Letter of Comment No. 252
File Reference: 34-E
Date Received: 10/14/11

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October 6, 2011

David Bean
Director of Research and Technical Activities
Governmental Accounting Standards Board
Project 34-E

Dear David,

Some background and my comments related to the Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27 exposure draft follow.

Background:

The State of Montana participates in the Cost Sharing Multiple Employer plans administered by the Public Employees' Retirement and the Teachers Retirement Boards. Both of these entities are reported as component units of the State. The State also makes significant on-behalf contributions for local governments to the Public Retirement System plans. In the past the State has made significant, additional contributions, beyond those required under statute, to both the Montana Public Employee and Teachers Retirement systems, providing additional funding and attempting to assist these plans in maintaining their funding status.

Comments:

The Exposure draft assumes the liability can be passed directly to the related employers. This assumption may not be correct. As a result, this may require governments to record expenses and liabilities that have no legal basis.

I believe the earnings capability of the plans will be understated by assuming that the plans will issue bonds to fund the contributions for current employees instead of using the total assets available to the plan. The plan will still have interest earnings generated by the future employee's contributions available. Bonds would not be required until the plan has exhausted all assets available. I understand why you chose this approach, but I don't believe it is realistic and in my opinion it will understate the plans potential future earnings capability and overstate the related employer's liabilities.

In my opinion, the requirement to measure the pension liability "as of the end of each cost sharing employer's reporting period", or to provide them "update procedures" to allow them to roll forward the amounts to the different year ends, will be very costly for the plan's administrator and difficult

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for the plan's employers. The plans administered by the Montana Public Employee Retirement Board include over 500 employers. These employer/governmental entities are not all on the same fiscal year end. I believe it would be more cost effective to calculate this at a point in time for all local governments, for the year-end shared by most of these, and allow the other governments to use this number in their financial statements even though it may be as much as 6 months from the date the liability is calculated by the retirement system.

I question whether the "special funding situations" accounting required for on behalf contributions a non employer governmental organization should require the contributing entity to assume the ultimate liability. The underlying premise for the statement generally requires the ultimate liability to be assumed by the employer. If this is an accurate premise, I do not agree that the existence of an on-behalf contribution to the retirement system should cause the liability to shift to the contributing entity.

I did not see where the proposed amendment addresses how material, one time only, contributions to the plan that were not directly linked to the employers or employees in the plan, such as those made by the State of Montana in the past, would be applied to the liability calculation. I don't believe these types of contributions meet either the conditional or unconditional definitions as provided in the statement.

Sincerely,

Paul A. Christofferson

Paul A. Christofferson
Division Administrator