



AMERICAN ACADEMY of ACTUARIES

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Re: Exposure Drafts on *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* and *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*

Dear Mr. Bean:

The American Academy of Actuaries¹ Joint Committee on Retiree Health appreciates the opportunity to comment on proposed statements of accounting and financial reporting by governmental employers for other postemployment benefits (OPEBs), recently exposed by the Governmental Accounting Standards Board (GASB). There is a particular need for stakeholders to understand the financial impact of retiree health care benefits, an important area of employee compensation and benefits. The discussion within our committee has been supplemented by conversation with, and valuable commentary from, groups within the Conference of Consulting Actuaries and the Academy that focus on pension plans serving the public sector.

The two exposure drafts, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* and *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, propose meaningful changes to government reporting of OPEBs. The GASB has referred to these as the OPEB Employer Exposure Draft and the OPEB Plan Exposure Draft, respectively, and in this letter we shorten their titles further to the Employer ED and the Plan ED. Unless otherwise indicated, any paragraph references cite the first occurrence in the Employer ED of a concept that may apply to later similar paragraphs in the Employer ED or the Plan ED.

As GASB has recognized, the actuarial profession specializes in measuring the obligations and communicating the implications of complex OPEB programs. The Academy's Joint Committee on Retiree Health would like to participate in the public hearings in Chicago, but also at the New York or San Francisco venues if that is more convenient.

In 2004, our committee commented on the current GASB standards associated with retiree health benefits, Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than*

¹ The American Academy of Actuaries is an 18,000-member professional association whose mission is to serve the public and the U.S. actuarial profession. The Academy assists 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.

Pension Plans, and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pension*. We were gratified to know that comments we made, particularly clarifications regarding implicit subsidies, were appreciated by the Board. The bulk of this letter will comment on the changes proposed in the EDs, with some commentary on aspects carried over from the earlier standards.

Introduction

We believe OPEBs constitute a liability. There may be associated questions of legal liability and the measurement of the liability, but when a government is providing, or intends to provide, OPEBs, particularly retiree health benefits, to its retirees, the financial effects of doing so should be quantified and transparent to stakeholders. We support the GASB in its prior steps to do so and in the current effort to improve accountability of financial reporting and the usefulness of decision relevant information regarding OPEBs.

While there are substantial differences between pension and OPEB liabilities, for the most part, these differences do not require different accounting treatment. For example, measures of OPEB liability are significantly more volatile than measures of total pension liability, due to a variety of factors including changes in the health care market, frequent changes in assumptions, and the plan sponsor's legal ability to make changes in plan design or eliminate benefits.

There may be some concern about the uncertainty of the legal obligation to substantively continue a current plan. The Board has noted, however, that a government's promise to provide OPEBs may represent a legal liability or a constructive liability. If that promise is intact at a financial statement date, the obligation should be recognized. We agree with that conclusion.

The uncertainty and the volatility of the measurements, however, do not indicate to us that the measurements fail the requirements of Concept Statements 1 and 3 to be recognized in the basic financial statements. We concur with the proposed change to recognize the Net OPEB Liability in the basic financial statements.

In the absence of a legal obligation, the measurement of liabilities may vary in ways beyond what has been recognized in accounting standards. This has been discussed in actuarial literature and we could provide further information if it is of interest.

Actuarial Standards and Guidance

We are gratified that the proposed EDs continue the GASB pattern of reliance upon Actuarial Standards of Practice (ASOPs). We note, however, that the EDs refer to ASOPs in inconsistent ways. Particular instances can be furnished but our general concern is stated here.

ASOP No. 1 states that failure to follow a "should" statement in any of the ASOPs constitutes a deviation from the guidance. "Deviation" is defined in ASOP No. 1 as "The act of departing from the guidance of an ASOP." When a deviation from the guidance in an ASOP occurs, the actuary is required to disclose the deviation (including the rationale for deviating) for the actuarial communication to remain in compliance with the ASOP. As such, once the deviation is disclosed in accordance with the ASOP in the actuarial communication, the actuary has performed his or her work in conformity with the ASOPs.

Some of the current ED language states that work should be in accordance with, or conformity to, ASOPs. We believe the emphasis, however, should be on *guidance* in the ASOPs. Otherwise, in cases of deviation from the guidance, the EDs might be interpreted to set the bar so low that

the actuarial results are merely “in accordance with the ASOPs” or merely “in conformity with the ASOPs”. The language we suggest is that the actuarial assumptions and methods be in conformity or accordance “with *the guidance contained in the applicable* Actuarial Standards of Practice issued by the Actuarial Standards Board.” The absence of the reference to the guidance in the ASOPs may render it inconsistent with GASB’s intent to incorporate the entire Actuarial Standards of Practice in its accounting standards-setting process.

Following the guidance in ASOPs is a central concept to compliance with ASOPs as it is intended by the Actuarial Standards Board given that ASOPs tend to be principle-based. Therefore, we recommend adjusting the wording in each relevant reference to the ASOPs so as to refer to “*the guidance*” in the Actuarial Standards of Practice issued by the Actuarial Standards Board.

Areas of comment

Our review of the EDs raises some concern that the recently-revised pension concepts have been carried into the proposed OPEB EDs without allowing for sufficient distinction between the two types of benefits: retirement income and other postretirement benefits. We focus our comment in this letter on the following areas: **Measuring the Total Liability**, with comments on **Projecting, Discounting and Attribution, Measuring Expense, Disclosures, and Illustrations**. The technical nature of some issues related to comments below may need to be explored further, and we offer our assistance in developing language to meet GASB objectives.

Measuring Total Liability

1.a. Projecting Claims - Excise Tax

Employer ED paragraph 30 and associated paragraphs in the Basis for Conclusions refer to “taxes and other assessments” without mentioning specific types. One type that we believe should be specifically mentioned is the 40% excise tax of the Affordable Care Act, on per-capita benefit costs in excess of certain annual limitations. There has been wide variability in whether and how actuaries have calculated an OPEB liability for this expected future tax. We recommend a clarification be added stating that any excise tax OPEB liability, calculated by an actuary, should be included in the OPEB liability (as opposed to omission or footnote disclosure). In addition, we suggest that any final guidance would include discussion of this issue.

1.b. Projecting Claims - Employer Group Waiver Plan (EGWP)

Employer ED paragraph 30 and others, refer to “subsidies expected to be received for making benefit payments other than those received for providing Medicare benefits.” With the exception of Medicare Part D Retiree Drug Subsidy payments (upon which the Board has issued Technical Bulletin 2006-1), the proposed statements direct that “projected benefit payments should not be reduced by subsidies expected to be received for making benefit payments *other than those received for providing Medicare benefits* [emphasis added].”

It is not clear if the latter exception would apply in the increasingly common case where a governmental employer provides prescription drug benefits to Medicare-eligible retirees through the use of an Employer Group Waiver Plan (EGWP) in a fully insured contract with an insurance

company. In this situation, the insurance company receives the Medicare Part D subsidies (including payments from pharmaceutical companies), then passes those subsidies along to the employer, so as to reduce the fully insured rate and, therefore, the projected payments. In this case, we understand the transaction is between the insurance company and the federal government, without plan or employer actually being participants in the transaction with the federal government. It seems appropriate for the net payment to form the basis of the age-adjusted premiums approximating claims costs.

In the case of self-insurance, we request clarification of the treatment when the agent (e.g., an insurance company) receives the EGWP subsidy and thereby reduces the claim demands upon the employer. A similar arrangement becomes more complex if the agent (e.g., a state) administering a multiple employer self-insured health plan receives the subsidies and therewith reduces the rates otherwise chargeable to each participating entity – operating much like an insurance company. Clarification in these areas, or more specifics on which subsidies would not reduce the projected benefit payments and which would be deemed “received for providing Medicare benefits,” would be welcome.

In Employer ED Appendix B (Basis for Conclusions), paragraph B41 begins with “This Statement includes a requirement to reduce projected OPEB payments by the amount of *reimbursements* [emphasis added] for Medicare benefits provided through the employer’s OPEB plan.” We cannot identify in what paragraph the ED expresses that requirement or makes any mention of reimbursements. Paragraph B42 then states “The Board concluded that *subsidies* [emphasis added] associated with these benefits should not be considered in the projection of OPEB payments.” This disparate treatment expressed in the Basis for Conclusions is not so apparent in the ED itself, nor is the difference between “reimbursements” and “subsidies” clear. We recommend clarifying when and whether a payment constitutes a reimbursement or a subsidy, and to do so within the ED itself.

1.c. Projecting Claims - Implicit Rate Subsidy and Cross Employer Subsidy

We raise a point of interest about pooled health plans where a single premium rate is used for all employers in a group that includes actives and retirees not eligible for Medicare. Assuming the coverage is primary for all participants and the retirees are older, the expectation is that a retrospective look will show that retiree claims per capita are higher, and the single one-year rate results in actives subsidizing retirees. An actuarial measurement, consistent with ASOP No. 6, would project that higher retiree cost when valuing the OPEB liability portion of the plan.

A potential issue arises as to what proportion of this liability should be reported by each employer participating in the pooled health plan. If the intent of the ED is for each employer to report a liability for the value of the benefits attributable to its employees, the claims costs for each employer’s retirees would be the basis for the reported liability. Alternatively, if the intent of the ED is for each employer to report a liability for the expected contribution for that employer to the pool for retiree benefits, the attribution of the pool’s total OPEB liability for each employer might be based on some different allocation method.

Under such an alternative allocation, an employer with a lower proportion of retirees in the current pool would likely be allocated a greater share of the pool’s total OPEB liability than under the first method. For the employer with a higher proportion of retirees, the effect on the liability of such an alternative allocation would likely be to lower it.

While any cross subsidy for an individual employer may be fairly certain in the first year, it is unlikely to be clear if or how that cross subsidy will continue.

If the intent of the ED is to report a liability based on the value of the benefits attributable to each employer's employees, we don't believe a change is necessary. If the intent of the ED, however, is to report a liability for the expected contribution for each employer to the pool for retiree benefits, some additional thought should be given as to how to best accomplish that intent.

2.a. Discounting - Possible undesired result due to calculation method

Overview of Concern

Paragraphs 35-37 of the ED provide guidance on the calculation of the discount rate in a manner similar to that provided in GASB 67 and 68. We are concerned that the current language will result in a discount rate equal to the long-term rate of return on assets in some cases where benefits are being substantially financed by government contributions and not by investment earnings on those contributions. We understand from the Basis for Conclusions in the Employer ED paragraphs B50 through B55 that the use of the long-term rate of return as the discount rate was predicated on the plan accumulating assets and earning investment returns before paying out benefits.

Consider, for example, a hypothetical plan with a minimal amount of assets in a trust but the sponsor consistently contributes an amount equal to the benefit payments for the year. The nominal amount of assets earns the long-term expected return, but the contributions are effectively used immediately to pay the benefits and do not get the benefit of investment returns. Under the current description of the methodology to calculate the discount rate, such a funding strategy would not have a crossover date and would use the long-term expected return as the discount rate. This result appears to contradict the intent expressed in the Basis for Conclusions of what the discount rate should represent.

Why This Concern Is Especially Relevant for OPEBs

Historically, most OPEB plans have not been prefunded. Even with the advent of GASB No. 45, many plans have not established trusts, or have contributed only funds as they become available. Because of the poor initial funding, actuarially determined contributions (ADC) are frequently far higher than pay-as-you-go costs and many governments find it difficult to increase their OPEB commitment in their budget to that level. Some are not funding at all, while others are only making ad-hoc contributions from non-budgeted funds (e.g., transferring surplus reserves from the employee health fund, or federal reimbursement under Medicare Part D) or adopting ramp-up strategies to the ADC from the budget. For many plans, benefit payments are projected to increase at rates far greater than payroll, as healthcare costs increase and "baby boomers" retire.

Recommendation

Given GASB's objective of preventing the use of a discount rate equal to the long-term expected return when assets are not actually expected to accumulate significantly in advance of paying the benefits, we recommend GASB develop appropriate additional parameters to the crossover test while retaining the basic structure established in GASB 67 and 68. We offer our assistance in

developing these parameters and exploring approaches (a few outlined below) that might work, but additional research would be required before we could make a specific recommendation.

Option 1: One approach would be to limit the rate of contribution growth that could be considered in the crossover test. A limit equal to the rate of assumed payroll growth is too strict to accommodate contribution-smoothing techniques that are typical with actuarially determined contributions. Limiting contribution growth rates to the rate of payroll growth after a period of 5 to 7 years, however, would allow for most contribution-smoothing techniques while limiting the back loading of contributions that occurs with pay-as-you-go and similar funding strategies that do not accumulate significant assets before benefits are paid.

Option 2: The second approach would be to require benefit payments, prior to the accumulation of assets equal to some multiple of benefit payments (e.g., 7), to be discounted at the municipal bond rate. So, for example, if benefit payments were \$100 for the first year, they could not be discounted at the long-term expected return unless there was at least \$700 in assets in the trust. Once this threshold was achieved, all future benefit payments could be discounted at the long-term expected return until a crossover date. This limitation is intended to require that a plan has significant assets earning an investment return before benefit payments can be discounted at the long-term expected return.

The difficulty in this approach is determining a reasonable multiple of benefit payments to use as a threshold. One possibility is to determine the amount of assets required such that investment returns would be expected to pay for 50% of each year's benefit payments. If the long-term expected return is 7.00%, the trust would need assets approximately equal to 7 times benefit payments to be expected to earn half of the benefit payments in investment earnings (e.g., $7.00\% \times \$700 = \49 , which is slightly less than half of the \$100 in benefit payments used in the example above).

Option 3: A third approach would be to state that an amount equal to the service cost for future employees should be subtracted from the total projected future contributions for purposes of the crossover test. Paragraph 35 of the ED states that contributions "intended to finance the service costs of future employees" should be excluded from the crossover test. If the sponsor is making contributions based on the pay-as-you-go costs (perhaps plus a nominal amount), none of the contributions are intended to finance service costs, so they may reasonably interpret the standard to include all of these contributions in the crossover test. We suggest that for purposes of the crossover test, the contributions should first be deemed to be intended to finance the service costs of future employees, so this amount would need to be subtracted from the total contribution amount. This interpretation would be similar to the interpretation of statutory contribution rates in a pension plan.

We hesitate to recommend any of these specific options because we have not had sufficient time to test them in a variety of situations, to ensure they produce the desired results for OPEB plans. We offer to work with GASB to develop and refine an approach if any of these methods or other alternatives would better meet GASB's objectives related to the discount rate.

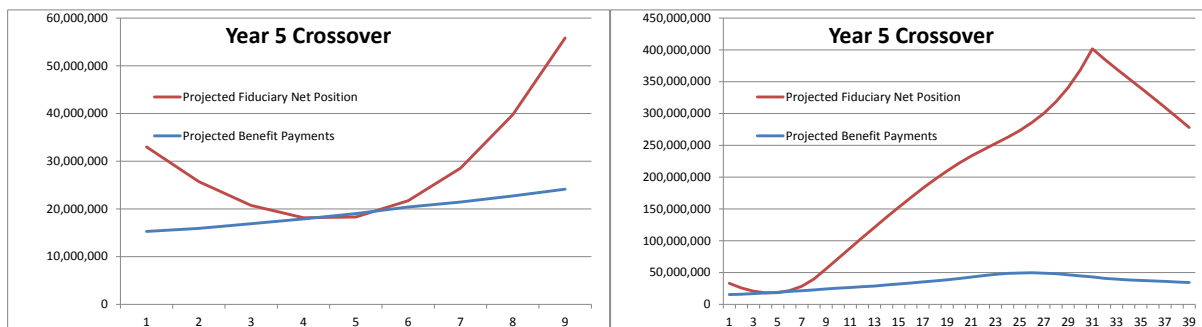
2.b. Clarification of Possible Multiple Cross Over Dates

Paragraph 38 identifies at what rate expected benefit payments should be discounted.

For each future period, if the amount of the OPEB plan’s fiduciary net position is projected to be greater than or equal to the benefit payments that are projected to be made in that period and OPEB plan assets up to that point are expected to be invested using a strategy to achieve the long-term expected rate of return, the actuarial present value of benefit payments projected to be made in the period should be determined using the long-term expected rate of return on those investments.

This text can be interpreted to indicate that, once the plan is projected to run out of money (or can only make it through the year with current contributions), use of the bond rate is mandated for all future years, even if large inflows (and solvency) are projected in subsequent years (i.e., the “if” clause has two conditions linked by the “and” – requiring both to be satisfied).

The following graphs illustrate a hypothetical plan that runs a deficit in only the 5th year of projection (projection years 1-4 and 6-80 demonstrate solvency), with the first graph showing the first 9 years and the second graph showing a much longer projection:



Based on the current ED language we understand the actuarial present value of benefit payments for years 5-80 would use the bond rate.

We seek clarification as to whether the ED is requiring the use of the bond rate for all periods after the **initial** point the OPEB plan’s fiduciary net position is projected to be less than benefit payments. If that is a proposed requirement, then, in those situations where insolvency may be a temporary event early in the projection period, a significant proportion of benefit payments may be discounted at the bond rate. This would not seem appropriate where the OPEB plan has implemented long-term funding, benefits, and/or investment policies to improve the OPEB plan’s financial condition over a period of time (e.g., increasing contributions, tiered benefit structures). We recommend these paragraphs be clarified to allow the use of an appropriate rate of return in any future year in which solvency is determined in conformity with the remaining aspects of the Statement.

2.c. General Inflation Assumption

Paragraph 27 notes that OPEB assumptions are to be selected in conformity with Actuarial Standards of Practice (ASOP) issued by the Actuarial Standards Board. For actuarial valuations, as for any mathematical model, the credibility of results depends on consistency of assumptions and this is stated in several ASOPs, including one relevant to OPEB practice, ASOP No. 27, *Selection of Economic Assumptions for Measuring Pension Obligations*(as revised applicable on and after September 30, 2014).

For economic assumptions such as salary changes, investment return, and macroeconomic growth in the economy as a whole, and healthcare cost trend rates in particular, consistency with

inflation assumptions is desirable and can be affirmed through disclosures. A municipal bond rate is an observation that does not have an explicit inflation component. When disclosed, this prescribed assumption may not appear consistent with assumptions such as healthcare trend rates and salary change rates that may be developed from an explicit inflation rate.

3. Attribution over Working Lifetime

Paragraph 40 in the ED calls for the use of the Entry Age Normal Cost method. Sections 40c. and d. state:

c. The beginning of the attribution period should be the first period in which the employee's service accrues OPEB under the benefit terms, notwithstanding vesting or other similar terms.

d. The service costs of all OPEB should be attributed through all assumed exit ages, through retirement.

These rules effectively define the ages at which Normal Cost starts and stops under the Entry Age method, but seem inconsistent with the language in GASB 67/68.

Entry Age/Start of Normal Cost

For GASB 67/68, Normal Cost starts when an employee earns a year of credited service under the plan. This is generally a clear point in time and often is defined as when an employee is hired and starts to make employee contributions to a pension plan. This is consistent with the GASB concept of intergenerational equity and spreads the cost across the entire employment relationship.

In OPEB plans, however, accruals and benefit terms may not be well defined and vesting terms may not be used. Plans may restrict eligibility for benefits to a period that does not align with an employee's total years of service. For example, we are aware of situations where employees must be participants in the employer's health plan for the last Y years immediately prior to retirement in order to be eligible for post-employment healthcare coverage. In these situations there may be several employment years before the employee joins the health plan.

In other situations, eligibility rules may require S years of service and attainment of age A. Depending on how the eligibility conditions are defined, this could be interpreted as the start date at age A-S, rather than the age at hire. Costs would be recognized over a shortened period, increasing the likelihood benefit costs may be shifted to future generations of taxpayers.

We suggest clarification of whether Normal Cost should be determined based on an employee's years of service beginning with date of hire and spread as a level cost over the employee's years of service.

Alternative Calculation Method for Small Plans

The Employer ED indicates continued GASB support for non-actuarial measurement under some circumstances. Governmental entities depending on such measurements may lose the considerable benefit of actuarial involvement, not just expertise in measurement, but knowledge of current markets, design options and drivers of cost.

We do not endorse the presentation of the alternative method as actuarial, but do see that many factors are based on external actuarially-developed tables of assumptions (mortality, turnover, etc.). Paragraph 204, however, uses a static 4% factor for the expected increase in healthcare costs for each additional year of age. You may wish to consider replacing this specific factor with published morbidity tables.

Measuring Expense

In general, we believe the measurement of OPEB expense in the Employer ED is a reasonable measure. We discuss below where we believe the ED needs clarification.

The ED requires immediate recognition of plan changes but calls for deferred recognition of changes in assumptions or gains/losses due to experience different from expected. For many OPEB benefits, particularly insured medical plans, determining the amount due to plan changes versus amounts due to experience gains/losses will be somewhat arbitrary. For example, a plan sponsor may modify the services provided, expecting a change in utilization and trend rates that would affect costs. Economic rates such as those, however, are also affected by exogenous factors, which would impact costs in the absence of plan changes. In the example of a plan change that reduced the level of benefits, an actuary's professional judgment, in accordance with ASOP guidance, will be utilized in separating changes into experience gain/loss or plan amendment, or both. Some GASB guidance, in the form of disclosure examples, as to how these situations should be handled, would be useful in clarifying GASB's intent.

An illustration of the development of expense components (shown for a few consecutive years), including deferred inflows and outflows would help financial statement preparers better understand how the expense is calculated. Note that currently the development of expense components is not illustrated. (The ED does contain balance sheet illustrations and the reconciliation of Net OPEB liability that are helpful.)

Disclosures

Additional disclosure

Many OPEB plans pay benefit payments net of retiree contributions from general revenue (this approach is sometimes called pay-as-you-go funding), with perhaps additional ad hoc payments to an irrevocable trust depending upon the availability of funds. Benefit payments often are expected to increase rapidly due to medical inflation and an increased number of retirees. Accordingly, we suggest the ED require disclosure of a schedule showing the projected benefit payments net of retiree contributions for current members for the next 10 years, both in dollars and as a percentage of payroll. This information will allow users of the financial statements to gauge the impact of the OPEB program on the government's finances. As these amounts are for current members only, they are the same benefit payments that are used to determine how long the plan remains solvent for the discount rate determination. We do not recommend disclosure more than 10 years into the future because the projections do not include the impact of future hires and so may understate future benefit payments. We recommend this information be provided in the notes to the financial statements, but if that is not practical the information should at least be disclosed in the required supplementary information (RSI).

Disclosure of Variations in Discount Rate and Health Care Cost Trend Rate

Paragraph 51 and others describe disclosures centered on variations on selected discount rate and the healthcare trend rate. We recognize the need for demonstrating the impact of volatility on the net OPEB liability. Providing nine liability measurements, however, would be overly burdensome and costly to produce, and would not provide materially more helpful information to users of financial statements than fewer measurements. As a practical matter, many actuarial valuation programs can, with little additional effort, produce +/- 1% discount rate and health care cost trend rate sensitivities on liabilities. Thus, we recommend these paragraphs be amended to require only the sensitivity measurements related to +/- 1% of the discount rate, and +/- 1% of the health care cost trend rate (a total of five measurements including the base case). This recommendation can be viewed in matrix form as follows:

		Discount Rate		
		-1%	Baseline	+1%
Health Care Trend	-1%			
	Baseline			
	+1%			

In this matrix, the blue-shaded area represents the set of five recommended measurements.

Please consider an even less onerous second option to demonstrate discount rate and trend rate sensitivity: three measurements, namely the base case plus the two extreme cases. This recommendation can be viewed in matrix form as follows:

		Discount Rate		
		-1%	Baseline	+1%
Health Care Trend	-1%			
	Baseline			
	+1%			

We believe that either of these alternatives would be sufficient to provide the users of financial statements a sense of how variations in these two important factors can affect liability results.

Requirement to Disclose Dates of Experience Studies

Paragraphs 49 and others state:

The dates of experience studies on which significant assumptions are based also should be disclosed.

We recognize the need for the disclosure of significant assumptions. The *requirement* to disclose the dates of experience studies, however, more appropriately reflects the pension valuation process and does not consider the differences inherent to the OPEB valuation process.

OPEB valuations may utilize multiple experience “studies” over different and varying periods (depending on how experience study is defined) or may not be based upon any type of formal experience study. If the GASB does not provide a very broad definition of an experience study, we recommend that the requirement to disclose the dates of any experience studies utilized be removed. To align the ED with the guidance provided in ASOP Nos. 4 and 6, we suggest language such as the following: *To the extent feasible, the selection of assumptions should be made after a review of actual experience relevant to a particular assumption. The credibility of*

that experience should be considered in the development of the assumption and a description of the experience utilized should be included in the actuarial opinion.

For example, the development of the per capita claims cost assumption may utilize actual paid claims experience. Though integral to an OPEB valuation, this type of experience may not conform to an experience study as understood by those who practice in the pension area. The ED should encourage a description of the type of experience utilized in the selection of an assumption, along with an explanation of how the experience considered aligns with the chosen assumption. Requiring support for an assumption is the key disclosure, not the dates of an experience study.

Other Disclosure Concerns

We focus attention on the reporting of “Changes in the Net OPEB liability” as described in paragraphs 53 and 54. Pension valuation is often an annual event. The mathematics is performed each year. Service Cost is one year’s accrual. The year’s investment income is compared to what was expected a year previously. The ED, however, is silent when the inter-valuation period is more than one year. We suggest that an exhibit showing the required disclosures when the valuation period spans more than one year be provided, to reduce disparity in reporting of changes over a multi-year period.

We wish to highlight the concern that, if an actuary performs an analysis which compares the net OPEB liability as of the measurement date to that of “the previous valuation”, a more representative reconciliation is obtained if the actuary bases the reconciliation on the prior net OPEB liability *calculated* at the last full valuation (which may be two or three years ago), rather than the one *estimated* last year.

Alternatively, the same concern might be expressed by asking whether “Service cost” in item 53(b)(1) is for year 1 (valuation output), or year 2 (estimated), or the sum of the two? The situation is more complicated and potentially more misleading if there are assets involved, since, in the off-year, we might have a somewhat realistic asset value and an estimated liability value. Rather than list items in paragraphs 53 and 54 item-by-item, we suggest that GASB simply provide exhibits which illustrate how a multi-year analysis should be reported.

Illustrations

Earlier parts of this letter have raised a few points about illustrations. We here note that the EDs lack an illustration of the development of the discount rate used in the calculation of the net OPEB liability. We recommend that such an illustration be included similar to what is included in GASB Statements 67 and 68.

We also request that an illustrative example of a reconciliation of the net OPEB liability be provided. That example would show, for a 10-year period, the following elements of a reconciliation of the beginning year net OPEB liability: annual prefunding contribution to a trust, the OPEB expense, annual benefit payments from outside a trust, and the change in deferred inflows and outflows, to arrive at the end of year net OPEB liability.

The American Academy of Actuaries' Joint Committee on Retiree Health appreciates your attention to the comments and concerns identified in this letter. We would be happy to meet with you at your convenience to provide additional perspectives on proposed changes to Exposures Draft(s) related to Other Postemployment Benefits. Please contact Matthew Mulling, Pension Policy Analyst (202-223-8196, mulling@actuary.org) if you have any questions or would like to discuss this issue further.

Best Regards,

Jeffrey P. Petertil, MAAA, ASA, FCA
Chair, Joint Committee on Retiree Health
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