June 15, 2007

Governor Rick Perry
Office of the Governor
State Insurance Building
1100 San Jacinto
Austin, TX  78701

Re: HB2365 – Financial Accounting and Reporting for Other Post-Employment Benefits in Public Plans

Dear Governor Perry:

On behalf of the American Academy of Actuaries’ Joint Committee on Retiree Health, we would like to address misinterpretations of a letter promulgated by our committee. That letter has recently been used as justification for proposed legislation in Texas that would nullify the requirement of governmental entities to establish financial reporting liabilities for promised retiree health benefits. It has come to our attention that this legislation is currently awaiting your signature. As such, we want to take this opportunity to point out that our committee’s May 31, 2006 letter to the Financial Accounting Standards Board (FASB) was not intended to be used to advance HB 2365 or similar legislation.

This 2006 letter was drafted in response to a proposed FASB statement regarding changes to financial accounting standards for pension and other post employment benefits (OPEBs) in the private and not-for-profit sectors. While it offered general support for modifications, the letter recommended FASB consider a revision of the measurement process before assigning balance sheet status to the existing measure of obligation. This recommendation should not be interpreted to suggest eliminating a responsibility to report benefit obligations. On the contrary, the letter specifically says, “Our committee is not advocating that the [obligation] be marked to zero....”

This committee is concerned about the misuse of the letter to FASB for the purpose of impeding the implementation of Governmental Accounting Standards Board (GASB) statements 43 and 45. Press accounts have perpetuated this misinterpretation and are most likely made with a limited understanding of the intent of the letter or the applicability to the current issues in Texas. For instance, it is wrong to infer that actuaries do not project liabilities beyond 10 years. Actuaries are routinely called on to estimate payment streams beyond 10 years and will do so when requested and furnished with all the necessary data and plan provisions.

Furthermore, the committee’s letter did not directly reference GASB. FASB standards address private sector employers. They do not address governmental entities, which often have stronger benefit guarantees than those under FASB jurisdiction. Any entity, private or public, that has commenced paying or promising employee benefits continuing into retirement years should seek a professional actuarial valuation of the financial implications of such promises. We support accounting standards that promote understanding of these implications, since objective actuarial measurements of future payments invariably indicate larger amounts than decision makers can foresee by examining current payments. Our letter endorsing examination of new

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1 The American Academy of Actuaries is a national organization formed in 1965 to bring together, in a single entity, actuaries of all specializations within the United States. A major purpose of the Academy is to act as a public information organization for the profession. Academy committees, task forces and work groups regularly prepare testimony and provide information to Congress and senior federal policy-makers, comment on proposed federal and state regulations, and work closely with the National Association of Insurance Commissioners and state officials on issues related to insurance, pensions and other forms of risk financing. The Academy establishes qualification standards for the actuarial profession in the United States and supports two independent boards. The Actuarial Standards Board promulgates standards of practice for the profession, and the Actuarial Board for Counseling and Discipline helps to ensure high standards of professional conduct are met. The Academy also supports the Joint Committee for the Code of Professional Conduct, which develops standards of conduct for the U.S. actuarial profession.
measurement approaches should not be taken as a rejection of accrual accounting for retiree health benefits. We stated the following in our May 2006 letter, “Retirement benefits involve long financial horizons and it is appropriate that the promises associated with these benefits be subject to accrual accounting standards.”

We appreciate the long and thorough process that led to GASB 43 and 45 and their reliance on actuarial standards. Our committee was supportive of that process as it evolved, and we remain supportive of accrual accounting for OPEBs. Ignoring financial information that can be reasonably estimated will not protect taxpayers and other stakeholders. Any advantage to state retirees today will be offset by financial disadvantages in decades to come for the taxpayers and/or retirees. The future cost of health benefits is potentially a major expense for any entity that sponsors such a program for retirees.

As our profession addresses appropriate actuarial measurement of retiree health benefits in light of any new information, we look forward to continuing relations with the accounting profession and the sponsors of these programs to fulfill our mutual goal of disclosing useful and accurate information to the advantage of retirees, plan sponsors, bond issuers, and taxpayers.

If you have any questions, or would like to discuss this further, please contact Heather Jerbi, the Academy’s senior federal health policy analyst (202.785.7869; Jerbi@actuary.org).

Sincerely,

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Co-Chairperson, Joint Committee on Retiree Health
American Academy of Actuaries

Adam J. Reese, MAAA, FSA, FCA, EA
Co-Chairperson, Joint Committee on Retiree Health
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Cc: Senator Robert Duncan, Chairperson, Committee on State Affairs, Texas Legislature
Representative Vicki Truitt, Chairperson, Pensions and Investments Committee, Texas Legislature
Susan Combs, Texas Comptroller of Public Accounts
Susan Spataro, Auditor, Travis County (Texas)
David Bean, Director of Research and Technical Activities, Governmental Accounting Standards Board
Suzanne Q. Bielstein, Director of Major Projects and Technical Activities, Financial Accounting Standards Board