Pension and OPEB Study Commission
June 30, 2014
Minutes of the Meeting

A Study Commission meeting was held in the Senate Lounge of the State House, 82 Smith Street, Providence, Rhode Island on Monday, June 30, 2014.

Rosemary Booth Gallogly, Director of Revenue and Chairperson of the Pension and OPEB Study Commission called the meeting to order at 10:15 AM.

Commission members present: Rosemary Booth Gallogly, Dennis Hoyle, Richard Licht, Allan Fung, Antonio Pires, John Simmons, Paul Doughty, Steven St. Pierre, and Melissa Malone representing Gina Raimondo.

Members absent: Joseph Polisena, Jean Bouchard, J. Michael Lenihan, Angel Taveras, and there is a vacancy due to the retirement of the Jamestown Town Administrator.

Others present: Susanne Greschner, Chief of the Division of Municipal Finance, and members of the public.

Agenda Item #1 – Approval of minutes from May 19, 2014 – for vote, Attachment A

Chairperson Booth Gallogly asked if the Commission members had any corrections, adjustments, or additions to the draft minutes provided from the Study Commission meeting held on May 19, 2014. There were none. John Simmons, executive director for the Rhode Island Public Expenditure Council (RIPEC) made a motion to accept the minutes as written. The motion was seconded by Richard Licht, Director of Administration. The motion passed all in favor

Agenda Item #2 – Recommendations to the General Assembly – for vote, Attachment B

For the second item on the agenda, the Chair referred to Attachment B, the recommendations to the General Assembly. Over the two years that the Pension Study Commission (PSC) has been meeting, they have been successful in implementing changes in the locally administered plans to bring them to a more healthy status. However, the main task of the Pension Study Commission was to make recommendations to the General Assembly. The Chair pointed out that in many areas the Commission is of agreement, and that most of the differences are in the details, not the overall concepts. The PSC will hopefully make these recommendations through a consensus or at least with dissenting opinions so the General Assembly can understand where there is a difference of opinion. The PSC meeting minutes are all posted on the Division of Municipal Finance's website, so the General Assembly has the ability to review them and gain further insight into all the work the Commission has accomplished.

The first item for discussion on this agenda item is the oversight board. The Chair pointed out that although there may not be agreement on the board's composition, there is agreement on the general concept that there should be some sort of oversight. The Department of Revenue has recommended an oversight committee that includes the Director of Revenue or designee, the Auditor General or designee, the Executive Director of the State Retirement Board, and two independent public members. Upon review of a survey sent out to all PSC members, five members still had this under consideration, three agreed with this composition, four suggested a modification, and one disagreed with this composition. One item which came up was whether the Executive Director of the State Retirement Board was an appropriate party, with a suggestion that possibly the General Treasurer or designee be appointed. The mayors and the unions also expressed a desire for representation. The Division of Municipal Finance looked at PERAC's membership, which is the seven-member oversight board for Massachusetts, as a model, which has a former mayor or town manager, two union members, a citizen, an investor, an administration and finance representative, and the Auditor General or designee as members of the committee. *[Editors note: According to PERAC'S website, the seven-member board is composed of three members appointed by the Governor; the Governor or designee, a representative of a public safety union, and an expert in the investment of funds, three members appointed by the State Auditor; the Auditor or designee, the President of the Massachusetts AFL-CIO or his designee, and a representative of the Massachusetts Municipal Association, and one member appointed by the other six members who serves as Chairman.]* A balance to be reached is having the new board not be as big as the PSC, but still have the representation of interested parties.

One concern is the idea that it may be hard for a sitting mayor or town manager to take a position against another city or town. The Chair asked the Commission whether having a former city or town manager on the oversight committee would work in Rhode Island, whether they would have the perspective that the Commission is looking for in a committee member, and whether the Commission should recommend an acting city or town manager, or someone from the League of City and Towns. The Chair stressed that through this process there will be ample time for input from all interested parties through public hearings. Furthermore, there is a need to comprise a committee of members whose votes are not always tied to their personal interests.

John Simmons commented that it makes sense to take a "form following function" approach. First look at the function of the committee before its membership, deciding first what you want it to do and what authority it will have, then looking at what would be the best makeup of a committee to accomplish these functions.

Based on the suggestion of Mr. Simmons, the Chair then moved on to the second item for discussion, concerning the authority and powers of the oversight board. Among the suggestions, one, credited to Mark Dingley from the General Treasurer's Office, was utilizing colored ranking zones with certain requirements for each ranking. It was recommended that the new oversight body research concepts in order to provide an automatic correction for plans that enter a low funding range. Any concept that is developed would be vetted through the public hearing process and, when necessary, through the legislative process. The Chair then went over some of the recommended powers of the new oversight body, as outlined on page 4 of Attachment B, Exhibit I.

One of the things that came up was whether or not having a funding policy adopted by a local governing body was an important component. With the arrival of the new GASB regulations, there will be the funding methodology, GASB 67 & 68 disclosures, and then potentially the rating agency's interpretation of the health of your pension plan, decided through the application of their own metrics. Therefore, to determine whether they are keeping up with their funding and following their funding improvement plan (FIP), it is important that a funding methodology officially be approved.

Another question that came up was whether or not the board would have the authority to override a methodology. The Chair answered that yes it would, if it was not consistent with actuarial principles. If not given certain powers, then why have an oversight board?

The next question was whether the board would have the authority to withhold state aid. The Chair commented that she believed this would have to be legislated, and that the board wouldn't have such authority unless it was in statute. Right now, the Treasurer has the authority to withhold aid if an entity hasn't submitted a FIP; however, this has yet to happen. Director Licht asked if the withholding of aid includes all aid, including educational funding. The Chair replied that it would exclude educational funding. Melissa Malone, representing Gina Raimondo, asked if these would just be the municipal plans or would they include the fire districts, because the fire districts don't receive aid which could be withheld against them. The Chair replied that this would be an issue in regards to the teeth the board would have over the fire districts. Regardless, this would still apply to fire districts. The Chair conferred with Susanne Greschner, Chief of the Division of Municipal Finance, who agreed that it would include them as well as water and housing authorities, who also fall under the statutory definition of "municipality." (Note: Pursuant to R.I. General Laws §45-21.5-4 a "municipality" means any town or city in the State of Rhode Island, any city or town housing authority, fire, water, sewer district, regional school district or public building authority, as established by chapter 37-14.) Director Licht asked if the criteria would be the same for the fire districts as it would be for the municipalities. The Chair affirmed that it would, however some would not apply, citing credit ratings as an example, which fire districts so far do not have. An example of something that would apply, however, would be audits.

Director Licht asked if there is a requirement under the receivership statute to pay the Annual Required Contribution (ARC). The Chair answered that there is not. Director Licht asked what if the PSC recommended the 95% criteria to the General Assembly as one of the factors that the Director of Revenue gets to look at, which would allow them to recommend the withholding of state aid. The Chair and Chief Greschner replied that funding of the ARC was a requirement in the guidelines, but the Chair agreed that she liked the idea to include the funding requirement as a criteria in the Fiscal Stability Act.

John Simmons expressed his concern to keep in mind outside economic factors facing both municipalities and the state which may alter FIP's as well as state aid. Mayor Fung, from the City of Cranston, agreed, stating that the PSC should focus more on what could potentially go on within municipal and state budgets and economics rather than just focusing on the revenue side of the issue, forcing municipalities to make payments regardless of their situation. Mayor Fung expressed his concern over the authority and power section of the draft recommendation since the language the PSC is using could be taken as mandates, granting power which is of such authority, the board would merely be calling pension plans in and shaming them into using tantamount to assuming fiduciary responsibility over many of those boards. Steven St. Pierre, Sergeant of the Bristol Police Department, echoed Mayor Fung's sentiments, stating that these recommended mandates are in conflict with the first sentence of the proposal, which states that the authority and power of the oversight board is not intended to interfere with the collective bargaining process or encourage unnecessary involvement in municipal affairs. The Chair expressed concern with an oversight board that just called in pension plans with an expert actuary, to dispute assumptions the plan was using, but have no power other than to shame them to not use unacceptable actuarial standards. Mayor Fung stated that he feels there should be varying degrees of authority over those plans in critical status and those which are not. John Simmons commented that for the non-MERS system, we're now implementing a funding requirement or the withholding of state aid that was not bi-laterally agreed upon like with the MERS system. Melissa Malone commented that making them adopt a funding policy is not an onerous requirement, as that is something a prudent board should already be doing. John Simmons asked about whether the state has a funding policy they must adhere to, to which Director Licht replied that they do by statute.

John Simmons then looked at the fundamental authority of the group. One question was whether to require funding plans for all municipalities, or whether you have to have a funding improvement plan only if the plan is distressed and not properly funded, and whether that was a rational starting point. Also, the PSC must decide on the board's level of fiduciary responsibility, if any, and whether they could make changes such as adjusting a plan's rate of return. The Chair stated that one reason you want all the plans to have FIPs is to avoid healthier plans falling into critical status. The second reason is to make sure the plans have actuaries that will stand behind what their assumptions are, and that everybody knows the risks if they are not achieved. On the withholding of the state aid, the Chair stressed her belief that there needs to be teeth associated with holding plans accountable to follow through with what they said they were going to do, which helps ensure the sustainability of the plans. There also needs to be some assurances to the retirees and actives on distressed plans that may have given up benefits that the ARC is going to be funded. The Chair also stated that maybe there needs to be some extraordinary event exceptions to provide relief if there's a major downturn in the market that has an immediate impact.

Antonio Pires, Director of Administration for the City of Pawtucket, stated that he believed that the fundamental question here is whether or not the PSC is going to recommend to the legislature the creation of what essentially is a regulatory body, or are they recommending an advisory panel. The debate needs to be centered on what powers this board is going to have. What is important is to save the system for both the actives and the retirees, while keeping it affordable for tax payers. There has to be some level of trust that the composition will be able to protect all interested parties. Instead of trying to tell the legislature what the board will look like, the fundamental sale is to convince them that the system currently in place doesn't work and that we have to create a different authority with a composition that will reflect the interests of all of the parties. Mr. Pires believed that the decision of whether or not to withhold state aid would have to be made at the legislative level.

Director Licht stressed the importance that standards exist for both critical plans and non-critical plans. The oversight board shouldn't decide the actuarial assumptions, but every plan should have to have an actuary, and that actuary should be approved by the oversight board in some manner. He stressed that we got in this mess because no one was paying attention, and to avoid this in the future all plans should be reviewed. The board needs to have powers, with discretion to exercise them, with nothing being mandatory. Mayor Fung agreed that finding that proper balance of power and authority is important, but stressed his concern over the mandating language being used.

Paul Doughty, President of the Providence Firefighters Union Local 799, stated that he believed non-critical plans should be given the freedom to do what they think is right. He believed that the focus should be on the ones in critical status, and making sure that they follow their FIP. The Chair asked what about a plan that is heading towards critical status. Mr. Doughty said that perhaps it should include those in critical status, as well as those who show a certain percentage of decline during a set number of years or a similar measure.

Dennis Hoyle, State Auditor General, said that the funding policy is more important now than ever because now that GASB is just doing the accounting, you need a funding policy that is rooted in sound actuarial principles. He also believes this should apply to every plan, regardless of their current funding status.

Antonio Pires commented that it's similar to rating agencies only looking at lower rated municipalities and ignoring the current highly rated ones. There's a danger of the credit of the high rated ones slipping. Mr. Pires restated his belief that a strong regulatory body is needed to keep these plans in check, citing the importance of having such a body when administration change and change in administrative philosophies is common. He also stated that he believed no matter how the PSC structured the regulatory board in the beginning, that board would take it upon itself to assume a tremendous amount of power and authority.

In regards to the language, Melissa Malone discussed going back to a funding policy, which there seemed to be a consensus that everyone should be doing that now, making it not an onerous requirement. The debate seemed to really circle around whether or not someone can have their state aid withheld. Ms. Malone restated her belief that all plans regardless of their funding level should be monitored. Mr. Doughty countered that you have to get these municipalities on board, and that it's unlikely for one with a healthy plan to volunteer to be placed under such scrutiny. Ms. Malone said she thought that since they should be taking these measures anyway, that they may want such scrutiny in order to be proactive and to be guided on a continued path of prosperity. She again stated that these are still just recommendations, not requirements at this point.

Director Licht stated that the board should remain aware of best actuarial practices and call to attention those who are not following them. The board should examine early warning signs and say what they are, and call the public's attention to them. The Director has trouble changing the language where the board has the ability to change actuarial assumptions. He felt that the requirement to have board approved and/or certified actuaries is important, and that if a municipality ignored that person's actuarial assumptions, some light should be brought on that.

The Chair feels that it has to be very clear that if the board only has the ability to shine the light on these issues, that the body isn't responsible for these plans, and doesn't have the power to make people take the right actions. The last thing that the Chair wants is a body that is supposed to be a regulatory body but has neither power to do anything nor any authority to help get the plan fixed. If there is to be a regulatory body then they need to act like a regulatory body.

Mayor Fung stressed his previous point that he has no problem with creating that authoritative structure; however, it can't just be on the revenue side. The plans need to be given the necessary tools and guidance to manage their expense side.

The Chair then came up with an example of someone who has submitted a FIP which the board says meets the guidelines and give blessing to go negotiate it. Then the negotiation fails and it goes to arbitration, where they rule that the employees will get all their pension benefits back and more. This in turn raises the ARC, causing them to not be able to implement their FIP. What do we do as a PSC? Does the PSC tell them to start a new FIP all over again? Should the report include a situation where a municipality is unsuccessful accomplishing their FIP because of binding arbitration? Mayor Fung said that it should.

Melissa Malone asked how many plans would not be in critical status, if the idea was to not incorporate them all. Chief Greschner replied that roughly 10 out of 34 plans are not in critical status, with a few being close to the critical status level.

Antonio Pires asked what it was that the PSC wanted to accomplish today, seeing as this would be their last meeting until the fall. He also asked whether there's been any dialogue at all with Senate or House leadership, formal or informal, with regard to where the PSC is on this matter. The Chair replied there's been no such dialogue. To answer Mr. Pires' first question, the Chair stated she would like some consensus on the big picture issues, and to be able to make recommendations to the General Assembly even with dissenting opinions.

Steven St. Pierre commented that he feels they are very close and do have consensus on some of the major issues, and that through this process a lot has been accomplished. Right now it's the balance that the PSC is having trouble finding. He feels that there's just some parts with the language that we're missing, but it's close. Dennis Hoyle echoed the sentiment that a lot has been accomplished, but locking in what's been accomplished and making sure it sticks is important, and Mr. Hoyle wasn't sure we had that structure in place now. He further commented that the severity of the problem dictates a strong solution, with a board having some strong powers.

John Simmons said the other mechanism we have in play is the budget commission. Ultimately, a pension is only but one item of a fiscal plan. Looking back, Mr. Simmons stressed the great achievement of the PSC that now every municipality that has a local plan has a FIP that shows what they're funding and when they will get to a healthy funding level.

Director Licht felt there should be a report that details what the PSC has accomplished during it's time in existence. For example, getting these plans to implement FIPs. This would give more credibility to the recommendations the Commission makes.

Mayor Fung said that if we're going to put something in front of the legislature, it should be a summary of what the PSC has done so far, as well as a chart similar to the one provided in exhibit II of the attachment B handout, that outlines some of the key points with some of the concerns and alternative recommendations. That way, the legislature can look at that as a basis for when they debate the creation of the board.

Antonio Pires recommended a small, informal briefing with the Senate President and House Speaker, perhaps along with an individual representing the unions and an individual representing the cities and towns. That way, the Commission members could tell them what the Commission has accomplished and where the Commission wants to go, while gathering some feedback as to how willing they are to create a strong regulatory body. The Chair agreed that this was a great suggestion.

Director Licht followed by saying he thought it would be helpful to bring them a draft piece of legislation that they can sign onto, even if it is highlighted with controversial sections where there is not a consensus. Director Licht also thanked the Chair for her leadership and ability to direct the PSC on these important issues, as well as the staff of the Division of Municipal Finance for its hard work on putting together these reports for the Commission. The Chair thanked Director Licht for his diligent service to the PSC and wished him luck on his new position.

Agenda Item #3 – Budget Article 2, letter to municipalities, Attachment C

The Chair then moved on to Agenda Item #3. This was an informational letter to the cities and towns in regards to what's going on with the FIPs.

Agenda Item #4 – Revised funding improvement plan guidelines – for vote, Attachment D

The Chair then discussed Agenda Item #4, the revised funding improvement guidelines. This is to address some of the issues that have come up, such as an arbitration decision affecting the carrying out of the FIP. The Chair didn't ask the PSC for comments on this at this point.

Agenda Item #5 – GASB proposals on OPEB, Attachment E

The Chair then briefly discussed GASB's OPEB accounting standards, and gave the PSC information pertaining to that via handout.

Agenda Item #6 – Public Comments

A public comment was received from Peder Schaefer, Associate Director of the Rhode Island League of Cities and Towns. He indicated he thought there were many former town managers and mayors who could serve as members of the proposed regulatory body.

Agenda Item #7 - Adjourn
Antonio Pires made a motion to adjourn, which was seconded by Steven St. Pierre. The meeting adjourned at 11:45 AM.

Chairperson	Date

PSC/nd

Addendum to the June 30, 2014 OPEB and Pension Study Commission Meeting Minutes

ATTACHMENT B

EXHIBIT I

JUNE 30, 2014

Recommendations to the Governor and General Assembly

Local Pension & OPEB Study Commission

Working Document

DRAFT

Introduction

Many positive steps have been taken by municipalities to address pension and OPEB liabilities. However, pension and OPEB funding issues continue to exist on the local level. The problems are in some instances both severe and urgent, and continued oversight and work with the municipalities is needed to ensure both fiscal stability for the municipalities, and pension and healthcare security for municipal employees and retirees.

There is a very real debate over how much guidance is welcomed or expected by municipalities but the overarching goal is to provide security and stability for municipalities, retirees, and citizens. Awareness and education is not a compelling enough outcome for the Pension and OPEB Study Commission ("Commission").

The Commission is charged with making recommendations to the General Assembly. Specifically, pursuant to R.I. General Laws §45-64-8 the Commission

> *"shall review existing legislation and pension plan administrative practices and to make recommendations for the improved security and funding of locally-administered plans and other post-retirement benefit obligations of cities and towns."*

The Commission has agreed to put forth nine recommendations which will deliver results and help municipalities meet the challenge that will ensure sustainable benefits and benefits that are affordable and competitive.

Recommendations

1. Establish a Local Pension Plans Oversight Board

Finding. The Locally-Administered Pension and OPEB Study Commission finds that there is a strong need for continued oversight of local pension and OPEB plans. This need is demonstrated by the review process undertaken by the Commission and the ongoing nature of the material reviewed by the Commission and support staff, including valuation reports, experience studies, funding improvement plans, and testimony related to actual implementation of improvement plans.

Guiding Principles. The form of oversight should be guided by the following principles, and all decisions from the oversight body should reflect these principles:

- Foremost, the need for sustainable government
- A commitment to intergenerational equity (by recognizing promises to retired employees and not shifting costs to future generations) balanced with cost control
- Consideration of the need for competitive retirement benefits balanced with the prudent use of taxpayer dollars (for municipal services, education, maintenance of credit ratings)
- Activities, deliberations and determinations are transparent and respect the public trust

- Funding policies and related methodologies adopted by the locally-administered pension plans are consistent with sound financial, accounting, and actuarial principles

The Commission recommends amending RIGL §45-65-8 to replace the study commission with an oversight board with the responsibility of overseeing all locally-administered pension plans. The membership of the board would include the following persons:

Membership of the Local Pension Plans Oversight Board.

See Exhibit II (for commission members to provide comment, suggested changes or a dissenting view)

- Director of revenue or designee
- Auditor general or designee
- Executive Director of State Retirement Board
- Two independent public members with expertise in finance, investments, accounting or actuarial expertise to be selected by the other members of the Oversight Board from a list of names provided by the Rhode Island Public Expenditure Council

Comment: There is apprehensiveness towards the composition of the oversight body as drafted, that the body will be dictating to the municipalities and/ or labor without consideration of the interests of these groups. The composition of the oversight body was designed to be apolitical and would engage interested parties by way of a public hearing process. It is not the intention to have the oversight body decide benefit structure. Discussion included these possible board members:

- Local mayors or managers
- Police, fire and municipal representatives – both active and retiree representation
- League of Cities & Towns
- Representative designated by the League
- Treasurer's office

Authority and Powers of the Local Pension Plans Oversight Board.

See Exhibit II (for commission members to provide comment, suggested changes or a dissenting view)

The authority and powers of the Oversight Board are not intended to interfere with the collective bargaining process, or encourage unnecessary involvement in municipal financial affairs. Rather, it is intended to shine a bright light on problems and develop broad solutions using objective criteria of sound actuarial, accounting and financial practices.

For example, one suggestion is to utilize a ranking (red, yellow, green zones) with certain requirements for each ranking. It was recommended that the new oversight body research concepts in order to provide an automatic correction for plans that enter a low funding range. Any concept that is developed would be vetted through the public hearing process and, when necessary, through the legislative process.

- Develop regulations that would set the parameters for the work of the Oversight Board. The regulations would be developed through a public hearing process. The oversight body would contact municipal governments and plan participants via plan sponsors, to engage in dialog and written comment on proposals. The public would be encouraged to participate in recommendations through a public comment period or hearing process.
- Require all local governments with defined benefit pension plans to formally adopt a funding policy, subject to approval by the Oversight Board, which provides for actuarially sound, reasonable assurance that the cost of those benefits will be funded in an equitable and sustainable manner.
- Adopt guidelines for all locally-administered plans, including those in critical status, and utilize these guidelines to provide a standard for measuring the fiscal health of the plan, improvement in funded status and compliance. While not in statute, the guidelines would provide an objective tool for determining FIP progress.
- Review, approve, or disapprove funding improvement plan submissions for those plans in critical status.
- The ability to withhold state aid if:
    a. there are two consecutive years of not paying at least 95% of the actuarially determined contribution
    b. increases in benefits are granted when the plan is in critical status
    c. failure to take actions required in FIP or failure to submit a FIP
- Request data from the locally-administered pension plan regarding its investment and asset allocation policy, and actual investments when the plan's investment performance is 200 basis points or more below the MERS investment return for the same comparable two-year period calculated pursuant to GASB 67 guidelines. The Board may also make recommendations or require investment of the pension fund assets by the State Investment Commission when deemed necessary and appropriate after consideration of the investment policies and investment performance of the locally-administered plan.
- Advocate for sufficient resources to fund the activities of the Division of Municipal Finance in support of the Board's responsibilities as part of the annual budget process.
- Power to question and require modification of actuarial assumptions and methodology used in the valuation to ensure compliance with reasonable actuarial standards and best practices.
- Establish training standards for members of all locally-administered pension boards or investment bodies. This could include minimum continued education requirements for fiduciary training, investments, ethics, and open meetings. This

training requirement should be designed to be flexible so that it does not place an undue burden on local pension and investment board volunteer members.
- Ability to refer complaints regarding pension fraud or other matters and refer to the appropriate investigative enforcement body. The process for whom to contact would be outlined by the oversight body in regulation.
- Consider establishing units for actuarial, audit, investment, legal, disability, fraud, information technology and communication services.
- Review and accept annual report, prepared by the Division of Municipal Finance, and submit report to the governor and general assembly.

The Division of Municipal Finance will provide staff support for this board, including but not limited to:

- Maintain a database of all actuarial valuations which summarizes key information from the valuations.
- Collect and analyze municipal data and make recommendations to the oversight body based upon the principles described and best practices.
- Prepare an annual report summarizing the plans in critical status addressing the progress made and compliance with the guidelines.
- Provide oversight to ensure FIP implementation is on track.
- Confirm whether FIPs have been approved by the governing body of the municipality.
- Provide ongoing education and training.

2. Monitor OPEB plans

Require the submission of OPEB valuations, similar to the requirements for pension valuations, to the Auditor General and Division of Municipal Finance.

3. Amend legislation

Amend RIGLs §44-35-10, §16-2-21.6, and §45-5-22 related to collective bargaining, relating to fiscal impact statements to require that an actuary provide a statement, with cost estimate, for collective bargaining changes effecting pension and OPEB items, prior to entering into them, if there is a material change.

Comment: There was discussion about whether this recommendation was an unfunded mandate. Some commissioners thought that seed money for the first year of implementation would be appropriate. Others on the commission stated that municipalities should know the full cost for benefits as it is a good management practice. The commission's actuary stated that this is not necessarily a huge cost and the actuary can help in this process.

See Exhibit II (for commission members to provide comment, suggested changes or a dissenting view)

4. Municipal Incentive Aid
Recommend continued funding through the Municipal Incentive Aid program for municipalities if criteria according to the statute are met.

- Amend the statute for municipal incentive aid: if a municipality is not eligible to receive the aid in FY 2014, the respective amount would be re-appropriated into the following fiscal year, at which time the amount re-appropriated would be distributed to the municipality provided that the municipality has satisfied the eligibility requirements for the prior fiscal year and the current fiscal year. This recognizes that the timing for meeting the guidelines for some municipalities will not impose an unintended punitive effect.
- Amend the statute so that the Required Funding Contribution only applies to municipalities that have a funded ratio below 100%. The statute requires that pension plans that are not in critical status fully fund the Required Funding Contribution in order to receive the incentive aid.
- Issue revised guidelines (see attached).

<u>Comment: The first two bullet points in recommendation #4 have been addressed in the budget passed by the House. The revised guidelines have not been discussed by the Pension Study Commission and will be included on the Commission's June 30 meeting agenda.</u>

5. Voluntary Program to Invest Plan Assets
Require the State Investment Commission to administer a program which invests assets of locally-administered pension plans or OPEB trusts on a voluntary basis.

See Exhibit II (for commission members to provide comment, suggested changes or a dissenting view)

6. OPEB Trust
Establish a state-wide OPEB trust to maximize efficiencies and investments for local plans. Consider whether a trust should be created by the State or as a collaborative of cities and towns. Both could be established to administer benefits and/or pooling of investments (specify minimum number of municipalities volunteering to participate in order to create structure, possibly 5?).

See Exhibit II (for commission members to provide comment, suggested changes or a dissenting view)

7. Expand Criteria for Fiscal Stability
Include criteria that the "critical status" of a locally-administered pension plan would be considered as one of the criteria under the provisions of the Fiscal Stability Act.

8. Voluntary MERS Pathway

Create a voluntary optional pathway to MERS that interested communities can follow:

- Consider providing one-time incentives
- Provide specific period to reach benchmark funding requirements
- Allow for re-amortization of recalculated unfunded liability
- Allow members to retain existing service credits
- Provide for state/school aid offset in the event of failure to make required funding payments

Comment: The commission did not appear opposed to this recommendation provided that it was recommended as a voluntary and optional pathway.

See Exhibit II (for commission members to provide comment, suggested changes or a dissenting view)

9. Funding Improvement Plans for OPEB

Require a funding improvement plan for OPEB, similar to the FIP for pensions.

See Exhibit II (for commission members to provide comment, suggested changes or a dissenting view)

Conclusion

The Commission is hopeful that these recommendations will enable Rhode Island municipalities to begin to effectively manage the substantial liabilities present in local pension and OPEB plans and put these plans on a path toward fiscal sustainability.

EXHIBIT II

Locally-Administered Pension Plans & OPEB Study Commission

COMMISSION MEMBER SURVEY SUMMARY

This is a summary of the working document of commission member comments with suggested changes to the recommendations. These comments are a not a final recommendation or vote.

Original Draft Recommendation	Responses	Comments and Modifications Suggested by Respondents
1. Oversight Board *Membership of the Local Pension Plans Oversight Committee.* ▪ Director of Revenue or designee ▪ Auditor general or designee ▪ Executive Director of State Retirement Board ▪ Two independent public members with expertise in finance, investments, accounting or actuarial expertise to be selected by the other members of the oversight committee from a list of names provided by the Rhode Island Public Expenditure Council	3 Agree 4 Modify 1 Disagree 5 Still considering	▪ Modify to include two retired participants and two active members in the plans. ▪ Modify to include general treasurer or designee since the treasurer's office staffs both the retirement system and investment commission. The executive director of the retirement system sees only half of the issues-administration not investment. ▪ Modify to include mayors/town administrators from small, medium and large communities. The League should continue to have a seat as well. ▪ Modify so that municipal government and labor must have an appointment to the oversight board. ▪ Disagrees with any oversight board that does not include the stakeholders (municipalities, retirees, labor, parties actually participating in those locally-adminstered municipal agreements) to an equal share of oversight responsibilities. Questions presence of Executive Director of State Retirement Board and ability of the oversight body to select two members proposed from a list of names provided by RIPEC.

<table>
<tr><th>Original Draft Recommendation</th><th>Responses</th><th>Comments and Modifications Suggested by Respondents</th></tr>
<tr><td>Authority and powers
▪ The ability to withhold state aid or require investment of pension funds by the State Investment Commission if:
a. there are two consecutive years of not paying at least 95% of the actuarially determined contribution
b. increases in benefits are granted when the plan is in critical status
c. failure to take actions required in FIP or failure to submit a FIP
▪ Request data from the locally-administered pension plan regarding its investment and asset allocation policy, and actual investments when the plan's investment performance is 200 basis points or more below the MERS investment return for the same comparable two-year period calculated pursuant to GASB 67 guidelines. The Board may also make recommendations or require investment of the pension fund assets by the State Investment Commission when deemed necessary and appropriate after consideration of the investment policies and investment performance of the locally-administered plan.
▪ Require all local governments with defined benefit pension plans to formally adopt a funding policy, subject to approval by the Oversight <u>Board</u>, which provides for <u>actuarially sound</u>, reasonable assurance that the cost of those benefits will be funded in an equitable and sustainable manner.</td><td>2 Agree
3 Modify
3 Disagree
5 Still considering</td><td>▪ Modify language--subject to approval by the State Investment Commission.
▪ Suggest modification that the authority and powers recommendation should separate the two items contained in this section. One would be the ability to withhold state aid and a separate authority and power of having the ability to require investment of pension funds by the State Investment Commission.
▪ Disagrees with withholding state aid.
▪ Disagree with requirement that all municipalities formally adopt a funding policy which must be approved by the oversight board.
▪ Concern that withholding state aid and requiring investments by the State Investment Commission is too much state power over a local issue.
▪ Modify by deleting or defining "increase" in benefits since pension benefits may be made up of several benefits.
▪ Does not support local plans being invested by the SIC.
▪ Does not support using the MERS investment return as benchmark. Prefers separate independent benchmark.
▪ Does not support requiring a plan to be invested by SIC when deemed "necessary and appropriate." Considers this overreaching and lacks specifics for support.</td></tr>
</table>

Original Draft Recommendation	Responses	Comments and Modifications Suggested by Respondents
3. Amend Legislation Amend legislation (RIGL §44-35-10, §16-2-21.6, §45-5-22) related to collective bargaining, relating to fiscal impact statements to require that an actuary provide a statement, with cost estimate, for collective bargaining changes effecting pension and OPEB items, prior to entering into them, if there is a material change.	4 Agree 3 Modify 0 Disagree 6 Still considering	▪ Agrees with recommendation but concern that commission is not going far enough with its recommendations. Suggests additional recommendation of enabling legislation where municipalities with plans in critical status can freeze COLAs when in critical status. Also suggests enabling legislation that provides flexibility to move toward a defined contribution plan. ▪ Modification was not explained by commissioner so clarification was requested. ▪ Modify to strike the last qualifier so that any change is examined for cost implications. Define material. ▪ Modify to include cost offset if the state is mandating this. Both labor and management should be required to review and acknowledge the cost estimates.
5. Voluntary Program to Invest Plan Assets Require the State Investment Commission to administer a program which invests assets of locally-administered pension plans or OPEB trusts on a voluntary basis.	6 Agree 1 Modify 0 Disagree 6 Still considering	▪ Modify language--authorize SIC to administer program instead of requiring it. ▪ Unsure about this recommendation, asked how SIC feels. ▪ Language should highlight that is it voluntary and participation is contingent on agreement by municipality and labor body.

Original Draft Recommendation	Responses	Comments and Modifications Suggested by Respondents
6. OPEB Trust Establish a state-wide OPEB trust to maximize efficiencies and investments for local plans. Consider whether a trust should be created by the State or as a collaborative of cities and towns. Both could be established to administer benefits and/or pooling of investments (specify minimum number of municipalities volunteering to participate in order to create structuring, possibly 5?).	5 Agree 3 Modify 0 Disagree 5 Still considering	▪ Modify that OPEB trust is voluntary. ▪ Modify that trust is voluntary and healthcare plans for existing retirees must be equal or equivalent to CBAs. ▪ Modify to remove administering benefits as this is very burdensome. ▪ Agree as long as local plan retains control over the benefit and cost structure. ▪ Agree that this is voluntary and contingent on agreement by both municipality and labor body. A collaborative of municipalities would foster greater independent responsibility.
8. Voluntary MERS Pathway Create a voluntary optional pathway to MERS that interested communities can follow: ▪ Consider providing one-time incentives ▪ Provide specific period to reach benchmark funding requirements ▪ Allow for re-amortization of recalculated unfunded liability ▪ Allow members to retain existing service credits ▪ Provide for state/school aid offset in the event of failure to make required funding payments.	2 Agree (RBG, DH) 6 Modify (JB, MD, PD, AF, RL, SS) 0 Disagree 5 Still considering	▪ Modify that pathway is voluntary and can't leave closed plans behind. ▪ Modify that MERS path is only upon agreement of union membership in the municipality, ▪ Modify that one-time incentives are not monetary. ▪ Modify pathway to MERS is subject to approval of State Retirement Board. ▪ Voluntary by both municipality and the effected bargaining unit. ▪ Modify that this is a voluntary and optional vehicle and contingent on agreement by both municipality and labor body. ▪ All parties must also recognize that funded status of the individual plan was not recognized in the recent legislative changes (well funded plan was effected). Adding debt to MERS may not be prudent.

Original Draft Recommendation	Responses	Comments and Modifications Suggested by Respondents
9. Funding Improvement Plans for OPEB	3 Agree 3 Modify 1 Disagree 6 Still considering	▪ Modify by establishing more reasonable criteria for what constitutes a healthy plan. ▪ Recommends studying the feasibility of establishing FIPs for OPEB. ▪ Suggests new board explore various options for local OPEB plans and really advocate for a cost effective state-wide solution before replicating the same FIP process for OPEB plans. ▪ Disagrees that FIPs be required. Suggests only monitoring at this time with recommendations for improvement. ▪ Should be administered in the same fashion as present study commission guidelines for pensions, not necessarily those recommendations made in this draft.

Attachment C

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

Department of Revenue
Rosemary Booth Gallogly, Director
One Capitol Hill
Providence, RI 02908-5855

TEL: (401) 574-8999
FAX: (401) 574-8997
TTY Relay: via 711

June 23, 2014

Dear Mayors, City and Town Managers, and Town Administrators:

Governor Chafee has proposed $5 million in his FY 2015 budget for the Municipal Incentive Aid program and the General Assembly just enacted it as part of the state's FY 2015 budget. As a reminder, the key points for eligibility for this aid are summarized below.

The purpose of the Municipal Incentive Aid program is to encourage municipalities to improve the sustainability of their retirement plans and to reduce unfunded liabilities. The aid program provides *additional* state aid to those municipalities complying with the requirements and provisions of the law and is administered and managed by the Division of Municipal Finance within the Department of Revenue.

Specifically, R.I. General Laws 45-13.2-6 states that

> *"(c) For fiscal year 2015 and each fiscal year thereafter that municipal incentive aid is distributed to eligible municipalities under this chapter, municipalities shall be eligible to receive aid under this chapter, if:*
> *(1) the municipality has no locally-administered pension; or*
> *(2) the municipality has transitioned all locally-administered pension plans into MERS by June 30, 2014; or*
> *(3) the municipality had notified plan participants, beneficiaries and others pursuant to chapter 45-65 and had submitted to the state's department of revenue a FIP, pursuant to chapter 45-65, for every locally-administered pension plan and each submitted FIP meets the guidelines of the Study Commission on Locally-Administered Pension Plans created pursuant to section 45-65-8 or otherwise applicable guidelines or regulations and each FIP has been approved by the plan sponsor and the local governing body; or*
> ***(4) the municipality has implemented the original recommended FIP or an amended FIP pursuant to chapter 45-65 within one month after the close of the fiscal year and made the required funding payment (formerly referred to as Annually Required Contribution, or ARC) in compliance with the municipality's adopted FIP(s) and the funding guidelines established by the Pension Study Commission; and the FIPs are approved by the plan sponsor and the local governing body; or***
> *(5) there existed a locally-administered pension plan in that municipality, but either: (i) no FIP was required pursuant to chapter 45-65 and either: (A) the municipality is funding one hundred (100%) of its required funding payment; or (B) the municipality has a funded ratio of one hundred percent (100%) or greater; or (ii) FIP is required pursuant to chapter 45-65, however, the due date for the FIP*

submission or implementation is after the March payment of this municipal incentive aid."

For those municipalities that already submitted a Funding Improvement Plan to the Pension Study Commission the bolded section of the statute above applies.

Furthermore, the statute states that

> *"(d) For fiscal year 2014, and in any year thereafter that a municipality is not eligible to receive a distribution under this chapter, the distribution that said municipality would have received had it been eligible shall be reappropriated to the immediately following fiscal year, at which time the amount reappropriated shall be distributed to said municipality provided that said municipality has satisfied the eligibility requirements of both the prior fiscal year and the then current fiscal year. In the event that said municipality fails to satisfy the eligibility requirement for the prior and the then current fiscal year by the time that eligibility to receive distributions in the next fiscal year is determined, then the amount that would have been distributed to the municipality for said prior year will be distributed in the month of May among the municipalities that received a distribution in the prior fiscal year, with the share to be received by each municipality calculated in the same manner as distributions were calculated in the prior fiscal year."*

The guidelines ask for a municipality to increase its contribution such that the portion of the required funding contribution actually contributed increases by 20 percentage points each year until it reaches 100 percent. Municipalities also need to emerge from critical status within 20 years. For your reference, the complete guidelines that were revised and adopted by the Pension Study Commission on June 30, 2014 are attached.

Sincerely,

Rosemary Booth Gallogly
Chairperson of the Pension and OPEB Study Commission

Enclosure

Cc:
Members of the Pension and OPEB Study Commission
Susanne Greschner, Chief, Division of Municipal Finance

Attachment D

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

Department of Revenue
One Capitol Hill
Providence, RI 02908-5855

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June 2014

Revised Funding Improvement Plan Guidelines
(replacing guidelines that were approved by the Pension Study Commission in June 2012)

Dear Mayors, City and Town Managers, and Town Administrators,

As you know, pursuant to R.I. Gen. Laws §45-65-6 (2), a municipality is required, within one hundred eighty (180) days of sending the critical status notice, to submit to the Pension Study Commission ("Commission"), a reasonable alternative funding improvement plan to emerge from critical status.

The Commission has provided funding improvement guidelines in June 2012 to assist municipalities whose locally-administered pension plans are deemed to be in critical status, defined in R.I. Gen. Laws §45-65-4 as having a funded percentage of less than 60%.

<u>The Commission, with two years of experience working with municipalities and their funding improvement plans ("FIPs"), has used these guidelines to help municipalities achieve improved pension security and provide a framework for the Commission in its review of the plans submitted. During the process of reviewing the FIPs, it became apparent, however, that there may be circumstances in which a municipality may need some flexibility to achieve implementation of their plan. An example of such a circumstance is if a municipality negotiated a settlement or contract and approval is pending in court or before an arbitrator.</u>

<u>In such an instance, if the local governing body does not meet the guidelines, a full explanation of the circumstances, as well as applicable documentation, must be provided to the Division of Municipal Finance within the Department of Revenue which will review the municipality's request and provide an opinion as to whether or not extenuating circumstances are applicable to the Commission or the body succeeding the Commission. The package should include a letter signed by the chief elected official.</u>

Funding Improvement Plan Information
<u>The information that follows provides a detailed description of the Funding Improvement Plan documentation and guidelines expected with each FIP submission. Part I lists the documentation that municipalities should include in their funding improvement plans and Part II lists the specific guidelines. In addition, Part II also includes the documentation needed in those instances where the original FIP that was submitted to the Commission was revised by the municipality.</u> A sample funding improvement plan is also included as an Appendix to this letter.

Attachment D

I. FUNDING IMPROVEMENT PLAN DOCUMENTATION

A funding improvement plan should be formulated, based on reasonably anticipated experience and reasonable actuarial assumptions, and shows at least the following:

- Funding of the ARC before and after changes are made;
- Amortization cost, method, including period, interest rate and rate of increase in payments, if any;
- Assets (Market and Actuarial) and liabilities, before and after changes were made;
- Funded status, before and after changes were made;
- Employer and Employee Normal Costs, before and after changes were made;
- Description of benefit changes (if applicable);
- Description of the plan to emerge from critical status;
- Time frame when municipality expects to emerge from critical status;
- Required actions to implement the plan;
- Two deterministic forecasts over the amortization period and two years afterwards of the after change values listed in items 1 through 5 above, plus, total payroll and total benefit payments. One forecast is based on the actuarial assumptions. The second on the same assumptions except the investment return is 50 basis points lower than the assumption for all years;
- Include the actuarial assumptions used to forecast total payroll growth, new entrants for open plans; and
- Five-year forecast of municipal revenue growth for the time period until plan is no longer in critical status.

II. FUNDING IMPROVEMENT PLAN GUIDELINES

Section II (FIP guidelines) was re-organized into 3 sections: Requirements for all municipalities with plans in critical status, an additional guideline for those plans not funding 100% of the ARC, and a third new section for municipalities needing to revise their FIP.

The Commission has developed revised guidelines in May 2014 to assist cities and towns in the formulation of the Funding Improvement Plans. These revised guidelines replace the guidelines that were issued by the Commission in June 2012. Generally, the funding improvement period should not exceed 20 years with the plan emerging from critical status within that timeframe.

The local governing body shall submit four funding improvement strategies to the Pension Study Commission consistent with these guidelines and clearly identify which one has been chosen as the funding improvement plan. Each of the four strategies shall include an actuarial valuation. If no funding improvement strategy is approved by the local governing body, the Pension Study Commission will notify the General Assembly.

1. For *all* municipalities with pension plans in critical status**:**

- Maximum amortization period of 30 years in which plans must emerge from critical status within 20 years;
- maximum percent increase in amortization payments would be 4% (except to make up for funding of 100% of ARC);
- no decrease in contribution from one year to the next unless the reduction is the result of a reduction in benefits;
- encourage shorter amortization schedules, with increasing payments;
- for frozen plans with only retirees the amortization period would be not more than the average future lifetime of the retirees;

Attachment D

- no open amortization method;
- future changes in UAL due to changes in plan benefits, actuarial assumptions and methods, or experience may be amortized up to 20 years as a separate base; and
- relief provision that would provide for a temporary increase in ARC payments by no more than 8%;
- the local governing body must indicate if they have considered a transition to MERS and, if so, identify the significant factors and/or obstacles in that consideration. Municipalities should identify what actions would facilitate moving their locally-administered plan to MERS.

2. Additional guideline for municipalities that are *not* funding 100% of the ARC:
   - The contribution has to be increased such that the portion of the ARC actually contributed increases by 20 percentage points each year until it reaches 100%

3. For municipalities having to revise their Funding Improvement Plan:
   - Provide a copy of the resolution from the local governing body which approves the revised plan
   - Provide a description of the final Funding Improvement Plan, including a description of the plan provisions that will be implemented
   - Provide an actuarial valuation for the final Funding Improvement Plan with a 20-year schedule

If the local governing body cannot meet these guidelines, a full explanation of the circumstances preventing the municipality from meeting the guidelines, as well as applicable documentation, must be provided to the Division of Municipal Finance within the Department of Revenue. An example of such a circumstance is if a municipality negotiated a settlement or contract and approval is pending in court or before an arbitrator.

The Division of Municipal Finance will review the municipality's request and provide an opinion as to whether or not extenuating circumstances are applicable warranting a revised plan or additional information to the Commission or the body succeeding the Commission. The package should include a letter signed by the chief elected official along with the governing body approval of the selected FIP.

We hope that you find these guidelines and the sample funding improvement plan helpful.

Sincerely,

Rosemary Booth Gallogly
Chairperson of the Pension Study Commission

Cc:
Members of the Pension Study Commission
Susanne Greschner, Chief, Division of Municipal Finance

Attachment E

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

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June 30, 2014

GASB's OPEB Accounting Standards Now Available

Two Journal of Accountancy articles are attached. The exposure drafts have been published on the GASB website and can be viewed with the following link:

http://www.gasb.org/cs/ContentServer?c=Page&pagename=GASB%2FPage%2FGASBSectionPage&cid=1175804830991

The exposure drafts are titled:

- Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions
- Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans
- Accounting and Financial Reporting for Pensions and Financial Reporting for Pension Plans That Are Not Administered Through Trusts That meet Specified Criteria, and Amendments to Certain Provisions of GASB Statements 67 and 68.

GASB will request comments by August 29. If you have difficulty downloading the file, you can request an electronic copy from our office.

JOURNAL OF ACCOUNTANCY

FINANCIAL REPORTING

GASB proposals would address post-employment health care liabilities

BY KEN TYSIAC
MAY 28, 2014

New accounting rules proposals approved Wednesday by GASB would require more transparency in financial reporting about state and local government obligations for post-employment benefits (OPEB).

GASB approved two exposure drafts related to OPEB and an additional exposure draft that would establish requirements for state and local government pensions and pension plans that are not subject to the pension standards GASB released in 2012.

The proposals are part of a continuing effort by GASB to ensure that state and local government financial reporting accurately depicts the liabilities related to responsibilities for pensions and post-employment benefits. The new pension standards released two years ago represented the first part of that process.

"OPEB—which consists mainly of health care benefits—represents a very significant liability for many state and local governments, one that is magnified because relatively few governments have set aside any assets to pay for those benefits," GASB Chairman David Vaudt said in a news release. "It is vital, therefore, that taxpayers, policymakers, bond analysts, and others receive more and better information about these benefits."

The exposure drafts are expected to be available in mid-June on GASB's website and will be titled:

- *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*.
- *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*.
- *Accounting and Financial Reporting for Pensions and Financial Reporting for Pension Plans That Are Not Administered Through Trusts That Meet Specified Criteria, and Amendments to Certain Provisions of GASB Statements 67 and 68*.

GASB will request comments by Aug. 29.

Proposed rules for employers

The proposed OPEB rules for employers would require governments to report a liability for OPEB on the face of the financial statement. Governments with a defined-benefit OPEB plan administered through a trust meeting certain criteria would report a net OPEB liability, which is the difference between the total OPEB liability and the net position accumulated in the trust.

Governments that do not provide OPEB through such a trust would report the total OPEB liability. In addition, a government would change the way it calculates its OPEB liability and annual expense. Proposed changes would include:

- Discounting projected OPEB payments using the long-term expected rate of return on OPEB plan assets administered through a trust meeting specified criteria to the extent that plan assets are expected to be available to make projected benefit payments and be invested using a strategy to achieve that return. If those conditions are not met, the OPEB payments would be discounted using a 20-year, tax-exempt, high-quality general obligation municipal bond yield.
- Use of a single actuarial cost allocation method—the "entry age actuarial cost method."
- Immediate recognition of additional components of OPEB expense.
- Requiring more extensive note disclosures and supplementary information about OPEB liabilities.

In addition, the proposal for employers would continue giving state and local governments an

AICPA STORE RESOURCES

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The GASB's Pension Standards: Considerations for Cost-Sharing Plans, Participating Employers

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State and Local Governmental Developments - Audit Risk Alert

AICPA National Governmental and Not-for-Profit Training Program

Governmental Accounting and Auditing: The option to use a specified alternative measurement method in place of an actuarial valuation to determine the total OPEB liability for benefits when there are fewer than 100 plan members. This option would be provided to reduce costs for smaller governments.

The proposal for OPEB plans would address financial reports of defined-benefit OPEB plans that are administered through trusts that meet certain criteria.

Governmental Accounting and Auditing: The Annual Update

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CPE Direct articles www Web-exclusive content

—***Ken Tysiac*** *(ktysiac@aicpa.org) is a* JofA *senior editor.*

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JOURNAL OF ACCOUNTANCY

GOVERNMENT

GASB's OPEB proposals may have big impact

BY KEN TYSIAC
JUNE 16, 2014

Proposed new accounting standards for other post-employment benefits (OPEB) published Monday by GASB are expected to have a significant impact on state and local government financial statements.

GASB's work on OPEB is intended to complement its development of new standards issued in 2012 on pensions. The goal is to present users of government financial statements an accurate depiction of the liabilities governments face in their promises to retired employees.

GASB voted in late May to issue the OPEB exposure drafts, which were published Monday on the board's website. GASB Chairman David Vaudt highlighted key aspects of the OPEB proposal and pension standards Monday during a conference call with media members:

- ***Both standards represent huge obligations.*** A recent Pew Charitable Trusts report found that in fiscal year 2010, states had more than $750 billion in unfunded pension obligations and more than $625 billion in unfunded retiree health care obligations, which make up the substantial majority of OPEB promises.

  "They're significant statements when it comes to taking a look at what governments have out there for benefits for their retirees," Vaudt said, "and it will have a significant impact, I think, as policy decision-makers take a look at the data and decide on their funding mechanisms in order to, quote, make sure those promises are met as those payments are due."

  In some states, unfunded OPEB obligations are higher than unfunded pension obligations, Vaudt said.

- ***New actuarial method.*** Where current OPEB standards give state and local governments six actuarial methods to choose from, the proposed standard would require use of a single actuarial cost allocation method known as "entry age actuarial cost method."

  This is the same actuarial method required by the new pension standards, and it would provide for better comparability between government financial statements, Vaudt said.

  "This tends to provide the best look at how those benefits are accumulating and allows us to say what are past costs for past service, and what are future costs for future service," Vaudt said. "It's just a more consistent method and a better measurement, and working with the actuaries, we felt this was the best method to go with."

- ***More discount rate guidance.*** Like the pension standard, the proposal provides more guidance for setting the discount rate for projecting future liabilities, Vaudt said.

  "We'll have more consistent application there," he said.

- ***No guidance on funding.*** While the standards are designed to present an accurate picture of pension and OPEB liabilities, GASB will not try to influence state and local government officials as they decide how to fund those liabilities, Vaudt said.

  "Funding is a policy decision, and it's one that elected officials will make," Vaudt said. "But I do think these standards will help highlight whether that liability is growing or shrinking, which will give you a good indication of how well the elected officials are dedicated to making those particular payments to fund those future benefits."

The three proposals published Monday can be downloaded from the GASB website.

http://www.gasb.org/cs/ContentServer?c=Page&pagename=GASB%2FPage%2FGASBSectionPage&cid=1175804830991

- *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* proposes guidance for governments.
- *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* addresses reporting by the plans that administer OPEB benefits.
- *Accounting and Financial Reporting for Pensions and Financial Reporting for Pension Plans That Are Not Administered Through Trusts That Meet Specified Criteria, and Amendments to Certain Provisions of GASB Statements 67 and 68* proposes requirements that would complete the pension standards.

Comments on the proposals are sought by Aug. 29.

*—**Ken Tysiac** (ktysiac@aicpa.org) is a* JofA *senior editor*.

RELATED **TOPICS**

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