LEGISLATIVE AUDIT DIVISION

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PENSION FUNDING AND FINANCIAL REPORTING

Montana's pension plans implemented Governmental Accounting Standards Board (GASB) Statement No. 67, *Financial Reporting for Pension Plans*, in fiscal year 2015. The following fiscal year, employers participating in those plans implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, which required an allocated portion of each pension plan's estimated net pension liability or asset be reflected in employer financial statements.

Subsequent to implementation, questions arose about the relationship between plan actuarial soundness and the estimated net pension liability or asset used for financial reporting purposes.

Actuarial Soundness

A *'funding based measure'* continues to be used to evaluate the soundness of Montana's pension plans. Montana's Constitution requires these plans to be actuarially sound. A defined benefit retirement system is considered actuarially sound when contributions are sufficient to pay benefit obligations as they accumulate over time and the cost of gradually eliminating unfunded liabilities over a period not to exceed 30 years. Funding based actuarial valuations are performed annually, as required by law.

An actuarially sound plan is expected to have sufficient resources *over time* to pay current and estimated future benefit payments due to plan participants. A fully funded plan has sufficient resources *now*. The actuarial soundness of a plan is affected by changing market conditions.

Financial Reporting

A *'financial reporting measure'* is used to estimate the net pension liability, or asset, included in employer financial statements. The net pension liability, or asset, is the amount that projected benefit payments at a point in time are offset by the plan's available resources. A net pension asset exists when available resources exceed projected benefit payments, and a net pension liability exists when available resources are less than projected benefit payments. Because the asset or liability is considered employment related, these amounts are allocated among participating employers for inclusion in employer financial statements based on each employer's proportionate share of annual contributions.

Comparison

The net pension liability can fluctuate between years for a number of reasons, such as changes in the investment market and associated returns. The unfunded liability measure 'smooths' investment related fluctuations over time. While different, the unfunded liability may be similar to the net pension liability for a given pension plan.

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