

April 17, 2006

Director of Research
Project No. 25-15
Governmental Accounting Standards Board
401 Merritt 7, P.O. Box 5116
Norwalk, CT 06856-5116

Dear Director:

The signatories of this letter, representing a wide array of public employers and public retirement plans, offer these comments on the proposed GASB Technical Bulletin, Accounting and Financial Reporting by Employers and OPEB Plans for Payments from the Federal Government Pursuant to the Provisions of Medicare Part D.

We strongly encourage the board to rethink its recommendations, and approve the use of the Part D subsidy to offset the OPEB liability. To require a calculation without a reduction for Medicare D reimbursements, as the proposed recommendations direct, would actually be counterproductive and would likely produce the unintended consequence of accelerating the elimination of retiree healthcare coverage.

A key part of Medicare D's passage was the subsidy provision to employers that currently provide retiree health coverage, including the vast majority of public employers. The subsidy is built into the program to retain these benefits and to lower costs to taxpayers. By its action in drafting the original legislation, Congress declared its intent that these subsidy payments should reduce employer obligations. These proposed recommendations contradict congressional intent regarding the relation of Medicare D payments to OPEB obligations.

In contrast to the GASB proposed recommendations, FASB treats these reimbursements as an offset to employer obligations. This potential disparity disadvantages public employers in relation to private sector employers, and could put even more pressure on them to drop or reduce retiree health benefits

As has been widely documented, actuarially-calculated OPEB post-retirement medical liabilities are substantial obligations for public employers. Yet, no reliable data exists for accurately projecting this cost in outlying years. Therefore, actuaries must base their projections on current double-digit health care cost inflation. As these cost projections spiral wildly into the future with little factual basis, it seems imprudent to exclude a mitigating factor that is a known and readily calculable figure: Medicare Part D reimbursements. (These payments are calculated as 28 percent of annual prescription drug claims in excess of indexed annual deductibles, up to the \$5,000 limit.)

We encourage the board to review its recommendations and issue revised guidelines that will allow public employers to maintain their retiree health programs while ensuring consistency in accounting treatments. Thank you for your consideration of our suggestions.

Respectfully submitted,

American Federation of State County and Municipal Employees (AFSCME)

American Federation of Teachers (AFT)

National Council on Teacher Retirement (NCTR)

National Association of State Retirement Administrators (NASRA)

National Conference of State Legislatures (NCSL)

National Conference on Public Employee Retirement Systems (NCPERS)

National Education Association (NEA)

National Association of Counties (NACo)

Fraternal Order of Police (FOP)