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NYSSCPA

certified | public accountants

530 fifth avenue, new york, ny 10036-5101
www.nysscpa.org

May 2, 2003

Mr. David Bean
Director of Research
Project No. 22-2E
Governmental Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

By email: director@gasb.org

Reference: Project 22-2E

Dear Mr. Bean:

The New York State Society of Certified Public Accountants, the oldest state accounting association, represents approximately 30,000 CPAs that will implement the provisions contained in the GASB exposure draft, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*.

The NYSSCPA Government Accounting and Auditing Committee drafted the attached comments. If you would like additional discussion with the committee, please contact Eugene Mahaney, the committee's chair, at (716) 759-6702, or Robert Colson, NYSSCPA staff, at (212) 719-8350.

Sincerely,

Jo Ann Golden
President

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**NEW YORK STATE SOCIETY OF CERTIFIED PUBLIC
ACCOUNTANTS**

Comments to the GASB

On

***Exposure Draft, Accounting and Financial Reporting by Employers for
Postemployment Benefits Other Than Pensions***

May 2, 2003

Principal Drafters

**Michele Mark Levine
Eugene Mahaney**

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Comments to GASB
On Exposure Draft
*Accounting and Financial Reporting by Employers for Postemployment
Benefits Other Than Pensions*

May 2, 2003

General Comments

Overall, the committee members liked the approach taken by the Board, and thought that the disclosure of the other than pensions post employment benefits (OPEB) actuarial liability information would be a big improvement to current reporting. The present practice of reporting these expenses on a pay-as-you-go or cash basis may have contributed to poor decision making by elected officials, unfair allocation of costs to taxpayers, and left current employees with lower wages and benefits as costs of OPEB have skyrocketed.

Presently, and in the past, many municipalities have provided for lifetime health and dental benefits for retired workers. These entities have not recorded expenses on an accrual basis, but have recorded them on a cash basis. Over time this could be seen as a contributing factor to many problems:

- While the taxpayers in the 1960's, 1970's and 1980's received services from these workers, it is the taxpayers of the 1990s, 2000s, and the future that are now and will be paying the bill for the services.
- Many enterprise funds set fees and revenue schedules to match expenses. By under reporting the OPEB costs, current revenues are under-estimated and future rate payers are penalized.
- Due to the rapidly increasing costs of these benefits, many municipalities are paying more for retired employees than they are for current employees, leading to the employers attempting, with some success, to reduce wage increases and benefits to current employees.

Specific Comments

1. There was some sentiment on the committee to have a more FASB-like approach, with the unfunded "prior service" cost resulting in the reporting of an initial liability on the Statement of Net Assets as soon as the statement becomes effective, rather than utilizing the GASB's "funding based approach" that amortizes this into annual OPEB costs over 30 years. However, the majority view on the committee was that the funding based approach is appropriate because –as the Board has noted - it is consistent with the required pension accounting and

reporting, and because, in the event¹ that more governments move toward funding their OPEB liabilities, the approach would allow a single actuarial measurement for both funding and financial reporting.

2. We believe that because - under the funding based approach proposed by the Board -the bulk of the unrecorded obligation for OPEB, at least initially, would remain “off balance sheet”, Management’s Discussion and Analysis (MD&A) requirements should be revised to specifically require discussion of the unfunded actuarial accrued liability (UAAL) and funding progress, as well as the government’s OPEB funding policy. The MD&A discussion of OPEB would be in addition to the disclosures which would appear after the notes as required supplemental information (RSI), as proposed in the ED. This would serve to highlight this critical information to users, without subjecting the multi-year information to any higher level of audit scrutiny, as MD&A is part of RSI.
3. As requested in the notice to readers, the committee considered both the inclusion of an alternate measurement method and the treatment (actually, non-consideration) of implicit rate subsidies. The committee members were generally in favor of both provisions. We recognize that implicit rate subsidies do cause the entity to incur higher OPEB insurance costs, but in all likelihood the entity receives only one bill and cannot readily separate the retirees’ costs (who are more expensive) from those of the younger, more healthy individuals without further actuarial analysis.

While not objecting to it, we question how effective the alternative method will be in sparing smaller units the expense of an actuarial valuation. Generally, smaller units do not have employees with specialized skills to do analyses such as those presented in paragraph 32, and the units’ audit firms might be precluded from performing that service by GAO independence standards. Accordingly, the alternative method, as presently constituted, might still require an actuarial valuation (albeit a simpler one), or the engagement of an additional CPA firm or consultant, which will still require the unit to expend additional funds.

4. The committee recognizes that certain people and groups, especially organizations which represent public sector employees, have been critical of GASB for seeking to have governments measure and report their obligations to provide healthcare and other retiree benefits. While we firmly disagree with the implication that ignorance is preferable to change, we understand the concern about the ultimate effect that OPEB reporting requirements may have on benefits granted to government employees, especially in light of other public policy and economic trends.
5. Retirement planning for government employees has traditionally consisted of three sources of income:

¹ Many members of the committee believe such a move will be unlikely.

1. Pension and other postemployment benefits received from state or local governments.
2. Social Security and Medicare benefits received from the federal government.
3. Distributions from a 403(b) or other investment account.

The ability of many government employees to retire comfortably is dependent on these three sources of retirement income.

Concluding Remarks

Social Security payments and Medicare paid benefits are projected to grow, and funding problems could result in a reduction of such benefits or an increase in payroll taxes. Because many government employees have seen the value of their investment accounts shrink significantly because of the decline in the stock market, they now look increasingly to their government pensions and related post employment benefits as the last secure source of retirement income.

As governments begin to recognize more clearly the costs of postemployment benefits as reflected under the GASB exposure draft, they will pay more careful attention to the costs to the taxpayers and the benefits for their workforce. To this end, current elected officials and future candidates in election campaigns will be influenced by this proposed GASB statement.