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April 23, 2004

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

Dear Mr. Bean:

On behalf of the Association of Government Accountants (AGA), the Financial Management Standards Board (FMSB) appreciates the opportunity to provide comments on the Exposure Draft (ED) of the Governmental Accounting Standards Board's (GASB) Proposed Statement on *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*.

The FMSB, comprised of 21 members with accounting and auditing backgrounds in federal, state, and local government, academia, and public accounting, reviews and responds to proposed standards and regulations of interest to AGA members. Local AGA chapters and individual members are also encouraged to comment separately.

This proposed Statement would establish standards for the measurement, recognition, and display of other postemployment benefits (OPEB) expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information (RSI) in the financial reports of state and local governmental employers. It revises the original proposed Statement issued for comment as an ED by GASB in February 2003. This ED includes a number of proposed revisions, summarized in Appendix G, the most significant of which is to eliminate the proposal to exempt employers from measuring and reporting an implicit rate subsidy as an OPEB in certain circumstances.

The FMSB found that the "Other Proposed Changes" listed in Appendix G to be acceptable. However, a majority of FMSB members responding to the exposure draft disagreed with the proposed elimination of the exemption for implicit rate subsidies, and agreed with the Board's initial position regarding implicit rate subsidies which exempted certain employers from accounting for implicit rate subsidies to retirees. One member also disagreed with the requirement for employers that use the alternative measurement method to adjust premiums for age (see 1.b. below).



1. FMSB members thought that the cost-benefit argument offered in the original ED continues to be valid and found certain arguments made by the board member espousing the alternative view to be compelling. Specific concerns included:
  - a. Employers should not be required to include a rate differential in their actuarially calculated contribution requirement for retired employees. To do so would increase the OPEB liability by an amount that most likely will not be liquidated. In addition, the liability for pay-as-you-go governments will be padded. When an employer *chooses* to commingle active and retired employees in a health insurance plan and *chooses* to impose a premium on employees that is based on the experience of the group as a whole, to require that employer to calculate and report an additional expense for the implicit rate difference between the groups is not a better measure or an improved approach. That approach does not reflect the reality of the employer's management decisions. That is not to say that this issue is comparable to an employer's decision to pay benefits as they arise rather than set aside assets in a trust. There is no question that OPEB should be measured and recognized in governmental financial statements regardless of payment preferences.
  - b. Employers should not be required to focus on retired employees as a group that should be treated differently for contribution purposes. It does not seem appropriate to pinpoint age alone considering the existence of other high-risk groups, such as smokers or the obese. What about groups known, by the insurance industry and medical research bodies, to have increased risk of developing certain illnesses or conditions based on race or gender?
2. In the opinion of the FMSB members, the Board has not justified the additional cost of the calculation. It does not meet the cost-benefit analysis criterion. As long as the employer is not committed to make *any explicit* contribution toward the payment of the premiums assigned to retirees, the employer should not have to bear the cost of measuring and reporting the implicit rate subsidy as OPEB. While such information is potentially useful and the cost is an additional cost ultimately born by the employer, it is not evident that the usefulness of the information justifies or outweighs the potential costs of calculating and reporting this information.

Again, the FMSB appreciates the opportunity to provide comments on this proposed Statement. Should you have any questions, or desire further details on FMSB's position, please contact me at [MurrayC@michigan.gov](mailto:MurrayC@michigan.gov) or (517) 334-8050 or Anna D. Gowans Miller, CPA, AGA's Technical Manager and the FMSB facilitator for this project, at [amiller@agacgfm.org](mailto:amiller@agacgfm.org) or (703) 684-6931, ext. 203.

Sincerely,

A handwritten signature in blue ink that reads "Craig M Murray". The signature is written in a cursive style with a large, looped "M".

Craig M. Murray, CPA, Chair,  
AGA Financial Management Standards Board

cc: Jullin Renthrope, CGFM, CPA  
AGA National President