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December 19, 2016

Mr. David R. Bean
Director of Research and Technical Activities
Governmental Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

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

Dear Mr. Bean:

On behalf of the GASB 74 Implementation Subgroup of the Health Practice Council's Retiree Benefits Subcommittee of the American Academy of Actuaries,¹ I appreciate the opportunity to submit comments on the exposure draft of *Implementation Guide No. 201X-X, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. We appreciate the Governmental Accounting Standards Board's (GASB's) efforts to provide guidance on implementing Statement 74. We believe the proposed questions and answers (Q&A) will be very helpful to governmental entities and practitioners. Nonetheless, we request GASB consider the comments below to modify or expand the proposed guidance.

Scope and Applicability of Statement 74

Trusts (or Equivalent Arrangements)

Question 4.12

Q—A trust that is used to administer a defined benefit OPEB plan reimburses an employer for benefit payments made directly to plan members by the employer in accordance with the benefit terms. Is this provision consistent with the criterion in paragraph 3a of Statement 74 regarding the irrevocability of contributions?

We suggest modifying this Q&A to address reimbursements for payments made by the employer on behalf of plan members to clarify that not only reimbursements made directly to plan

¹ The American Academy of Actuaries is an 18,500+ member professional association whose mission is to serve the public and the U.S. actuarial profession. For more than 50 years, the Academy has assisted public policymakers on all levels by providing leadership, objective expertise, and actuarial advice on risk and financial security issues. The Academy also sets qualification, practice, and professionalism standards for actuaries in the United States.

members are consistent with paragraph 3a. We propose the following modification to GASB's answer to this question (bolded addition):

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

Types of OPEB and OPEB Plans

Types of defined benefit OPEB plans

Question 4.35

Q—A defined benefit OPEB plan is used to provide OPEB to the employees of a state government, several governments that are component units of the state, and governments other than the state and the component units. The plan is administered through a trust that meets the criteria in paragraph 3 of Statement 74. Is this plan a single-employer, agent multiple-employer, or cost-sharing multiple-employer plan?

A—The plan is a multiple-employer plan for financial reporting purposes. If (a) a separate account is maintained for each of the governments or (b) a separate account is maintained for the state and its component units together and separate accounts are maintained for each of the other governments, such that the assets in each of the separate accounts legally are available to pay the benefits of only the employees of the government or governments whose assets are maintained in the separate account, the plan would be classified as an agent multiple-employer plan. If, instead, the OPEB plan assets legally can be used to pay the benefits of the employees of any of the governments, the plan would be classified as a cost-sharing multiple-employer plan.

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

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

A—Each employer maintains a separate single-employer plan for financial reporting purposes. Because the OPEB for each employer is governed by a separate body and the assets can legally only be used to pay OPEB for each employer, the arrangement is a collection of single-employer plans rather than a multiple-employer plan.

Defined Benefit OPEB Plans That Are Administered through Trusts That Meet the Criteria in Paragraph 3 of Statement 74

Financial Statements

Question 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. 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.

In GASB’s proposed Q&A in Questions 4.42, 4.43, and 4.44, one could argue that Trust B assets should be included as assets of the plan. However, for purposes of plan financial reporting, we understand the rationale behind GASB’s answer that Trust B assets should not be reported as part of the OPEB plan.

In contrast to the above conclusion, we believe both Trust A and Trust B assets should be included as part of the fiduciary net position for purposes of employer reporting for both pension and OPEB plans.

There are several reasons Trust B assets should be included for employer reporting:

1. Trust B assets will likely result in greater benefit security in the future. The short-term goal of the employer to stabilize general fund resources needed in the future should not be relevant to the ultimate outcome. For example, the employer could make supplemental contributions to Trust A and establish a reserve to be used solely as needed to mitigate future contribution volatility. Because the dedicated reserve within Trust A achieves the same goal as establishing Trust B, it may be reasonable to apply the same accounting treatment to both approaches.
2. We disagree with GASB’s reasoning (in the answers to Q 4.42, 4.43, and 4.44) that because assets in Trust B will benefit the employer through reduced future cash flow demands on the employer’s general fund resources, they should not be counted as part of

the OPEB plan. Any amount contributed to a Trust associated with an OPEB plan is expected to reduce the employer's future cash flow demands. It does not make sense to exclude amounts from being plan assets on that account.

3. The proposed answers in Questions 4.42, 4.43, and 4.44 also seem to focus on the fact that benefit payments can be made only from Trust A and not Trust B.
 - a. This should not be relevant to the answer. Trust B benefits can only be used as contributions to Trust A, and once in Trust A, they can only be used to pay plan benefits. Therefore, Trust B assets indirectly can be used to pay plan benefits.
 - b. There are legal other reasons why trusts such as Trust B in the example do not pay benefits directly. For pension plans, benefits can only be paid to participants from an IRS Section 401(a) trust and not an IRS Section 115 trust. For example, the California Government Code requires that public plans have only one IRS Section 401(a) associated trust. Thus, for pension plans at least, a separate Trust B that pays benefits to participants cannot be established.
4. One of the basic concepts of Statement 75 is that OPEB expense is no longer directly related to employer contributions. OPEB expense is an independent measure of plan costs. As such, it does not make sense to disregard employer contributions different than the actuarially determined contribution (ADC), even if an employer's intent is to stabilize or otherwise alter the future contribution pattern to benefit the employer.
5. For employers participating in multiple-employer plans, inclusion of Trust B in the plan assets is a more important issue. Many multiple-employer plans cannot or will not accept contributions from an employer in excess of the legally required or actuarially determined amount. If an employer wishes to make additional contributions, the only option is a second trust. For example, if the legally required contribution is less than the actuarially determined contribution, the employer might wish to contribute the ADC every year. To do this, the employer would need to establish a Trust B.

Alternatively, consider an OPEB plan with few trust assets and increasing benefits due. A participating employer might project the plan's insolvency and want to set aside funds to continue providing promised OPEB to its employees in that event.

Statement of Changes in Fiduciary Net Position

Question 4.58

Q—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 difference between the claims costs, or age-adjusted premiums approximating claims costs, for the retirees in the group for the current period and the amounts required to be paid by the retirees for that period... (Note: The remainder of the answer addresses the situation in which the total premiums are different than total claims costs.)

Although the question is addressing additions to the trust, the current wording may be more appropriate for a plan that is not being administered through a trust. In that situation, the answer given above should produce the same amount to be reported as employer contributions as the amount to be reported as benefit payments as described in the proposed answer in Question 4.66.

For example, consider a modification to the situation in Question 4.58 in which the plan's OPEB trust was funded years ago with a large initial contribution. The employer makes no additional cash contributions and the trust pays out the amount of (blended) premiums due from the employer for retirees, but does not pay the claims or age-adjusted premiums. In this situation, we believe the plan would report benefit payments in accordance with Question 4.66 of the sum of:

- a. The retiree (blended) premiums due from the employer for retirees and paid from the trust and
- b. The difference between
 - i. The claims costs, or age-adjusted premiums approximating claims costs and
 - ii. The retiree (blended) premiums due from the employer for retirees and paid from the trust.

Following the same logic, the employer should report employer contributions only equal to (b) above—the difference between

- i. The claims costs, or age-adjusted premiums approximating claims costs and
- ii. The retiree (blended) premiums due from the employer for retirees and paid from the trust.

We suggest a more general answer to this question be:

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

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

We also believe the proposed answer in Question 4.58 should have the same Actuarial Standard of Practice (ASOP) No. 6 exception language as the answer for Question 4.66.

Required Supplementary Information

Question 4.86

Q—If the approach described in Question 4.85 is used to determine the service cost reported in the schedule of changes in the net OPEB liability for the OPEB plan’s fiscal year ended June 30, 20X7, should the amounts identified as interest on the total OPEB liability be calculated on the beginning total OPEB liability, adjusted for service cost and actual benefit payments (including refunds of plan member contributions), or should projected benefit payments from the actuarial valuation that is used to determine the service cost be used for purposes of the adjustment?

In general, we agree with the answer that actual benefit payments should be used. However, our underlying concern is that obtaining the actual payment information may cause undue burden. For example, fully insured plans would need to rely on information provided from the insurer and would require the insurer to track active and retiree claims separately. In these cases, it may be difficult to get this information from the insurer, particularly for smaller groups. Therefore, the guidance should acknowledge that if the actual benefit payment information is difficult to obtain then an estimate of the benefit payments is appropriate to use. It is important to recognize this because it may be a common problem for many OPEB plans.

This is a similar problem when rolling forward the total OPEB liability. As appropriate, we suggest GASB acknowledge that using estimated benefit payments in the roll-forward is appropriate if obtaining the actual benefit payment information is unreasonably difficult. Regardless, the measure of the benefit payments should be consistent throughout the calculation of the roll-forward, including in the reconciliation of plan assets (if any).

Measurement of the Net OPEB Liability

Questions 4.137 and 4.138

It is our understanding that Question 4.137 is intended to address amounts reflected as employer contributions in that calculation, while Question 4.138 is intended to address the proper reflection in the discount rate determination of benefit payments paid directly by the employer. We request GASB change the wording of the questions to highlight the difference in intent, which is not clear as written.

Attribution of the Actuarial Present Value of Projected Benefit Payments to Periods

Question 4.140

Q—In what way are multiple exit ages considered in the attribution of the actuarial present value of projected benefit payments to periods for financial reporting purposes?

We suggest expanding the answer to this question or adding another question in order to clarify desired treatment of Deferred Retirement Option Program (DROP) participation.

We agree with the answer that generally “the end point of the attribution period would not be a single age or single date.” However, it would be helpful to add another Q&A that addresses situations with a DROP provision in the pension plan. Another Q&A may be helpful in providing clarification about whether joining a pension DROP is treated as an exit age for the OPEB valuation.

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

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

As a simple illustration, consider that an actuary assumes all members join DROP at 25 years of service and exit employment 5 years later. For funding purposes the actuary might assume 100 percent retirement at 25 or 30 years of service, but for Statement 68 purposes must assume 100 percent at 25 years potentially with some type of deferral of payment. For GASB OPEB purposes, the assumption would be that the retirement decrement would be 100 percent at 30 years of service when they are assumed to exit from active service.

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

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

A—Because the OPEB plan does not include a DROP provision, retirement rates for GASB OPEB purposes should reflect the DROP exit age assumptions.

We acknowledge that this may lead to different attribution periods for OPEB purposes than for pension purposes.

Alternative Measurement Method

Question 4.146

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

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

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

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

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

Question 4.155

Q—Paragraph 57c of Statement 74 provides a calculation method that can be used to determine the age-adjusted premiums for inactive plan members that are used to meet the requirements of paragraph 56g of that Statement. When can this method be used?

The proposed answer may lead some practitioners to believe that the implicit rate subsidy needs to be measured only when premium rates quoted for retirees are the same as rates given for active employees. We suggest modifying part of the answer to address a situation in which the difference is relatively small (bolded addition):

A—The method described in paragraph 57c of Statement 74 may be used to calculate age-adjusted premiums approximating the claims costs for inactive plan members for purposes of the alternative measurement method in circumstances in which (a) postemployment healthcare benefits are provided by allowing inactive plan members to obtain health insurance in a plan that rates active and inactive plan members in a single group, (b) the same premium rates (blended premium rates) are given for both active employees and inactive employees in the group, **or when unreduced premium rates published for inactive members of the group are relatively close to rates quoted for active employees**, and (c)

the employer is unable to obtain information about claims costs, or age-adjusted premiums approximating claims costs, for inactive plan members from the insurer. Paragraph 57c(1) is for use in determining age-adjusted premiums for plan members that are younger than 65 years old; paragraph 57c(2) is for use in determining age-adjusted premiums for plan members age 65 or older.

We appreciate the opportunity to submit comments on this exposure draft. If you have any questions or need further information, please contact Heather Jerbi, the Academy's assistant director of public policy, at 202.785.7869 or jerbi@actuary.org.

Sincerely,

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