

1620 26th Street
Suite 230 South
Santa Monica, CA 90404

310.401.8057 Direct

Brian Whitworth
Senior Vice President

brian.whitworth@firstsw.com

Mr. David R. Bean
Director of Research and Technical Activities
Governmental Accounting Standards Board
Project Nos. 34-1E and 34-1P
401 Merritt 7
Norwalk, CT 06856-5116

August 29, 2014

Dear Mr. Bean,

RE: Projects No. 34-1E and 34-1P, OPEB

On behalf of First Southwest Company, we appreciate the opportunity to provide comments regarding these Exposure Drafts. We understand the Board's desire to have OPEB disclosures which are similar to those for pensions in GASB 67 and 68. However, we do have specific suggestions which we hope the Board will consider.

Discount Rates. Paragraph 32 of Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans requires nine different measures of net OPEB liability (combinations of + or – 1% from the assumed discount rate and healthcare cost trend rates). However, there appears to be no requirement for employers who trigger a blended rate, or who are funding OPEB on a pay as you go basis to disclose the net OPEB liability assuming a discount rate under Paragraph 45a. Such a discount rate would typically be higher than a discount rate for a pay as you go plan, and that higher discount rate would often be similar to discount rates used by retirement systems which employers participate in.

Pay as you go pension plans are quite rare, but pay as you go OPEB plans are still very common. One of the most common questions related to OPEB for an employer who is pay as you go is "What would OPEB liabilities be if fully prefunding?" Thus, it would be useful to see the size of their liabilities assuming a funding plan where all benefit payments are discounted at the (higher) rate of Paragraph 45a. Especially for employers who are in multiemployer OPEB systems with centralized actuarial work, it would be more effective and efficient to require such a disclosure.

Implementation Date for Employers. The current expected effective date for employer financial statements is for fiscal years beginning after December 15, 2016. We suggest that the Board consider an implementation date for smaller employers (fewer than 200 plan members) that is one year later. This would allow smaller employers, their actuaries, and their accountants to learn from the experiences of larger employers, rather than all rushing to implement at the same time. GASB 45 was implemented in stages, and we suggest that the proposed new rules be implemented as planned for fiscal years beginning after December 15, 2016 for employers with 200 or more plan participants, but to implement a year later for small employers with 199 or fewer participants.

Public entities have fiscal years which are predominately for years ending 6/30, 12/31, 9/30 and 8/31. Many more OPEB plans are single employer plans than for pensions (where large statewide pension systems are quite

common). The combination of these two facts could lead to a very large demand on actuarial, audit, and educational resources at one time. The peak demand could be much higher for OPEB than for GASB 68, because there are so many more OPEB plans and actuarial studies administered at the employer level. To give just one example, CalSTRS has over 1600 member employers, and will do much of the GASB 67 and 68 implementation work. However, CalSTRS does not administer OPEB for its member employers. Most of those employers have OPEB plans, and their sizes range from a few employees to over 50,000.

If there was only one implementation date, employers who obtain OPEB studies every two years would tend to stay synchronized, creating peaks and valleys in workload. In contrast, if reporting under new standards began one year later for smaller employers, workload for auditors and actuaries would be more consistent from year to year. This may improve timeliness of financial reporting and reduce the chance of errors.

Thank you for this opportunity to comment on the Exposure Drafts.

Sincerely yours,

Brian Whitworth
Senior Vice President, FirstSouthwest
Senior Vice President, FirstSouthwest
1620 26th Street, Suite 230 South, Santa Monica, CA 90404
brian.whitworth@firstsw.com
310.401.8057