

August XX, 2014

Director of Research and Technical Activities
Project No. 34-1E
Governmental Accounting Standards Board
401 Merritt 7, PO Box 5116
Norwalk, CT 06856-5116

To the Director of Research and Technical Activities:

The _____ (employer name) is a participating employer in the Ohio Public Employees Retirement System (OPERS or the System), a cost-sharing multi-employer plan with approximately 3,700 employers. We are responding to the Governmental Accounting Standards Board (GASB) invitation to provide comments on its Exposure Draft, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. This Exposure Draft addresses changes in the way participants in government sponsored postemployment benefit plans, other than pensions, account for and report associated assets and liabilities in their annual financial statements. OPERS offers post-employment health care that falls under the scope of this Exposure Draft.

We appreciate the lengthy deliberative process undertaken by the GASB Board that culminated in the Exposure Drafts issued in June 2014, and understand the intent that the new financial reporting proposals are designed to standardize how participants in public postemployment benefit plans disclose postemployment benefits information in their financial statements, similar to the pension standards issued in 2012. We appreciate your efforts to make financial reporting more transparent; however, we believe there are several challenges associated with implementing the proposed standards for multiple-employer cost-sharing plans. Though these proposed standards may work well with single employer and agent multi-employer plans, they do not accurately reflect the transactions in accordance with the rules that govern these plans as established by OPERS Board of Trustees and Ohio statutes.

1. **Structure of health care plan.** As noted above, OPERS is a cost-sharing multi-employer plan in the State of Ohio. Employer participation in the pension plan is established by state statute that also dictates employer contribution rates and the benefits to be received by our employees, therefore making pensions a statutorily guaranteed benefit. Health care is not a statutorily guaranteed benefit. The Ohio Revised Code grants the OPERS Board the authority to establish a health care plan if desired and thus the Board has the authority to modify the plan as needed or eliminate the plan. The OPERS Board is solely responsible for administering the health care plan and making decisions on funding and benefits. A portion of the statutory contribution rate *may* be used to fund health care. The portion of the employer contribution rate allocated to fund health care is at the sole discretion of OPERS. As an employer, we have no control over the portion of the contribution rate allocated to fund the health care plan nor any control over the benefits offered. Any changes to the existing health care funding rates or benefit levels require action by OPERS Board of Trustees. Thus,

the assignment of the liability is misleading given the structure and operation of the health care plan.

OPERS has the authority to make health care funding and benefit changes, and is committed to using available assets to fund the plan. We as an employer are not expected to contribute beyond the remittance of the contribution rate. Therefore, we recommend that the net OPEB liability be reflected on the financial statements of the System where the assets for future health care benefits are also reported. We believe any allocation of the liability to the employer is arbitrary and misleading, and would suggest additional note disclosures of plan system information on the employers' financial statements.

2. **Proportionate share of the net OPEB liability and OPEB expense.** We understand OPERS will provide us with our proportionate share of the net OPEB liability and OPEB expense. These liabilities can represent significant items on employer financial statements, likely the largest liability on our financial statements. We are concerned that the liability, if allocated, would not be relevant and would result in significant expense, especially relative to the small audit budget available to us as an employer. Not all of our employees may ultimately be eligible to receive health care; therefore, taking on a portion of the OPEB liability and expenses based on employer contributions being allocated to the health care plan, as determined by OPERS Board, is misleading when trying to match benefits with the compensation package of our employees. There are some employers that will have no employees eligible to receive health care as of a financial reporting date, yet the exposure draft would require these employers also carry a portion of the net OPEB liability.
3. **Fiscal planning and budgeting volatility.** The current practice of reporting expense based on the statutorily required employer contributions allows our government to establish accurate, balanced budgets with limited volatility. In general, employer budgets are established for the upcoming year well in advance of the end of the current year. With the expected volatility of the new pension expense based on the new pension standards issued in 2012 along with this new OPEB expense, it is difficult to establish our annual budgets accurately. With the pension standards issued in 2012, we have encountered this issue. Systems are not able to have the information audited and available to us in time for amounts to be included in our budgeting process.

The calculation of proportionate shares means that smaller governments with a stable workforce will share in the volatility of staffing changes by larger governments that are not representative of the employer's individual experience. Additionally, due to the structure, smaller governments will be subsidizing those employers with more health care eligible employees resulting in a disproportionately higher liability. The magnitude of the pension and OPEB expenses and net pension and OPEB liabilities will not be known until after the end of each year, potentially putting employers in violation of balanced budget statutes. Furthermore, since funding of the health care plan is not in statute and determination of OPEB liabilities is performed by actuaries, employers can't predict health care funding from year to year or recalculate the liability in order to estimate our own proportionate share amounts.

4. **Bond Rating.** Our government has always paid its contributions on time and managed its budgets in an effective manner, resulting in favorable bond ratings. Our proportionate share of the net OPEB liability is expected to be a significant number on our balance sheet, with the potential to transform us from reporting sound financial results to reporting poor results which don't reflect our true liability. The potential impact on our bond rating could significantly impact our operating expenses.

While the proposed changes in accounting standards have broader applicability to single and agent employer systems, we do not believe they reflect the significant differences in the structure of multiple-employer cost-sharing plans such as OPERS. The changes recommended by the proposed accounting standards will result in reporting data that is too volatile to be used as a benchmark for employer performance. Prudent fiscal management at the local level is not improved by this proposal, but rather harmed by misleading portrayal of liability.

Reporting of OPEB expense and liabilities that are not representative of the nature of the plan in Ohio could lead to short-sighted decisions and ultimately lead to confusion and a lack of trust by the public. In addition, as the financial status of governmental entities changes, bond ratings – which impact the cost of debt service – could also be adversely affected. Additionally, we believe the proposed changes will lead to significant lags in the availability of information, dissemination of confusing information and significant additional costs.

We agree with GASB on the need for increased transparency and accountability for postemployment benefit plans. However, we oppose the philosophical shift that eliminates the connection between the accounting requirements and the actual liability that employers have for funding of postemployment benefit plans in accordance with OPERS Board of Trustees established plan. The funding of the postemployment benefit plan is ultimately the responsibility of OPERS and volatile in nature as the plan has changed significantly over the past several years. Again, we respectfully recommend that the net OPEB liability be reflected on the financial statements of the System.

Respectfully,

Employer XX