



September 26, 2017

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-Z, *Accounting and Financial Reporting of Postemployment Benefits Other Than Pension (and Certain Issues Related to OPEB Plan Reporting)*, and are pleased to offer our comments. We appreciate the Board's ongoing efforts to provide implementation guidance on GASB standards.

The majority of the questions in this ED are based on similar or identical questions relating to pensions that have already gone through due process and appear in GASB's existing Implementation Guide. Therefore, we focused our review of the ED on the new questions. However, there are two areas that we previously commented on relevant to pensions that we have included in the first comment below due to our continued concerns. The remainder of this letter provides our comments on the new questions included in the ED.

Continued Concerns Regarding (1) the Notion of a Partition of a Trust and (2) the Discount Rate.

Partition Criteria Being Legally Restricted. We continue to experience challenges in applying the guidance on partition of a trust and believe that "legally restricted" partitions do not occur in practice. We recommend the Board perform research and outreach, including analysis of trust documents that are believed to meet the criteria for being "legally restricted," for the purpose of providing additional clarity in the various Implementation Guide questions and answers on this topic.

Discount Rate. We have previously raised concerns regarding the blended discount rate that have not been alleviated during the implementation of GASB's pension standards. Our members see both pension and OPEB plans that are not well funded—that is, either never reaching the crossover point or reaching that point well into the future. The illustrations in the existing Implementation Guides perpetuate this longer term

crossover point. Given many OPEB plans are not well funded, we recommend the Board provide illustrations with a nearer crossover point. This would be more representative of common scenarios and could drive practice to the use of more realistic crossover points.

Organize IG No. 201X-Z Similar to Statement. Given the volume of questions included in the document, we suggest labeling the pages to assist users in navigating the various sections of the Implementation Guide. GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, includes labels on the edge of each page to provide readers with a reference to the section of the standard they are in. We have found that approach exceptionally helpful and recommend the Board consider taking the same approach with IG No. 201X-Z.

Question 4.15. We found this question difficult to understand because of the reference to GASB Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*. The applicability of GASB Statement No. 78 is extremely narrow, so adding it as a qualifier to the question, while precise, appears as extraneous. The answer also seems incomplete as it does not provide the appropriate accounting for postemployment health care benefits administered through a plan that is within the scope of GASB Statement 78. For clarity, we suggest a question be added prior to question 4.15 to answer the question from the perspective of when the plan is within scope of paragraph 2 of GASB Statement No. 78. The Board should then revise question 4.15 to address all other pension plan scenarios.

Question 4.71. We suggest recasting this question as it improperly implies that having different assumptions for agent employers is the exception rather than the norm. In an agent plan, each plan stands alone and it would be unlikely that assumptions would be the same across employers. We expect that employers would more often have different assumptions due to underlying facts, circumstances and demographics of the individual agent employer. Thus, we offer the following editorial suggestions to appropriately recast the question:

Q—Are all individual employers in an agent OPEB plan that is administered through a trust that meets the criteria in paragraph 4 of Statement 75 required to use the same assumptions for purposes of measuring their total OPEB liabilities?

A—No. ~~Statement 75 does not require that all~~Employers in an agent plan that is administered through a trust that meets the criteria in paragraph 4 of Statement 75 ~~generally would not~~ use the same assumptions for purposes of measuring their total OPEB liabilities. The assumptions used in valuations of each individual employer's total OPEB liability should comply with the requirement in paragraph 29 of Statement 75 that selection be made in conformity with Actuarial Standards of Practice. Those assumptions ~~often differ could differ if different assumptions are reasonable~~ given the facts and circumstances of different employers' individual plans—for example, different benefit terms or different anticipated experience.

Questions 4.109/4.245/4.387/5.3. These questions are written without consideration for an employee's younger spouse or dependents that could remain on the employer's plan beyond the employee's period of eligibility. In some circumstances, healthcare benefit payments can continue for a considerable period even though the employee is ineligible (due to age) and is not receiving benefits. While we agree with the answer to 4.109 (and the other related questions), assuming the employee, spouse and dependents are truly ineligible, we suggest the Board add a follow up question (to each of the related questions) addressing situations in which the employee has a younger spouse or dependents that remain on the plan. We have provided draft language for a new question and answer for the Board's consideration as follows:

Q. A local government provides retiree healthcare benefits from the date an employee retires to age 65 when they become eligible for Medicare. Upon turning 65, the inactive employee who is receiving benefits is required to leave the plan but their spouse and dependents who are otherwise eligible are allowed to remain on the healthcare plan until they no longer meet coverage requirements. Should the costs related to providing the inactive employee's spouse and dependents coverage after the inactive employee is no longer eligible be included in the total projection of benefits?

A. Yes. The total benefits paid on behalf of the inactive employee's spouse or dependent were earned over the inactive employee's years of active service regardless of whether a portion of those benefits will be paid after the inactive employee is no longer eligible to receive further benefits.

Question 4.348. We suggest that the answer to this question reference "assigned, committed, or restricted" as options since there could be situations where restricted fund balance may be appropriate. Thus, we offer the following edits for the Board's consideration:

Q—How should an employer that provides OPEB through a plan that is not administered through a trust that meets the criteria in paragraph 4 of Statement 75 and that identifies a portion of the fund balance of one of its governmental funds as held for OPEB purposes report those resources?

A—The employer should report the portion of the governmental fund balance identified for OPEB as assigned, committed, or restricted, as appropriate, ~~(or committed, if appropriate)~~ to OPEB.

Question 4.354. For additional clarity, we suggest the answer to this question also include a reference Question 4.351 and offer the following edit for the Board's consideration:

Q—What guidance does Statement 75 provide regarding recognizing a portion of the total OPEB liability for benefits provided through an OPEB plan that is not administered through a trust that meets the criteria in paragraph 4 of Statement 75 in fund financial statements if a portion of the total OPEB liability will be paid from an enterprise, internal service, or fiduciary fund?

A—Except for blended component units, which are discussed in Questions 4.349, ~~and~~ 4.350, ~~and~~ 4.351. Statement 75 does not establish specific requirements for allocation of the total OPEB liability or other OPEB-related measures to individual funds. However, for proprietary and fiduciary funds, consideration should be given to paragraph 42 of NCGA Statement 1, as amended, which requires that long-term liabilities that are “directly related to and expected to be paid from” those funds be reported in the statement of net position or statement of fiduciary net position, respectively.

Question 4.362. We recommend this question be deleted. Our experience suggests that the number of multiple-employer plans not administered through a qualifying trust is minimal. Additionally, we believe that any such existing plans may mimic the accounting and allocations of cost-sharing plans, but the answer provided does not lead to that conclusion.

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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
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
Dan Noll