67). Based on our experience with the implementation of GASB Statement Nos. 67 and 68 thus far, plans have had issues preparing the “voluntary” schedules recommended by the AICPA to facilitate employer reporting and engaging auditors to opine on them. We continue to strongly contend that the information employers participating in multiple-employer plans need to prepare their own financial statements is essential and the Board should proactively address this matter in finalizing the OPEB Statements by expanding the reporting requirements of such plans to include such information.

***Effective Date.*** We have significant concerns about the proposed effective dates in both OPEB EDs (i.e., for plans for periods beginning after December 15, 2015, and for employers for periods beginning after December 15, 2016). According to the Board’s project plan, the final Statements will be issued in June 2015 which leaves less than six months for plans and eighteen months for employers to be ready for implementation. We strongly recommend that GASB delay the effective date by one year based on the experiences of employers and pension plans in implementing GASB’s pension standards as we believe a similar significant level of planning and coordination will be necessary between employers and OPEB plans. While we understand users are anxious for OPEB information, governments and plans will need sufficient time to read, understand, coordinate, and apply the new requirements.

***Measurement of Net OPEB Liability for Employers Participating in Non-Trust OPEB Plans Should be as of Employer’s Year End.*** We disagree with the proposed measurement date for net OPEB liability for employers that participate in non-trust OPEB plans. We believe it should be based on a measurement as of the employer’s year end. While we agree with the Board’s concession on measurement date as discussed in paragraph B32 in the

Basis for Conclusions of the Employer ED as it relates to OPEB plans administered through trusts, we see no reason to provide this practical concession for employers that participate in non-trust OPEB plans. Our rationale is based on the fact that there are no qualifying plan assets to audit in such non-trust plans. The practical concession described in paragraph B32 only makes sense when the plan needs to be audited in order to provide information to the participating employers, but this is not the case for non-trust OPEB plans.

***Attribution of Service Costs Flawed.*** In discussing the entry age actuarial cost method in paragraph 51.d of the Plan ED and paragraphs 40.d, 83.d, and 154.d in the Employer ED, it states that the service costs of all OPEB should be attributed through all assumed exit ages, through retirement. We believe the attribution of service costs through all assumed exit ages, through retirement, is significantly flawed as it creates a bias towards losses with no corresponding gains. Most OPEB plans have provisions whereby employees become fully vested in all benefits at the earliest retirement date in the plan. With assumed retirement dates extending to age 65 or beyond, there will be as much as 10 years of normal costs not yet accrued at the date when the full benefit vests. For each participant that retires earlier than their assumed retirement age, the balance of the normal costs that have not yet been accrued will have to be recognized as a loss.

We understand from discussing this matter with actuaries that actuarial standards would not find an actuarial method to be acceptable when the method is biased towards either gains or losses. Accordingly, we recommend OPEB service costs be attributed to the age when all benefits are fully vested. This approach will shorten the attribution period and accelerate the service costs while eliminating the bias towards losses that exist in the proposed methodology.

***Discount Rate is Overly Subjective.*** In our response to the pension EDs, we strongly disagreed with the Board's discount rate proposal because we believe it is inappropriate to combine both a funding approach and a liability approach in establishing a "single rate." We continue to believe that the Board's approach, which is carried forward into the OPEB EDs, results in deferring costs into future periods because the plan does not have the ability to currently earn investment income on the unfunded amount. However, recognizing the Board did not accept our previous recommendation, we are offering an updated comment on the discount rate which accepts the Board's fundamental approach of the blended "single rate" based on whether plan net position will be available to make projected benefit payments in future periods.

We believe the discount rate approach in the OPEB EDs is too subjective and results in the potential for inconsistent application. Based on our experience with the implementation of GASB Statement Nos. 67 and 68 thus far, we are aware of many significantly underfunded pension plans (i.e., 50 to 60% funded) that are using the long-term rate of return for discounting the entire liability. This is occurring because the participating employer government has adopted a law or policy that requires employer governments to increase contributions in future periods so that eventually they will be contributing the full actuarially determined contribution amount. There is some question whether the participating employers will make such contributions in the future as we believe there are economic reasons well beyond poor investment performance that have resulted in so many

pension and OPEB plans being underfunded. This places both the preparers (e.g. employer governments) and auditors in the difficult situation of evaluating the likelihood that the promise of increased future contributions will be made. Therefore, we recommend the Board revise the final OPEB Statements to limit future contributions used in the discount rate calculation to the average contributions or average contribution rate over the last five-year period. If a government employer does, in fact, increase contributions in future periods, they will then be able to recognize the benefit of a higher discount rate as they fulfill their “promise” of increased contributions.

***Guidance for Allocation of OPEB Amounts to Proprietary Funds Needed.*** Similar to our response on the pension EDs, we continue to recommend the final Employer Statement include guidance on potential allocation methods of OPEB elements to proprietary funds (e.g., percentage of actual contributions of each fund) when it is determined that such liabilities are expected to be paid from proprietary and fiduciary funds. We understand the Board has intentionally chosen not to include guidance on the allocation of OPEB elements to proprietary funds. However, based on our experience with the implementation of GASB Statement Nos. 67 and 68 thus far, we believe this lack of guidance is perpetuating significant diversity in practice and, more specifically, in the allocation of pension amounts by employer governments. Additionally, it is unclear whether deferred outflows of resources and deferred inflows of resources should be determined for (reported in) proprietary funds, including changes in proportion. Due to the complexity of potential allocation methods for OPEB elements, additional guidance would promote consistency in practice in terms of how such allocations are made. Accordingly, we recommend the Board include guidance that OPEB amounts (including net OPEB liability, OPEB expense, and deferred outflows of resources and deferred inflows of resources) should be allocated to proprietary funds based on the amount of contributions made or expected to be made in proportion to those for the primary government as a whole, consistent with the cost-sharing allocation methodology described in paragraph 57 of the Employer ED. We also recommend changes in proportion for a proprietary fund be deferred and recognized similar to other changes in proportion for the government as described in paragraph 62 of the Employer ED.

***Inconsistent Special Funding Criteria for Employers Participating in Non-Trust OPEB Plans.*** We understand that in developing the criteria for special funding situations for employers participating in non-trust OPEB plans, the Board made accommodations from the definition of a special funding situation in GASB Statement No. 68. Specifically, under GASB Statement No. 68, which does not include non-trust pension plans, a nonemployer contributing entity must be legally required to be make contributions *directly to the plan* to qualify as a special funding situation. However, the Employer ED states that for employers participating in non-trust OPEB plans, the nonemployer entity must be legally responsible for providing financial support by making benefit payments *directly or through the use of a nonemployer contributing entity assets* held by others for purpose of providing OPEB. This non-trust modification to include payments other than those directly to a plan is a major departure from GASB Statement No. 68. We strongly recommend that since the Board has been so prescriptive in the pension standards regarding the direct contribution to the plan, the special funding situation definition in the final OPEB

Statements should be parallel to the existing definition in the pension standards. Thus, special funding situations for employers participating in non-trust OPEB plans should not be permitted.

***Administrative Costs Related to OPEB Provided Through Non-Trust OPEB Plans Should Not be Deferred.*** We disagree with the Board's proposed employer accounting for administrative costs for OPEB provided through non-trust OPEB plans (see paragraphs 157, 176, and 189 of the Employer ED). As discussed in our comment titled, "Measurement of Net OPEB Liability for Employers Participating in Non-Trust OPEB Plans Should be as of Employer's Year End," we believe the liability for OPEB provided through non-trust OPEB plans should be measured as of the employer's year end. However, if the Board does not agree with that comment and moves forward with the "practical concession" approach, we recommend the administrative costs incurred after the measurement date should not be deferred because they represent period costs that are indistinguishable from other administrative expenses of a government. Instead, we believe it is more conceptually sound to expense these costs as incurred as such treatment would better reflect interperiod equity. While we understand that payments for benefits after the measurement date would have to be deferred because these costs relate to the measurement of the total OPEB liability, the timing of recognizing administrative costs will not impact the measurement of the total OPEB liability. Another consideration for not deferring administrative costs is that they are difficult to separately identify, and usually are relatively small in relation to OPEB benefit payments.

***Additional Guidance Needed for Impact of Implicit Rate Subsidy for OPEB Benefits Paid after Measurement Date for OPEB Provided Through Non-Trust OPEB Plans.*** As discussed in our comment titled, "Measurement of Net OPEB Liability for Employers Participating in Non-Trust OPEB Plans Should be as of Employer's Year End," we believe the employer liability for OPEB provided through non-trust OPEB plans should be measured as of the employer's year end. However, if the Board does not agree with that comment and moves forward with the "practical concession" approach, we believe additional guidance is needed on how to account for the impact of the implicit rate subsidy between the measurement date and the employer's year end. Paragraph 157 of the Employer ED requires the employer to record a deferred outflow of resources for OPEB amounts paid by the employer for OPEB subsequent to the measurement date. However, we are unclear as to whether the amount to be recorded as a deferred outflow of resources should be the actual amount paid or an amount adjusted for age-based rates (i.e., implicit rate subsidy). Similarly, for those employers for which the retirees can purchase health insurance coverage at the same premium rate charged to active employees, we are unclear as to whether the employer government should recognize a deferred outflow of resources (and corresponding reduction of expense) related to the impact of the implicit rate subsidy between the measurement date and the employer's year end. Conceptually, it would seem that the recognition of deferred outflows of resources should account for the effect of the implicit rate subsidy.

***Sensitivity Disclosures Related to Measure of the Net OPEB Liability Excessive.*** Paragraph 32.b.2 of the Plan ED and paragraphs 51, 92, 129, 165, and 194 of the Employer ED require disclosure of the sensitivity of the OPEB liability (i.e., net OPEB

liability, collective net OPEB liability, total OPEB liability, and collective total OPEB liability, depending on the specific paragraph) to changes in the assumed healthcare cost trend rate (plus and minus one percentage point) and the discount rate (plus and minus one percentage point) resulting in nine different disclosures. We believe these disclosures will add complexity and confusion rather than provide clarity and utility to users. Additionally, the performance of these calculations is not a simple task and the actuaries we consulted indicated this exercise may add time to the work of the actuary. Therefore, we recommend the sensitivity disclosures for the assumed healthcare cost trend rate and the discount rate be limited to 4 disclosures as follows: (1) 1% increase in discount rate; (2) 1% decrease in discount rate; (3) 1% increase in healthcare cost trend rate; and (4) 1% decrease in healthcare cost trend rate.

***Level Percentage of Pay Not a Relevant Attribution Method for OPEB.*** The entry age actuarial cost method, as discussed in paragraph 51.b of the Plan ED and paragraphs 40.b., 83.b., and 154.b of the Employer ED, requires that each employee's service costs be level as a percentage of that employee's projected pay. We are concerned with this provision in that most OPEB plans do not consider payroll information in the calculation of benefits. OPEB are usually the same for all similar classes of employees. The right to receive benefits is typically a function of age and working a specified number of years. Additionally, most plans do not usually collect payroll information as part of the valuation process. Requiring the actuaries to attribute costs on a percentage of pay basis would involve additional data collection and complexity from an actuarial, accounting, and auditing perspective. Accordingly, we recommend the Board require that each employee's service cost be attributed on a level dollar basis to achieve consistency in expense across an employee's service life.

***Presentation of Actuarially Determined Contributions as Required Supplementary Information for Employers Participating in Non-Trust OPEB Plans Not Relevant.*** Paragraph 168.c of the Employer ED requires that if an actuarially determined contribution is calculated, the employer include, as required supplementary information (RSI), a 10-year schedule with various elements. We believe this schedule is not relevant for an employer participating in a non-trust OPEB plan because there are no contributions to a plan (i.e., a trust). In such a non-trust situation, the payment of benefits is on a pay-as-you-go basis. Therefore, an actuarially determined contribution is not relevant and has no clear and demonstrable relationship to information in the basic financial statements. We recommend the Board eliminate the requirement to present this schedule as RSI.

***Clarification Needed on Amounts Paid by Inactive Plan Members.*** Paragraph 28 of the Plan ED addressing deductions indicates that the benefit payments shown as deductions in the statement of changes in fiduciary net position should exclude amounts paid by inactive plan members. Paragraph 23 of the Plan ED addressing the additions section of the statement of changes in fiduciary net position does not include additions related to amounts contributed by inactive plan members which suggests a presentation net of any benefit payments or contributions of inactive plan members. We question whether this is appropriate based on the variety of benefit structures provided by OPEB plans. The following are three different examples of potential benefit structures related to post-employment health insurance:

- The OPEB plan makes cash subsidy payments to retirees who are responsible for purchasing their own insurance. In this example, it is clear that there will only be employer contributions recognized by the plan. It is also clear that the deduction recorded will be the amount of the cash subsidy, not the amount paid to the retirees to purchase insurance.
- The OPEB plan provides self-insured health benefits to retirees, who are responsible for paying a fixed dollar amount to contribute towards the cost of the health benefits. For this example, assume all of the retirees contribute the same amount, regardless of age. The plan is responsible for paying the entire amount of the health claims from the assets of the plan. Considering the government's fiduciary role, we intuitively would have expected that the amount collected from retirees should be recognized as contributions (additions), and the entire amount paid for health claims should be recognized as benefit payments (deductions). However, based on paragraph 23, it would appear that the amount collected from the retirees should be netted against the amount paid for claims in reporting the benefit payments (deductions).
- The OPEB plan contracts with a third-party to purchase health insurance. For this example, assume all of the retirees contribute the same amount, regardless of age. The plan is responsible for making the payment to the third party from the plan assets for the entire amount of the cost of the insurance. Again, considering the government's fiduciary role, we intuitively would have expected that the amount collected from retirees should be recognized as contributions (additions), and the entire amount paid for the purchase of health insurance would be recognized as benefit payments (deductions). However, based on paragraph 23, it would appear that the amount collected from the retirees should be netted against the amount paid for claims in reporting the benefit payments (deductions).

We recommend the Board provide clarification in the final Plan Statement regarding the accounting for retiree contributions and the payment of benefits. Based on the fiduciary reporting model, we believe the plan should reflect both the retiree contributions as additions and the full amount of benefits paid as deductions in the plan financial statements (i.e., on a gross basis).

***Structure of the OPEB EDs Difficult to Navigate.*** We found both OPEB EDs difficult to navigate. We recognize the Board cross-referenced within the documents to alleviate the need to reiterate guidance. However, it was difficult to put paragraphs into context given the length and breadth of topics addressed in the OPEB EDs. We have the following related recommendations that the Board should consider in finalizing the OPEB Statements:

- The Board should include headers throughout the final OPEB Statements to provide a better reference for readers. For example, in the Employer ED the pages that include paragraphs 21-140 should be headed as "OPEB Provided through OPEB Plans That Are Administered through Trusts That Meet the Criteria in Paragraph 4" with relevant sub-headers such as "Single and Agent Employers" on the pages that include paragraphs 25-56. We acknowledge this diverges from the GASB's

traditional format, but we believe it would greatly enhance the usability of the final Statements.

- The table of contents should be formatted in a manner that better aligns to the paragraph references used throughout the OPEB EDs. For example, in paragraph 15 of the Employer ED, cost-sharing employers are referred to paragraphs 19-24, 57-96, 107-113, 136, and 138-140. These references do not align well to the table of contents, which has the following breakouts: 19-204, 21-140, 21, 22-137, 25-56, etc. Citing paragraphs 19-24 does not correspond well to the table of contents as there is no citation in the table for paragraphs 20, 22, and 23. Thus, readers have to flip throughout the document. An improvement would be to further break out the "Liabilities to Employer for OPEB" section in the Employer ED, including paragraphs 22-137, to show paragraphs 22-24, 25-56, and so on. Having a frame of reference in the table of contents would enhance the readability of the document. As it stands, readers have to flip throughout the ED to determine what applies. Paragraphs that were particularly challenging to follow were paragraphs 15, 16, 140, and 170 (see next bullet) in the Employer ED and paragraph 11 in the Plan ED.
- Paragraph 170 of the Employer ED addresses the accounting and financial reporting for OPEB in stand-alone financial statements of primary governments and component units that provide OPEB through the same defined benefit OPEB plan. We strongly recommend this paragraph be restructured in the final Employer Statement as the guidance is very difficult and overly burdensome to understand. We have a number of suggestions regarding this paragraph that we have attached as Appendix B to this letter titled, "Suggestions to Improve Paragraph 170."
- The Board should include a table in the final Employer Statement to illustrate the relevant paragraphs for various reporting requirements. We have provided some initial thoughts on such a table in Appendix C to this letter titled, "Illustration of Applicable Guidance."
- The Board should also improve cross-referencing to related guidance. For example, paragraphs 41.a, 84.a, and 155.a of the Employer ED start out with "If the alternative measurement method is not used to measure the total OPEB liability,..." but does not indicate the location of the guidance for when the alternative measurement method is used. The alternative measurement method is discussed beginning in paragraph 202 of the Employer ED and paragraph 203 of the Employer ED provides modifications to apply other requirements when using the alternative measurement method. However, there is no modification to paragraphs 41, 84, or 155 of the Employer ED discussed in paragraph 203 so we question what the reciprocal guidance is and suggest a cross-reference be inserted.

## **OTHER COMMENTS AND RECOMMENDATIONS**

***GASB Should Not Encourage Specific Allocation Method for Determining Cost-Sharing Employers' Proportionate Share.*** Paragraph 57.a of the Employer ED provides guidance to allocate OPEB amounts to individual employers (and nonemployer contributing entities, if any). Specifically, it encourages the use of the employer's projected long-term contribution effort to the OPEB plan as compared to the total projected long-term contribution effort for

all employers and nonemployer contributing entities (commonly referred to as the actuarial method) to determine the employer's proportion. It is our understanding that such a calculation was not performed prior to the issuance of GASB Statement No. 68, including during the "field tests". Additionally, there is no example or specific guidance provided in the Employer ED or in GASB Statement No. 68 on how to perform the calculation.

Based on our experience with the implementation of GASB Statement No. 68 thus far, we are aware of only a few plans that have elected to use this allocation method. It is our understanding that the few that have started to perform the calculation have quickly run into significant questions, including whether it should be performed on an open or closed basis, and if on an open basis, how many future years to include in the projections. Accordingly, we recommend the Board not encourage any specific allocation method in the final Employer Statement. If the Board continues to believe the actuarial method is appropriate, we recommend the final Employer Statement include specific guidance and also include an example of the calculation

***Significant Changes Since the Measurement Date.*** Paragraphs 52, 93, and 130 of the Employer ED include a requirement for the employer to disclose the elements of the OPEB plan's financial statements. However, if the plan financial statements are available on the internet the employer may instead disclose such public availability. For this latter situation, paragraphs 52, 93, and 130 further state: "*If significant changes have occurred that indicate that the disclosures included in the OPEB plan's financial report generally do not reflect the facts and circumstances at the measurement date, information about the substance and magnitude of the changes should be disclosed.*" Initially, we were unclear as to the meaning of this statement and circumstances for which it would apply. Based on our conversations with GASB staff, it is our understanding that this statement only applies when the employer government uses a measurement date that does not coincide with the plan's year end. Based on the practical need for audit evidence on plan assets, we are not aware of employers that have elected to use a measurement date that does not coincide with the plan's year end. Due to the potential confusion and inability of preparers (e.g. employer governments) to understand this disclosure requirement, as well as the likelihood that this circumstance will rarely occur, we recommend the Board consider removing this disclosure requirement from the final Employer Statement.

***Discount Rate Example Needed for Employers and Plans.*** As some actuaries are only associated with OPEB plans and may not be familiar with GASB Statement Nos. 67 and 68, we suggest adding an illustration to the final OPEB Statements to demonstrate the calculation of the discount rate similar to those that appear in the pension standards.

***Disclosures of Assumptions Related to Measuring Total OPEB Liability Lacking.*** In consulting with actuaries having experience with OPEB plans, they indicated there are some significant assumptions used in measuring the total OPEB liability that are not included in the disclosure requirements in paragraphs 49, 127, and 164 of the Employer ED and paragraph 32 of the Plan ED. Therefore, we suggest the Board include a requirement to disclose other significant assumptions impacting the total OPEB liability including claims cost, retirement age, and percentage of employees electing coverage in retirement. With

regard to the mortality assumption, the Board should also require disclosure of the mortality projections used and the basis for the selection of the projection. We also suggest the Board consider adding these elements to the guidance on the alternative measurement method in paragraph 53 of the Plan ED and paragraph 203 of the Employer ED.

***Additional Guidance Needed for Assets Accumulated for Non-Trust OPEB Purposes and Related Transactions.*** Paragraphs 55 and 56 of the Plan ED discuss the accounting for assets accumulated for non-trust OPEB purposes. We understand that there is no “plan” reporting for these arrangements. However, there are several scenarios which were not addressed in either of the OPEB EDs that warrant consideration. For example, assume that an employer utilizes a third-party entity to collect and administer assets in a fiduciary capacity but without a trust arrangement. That entity would report any assets held in a custodial capacity in accordance with the provisions in paragraph 56 of the Plan ED. Conversely, if the agency fund is not included in the financial statements of the employer, any assets remitted to the third-party would be reported by the employer as an asset, likely a deposit. It is unclear as to how the employer would report amounts remitted to a third-party that represent employee contributions. We believe such amounts would be reported in an agency fund as a receivable and payable by the employer while reflecting the employer portion in the government’s other funds. Further, in a situation when the agency fund is not reported in the employer’s financial statements, we question how the employer should report employee contributions in its financial statements. We believe it would most likely be a receivable from the third-party and an offsetting liability to the employee or insurance carrier. While multiple-employer non-trust OPEB plans are not common arrangements, we suggest the Board address this reporting scenario in its implementation guide for the final OPEB Statements.

***Receivables Recorded by Plans.*** Paragraph 17 of the Plan ED states that amounts recognized as receivables for contributions should include only those due pursuant to legal requirements. Although this specific recognition criterion is included in GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* and paragraph 22 of GASB Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plan*, we believe that plan financial statement preparers have had difficulty in interpreting when a receivable is legally due. We recommend the Board include additional guidance or provide examples to assist in understanding when receivables for contributions should be recognized.

***Clearly Articulate Applicable Requirements from final Plan Statement When Employer Participates in a Non-Trust OPEB Plan.*** We suggest the Board clearly articulate in the final Employer Statement that discusses OPEB provided through non-trust OPEB plans, that the only requirements of the final Plan Statement that apply are paragraphs 55-56 as there are no separately issued financial statements of the plan.

***Board Should Seek Input from Governments Utilizing the Alternative Measurement Method.*** Both OPEB EDs would continue the optional use of the alternative measurement method in place of an actuarial valuation in certain circumstances. Previously we have gone on record (in conjunction with the issuance of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*)

disagreeing with the alternative measurement method as an option for calculating OPEB. Since then, very few of our members have had direct experience with entities using the alternative measurement method. Therefore, we are unable to provide any updated feedback to the Board based on direct experience. With that said, we recommend that before proceeding with its continued use that the Board seek input from governments that have utilized the alternative measurement method to determine if it has been effective in practice.

## **EDITORIAL COMMENTS**

***Scope Paragraph in Employer ED Should Address All Payments Made.*** Paragraph 6 of the EmployerED addresses the scope of the Statement. As drafted, the scope appears to inadvertently exclude nonemployer contributing entities if payments are made directly to a hospital, insurer, or other third-party as opposed to directly to the employee. To clarify, we suggest the phrase “to the employee” be deleted in 6(b) as follows:

6. The requirements of this Statement apply to the financial statements of all state and local governmental employers whose employees are provided with OPEB and to the financial statements of state and local governmental Nonemployer contributing entities that have a legal obligation to provide financial support for OPEB by (a) making contributions directly to an OPEB plan that is administered through a trust that meets the criteria in paragraph 4, including making benefit payments as the OPEB comes due for benefits provided through such a plan or (b) making benefit payments as the OPEB comes due, whether directly to the employee or through the use of nonemployer contributing entity assets held by others for purposes of providing OPEB, through an OPEB plan that is *not* administered through a trust that meets the criteria in paragraph 4.

***Insured Benefits Guidance Should Reference Glossary.*** The guidance in paragraph 205-207 of the Employer ED does not make reference to the glossary definition of the term “insured benefits.” While we recognize the convention in the ED is to identify defined terms through boldface type the first time they are used (i.e., in the case of insured benefits in paragraph 11 of the Employer ED), due to the length of the ED, it is unlikely that it will be read from beginning to end and a reader may not realize that “insured benefits” in paragraphs 205 – 207 has a specific definition. We recommend that the Board again identify insured benefits in paragraphs 205-206 as a defined glossary term. Otherwise, the guidance in those paragraphs could be inappropriately applied by employers that purchase insurance to pay for retiree health care benefits.

***Projected Benefits Should Reflect Retiree Claims Costs.*** Paragraphs 31, 74, and 150 of the Employer ED and paragraph 43 of the Plan ED address how projected benefit payments should be based. For clarity, we suggest that these paragraphs reference *retiree* claims costs, not just claims costs.

***Payments from Nonemployer Contributing Entities.*** Paragraph 179 of the Employer ED addresses accounting for support of nonemployer contributing entities that are not in a special funding situation. Noncontributing entities’ support can take various forms. Therefore we suggest striking the word “benefit” in paragraph 179 as follows:

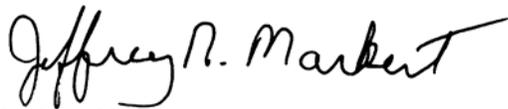
If an employer that has a special funding situation also receives support from nonemployer contributing entities that are not in a special funding situation, revenue should be recognized in an amount equal to the amount of ~~benefit~~ payments made during the measurement period by nonemployer contributing entities not in a special funding situation.

**Potential for Misinterpretation of the Term "Other Information."** The captions for paragraphs 94, 131, 193-195 of the Employer ED are titled "Other Information" which is also a term in the AICPA's *Professional Standards*. Other information as intended in the ED is to explain required elements to the notes to the financial statements. Whereas, other information as defined in AU-C section 720, *Documents Containing Audited Financial Statements* (AICPA, *Professional Standards*) defines the term as, "Financial and nonfinancial information (other than the financial statement and the auditor's report thereon) that is included in a document contained in audited financial statements and the auditor's report thereon, excluding required supplementary information." Given the Board's intent is to have required note disclosures that are part of the basic financial statements, we suggest the Board add more description to the caption to alleviate the potential for misinterpretation.

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The AICPA appreciates the opportunity to comment on these EDs. This comment letter was prepared by members of the AICPA's State and Local Government Expert Panel and was reviewed by representatives of the Financial Reporting Executive Committee who did not object to its issuance. Representatives of the AICPA would be pleased to discuss these comments with you at your convenience.

Sincerely,



Jeffrey N. Markert  
Chair  
AICPA State and Local Government  
Expert Panel



Mary M. Foelster  
Director  
AICPA Governmental Auditing and  
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cc: State and Local Government Expert Panel  
Jim Dolinar  
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## **Appendix A: Relevant Comments from Previous Due Process Responses**

Appendix Page 1

The accounting and financial reporting for OPEB generally aligns to GASB Statement No. 67 and GASB Statement No. 68. We understand that the GASB is promoting consistency among standards where possible, but we have a number of concerns that were raised in our September 22, 2011, comment letter (AICPA pension letter) which are relevant to the proposals in the OPEB EDs. We have briefly summarized the concerns relevant to OPEB below and rather than reiterating our previous comments, have provided links to the comment caption in the AICPA pension letter for the Board's reference.

***Expense Changes in Proportion of Cost-Sharing Multiple-Employer Plans.*** We disagree with deferring and recognizing in future periods the net effect of a change in the proportion used to calculate the employer's share of the collective net OPEB liability and collective deferred outflows of resources and collective deferred inflows of resources related to OPEB as described in paragraph 60 of the Employer ED. We continue to recommend the Board revise the proposed treatment of the net effect of a change in proportion to expense any such change in the current period as further discussed in the AICPA pension letter titled, "Changes in Proportion of Cost-Sharing Multiple-Employer Plans Should be Expensed."

***Projected Unit Credit Actuarial Cost Method Best Measure.*** We continue to disagree with the Board's proposal to use the entry age normal actuarial cost method as a level percentage of projected pay and continue to support the use of the projected unit credit actuarial cost method for the same reasons discussed in the AICPA pension letter comment titled, "Projected Unit Credit Actuarial Cost Method Best Measure."

***Employer Accounting for Special Funding Situations Should be Gross.*** We still believe, despite the discussion in paragraphs B117-B122 in the Basis for Conclusions of the Employer ED, the full net OPEB liability and related deferred outflows of resources and deferred inflows of resources should be reflected in the employer's financial statements. This issue was discussed in the AICPA pension letter comment titled, "Proposed Accounting for Unconditional Special Funding Situations Flawed."

## **Appendix B: Suggestions to Improve Paragraph 170**

### Appendix Page 2

In our comment titled, “Structure of the OPEB EDs Difficult to Navigate” we noted we had difficulty understanding aspects of paragraph 170 of the Employer ED. We understand that the intent of the guidance in paragraph 170 is to direct preparers of stand-alone financial statements to the guidance in paragraphs 181-190 and 192-195, along with the modifications provided later in the paragraph. We have the following related recommendations that the Board should consider in finalizing the Employer Statement:

- The Board should clarify in the final Employer Statement that the stand-alone government preparing the financial statements is not a nongovernmental contributing entity. Paragraph 170 indicates that each government is a governmental nonemployer contributing entity and uses the term throughout. We suggest providing guidance from the perspective of the stand-alone entity as follows, “From the perspective of the government preparing its stand-alone financial statements, the other governments (e.g., primary government and/or component units) would be considered governmental nonemployer contributing entities to the stand-alone government.” This type of clarification would help put into context the guidance in paragraphs 170.a.2.a and 170.a.2.b.
- The Board should provide discussion in the final Employer Statement as to why certain paragraphs were excluded within the referencing. The reference to apply paragraphs from other sections indicates paragraphs 181-190 and 192-195 but the ED did not provide a rationale as to why the guidance in paragraphs 191 and 196-197 were excluded. We suggest the Board explain in the final Employer Statement why specific paragraphs of the “Governmental Nonemployer Contributing Entities” section have been excluded to assist in understanding.
- The Board should discuss in the final Employer Statement why the requirements for special funding should not be followed for stand-alone entities in this reporting scenario. The last sentence of the first paragraph of paragraph 170 states, “For primary governments and component units that have special funding situations, the requirements of paragraphs 171-180 should *not* be applied.” We were confused by this because paragraphs 171-180 specifically address special funding situations. To assist in the understanding, we suggest that a discussion be added to explain that the guidance in 170 along with some of the note disclosures in paragraph 170 addresses special funding for stand-alone financial statements and eliminates the need to apply paragraphs 171-180.
- We also have an editorial suggestion regarding the referencing within paragraph 170. The first sentence of paragraph 170 ends with, “with the modifications noted in subparagraphs (a)-(c) below. We suggest this be changed to “subparagraphs a-c below.” Given the depth of guidance in 170, there are subparagraphs noted with parenthesis and because there are instances of (a), (b), and (c) in the list, the referencing as drafted could be confusing.

**Appendix C: Illustration of Applicable Guidance**

Appendix Page 3

As part of the recommendation in our comment titled, “Structure of the OPEB EDs Difficult to Navigate” we suggested the Board consider adding a table to the final Employer Statement to illustrate the relevant paragraphs for various reporting requirements. The following presents our initial thoughts on the possible presentation of such a table for the Employer ED.

<b>Relevant Paragraphs* by OPEB Type</b>							
	<b>Defined Benefit OPEB 19-204</b>					<b>Insured Plans 205-207</b>	<b>Defined Contribution OPEB 208-220</b>
	<b>Administered Through a Trust 21-140</b>			<b>Not Administered Through a Trust 141-201</b>			
	<b>Single Employer</b>	<b>Agent Multiple-Employer</b>	<b>Cost Sharing Multiple-Employer</b>		<b>Separately issued statements of component units</b>		
<b>Defined</b>	par 9 & 12	par 9 & 13	par 9 & 14	par 9 & 11-14	TBD	par 9 & 11	par 10
<b>Applicable Paragraphs</b>	19-56, 97-106, 136, 138-140	19-56, 97-106, 136, 138-140	19-24, 57-96, 107-113, 136, 138-140	19, 20, 141-180, 200		205-207	208-220
<b>Aggregating Information</b>	21-24	21-24	21-24	141-142			210
<b>OPEB Liability</b>	25	25	57-59	143-144			208-209
<b>Actuarial Valuations</b>	26-40	26-40	68-83	145-154			n/a
<b>Discount Rate</b>	34-39	34-39	77-81	153			

**Appendix C: Illustration of Applicable Guidance**

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<b>Changes in Liability - Deferred Outflows/Inflows and Expenses</b>	41-44	41-44	60-66, 84-86	155-159			208-209
<b>Footnotes</b>	45-54	45-54	87-94	160-167			211
<b>RSI</b>	55-56	55-56	95-96	168-169			
<b>Special Funding Situations</b>	97-106	97-106	107-113	171-180			212-213
<b>Governmental Nonemployer Contributing Entities</b>	114-135	114-135	114-135	181-201			214-220
<b>Alternative Measurement Method</b>	202-204	202-204	202-204	202-204			n/a

\* The paragraph references included in this illustrative table are from the Employer ED and would need to be updated for paragraph references ultimately included in the final Employer Statement.