

DEPARTMENT OF ADMINISTRATION
STATE ACCOUNTING DIVISION



BRIAN SCHWEITZER, GOVERNOR

MITCHELL BUILDING
HELENA, MT 59620-0102

STATE OF MONTANA

Accounting Bureau Rm. 255 PO Box 200102 (406) 444-3092	SABHRS Finance and Budget Bureau Rm. 270 PO Box 200102 (406) 444-5700	Treasury Unit Rm. 261 PO Box 200140 Helena, MT 59620-0140 (406) 444-2624	Local Government Services Bureau 301 S. Park, Rm. 340 PO Box 200547 Helena, MT 59620-0547 (406) 841-2909
---	--	--	---

October 6, 2011

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

Dear David,

Some background and my comments related to the Accounting and Financial Reporting for Pension Plans, an amendment of GASB Statement No. 25 exposure draft follow.

Background:

The Montana Public Employees' Retirement and the Teachers Retirement Boards manage seven separate Cost Sharing Multiple Employer Retirement defined benefit plans. These are primarily defined benefits plans. 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. Unless a plan is closed to new members and the plan will still the future employees contributions and the related interest earnings generated by the future employee's contributions available to spend. Bonds would not be required until the plan has exhausted all available assets. 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. This is one of the results of moving from away from the reporting model currently used.

In my opinion, requiring the retirement system administrator to provide this information to each employer and “the use of update procedures to roll forward amounts from an actuarial valuation as of a date no more than 24 months earlier than the plan’s most recent year end” appears reasonable on its face. However, when this is considered with the requirements included with the proposed amendment to statement 27, this will require roll forward procedures to match the year ends of all employers participating in the plan, and the provision of the related expenditure and liability information by plan to each of these 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 or roll forward, 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 used by the retirement system. The retirement system administrator also questions whether the significant additional costs required for the provision of this information to each employer will be an allowable administrative cost.

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. Would these automatically be applied proportionately to each employer’s liability for all current employees in the calculation?

Sincerely,

A handwritten signature in cursive script that reads "Paul A. Christofferson". The signature is written in black ink and is positioned below the word "Sincerely,".

Paul A. Christofferson
Division Administrator