

**Public Pension Financial Forum
c/o Ohio Public Employees Retirement System**

277 E. Town Street

Columbus, OH 43215

September 5, 2014

Director of Research and Technical Activities
Governmental Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, Connecticut 06856-5116

Subject: Project No. 34-1P & 34-1E

Dear Board and Staff:

The Public Pension Financial Forum (P2F2) is pleased to have the opportunity to respond to the Governmental Accounting Standards Board (GASB) Project No. 34-1P and 34-1E. We want to thank you for considering changes to both projects on Postemployment Benefit Plans Other Than Pension Plans (OPEB).

P2F2 Background

P2F2 was formed in 2004. The purpose of this organization is to promote excellence in public pension plan financial operations, provide education to the membership, promote the exchange of ideas concerning financial operations and reporting between public pension plans, and to foster sound principles, procedures and practices in the field of public pensions. Membership is open to any finance employee of a public pension who supports the purposes of P2F2. The organization currently has 220 members representing 110 government-sponsored employee benefit plans, offering defined benefit, defined contribution and hybrid plans.

Effective Date

We are very concerned about the recent volume of standards impacting government-sponsored employee benefit plans. For a government-sponsored employee benefit plan with a 12/31 year-end, GASB Statement No. 67 will become effective in 2014, GASB Statement No. 68 will become effective in 2015, the fair value reporting standard is to become effective in 2016 (anticipated), the Other Post Employment Benefit (OPEB) standard for government sponsored funds will become effective in 2016 (anticipated) and OPEB for employer reporting will become effective in 2017 (anticipated).

The new pension reporting standards have placed an enormous burden on multi-employer plans to provide education and information to their affiliated employers. Costs to comply with each pension standard are expected to be substantial when taken on an individual basis. Overall, expected audit, actuarial, and internal plan resource costs to comply with the new pension standards, the proposed OPEB standards and proposed Fair Value Standards will be significant.

Implementation issues related to the pension standards are still not fully known as the standards are not yet completely implemented. The delay in the GASB's implementation guides, American Institute of CPAs' audit guidance, and financial reporting guidelines from the Government Finance Officers Association has added additional challenges. We feel the proposed standards for OPEB reporting will only compound these challenges.

We respectfully ask the Board to delay the effective dates of these new standards so that government-sponsored employee benefit plans can work through the implementation and audit issues posed by the pension standards. Taking a more conservative approach with respect to the effective dates of both OPEB standards will result in more accurate compliance with these new OPEB standards, and ultimately benefit users of the financial statements. Inaccurate compliance with the new OPEB standards, due to implementation issues, lack of audit guidance and lack of financial reporting guidelines are of no benefit to users and preparers of financial statements.

Calculation of Total OPEB Liability – Inclusion of taxes/assessments

We feel it is unreasonable to estimate future taxes or assessments that have been legislated, but are not yet effective. Assuming, on a hypothetical basis, that it is possible to accurately estimate these future taxes, we do not think it is appropriate to increase the total liability for a tax that may or may not be paid in the future when the government-sponsored employee benefit plan can, and will likely, make adjustments to its benefit terms to negate or reduce the tax. We think more research and discussion is required before this requirement is put into the standard.

If the inclusion of taxes and assessments is included in the standard, the standard should state that these costs should not be included in the total liability calculation if these costs are borne by the benefit recipient.

Calculation of Total OPEB Liability – Government subsidies

In regards to the previous requirement to include taxes in the total liability calculation, we think it is illogical for the standard to specifically exclude the expected receipt of government subsidies, such as retiree drug subsidies, in the calculation. We feel this disparity results in misleading and inaccurate amounts related to OPEB liabilities; as such, GASB should reconsider this approach.

If the standard is not altered and future receipt of government subsidies are not considered, the standard should state that costs should not be included in the total liability calculation if those costs are borne by the benefit recipient.

Employer Net OPEB Liability

OPEB benefits are prone to change as they are not typically protected by a constitutional guarantee or other binding contractual arrangement with the benefit recipient. Benefit terms and coverage are often changed by the plan sponsor or through federal legislation. We disagree with the Board's conclusion that the net OPEB liability meets the definition of a liability from Concept Statement No. 4 which states: "Liabilities are present obligations to sacrifice resources that the government has little or no discretion to avoid." The fact that entities could avoid these healthcare commitments in the longer-term is one of the reasons the Affordable HealthCare Act exists today.

We recommend that the employer prominently display the words "contingent net OPEB liability" on the face of the financial statements and include a parenthetical reference to the related note disclosure.

We agree that the current note disclosure requirements prescribed by GASB Statement No. 45 should be improved; however, we disagree with the overall note disclosure requirements of the proposed OPEB standards. Our recommendation is to expand the current OPEB note disclosure to include the contingent net OPEB liability, collective funded ratio, contingent net OPEB liability plus or minus 1% change in the discount rate, collective net OPEB liability plus or minus 1% change in the healthcare cost trend rate, collective covered payroll, collective contributions, number of active members at the collective level, current and future contribution rates, employers' covered payroll, and employers' contributions for the plan's fiscal year. We feel this approach would result in a more appropriate cost-benefit balance.

Calculation of Total OPEB Liability – Benefit Accruals

Based on the exposure draft, "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." Given the various methods of OPEB eligibility, the determination of "...the first period in which the employee's service accrues OPEB..." can prove difficult and often arbitrary. A true accrual of benefits may never happen for certain employees, yet given the cost-sharing nature of the plan, their employer will be granted a proportionate share of the net OPEB liability.

We propose that this requirement be reviewed and the standard should contain more options to allow plans to report benefit accruals which better reflect the benefit structure of the OPEB plan.

Amortization Factor

The OPEB exposure drafts and the new pension standards contain the exact same requirements to amortize non-investment related deferrals to a period equal to the average remaining service life of all employees that are provided with a benefit. Benefit recipients in OPEB plans can have significantly different vesting rules than are typically found in pension plans. We believe this should be factored into the amortization periods used in the OPEB exposure drafts. We feel the OPEB exposure drafts should not consider inactive employees who are not vested in an OPEB benefit in the calculation of the average remaining service life calculation.

Note Disclosure – Measures of the Net OPEB Liability

We are concerned about the cost of calculating the nine combinations of the changes in healthcare cost trend and discount rate calculations. We question the value of this disclosure and remind the GASB Board that each of these combinations adds to the total actuarial cost of implementing these standards. We believe these disclosures are intended simply to be a gauge of variance, and we would recommend, as was adopted in GASB 67 and 68, only to require display of net liability at a +1% and -1% of the change in health care cost trend and +1% and -1% of the discount rate, and to disregard the more onerous matrix.

Also, we believe GASB should discuss the impact of this disclosure on the opinions of the actuary and auditor with the actuarial and audit communities, respectively. We are concerned about the potential impact of a qualified opinion to the plan and employer if the assumptions in the sensitivity testing are deemed to be unreasonable.

Assuming the GASB adopts this disclosure without modification, we feel the Statement or the implementation guide should provide guidance that measures of the Net OPEB Liability using a 1% increase or 1% decrease in the healthcare cost trend rate are prepared using the same discount rate which was used to calculate the Net OPEB Liability. Even in an instance where an actual 1% adjustment in the healthcare cost trend rate either required the incorporation of a municipal bond rate or changed the proportion of the municipal bond rate embedded in the blended discount rate, it should be made clear that the discount rate used in each combination of the required disclosure should not be adjusted in such a manner.

Employer Note Disclosure

The volume of note disclosures prescribed by the proposed standards for employers participating in a multi-employer plan are excessive, redundant and unnecessary considering that the disclosures are available for reference within the plan's separately issued annual report. Therefore, we feel the GASB should consider eliminating the requirement for employers to include these disclosures in their reports and support the concept of making a reference to the plan's report and providing a website link.

Employer and Employee Benefit Plan Engagement

We feel the ability to comment on proposed accounting standards is very important to the standard-setting process. We are very concerned about the level of engagement of preparers and employers in considering the different issues presented by these proposed standards. The majority of employers are now only beginning to learn and understand what the new pension reporting standards mean to their organizations. Additionally, we feel that government-sponsored employee benefit plans and employers are overwhelmed with implementation issues related to the pension standards and are not fully participating in the standard-setting process on OPEB. Our organization has found it difficult to find volunteers to put a team together to appropriately respond to these exposure drafts. It is an indication of the "standard overload" that the industry is currently facing as we try to implement the new pension standards. It should be noted there are many more OPEB plans than pension plans, and thus, we feel the unresolved issues from the new pension standards will be compounded for government entities trying to comply with these proposed OPEB standards. We respectfully ask the Board to consider

delaying these standards until the industry has implemented the new pension standards and perhaps re-exposing at a future date.

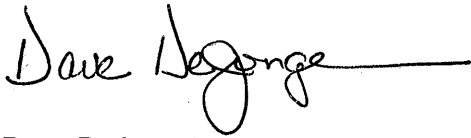
Other Postemployment Benefits (OPEB): A CPE Webinar

We want to formally thank GASB and its staff for producing a webinar on the exposure draft. We found the webcast informative and we appreciate the time and effort that the GASB staff is putting into communicating with the preparer community. We found this to be a very effective tool in trying to gain understanding of a complex standard and we hope that these webinars will be continued in the future.

Again, we appreciate the opportunity to comment on this project. Should you have any additional questions regarding these comments, please feel free to contact our organization by emailing Karl Greve at kgreve@copera.org.

This response was prepared by a collective effort of the P2F2 membership. By our e-mail submission, the P2F2 Board of Directors substantially agrees with the views in the form presented in this response. However, there are some areas where one or more P2F2 directors may have a slightly different perspective which will be shared with GASB in their systems' separate responses to the exposure drafts.

Sincerely,

A handwritten signature in cursive script that reads "Dave DeJonge". The signature is written in black ink and includes a long horizontal line extending to the right from the end of the name.

Dave DeJonge
P2F2 President