Letter of Comment No. 52
File Reference No. 34-1E
Date Received: 8/29/2014

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Mr. David Bean
Director of Research and Technical Activities
Governmental Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

Re: Project No. 34-1E

Dear Mr. Bean:

On behalf of the Division of Local Government and School Accountability within the New York State Comptroller's Office, we appreciate the opportunity to provide comments to the Governmental Accounting Standards Board's exposure draft *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.*

Overall, we agree with the Exposure Draft that the most rational approach for other postemployment benefit (OPEB) liabilities is to treat OPEB liabilities in a manner similar to pension liabilities. Eliminating the option for a 30 year amortization period may have a significant negative impact on the OPEB liability recognized on the Statement of Net Position of many local governments in the first year of implementation; however, we do agree with the intent of, and most of the content within, the Exposure Draft. We have two main concerns with the Exposure Draft. We also have provided some additional comments on various topics covered in the Exposure Draft.

First, we question the new biennial actuarial valuation requirement (paragraph 145) for smaller local governments. Cost is of utmost importance to small local governments when deciding whether to prepare their financial statements in accordance with Generally Accepted Accounting Principles (GAAP). Any increase in the cost of preparing GAAP statements could have the unintended consequence of forcing small local governments in New York to stop preparing GAAP statements. We recommend keeping the current actuarial valuation frequency requirement set forth in GASBS 45 (three years for employers with less than 200 employees). In addition, the need for the biennial actuarial valuation requirement would be mitigated if the Board were to implement our recommendation for the determination of the discount rate below.

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Second, although we agree that local governments should use more consistent discount rates in their actuarial assumptions, we question the proposed approach that utilizes only a current rate of return (i.e., yield or index rate for 20-year, tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher (paragraph 153)) to calculate a liability that will be funded over an extended period of time. Unlike pensions, most OPEB plans do not have a qualifying trust that pays for future OPEB expenses; therefore, the Exposure Draft requires the entire OPEB liability to be discounted using only this point-in-time prescribed rate. Because the OPEB liability is paid over a number of years, using a current point-in-time discount rate would add unnecessary volatility to the long-term OPEB liability calculation. We recommend using a multi-year, moving-average rate, such as a 20-year historical average rate of 20-year, tax-exempt general obligation municipal bonds. Employing a multiple year, moving-average rate would smooth the year-to-year volatility that would be introduced by the Exposure Draft's prescribed discount rate.

We believe that the proposed entry age actuarial cost method required by paragraph 154 (currently used by approximately 15 percent of local governments in New York that do GAAP reporting) best reflects the long-term nature of the service for benefits exchange because service costs are allocated most consistently over the attribution period. While the projected unit cost method (currently used by approximately 71 percent of local governments in New York that do GAAP reporting) may be easier to calculate, it is not as consistent as the entry age method. Since we do not see a significant increase to the volatility introduced by the entry age method (versus the project unit cost method), or the cost incurred by local governments, we are likely to agree with this change; however, we are continuing to assess the effects of the entry age method on local governments in New York.

We agree with all of the proposed methodologies for recognizing expense, deferred outflow of resources, and deferred inflow of resources (paragraphs 155-57), specifically those recognized over the average of the expected remaining service lives of employees

We also agree that under the current financial resources measurement focus and modified accrual basis of accounting (paragraph 159) that the long-term OPEB liability and related deferred inflows and outflows of resources should continue to be excluded from governmental fund reporting.

Lastly, we agree with the information and schedules required to be reported in the notes to the financial statements and as required supplementary information (paragraphs 160-69).

Thank you for the opportunity to comment on these issues affecting local governments in New York State. Should you have any questions regarding this response, please contact Daniel Duffy at (518) 474-5505 or dduffy@osc.state.ny.us.

Sincerely,

Gabriel F. Deyo