BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION
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IN THE MATTER OF THE APPLICATION OF MINNESOTA POWER FOR AUTHORITY TO INCREASE RATES FOR ELECTRIC UTILITY SERVICE IN MINNESOTA	MPUC Docket E-015/GR-16-664 OAH Docket No. 5-2500-34078

RESPONSE OF THE MINNESOTA DEPARTMENT OF COMMERCE, DIVISION OF ENERGY RESOURCES TO MINNESOTA POWER'S PETITION FOR RECONSIDERATION AND REQUEST FOR CLARIFICATION

INTRODUCTION

On March 12, 2018, the Minnesota Public Utilities Commission (Commission) issued its Findings of Fact, Conclusions, and Order (Rate Case Order) and on April 2, 2018 Minnesota Power (MP or Company) filed a Petition for Reconsideration and Request for Clarification (Petition) under Minn. R. 7829.3000, subp. 1 (2017). The Minnesota Department of Commerce, Division of Energy Resources (Department) files this Answer to the Petition pursuant to Minn. R. 7829.3000, subp. 4.

In the Petition, MP asks the Commission to reconsider its Rate Case Order regarding the following issues:

1. Test Year Sales Forecast;

2. Capital and O&M Expenses, specifically:

a. Generation Supervision & Engineering and Distribution Meter Reading;

b. Employee and Retiree Benefits, specifically:

i. Prepaid Pension Asset;

ii. Retirement Savings and Stock Ownership Plan; and

iii. Other Employee Benefits;

c. Transmission Capital Projects; and

d. Third-Party Transmission Revenues and Expenses; and

3. Cost of Equity.

In addition, MP seeks clarification of issues regarding its proposed Annual Rate Review Mechanism, large power service, changes to various class rate schedules, and final order determination.

The Department recommends that the Commission deny MP's Petition, for the reasons discussed below. The Department would not object, however, to the Commission's clarification of the effective date of the Rate Case Order, if the Commission believes clarification is needed.

ANALYSIS

I. MP's Request For Reconsideration

A. Overview

Under the Commission's Rules, "[a] petition for rehearing, amendment, vacation, reconsideration, or reargument must set forth specifically the grounds relied upon or errors claimed." Minn. R. 7829.3000, subp. 2. In general, the Commission has taken up a petition for reconsideration that raises new issues, points to new and relevant evidence, exposes errors or ambiguities in the Commission's order, persuades the Commission that it should rethink the decisions set forth in its order, or where the Commission concludes that its decision is inconsistent with the facts, the law, or the public interest.[1]

After reviewing MP's Petition, to determine whether it raised significant new issues, pointed to new and relevant evidence, or exposed errors in the Rate Case Order, the Department concludes that MP has not done so regarding any of the issues raised in the Petition. Instead, the Department concludes that MP has not demonstrated that the Commission's Rate Case Order is inconsistent with the facts, the law, or the public interest.[2]

While the Department does not believe that the Commission should take up or grant MP's request for reconsideration for any of the issues raised in the Petition, the Department specifically addresses the Petition regarding prepaid pension asset and cost of equity, below, after a brief review of MP's burden of demonstrating the reasonableness of its proposals.

B. Minnesota Power Has The Burden Of Demonstrating The Reasonableness Of Its Proposed Rates.

While the Department provided Minnesota's legal standards governing rate changes for public utilities in its post-hearing briefs, the Department repeats these standards here because it is concerned that the MP Petition essentially asks the Commission for higher rates from its customers when the Commission has already determined that MP has not met its burden of

[1] *In re Application of Enbridge Energy, Ltd. P'ship for a Certificate of Need for the Line 3 Replacement Project in Minn. from the N.D. Border to the Wis. Border,* Docket No. PL-9/CN-14-916, and *In re Application of Enbridge Energy, Ltd. P'ship for a Routing Permit for the Line 3 Replacement Project in Minn. from the N.D. Border to the Wis. Border*, Docket No. PL-9/PPL-15-137, Order Denying Reconsideration (MPUC Oct. 10, 2017); *In re Application of Minnkota Power Coop., Inc. for a Route Permit for the MPL-Laporte 115 KV Transmission Line Project in Clearwater and Hubbard Cntys.,* Docket No. ET-6/TL-16-327, Order Denying Reconsideration (MPUC Aug. 11, 2017); *In re Application of CenterPoint Energy Res. Corp. d/b/a CenterPoint Energy Minn. Gas for Auth. to Increase Natural Gas Rates in Minn.*, Docket No. G-008/GR-15-424, Order Denying Reconsideration (MPUC Aug. 9, 2016).

[2] The Department's April 2, 2018 request supported the Commission's Order; the only request was that the Commission address revenue-requirement implications of the 2017 Tax Cuts and Jobs Act by reconsidering MP's rate moderation proposal regarding Boswell Units 3, 4, and Common Facilities.

demonstrating the reasonableness of its proposals.[3] Notably, the Commission, not credit agencies, judges the reasonableness of MP's proposals under the statutory framework set up by the Legislature.[4] That is, the Commission's determination of whether MP has satisfied its burden of proof that its proposed rates are just and reasonable is guided by Minnesota law, not credit agencies' views.

The legal standard for utility rate changes is that the new rates must be just and reasonable.[5] The utility, MP, bears the burden of showing that its proposed rates are just and reasonable.[6] Further, Minnesota law mandates that any doubt as to whether the utility satisfied its burden of proof should be resolved in favor of the consumer:

> Every rate made, demanded or received by a public utility . . . shall be just and reasonable. . . . Any doubt as to reasonableness should be resolved in favor of the consumer.[7]

The Minnesota Supreme Court has found that the burden is on the utility to prove the facts required to sustain its burden by a fair preponderance of the evidence.[8] The Court described the Commission's role, both quasi-judicial and quasi-legislative, in determining just and reasonable rates in a rate proceeding:

> [I]n the exercise of the statutorily imposed duty to determine whether the inclusion of the item generating the claimed cost is appropriate, or whether the ratepayers or the shareholders should sustain the burden generated by the claimed cost, the MPUC acts in both a quasi-judicial and a partially legislative capacity. To state it differently, in evaluating the case, the accent is more on the inferences and conclusions to be drawn from the basic facts (*i.e.*, the amount of the claimed costs) rather than on the reliability of the facts themselves. Thus, *by merely showing that it has incurred, or may hypothetically incur, expenses, the utility*

[3] Minn. Stat. § 216B.16, subd. 5 (2016).
[4] *See* Minn. Stat. ch. 216A, 216B (2016).
[5] Minn. Stat. § 216B.16, subds. 4–6 (2016).
[6] *Id.*, subd. 4.
[7] Minn. Stat. § 216B.03 (2016).
[8] *In re N. States Power Co.*, 416 N.W.2d 719, 722 (Minn. 1987).

> *does not necessarily meet its burden of demonstrating it is just and reasonable that the ratepayers bear the costs of those expenses*.[9]

Moreover, the Court held that the utility "had at all times the burden of proving the proposed rate change."[10]

In this case, to the extent that MP did not satisfy its burden of demonstrating that its proposed recovery would be reasonable, the Commission required adjustments to MP's request in order to conform to the requirement that rates must be fair and reasonable.

C. MP's Arguments Misrepresent Facts or Ratemaking Principles

MP has not filed a rate case since 2009, in Docket No. E015/GR-09-1151, and appears to be unfamiliar with certain ratemaking principles. For example, on pages 20-21 of its Petition, MP states in regard to recovery of pension expense: "The Company does not dispute that the Commission has consistently approved recovery of a certain level of expense—namely, an amount of benefits based on what must be paid to employees in a given year." That statement does not accurately reflect how pension expense has typically been set in recent rate cases. As reflected in this rate case, utilities are allowed to recover a levelized amount of the utility's obligations for pension costs. The formula is generally based on comparing the current level of the pension fund to pension obligations over time, assuming growth in the fund over time and discounted into current dollars. In this manner, pension expense is set to ensure that utilities will be able to meet pension obligations over time. Utilities continue to collect that same amount in rates until they choose to file a new rate case, which will then reflect the level of the pension fund and obligations existing at that time. Because MP has chosen not to file a rate case since 2009, its recovery of pension expense is the same as was set in that proceeding.

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[9] *Id.* at 722–23 (citation omitted) (emphasis added).

[10] *Id.* at 725 (no rebuttable presumption of reasonableness is created by the utility).

While the Department does not address in these reply comments every misrepresentation by MP, it is worth noting that MP's Petition distorts facts in this proceeding, by omissions or otherwise. For example, MP's Petition states on page 11: "By focusing solely on the sales to Keetac, the Commission's March 12, 2018 Order overlooks the cyclical and volatile nature of the taconite industry as a whole and its pronounced impact on Minnesota Power's retail sales and risk." What MP leaves out of this statement is the following, all of which were addressed in this proceeding:

- After MP provided information about its sales, the Department concluded that the Company's proposed sales were reasonable, except for MP's proposal not to reflect 12 months of sales to Keetac (several parties objected to MP's proposal). As a result, the focus "solely on the sales to Keetac" stemmed from the fact that the Commission's Order *is based on MP's proposed sales in this proceeding*, except for MP's proposal not to reflect a representative level of sales for Keetac;
- MP's May 2017 filing in Docket No. E,G999/PR-17-4 indicated that the Company represented to the Federal Energy Regulatory Commission that sales to industrial customers would be approximately 7.0 to 7.5 million. Reflecting 12 months of representative sales to Keetac is close to the low end of this range; by contrast, MP proposed that ratemaking should be based on an amount lower than this range, at 6.8 million; and
- U.S. Steel executed third-party contracts to supply products through 2021, which indicates that the Keetac facility is expected to be operating while the rates set in this proceeding are in effect.

Moreover, MP did not raise any new issues in its Petition to indicate that the Commission should reconsider its Rate Case Order to change the level of sales used to set rates in this proceeding.

D. Prepaid Pension Asset

Regarding the so-called "prepaid pension asset," the Petition has not raised new issues, pointed to new and relevant evidence, or exposed errors or ambiguities in the Commission's Rate Case Order. The Petition should not persuade the Commission that it should rethink the decisions set forth in the Rate Case Order and the Petition does not demonstrate that the Rate Case Order is inconsistent with the facts, the law, or the public interest. In fact, the Petition does not point to any new evidence that should change the Commission's decision, and largely rehashes the argument that MP offered in support of its proposal to include a prepaid pension asset in rate base, which the Administrative Law Judge (ALJ) and Commission both rejected.

In its post-hearing briefs, the Department provided the following reasons why it did not support MP receiving a return on rate base of $59,707,183 (offset by accumulated deferred income taxes) on a Minnesota Jurisdictional basis, for what MP misleadingly calls a "prepaid pension asset." The Petition does not change this reasoning. First, MP uses Generally Accepted Accounting Principles (GAAP), specifically ASC 715, for pension expense, which the Department supported and the Commission approved. MP, however, does *not* follow GAAP for its purported prepaid pension asset.[11] Rather, MP is using FAS 87, which no longer constitutes GAAP for this purpose because it has been replaced by ASC 715.[12] Because MP continues to misrepresent GAAP, the Department attaches to this response the publicly available outdated FAS 87 (**Attachment 1**), current FAS 158 (**Attachment 2**), and current ASC 715, in part (**Attachment 3**), regarding the recognition of defined benefit compensation.

[11] Ex. 629 at 83 (Campbell Direct).
[12] *Id.* at 78-79.

Furthermore, while MP claims that "accumulated contributions in excess of net period benefit cost" is a component of the funded status under ASC 715, MP's proposal—to use just one component of its funded status under ASC 715 and ignore other components—is inconsistent with GAAP.[13] In addition, as discussed further below, the result of using only one component and not all the components has resulted in the Company misrepresenting ALLETE/MP's pension liability in its public financial statements as a pension asset in this rate case.[14] Not only is this proposal misleading, it is unreasonable to allow MP to charge higher rates to its ratepayers in the form of a return on rate base for an underfunded pension fund.[15] In the Petition, MP continues to demonstrate that it does not follow GAAP for its purported prepaid pension asset. For example, on page 26 of MP's Petition, MP provides a Table 2, which shows the adjustments the Company makes from the pension funded status reported in its 10-K, which is consistent with the current ASC 715, to the outdated FAS 87. The record shows that the Department rebutted this information as not relevant to ratemaking.[16]

Second, MP's pension fund, as recorded on its public financial statements, is actually a pension fund *liability*, not an *asset*, which means MP's pension fund is actually underfunded, not overfunded. The record showed that PricewaterhouseCoopers, in a Report of Independent Accountants to ALLETE, showed a pension-funded status of negative $185.8 million on ALLETE's 2016 Form 10-K, which the Department testified is the only relevant information on that document for pension-funded status on GAAP.[17] It is not reasonable for MP to claim, and get a return on, a liability. Instead, this underfunding is appropriately reflected in the amount of

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[13] Ex. 630 at 52 (Campbell Surrebuttal).
[14] *Id.*
[15] *Id.*
[16] Tr. Vol. 4 at 134-36 (Campbell)
[17] Tr. Vol. 4 at 167 (Campbell); Ex. 38 at Sched. 8 (Cutshall Rebuttal). MP repeated this information in its Petition at 26.

pension expense charged to ratepayers, increasing the amount included in rates set in MP's prior rate case by over 250%.[18]

Third, even if MP did have a prepaid pension asset—which it does not—these funds are not 100 percent investor-supplied funds.[19] MP and the Department agreed that ratepayers pay for pension expense in rates.[20] MP, however, ignored the fact that annual market returns on the pension plan trust asset, for which ratepayers supply funds, are reinvested into the plan assets, and accumulated earnings on the overall plan asset are included in the Company's actuarially-calculated pension expense.[21] Therefore, any calculation of a prepaid pension asset/liability that uses pension expense, as MP's proposed prepaid asset does, is not 100 percent investor-supplied funds.[22] As a result, MP's characterization, found in several places in its Petition, including on page 24, that "the prepaid pension asset is no different from other, similar, assets that are included in rate base" is an inaccurate characterization.

Fourth, as the Commission has repeatedly found for other utilities, prepaid pension assets/liabilities are temporary and fundamentally different from typical rate base assets on which MP is allowed to earn a return.[23] A prepaid pension asset/liability is not like other plant investment because prepaid pension asset/liability is volatile or oscillates in value from year-to-year, and, in addition, all prepaid pension funds are not from shareholders.

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[18] In Docket No. E015/GR-09-1151, recovery of pension expense was set at $1.45 million; in the instant case, recovery of pension expense was set at $5.2 million.
[19] Ex. 630 at 55 (Campbell Surrebuttal).
[20] *Id.* at 55–56.
[21] *Id.*
[22] *Id.*
[23] *Id.* at 57–58. For example, *see In re Application of Otter Tail Power Co. for Auth. to Increase Rates for Elec. Serv. in Minn*. Docket No. E017/GR-15-1033, Findings of Fact, Conclusions, and Order (OTP 2015 Rate Case Order) at 25 (May 1, 2017) ("The balances in the prepaid pension asset are temporary, and fundamentally different from typical rate-base assets on which the Company earns a return on investment.").

Fifth, the Commission has rejected similar proposals by other utilities in recent rate cases. For example, in Minnesota Energy Resources Corporation's (MERC) most recently-decided rate case, the Commission rejected similar proposals:

> The Commission concurs with the Administrative Law Judge and the Department that MERC [has not] justif[ied] rate-base treatment of pension and other post-employment regulatory benefits in this rate case.
>
> MERC recovers its allowable pension expense from ratepayers, and is not being denied recovery of this operating cost. Further, as noted by the Department, pension-plan assets and benefit obligations go up and down depending on funding, market conditions, or amendments to the plan. The balances in the prepaid pension asset are temporary, and fundamentally different than typical rate-base assets on which the Company earns a return on investment.
>
> Nor does the Commission find the 2013 Xcel Energy rate case treatment of pension and other post-employment regulatory assets to be persuasive or precedential. As noted by the Administrative Law Judge, in the Xcel rate case the question of whether a company's pension asset is properly included in rate base was not specifically litigated by the parties.
>
> Instead, the Commission finds no basis upon which to change its conclusion from that in the 2013 MERC rate case and will disallow rate-base treatment of pension and other post-employment benefit amounts. Accordingly, the Commission accepts and adopts the Administrative Law Judge's Findings of Fact on pension and other post-employment-benefit assets and liabilities and will require that the nine regulatory asset and liability accounts identified in Finding 221 of the Administrative Law Judge's Report be excluded from rate base and that a corresponding adjustment be made to deferred taxes.[24]

Similarly, the Commission denied Otter Tail Power Company's request for rate-base treatment of a purported pension asset in its most recent rate case: "The Commission finds, however, that the treatment of this question in MERC's 2015 rate case is instructive. . . . Accordingly, the

[24] *In re Application of Minn. Energy Resources Corp. for Auth. to Increase Rates for Natural Gas Serv. in Minn.*, Docket No. G-011/GR-15-736, Findings of Fact, Conclusions, and Order at 11–12 (Oct. 31, 2016).

Commission will exclude prepaid pension asset . . . from test-year rate base."[25] Furthermore, the Commission explained:

> Otter Tail recovers its allowable pension expense from ratepayers, and is not denied recovery of this operating cost. Further, as the Department explained, pension-plan assets and benefit obligations go up and down, depending on funding and market conditions. The balances in the prepaid pension asset are temporary, and fundamentally different from typical rate-base assets on which the Company earns a return on investment. In fact, as the Department explained, Otter Tail's pension is actually underfunded.[26]

As can be seen, the facts in this case are similar to the situation present in the Otter Tail rate case, and the Commission was correct in this case to similarly reject MP's proposal.

Finally, MP's Petition repeatedly argues that the Commission should set rates as if MP had a pension asset, which it argues is the same as that of Northern States Power d/b/a Xcel Energy (Xcel) in Xcel's E002/GR-13-868 rate case.[27] That comparison to Xcel's E002/GR-13-868 rate case is incorrect for several reasons. First, MP's proposal is *not* the same as the proposal in Xcel's E002/GR-13-868 rate case; this fact is demonstrated by the complex description in the Commission's Order regarding recovery of pension costs in that proceeding. Second, Xcel's proposal in the E002/GR-13-868 rate case offset the pension "asset" with liabilities from similar funds, resulting in a small net amount; MP made no such proposal in this proceeding. Third, given the significant number of issues litigated in the Xcel case, including the fact that it was the first multi-year rate case—with two test years to review and complex matters including nuclear facilities—the net amount that Xcel proposed did not rise to a level of materiality, in light of the other issues that were litigated. Fourth, even if MP's proposal were

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[25] OTP 2015 Rate Case Order at 25–26.
[26] *Id.* at 25.
[27] *See, e.g.*, Petition at 19.

the same as Xcel's, which it is not, the fact that an issue is not litigated in a proceeding is an insufficient basis to assert that the Commission approved a proposal.

As the ALJ and Commission have determined, MP has not demonstrated the reasonableness of its proposal to include a pension asset/liability in rate base in this case. The Petition offers no reason why the Commission should reconsider the Rate Case Order.

E. Cost of Equity

The MP Petition has not shown why the Commission should award MP an even higher ROE than what the Commission previously concluded was reasonable. The Commission must make a decision that appropriately balances the needs of MP's ratepayers with the needs for MP to be able to attract capital on reasonable terms. The Department understands the Petition to generally provide the following rationale for requesting a higher ROE:

1. The Commission has insufficiently considered MP's unique risk profile;
2. The Commission recently awarded Otter Tail Power a higher ROE; and
3. Credit agencies have changed their outlook for ALLETE from stable to negative because the authorized ROE of 9.25% is below the national average ROE of 9.66% for vertically-integrated electric utilities and has negatively impacted MP's Funds from Operation to Debt (FFO to Debt) ratio.

The Commission should reject MP's Petition request for a higher ROE, which is not supported by the record.

At the outset, while the Department did not request reconsideration on this issue, the Department notes that Commission awarded MP an ROE that was higher than the recommendations of either the Department or the OAG. Even though the Department showed that MP is not riskier than the Company witness's Comparison Group, the Commission determined otherwise and granted MP an ROE of 9.25 percent, which is already close to the

Department's upper end DCF of 9.35 percent.[28] Because the Department's analysis is based on market data that reflects investor expectations, the higher ROE awarded by the Commission clearly meets investors' expectations and fully recognizes any additional risk for MP.

Specifically, the Rate Case Order indicated that the Commission set the higher ROE "in light of the Company's risk profile" and concluded that an authorized ROE of 9.25% is reasonable for MP:

> Using the DCF and other analyses in the record as both a foundation and a guide, *the Commission has considered and weighed the relevant factors*, which include, but are not limited to the relative objectivity, transparency, reliability, rigor, and timeliness of the analytical models in the record, and their inputs; the composition and representative nature of the proxy groups proposed in each analysis; the ROEs (or ranges of ROEs) that the parties recommended based on their modeling results; *ROEs in other recent proceedings*; and the Company's approved capital structure and costs of obtaining equity investment.
>
> Most importantly, the approved ROE must adequately assure a fair and reasonable return in light of the *Company's risk profile* and costs of obtaining equity investment. In light of the relevant factors, the Commission will approve a cost of equity of 9.25%.[29]

Moreover, as demonstrated by this excerpt from the Commission's Rate Case Order, the Commission considered not only MP's unique risk factors, including other factors as well, but also ROEs authorized in other recent rate cases.

In addition, the Commission determined that it was reasonable to address MP's unique risk factors by setting an ROE in the high end of "DCF-supported results:"

> The Commission concludes that it is appropriate to establish an *ROE toward the higher end of the DCF-supported results* to adjust for the divergence between ROEs supported by the DCF models and the models the Commission has historically relied upon for confirmation of reasonableness—the CAPM and Bond Yield Plus

[28] Ex. 606, EA-S-3 (Amit Surrebuttal).
[29] Rate Case Order at 60–61 (emphasis added).

> Risk Premium models. In direct testimony, the Department's witness estimated a CAPM rate of return of 9.22% (9.29% after adjusting for flotation costs), and the Company's and the Large Power Intervenors' CAPM results were generally higher.
>
> Therefore, the Commission is persuaded that an ROE supported by the two-growth DCF analyses in the record, but which is also reasonably positioned among the breadth of reasonable DCF, CAPM, and blended-analysis results, is justified in this case. An ROE of 9.25% is sufficient to establish just and reasonable rates, while adequately assuring a fair and reasonable return in light of the Company's unique risk profile, capital structure, and costs of obtaining equity investment.[30]

Therefore, the Commission's Rate Case Order entirely captures MP's concerns, and the Petition in that regard provides no new information to support the Commission's reconsideration.

Finally, while the record does not show the exact relationship between MP and rating agencies, such as Moody's and Standard & Poor (S&P), the Commission should not make decisions based on the wishes of rating agencies. As discussed above, MP has the burden of demonstrating the reasonableness of its proposals in this rate case.[31] In the Rate Case Order, the Commission exercised its quasi-judicial and quasi-legislative authority to evaluate MP's proposed revenue deficiency, apportionment of revenue responsibility, and rate design, to order just and reasonable rates for MP's ratepayers. Again, the Commission's determination of whether MP has satisfied its burden of proof that its proposed rates are just and reasonable is guided by Minnesota law, not credit agencies' views.[32]

At this point, ALLETE is still rated BBB+ by S&P, which is above the average S&P BBB rating of MP's Comparison Group.[33] MP has not demonstrated that S&P will change MP's

[30] *Id.* at 61 (emphasis added).
[31] Minn. Stat. § 216B.16, subd. 4 (2016).
[32] Furthermore, it is also unclear from the Petition whether changes in credit agencies' "outlooks" will actually result in changes to MP's credit ratings—that is not shown.
[33] *See* Ex. 601 at 57 (Amit Direct).

rating to BBB. If such an event were to occur, however, that would make ALLETE's credit rating more comparable to its Comparison Group. Therefore, MP should have no difficulty obtaining capital under reasonable terms.[34]

To summarize, the Commission should not make decisions based on credit rating agencies' decisions, and it should set the ROE based on the record of MP's rate case, such that it is fair to MP's ratepayers while allowing MP to obtain its capital needs at reasonable terms. Based on the evidence in the record, an ROE of 9.25 percent, in combination with the high equity ratio of 53.81 percent for MP, is sufficient to allow MP to acquire its needed capital under fair and reasonable terms. Rating ALLETE at BBB, which the credit agencies have not yet done, would simply put MP on an even level with the average credit rating of the Company's Comparison Group. The Commission should not reconsider its authorized ROE for MP, which was reasonably based on the entire record.

II. MP'S REQUEST FOR CLARIFICATIONS

In the Petition's request for clarification, MP seeks clarification of issues regarding its proposed Annual Rate Review Mechanism, large power service, changes to various class rate schedules, and final order determination, that is, that the effective date of the Rate Case Order is the final order issued after reconsideration.

While the Department does not generally respond to MP's requests for clarification, the Commission may wish to determine in this case whether Minn. Stat. § 216B.27, subd. 3, which

[34] An indication that MP had no additional difficulties in acquiring capital after the Commission's decision is the volume of ALLETE's shares of stock being purchased on a daily basis. If the Commission's decision had negatively impacted MP's ability to acquire capital, the trading volume of ALLETE could be expected to go down. The average volume of ALLETE's shares over the pre-Rate Case Order period, 2/5/2018–3/5/2018, was 364,930 shares, and the daily average post-Commission Rate Case Order (3/5/2018–4/4/2018) was 339,128.6, which is not a significant difference over the pre-Rate Case Order volume. The later average excludes the one-day trade on the date at which the Commission decision was made (a week prior to the Rate Case Order.

states in part: "No order of the commission shall become effective while an application for a rehearing or a rehearing is pending and until ten days after the application for a rehearing is either denied, expressly or by implication, or the commission has announced its final determination on rehearing," applies to MP's Petition, as MP appears to request. In other words, the issue is whether the Rate Case Order becomes effective ten days after the Commission issues a decision regarding the Petition.

CONCLUSION

For the above reasons, the Department respectfully requests that the Commission deny the Petition in its entirety. The Department does not take any position on MP's request for clarifications, but agrees that the Commission may wish to clarify the effective date of the Rate Case Order while MP's Petition is pending.

Dated: April 12, 2018

Respectfully submitted,

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Statement of Financial Accounting Standards No. 87

FAS87 Status Page
FAS87 Summary

Employers' Accounting for Pensions

December 1985

Financial Accounting Standards Board
of the Financial Accounting Foundation
401 MERRITT 7, P.O. BOX 5116, NORWALK, CONNECTICUT 06856-5116

Statement of Financial Accounting Standards No. 87

Employers' Accounting for Pensions

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FAS 87 Summary

This Statement supersedes previous standards for employers' accounting for pensions. The most significant changes to past practice affect an employer's accounting for a single-employer defined benefit pension plan, although some provisions also apply to an employer that participates in a multiemployer plan or sponsors a defined contribution plan.

Measuring cost and reporting liabilities resulting from defined benefit pension plans have been sources of accounting controversy for many years. Both the Committee on Accounting Procedure, in 1956, and the Accounting Principles Board (APB), in 1966, concluded that improvements in pension accounting were necessary beyond what was considered practical at those times.

After 1966, the importance of information about pensions grew with increases in the number of plans and amounts of pension assets and obligations. There were significant changes in both the legal environment (for example, the enactment of ERISA) and the economic environment (for example, higher inflation and interest rates). Critics of prior accounting requirements, including users of financial statements, became aware that reported pension cost was not comparable from one company to another and often was not consistent from period to period for the same company. They also became aware that significant pension-related obligations and assets were not recognized in financial statements.

Funding and Accrual Accounting

This Statement reaffirms the usefulness of information based on accrual accounting. Accrual accounting goes beyond cash transactions to provide information about assets, liabilities, and earnings. The Board has concluded, as did the APB in 1966, that net pension cost for a period is not necessarily determined by the amount the employer decides to contribute to the plan for that period. Many factors (including tax considerations and availability of both cash and alternative investment opportunities) that affect funding decisions should not be allowed to dictate accounting results if the accounting is to provide the most useful information.

The conclusion that accounting information on an accrual basis is needed does not mean that accounting information and funding decisions are unrelated. In pensions, as in other areas, managers may use accounting information along with other factors in making financial

decisions. Some employers may decide to change their pension funding policies based in part on the new accounting information. Financial statements should provide information that is useful to those who make economic decisions, and the decision to fund a pension plan to a greater or lesser extent is an economic decision. The Board, however, does not have as an objective either an increase or a decrease in the funding level of any particular plan or plans. Neither does the Board believe that the information required by this Statement is the only information needed to make a funding decision or that net periodic pension cost, as defined, is necessarily the appropriate amount for any particular employer's periodic contribution.

Fundamentals of Pension Accounting

In applying accrual accounting to pensions, this Statement retains three fundamental aspects of past pension accounting: *delaying recognition* of certain events, reporting *net cost*, and *offsetting* liabilities and assets. Those three features of practice have shaped financial reporting for pensions for many years, although they have been neither explicitly addressed nor widely understood, and they conflict in some respects with accounting principles applied elsewhere.

The *delayed recognition* feature means that changes in the pension obligation (including those resulting from plan amendments) and changes in the value of assets set aside to meet those obligations are not recognized as they occur but are recognized systematically and gradually over subsequent periods. All changes are ultimately recognized except to the extent they may be offset by subsequent changes, but at any point changes that have been identified and quantified await subsequent accounting recognition as net cost components and as liabilities or assets.

The *net cost* feature means that the recognized consequences of events and transactions affecting a pension plan are reported as a single net amount in the employer's financial statements. That approach aggregates at least three items that might be reported separately for any other part of an employer's operations: the compensation cost of benefits promised, interest cost resulting from deferred payment of those benefits, and the results of investing what are often significant amounts of assets.

The *offsetting* feature means that recognized values of assets contributed to a plan and liabilities for pensions recognized as net pension cost of past periods are shown net in the employer's statement of financial position, even though the liability has not been settled, the assets may be still largely controlled, and substantial risks and rewards associated with both of those amounts are clearly borne by the employer.

Within those three features of practice that are retained by this Statement, the Board has sought to achieve more useful financial reporting through three changes:

a. This Statement requires a standardized method for measuring net periodic pension cost that is intended to improve comparability and understandability by recognizing the compensation cost of an employee's pension over that employee's approximate service period and by relating that cost more directly to the terms of the plan.
b. This Statement requires immediate recognition of a liability (the minimum liability) when the accumulated benefit obligation exceeds the fair value of plan assets, although it

continues to delay recognition of the offsetting amount as an increase in net periodic pension cost.

c. This Statement requires expanded disclosures intended to provide more complete and more current information than can be practically incorporated in financial statements at the present time.

Cost Recognition and Measurement

A fundamental objective of this Statement is to recognize the compensation cost of an employee's pension benefits (including prior service cost) over that employee's approximate service period. Many respondents to *Preliminary Views* and the Exposure Draft on employers' accounting for pensions agreed with that objective, which conflicts with some aspects of past practice under APB Opinion No. 8, *Accounting for the Cost of Pension Plans*.

The Board believes that the understandability, comparability, and usefulness of pension information will be improved by narrowing the past range of methods for allocating or attributing the cost of an employee's pension to individual periods of service. The Board was unable to identify differences in circumstances that would make it appropriate for different employers to use fundamentally different accounting methods or for a single employer to use different methods for different plans.

The Board believes that the terms of the plan that define the benefits an employee will receive (the plan's benefit formula) provide the most relevant and reliable indication of how pension cost and pension obligations are incurred. In the absence of convincing evidence that the substance of an exchange is different from that indicated by the agreement between the parties, accounting has traditionally looked to the terms of the agreement as a basis for recording the exchange. Unlike some other methods previously used for pension accounting, the method required by this Statement focuses more directly on the plan's benefit formula as the basis for determining the benefit earned, and therefore the cost incurred, in each individual period.

Statement of Financial Position

The Board believes that this Statement represents an improvement in past practices for the reporting of financial position in two ways. First, recognition of the cost of pensions over employees' service periods will result in earlier (but still gradual) recognition of significant liabilities that were reflected more slowly in the past financial statements of some employers. Second, the requirement to recognize a minimum liability limits the extent to which the delayed recognition of plan amendments and losses in net periodic pension cost can result in omission of certain liabilities from statements of financial position.

Recognition of a measure of at least the minimum pension obligation as a liability is not a new idea. Accounting Research Bulletin No. 47, *Accounting for Costs of Pension Plans*, published in 1956, stated that "as a minimum, the accounts and financial statements should reflect accruals which equal the present worth, actuarially calculated, of pension commitments to employees to the extent that pension rights have vested in the employees, reduced, in the case of the balance sheet, by any accumulated trusteed funds or annuity contracts purchased." Opinion 8 required that "if the company has a legal obligation for pension cost in excess of amounts paid or accrued, the excess should be shown in the balance sheet as both a liability and a deferred charge."

The Board believes that an employer with an unfunded pension obligation has a liability and an employer with an overfunded pension obligation has an asset. The most relevant and reliable information available about that liability or asset is based on the fair value of plan assets and a measure of the present value of the obligation using current, explicit assumptions. The Board concluded, however, that recognition in financial statements of those amounts in their entirety would be too great a change from past practice. Some Board members were also influenced by concerns about the reliability of measures of the obligation.

The delayed recognition included in this Statement results in excluding the most current and most relevant information from the statement of financial position. That information, however, is included in the required disclosures.

Information Needed

The Board believes that users of financial reports need information beyond that previously disclosed to be able to assess the status of an employer's pension arrangements and their effects on the employer's financial position and results of operations. Most respondents agreed, and this Statement requires certain disclosures not previously required.

This Statement requires disclosure of the components of net pension cost and of the projected benefit obligation. One of the factors that has made pension information difficult to understand is that past practice and terminology combined elements that are different in substance and effect into net amounts. Although the Board agreed to retain from past pension accounting practice the basic features of reporting net cost and offsetting liabilities and assets, the Board believes that disclosure of the components will significantly assist users in understanding the economic events that have occurred. Those disclosures also make it easier to understand why reported amounts change from period to period, especially when a large cost or asset is offset by a large revenue or liability to produce a relatively small net reported amount.

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After considering the range of comments on *Preliminary Views* and the Exposure Draft, the Board concluded that this Statement represents a worthwhile improvement in financial reporting. Opinion 8 noted in 1966 that "accounting for pension cost is in a transitional stage." The Board believes that is still true in 1985. FASB Concepts Statement No. 5, *Recognition and Measurement in Financial Statements of Business Enterprises*, paragraph 2, indicates that "the Board intends future change [in practice] to occur in the gradual, evolutionary way that has characterized past change."

INTRODUCTION

1. This Statement establishes standards of financial reporting and accounting for an employer that offers **pension benefits** [1] to its employees. The FASB added two pension projects to its agenda in 1974: (a) accounting and reporting by employee benefit plans and (b) employers' accounting for pensions. The first of those projects led to the issuance in 1980 of FASB Statement No. 35, *Accounting and Reporting by Defined Benefit Pension Plans*; this Statement is a result of the second project.

2. Measurement of cost and reporting of liabilities resulting from **defined benefit pension plans** have been a source of accounting controversy for many years. In 1956, the Committee on Accounting Procedure in Accounting Research Bulletin (ARB) No. 47, *Accounting for Costs of Pension Plans*, expressed a preference for accounting in which cost would be "systematically accrued during the expected period of active **service** of the covered employees . . ." (paragraph 5). The committee went on to state:

> However, the committee believes that opinion as to the accounting for pension costs has not yet crystallized sufficiently to make it possible at this time to assure agreement on any one method, and that differences in accounting for pension costs are likely to continue for a time. Accordingly, for the present, the committee believes that, as a minimum, the accounts and financial statements should reflect accruals which equal the present worth, actuarially calculated, of pension commitments to employees to the extent that pension rights have vested in the employees, reduced, in the case of the balance sheet, by any accumulated trusteed **funds** or **annuity contracts** purchased. [paragraph 7]

3. The Accounting Principles Board (APB) issued Opinion No. 8, *Accounting for the Cost of Pension Plans*, in 1966. Opinion 8 described several views of pension cost supported by members of the APB. It concluded that "in the light of such differences in views and of the fact that accounting for pension cost is in a transitional stage, . . . the range of practices would be significantly narrowed if pension cost were accounted for at the present time within limits . . . " (paragraph 17).

4. After 1966, the importance of information about pensions grew with increases in the number of plans and the amounts of pension assets and obligations. There were significant changes in both the legal environment (for example, the enactment of **ERISA**) and the economic environment (for example, higher inflation and **interest rates**). Critics of past accounting, including users of financial statements, became aware that reported pension cost was not comparable from one company to another and often was not consistent from period to period for the same company. They also became aware that significant pension-related obligations and

assets were not recognized in financial statements.

5. This Statement continues the evolutionary search for more meaningful and more useful pension accounting. The FASB believes that the conclusions it has reached are a worthwhile and significant step in that direction, but it also believes that those conclusions are not likely to be the final step in that evolution. Pension accounting in 1985 is still in a transitional stage. It has not yet fully crystallized, but the Board believes this Statement represents significant progress, especially in the measurement of **net periodic pension cost** and in the disclosure of useful information.

6. The Board's objectives for this Statement, in broad terms, are as follows:

a. To provide a measure of net periodic pension cost [2] that is more representationally faithful than those used in past practice because it reflects the terms of the underlying plan and because it better approximates the recognition of the cost of an employee's pension over that employee's service period
b. To provide a measure of net periodic pension cost that is more understandable and comparable and is, therefore, more useful than those in past practice
c. To provide disclosures that will allow users to understand better the extent and effect of an employer's undertaking to provide employee pensions and related financial arrangements
d. To improve reporting of financial position.

STANDARDS OF FINANCIAL ACCOUNTING AND REPORTING

Scope

7. This Statement establishes standards of financial accounting and reporting for an employer that offers pension benefits to its employees. Ordinarily, such benefits are periodic pension payments to retired employees or their survivors, but they may also include benefits payable as a single lump sum and, except as noted in the following paragraph, other types of benefits such as death benefits provided through a pension plan. An employer's arrangement to provide pension benefits may take a variety of forms and may be financed in different ways. This Statement applies to any arrangement that is similar in substance to a pension plan regardless of the form or means of financing. This Statement applies to a written plan and to a plan whose existence may be implied from a well-defined, although perhaps unwritten, practice of paying postretirement benefits.

8. This Statement does not apply to a plan that provides only life insurance benefits or health insurance benefits, or both, to retirees; employers are also not required to apply this Statement to postemployment health care benefits provided through a pension plan.[3] If the provisions of this

Statement are not applied to postemployment health care benefits provided through a pension plan, obligations and assets related to such benefits shall not be considered to be pension obligations or **plan assets** for purposes of this Statement. This Statement does not change or supersede any of the requirements set forth in Statement 35 for the financial statements of a pension plan.

9. This Statement supersedes Opinion 8, as amended; FASB Statement No. 36, *Disclosure of Pension Information*; and FASB Interpretation No. 3, *Accounting for the Cost of Pension Plans Subject to the Employee Retirement Income Security Act of 1974*. Paragraphs 70 and 75 of this Statement amend FASB Statement No. 5, *Accounting for Contingencies* and APB Opinion No. 16, *Business Combinations*.

Use of Reasonable Approximations

10. This Statement is intended to specify accounting objectives and results rather than specific computational means of obtaining those results. If estimates, averages, or computational shortcuts can reduce the cost of applying this Statement, their use is appropriate, provided the results are reasonably expected not to be materially different from the results of a detailed application.

Single-Employer Defined Benefit Pension Plans

11. The most significant parts of this Statement involve an employer's accounting for a single-employer defined benefit pension plan. For purposes of this Statement, a defined benefit pension plan is one that defines an amount of pension benefit to be provided, usually as a function of one or more factors such as age, years of service, or compensation.

12. A pension benefit is part of the compensation paid to an employee for services. In a defined benefit pension plan, the employer promises to provide, in addition to current wages, retirement income payments in future years after the employee retires or terminates service. Generally, the amount of benefit to be paid depends on a number of future events that are incorporated in the **plan's benefit formula**, often including how long the employee and any survivors live, how many years of service the employee renders, and the employee's compensation in the years immediately before retirement or termination. In most cases, services are rendered over a number of years before an employee retires and begins collecting the pension. Even though the services rendered by an employee are complete and the employee has retired, the total amount of benefit that the employer has promised and the cost to the employer of the services rendered are not precisely determinable but can only be estimated using the **benefit formula** and estimates of the relevant future events, many of which the employer cannot control.

13. Any method of pension accounting that recognizes cost before the payment of benefits to retirees must deal with two problems stemming from the nature of the defined benefit pension

contract. First, estimates or **assumptions** must be made concerning the future events that will determine the amount and timing of the benefit payments. Second, some approach to attributing the cost of pension benefits to individual years of service must be selected.

14. This Statement requires use of explicit assumptions, each of which individually represents the best estimate of a particular future event. This Statement also requires use of the terms of the pension plan itself, specifically the plan's benefit formula, as a basis for attributing benefits earned and their cost to periods of employee service.

Basic Elements of Pension Accounting

15. The assumptions and the **attribution** of cost to periods of employee service are fundamental to the measurements of net periodic pension cost and pension obligations required by this Statement. The basic elements of pension accounting are described in paragraphs 16-19; they are the foundation of the accounting and reporting requirements set forth in this Statement.

16. Net periodic pension cost has often been viewed as a single homogeneous amount, but in fact it is made up of several *components* that reflect different aspects of the employer's financial arrangements as well as the cost of benefits earned by employees. The cost of a benefit can be determined without regard to how the employer decides to finance the plan. The **service cost component** of net periodic pension cost is the **actuarial present value** of benefits attributed by the plan's benefit formula to services rendered by employees during the period. The service cost component is conceptually the same for an unfunded plan, a plan with minimal funding, and a well-funded plan. The other components of net periodic pension cost are **interest cost** [4] (interest on the **projected benefit obligation**, which is a discounted amount), **actual return on plan assets**, **amortization** of **unrecognized prior service cost**, and **gain or loss**. Both the return on plan assets and interest cost components are in substance financial items rather than employee compensation costs.

17. The projected benefit obligation as of a date is the actuarial present value of all benefits attributed by the plan's benefit formula to employee service rendered prior to that date. The projected benefit obligation is measured using an assumption as to future compensation levels if the **pension benefit formula** is based on those future compensation levels. Plans for which the pension benefit formula is based on future compensation are sometimes called pay-related, **final-pay**, final-average-pay, or **career-average-pay plans**. Plans for which the pension benefit formula is not based on future compensation levels are called non-pay-related or **flat-benefit plans**. The projected benefit obligation is a measure of benefits attributed to service to date assuming that the plan continues in effect and that estimated future events (including compensation increases, **turnover**, and **mortality**) occur.

18. The **accumulated benefit obligation** as of a date is the actuarial present value of benefits attributed by the pension benefit formula to employee service rendered prior to that date and based on current and past compensation levels. The accumulated benefit obligation differs from

the projected benefit obligation in that it includes no assumption about future compensation levels. For plans with flat-benefit or non-pay-related pension benefit formulas, the accumulated benefit obligation and the projected benefit obligation are the same. The accumulated benefit obligation and the **vested benefit obligation** provide information about the obligation the employer would have if the plan were discontinued.

19. Plan assets are assets—usually stocks, bonds, and other investments—that have been segregated and restricted (usually in a trust) to provide for pension benefits. The amount of plan assets includes amounts contributed by the employer (and by employees for a **contributory plan**) and amounts earned from investing the contributions, less benefits paid. Plan assets ordinarily cannot be withdrawn by the employer except under certain circumstances when a plan has assets in excess of obligations and the employer has taken certain steps to satisfy existing obligations. Assets not segregated in a trust or otherwise effectively restricted so that they cannot be used by the employer for other purposes are not plan assets for purposes of this Statement even though it may be intended that such assets be used to provide pensions. Amounts accrued by the employer but not yet paid to the plan are not plan assets for purposes of this Statement. Securities of the employer held by the plan are includable in plan assets provided they are transferable.

Recognition of Net Periodic Pension Cost

20. The following components shall be included in the net pension cost recognized for a period by an employer **sponsoring** a defined benefit pension plan:

a. Service cost
b. Interest cost
c. Actual return on plan assets, if any
d. Amortization of unrecognized prior service cost, if any
e. Gain or loss (including the effects of changes in assumptions) to the extent recognized (paragraph 34)
f. Amortization of the unrecognized net obligation (and loss or cost) or unrecognized net asset (and gain) existing at the date of initial application of this Statement (paragraph 77).

Service Cost

21. The service cost component recognized in a period shall be determined as the actuarial present value of benefits attributed by the pension benefit formula to employee service during that period. The measurement of the service cost component requires use of an attribution method and assumptions. That measurement is discussed in paragraphs 39-48 of this Statement.

Interest Cost

22. The interest cost component recognized in a period shall be determined as the increase in the projected benefit obligation due to the passage of time. Measuring the projected benefit

obligation as a present value requires accrual of an interest cost at rates equal to the assumed discount rates.

Actual Return on Plan Assets

23. For a funded plan, the actual return on plan assets shall be determined based on the **fair value** of plan assets at the beginning and the end of the period, adjusted for contributions and benefit payments.

Prior Service Cost

24. **Plan amendments** (including initiation of a plan) often include provisions that grant increased benefits based on services rendered in prior periods. Because plan amendments are granted with the expectation that the employer will realize economic benefits in future periods, this Statement does not require the cost of providing such **retroactive benefits** (that is, **prior service cost**) to be included in net periodic pension cost entirely in the year of the amendment but provides for recognition during the future service periods of those employees active at the date of the amendment who are expected to receive benefits under the plan.

25. The cost of retroactive benefits (including benefits that are granted to retirees) is the increase in the projected benefit obligation at the date of the amendment. Except as specified in paragraphs 26 and 27, that prior service cost shall be amortized by assigning an equal amount to each future period of service of each employee active at the date of the amendment who is expected to receive benefits under the plan. If all or almost all of a plan's **participants** are inactive, the cost of retroactive plan amendments affecting benefits of inactive participants shall be amortized based on the remaining life expectancy of those participants instead of based on the remaining service period.

26. To reduce the complexity and detail of the computations required, consistent use of an alternative amortization approach that more rapidly reduces the unrecognized cost of retroactive amendments is acceptable. For example, a straight-line amortization of the cost over the average remaining service period of employees expected to receive benefits under the plan is acceptable. The alternative method used shall be disclosed.

27. In some situations a history of regular plan amendments and other evidence may indicate that the period during which the employer expects to realize economic benefits from an amendment granting retroactive benefits is shorter than the entire remaining service period of the active employees. Identification of such situations requires an assessment of the individual circumstances and the substance of the particular plan situation. In those circumstances, the amortization of prior service cost shall be accelerated to reflect the more rapid expiration of the employer's economic benefits and to recognize the cost in the periods benefited.

28. A plan amendment can reduce, rather than increase, the projected benefit obligation. Such

a reduction shall be used to reduce any existing unrecognized prior service cost, and the excess, if any, shall be amortized on the same basis as the cost of benefit increases.

Gains and Losses

29. **Gains and losses** are changes in the amount of either the projected benefit obligation or plan assets resulting from experience different from that assumed and from changes in assumptions. This Statement does not distinguish between those sources of gains and losses. Gains and losses include amounts that have been realized, for example by sale of a security, as well as amounts that are unrealized. Because gains and losses may reflect refinements in estimates as well as real changes in economic values and because some gains in one period may be offset by losses in another or vice versa, this Statement does not require recognition of gains and losses as components of net pension cost of the period in which they arise.[5]

30. The **expected return on plan assets** shall be determined based on the **expected long-term rate of return on plan assets** and the **market-related value of plan assets**. The market-related value of plan assets shall be either fair value or a calculated value that recognizes changes in fair value in a systematic and rational manner over not more than five years. Different ways of calculating market-related value may be used for different classes of assets (for example, an employer might use fair value for bonds and a five-year-moving-average value for equities), but the manner of determining market-related value shall be applied consistently from year to year for each asset class.

31. Asset gains and losses are differences between the actual return on assets during a period and the expected return on assets for that period. Asset gains and losses include both (a) changes reflected in the market-related value of assets and (b) changes not yet reflected in the market-related value (that is, the difference between the fair value of assets and the market-related value). Asset gains and losses not yet reflected in market-related value are not required to be amortized under paragraphs 32 and 33.

32. As a minimum, amortization of an **unrecognized net gain or loss** (excluding asset gains and losses not yet reflected in market-related value) shall be included as a component of net pension cost for a year if, as of the beginning of the year, that unrecognized net gain or loss exceeds 10 percent of the greater of the projected benefit obligation or the market-related value of plan assets. If amortization is required, the minimum amortization [6] shall be that excess divided by the average remaining service period of active employees expected to receive benefits under the plan. If all or almost all of a plan's participants are inactive, the average remaining life expectancy of the inactive participants shall be used instead of average remaining service.

33. Any systematic method of amortization of unrecognized gains or losses may be used in lieu of the minimum specified in the previous paragraph provided that (a) the minimum is used in any period in which the minimum amortization is greater (reduces the net balance by more), (b) the method is applied consistently, (c) the method is applied similarly to both gains and

losses, and (d) the method used is disclosed.

34. The **gain or loss component** of net periodic pension cost shall consist of (a) the difference between the actual return on plan assets and the expected return on plan assets and (b) amortization of the unrecognized net gain or loss from previous periods.

Recognition of Liabilities and Assets

35. A liability (**unfunded accrued pension cost**) is recognized if net periodic pension cost recognized pursuant to this Statement exceeds amounts the employer has contributed to the plan. An asset (**prepaid pension cost**) is recognized if net periodic pension cost is less than amounts the employer has contributed to the plan.

36. If the accumulated benefit obligation exceeds the fair value of plan assets, the employer shall recognize in the statement of financial position a liability (including unfunded accrued pension cost) that is at least equal to the **unfunded accumulated benefit obligation**. Recognition of an additional minimum liability is required if an unfunded accumulated benefit obligation exists and (a) an asset has been recognized as prepaid pension cost, (b) the liability already recognized as unfunded accrued pension cost is less than the unfunded accumulated benefit obligation, or (c) no accrued or prepaid pension cost has been recognized.

37. If an additional minimum liability is recognized pursuant to paragraph 36, an equal amount shall be recognized as an intangible asset, provided that the asset recognized shall not exceed the amount of unrecognized prior service cost.[7] If an additional liability required to be recognized exceeds unrecognized prior service cost, the excess (which would represent a net loss not yet recognized as net periodic pension cost) shall be reported as a separate component (that is, a reduction) of equity, net of any tax benefits that result from considering such losses as timing differences for purposes of applying the provisions of APB Opinion No. 11, *Accounting for Income Taxes*.

38. When a new determination of the amount of additional liability is made to prepare a statement of financial position, the related intangible asset and separate component of equity shall be eliminated or adjusted as necessary.

Measurement of Cost and Obligations

39. The service component of net periodic pension cost, the projected benefit obligation, and the accumulated benefit obligation are based on an attribution of pension benefits to periods of employee service and on the use of actuarial assumptions to calculate the actuarial present value of those benefits. Actuarial assumptions reflect the time value of money (**discount rate**) and the probability of payment (assumptions as to mortality, turnover, early retirement, and so forth).

Attribution

40. For purposes of this Statement, pension benefits ordinarily shall be attributed to periods of employee service based on the plan's benefit formula to the extent that the formula states or implies an attribution. For example, if a plan's formula provides for a pension benefit of $10 per month for life for each year of service, the benefit attributed to each year of an employee's service is $10 times the number of months of life expectancy after retirement, and the cost attributable to each year is the actuarial present value of that benefit. For plan benefit formulas that define benefits similarly for all years of service, that attribution is a **"benefit/years-of-service" approach** because it attributes the same amount of the pension benefit to each year of service.[8] For final-pay and career-average-pay plans, that attribution is also the same as the "projected unit credit" or "unit credit with service prorate" actuarial cost method. For a flat-benefit plan, it is the same as the "unit credit" actuarial cost method.

41. In some situations a history of regular increases in non-pay-related benefits or benefits under a career-average-pay plan and other evidence may indicate that an employer has a present commitment to make future amendments and that the substance of the plan is to provide benefits attributable to prior service that are greater than the benefits defined by the written terms of the plan. In those situations, the substantive commitment shall be the basis for the accounting, and the existence and nature of the commitment to make future amendments shall be disclosed.

42. Some plans may have benefit formulas that attribute all or a disproportionate share of the total benefits provided to later years of service, thereby achieving in substance a delayed vesting of benefits. For example, a plan that provides no benefits for the first 19 years of service and a vested benefit of $10,000 for the 20th year is substantively the same as a plan that provides $500 per year for each of 20 years and requires 20 years of service before benefits vest. For such plans the total projected benefit shall be considered to accumulate in proportion to the ratio of the number of completed years of service to the number that will have been completed when the benefit is first fully vested. If a plan's benefit formula does not specify how a particular benefit relates to services rendered, the benefit shall be considered to accumulate as follows:

a. For benefits of a type includable in **vested benefits**,[9] in proportion to the ratio of the number of completed years of service to the number that will have been completed when the benefit is first fully vested
b. For benefits of a type not includable in vested benefits,[10] in proportion to the ratio of completed years of service to total projected years of service.

Assumptions

43. Each significant assumption used shall reflect the best estimate solely with respect to that individual assumption. All assumptions shall presume that the plan will continue in effect in the absence of evidence that it will not continue.

44. Assumed discount rates shall reflect the rates at which the pension benefits could be effectively settled. It is appropriate in estimating those rates to look to available information about rates implicit in current prices of annuity contracts that could be used to effect settlement of the obligation (including information about available annuity rates currently published by the Pension Benefit Guaranty Corporation). In making those estimates, employers may also look to rates of return on high-quality fixed-income investments currently available and expected to be available during the period to maturity of the pension benefits. Assumed discount rates are used in measurements of the projected, accumulated, and vested benefit obligations and the service and interest cost components of net periodic pension cost.

45. The expected long-term rate of return on plan assets shall reflect the average rate of earnings expected on the funds invested or to be invested to provide for the benefits included in the projected benefit obligation. In estimating that rate, appropriate consideration should be given to the returns being earned by the plan assets in the fund and the rates of return expected to be available for reinvestment. The expected long-term rate of return on plan assets is used (with the market-related value of assets) to compute the expected return on assets.

46. The service cost component of net periodic pension cost and the projected benefit obligation shall reflect future compensation levels to the extent that the pension benefit formula defines pension benefits wholly or partially as a function of future compensation levels (that is, for a final-pay plan or a career-average-pay plan). Future increases for which a present commitment exists as described in paragraph 41 shall be similarly considered. Assumed compensation levels shall reflect an estimate of the actual future compensation levels of the individual employees involved, including future changes attributed to general price levels, productivity, seniority, promotion, and other factors. All assumptions shall be consistent to the extent that each reflects expectations of the same future economic conditions, such as future rates of inflation. Measuring service cost and the projected benefit obligation based on estimated future compensation levels entails considering indirect effects, such as changes under existing law in social security benefits or benefit limitations [11] that would affect benefits provided by the plan.

47. The accumulated benefit obligation shall be measured based on employees' *history* of service and *compensation* without an estimate of future compensation levels. Excluding estimated future compensation levels also means excluding indirect effects of future changes such as increases in the social security wage base. In measuring the accumulated benefit obligation, projected years of service shall be a factor only in determining employees' expected eligibility for particular benefits, such as:

a. Increased benefits that are granted provided a specified number of years of service are rendered (for example, a pension benefit that is increased from $9 per month to $10 per month for each year of service if 20 or more years of service are rendered)
b. Early retirement benefits
c. Death benefits

d. Disability benefits.

48. Automatic benefit increases specified by the plan (for example, automatic cost-of-living increases) that are expected to occur shall be included in measurements of the projected, accumulated, and vested benefit obligations, and the service cost component required by this Statement. Also, retroactive plan amendments shall be included in the computation of the projected and accumulated benefit obligations once they have been contractually agreed to, even if some provisions take effect only in future periods. For example, if a plan amendment grants a higher benefit level for employees retiring after a future date, the higher benefit level shall be included in current-period measurements for employees expected to retire after that date.

Measurement of Plan Assets

49. For purposes of measuring the minimum liability required by the provisions of paragraph 36 and for purposes of the disclosures required by paragraph 54, plan investments, whether equity or debt securities, real estate, or other, shall be measured at their fair value as of the **measurement date**. The fair value of an investment is the amount that the plan could reasonably expect to receive for it in a current sale between a willing buyer and a willing seller, that is, other than in a forced or liquidation sale. Fair value shall be measured by the market price if an active market exists for the investment. If no active market exists for an investment but such a market exists for similar investments, selling prices in that market may be helpful in estimating fair value. If a market price is not available, a forecast of expected cash flows may aid in estimating fair value, provided the expected cash flows are discounted at a current rate commensurate with the risk involved.[12]

50. For purposes of determining the expected return on plan assets and accounting for asset gains and losses pursuant to paragraphs 29-34, a market-related asset value, defined in paragraph 30, is used.

51. Plan assets used in plan operations (for example, buildings, equipment, furniture and fixtures, and leasehold improvements) shall be measured at cost less accumulated depreciation or amortization for all purposes.

Measurement Dates

52. The measurements of plan assets and obligations required by this Statement shall be as of the date of the financial statements or, if used consistently from year to year, as of a date not more than three months prior to that date. Requiring that the pension measurements be as of a particular date is not intended to require that all procedures be performed after that date. As with other financial statement items requiring estimates, much of the information can be prepared as of an earlier date and projected forward to account for subsequent events (for example, employee service). The additional minimum liability reported in interim financial statements shall be the same additional minimum liability (paragraph 36) recognized in the previous year-end statement of financial position, adjusted for subsequent accruals and contributions, unless measures of both

the obligation and plan assets are available as of a more current date or a significant event occurs, such as a plan amendment, that would ordinarily call for such measurements.

53. Measurements of net periodic pension cost for both interim and annual financial statements shall be based on the assumptions used for the previous year-end measurements unless more recent measurements of both plan assets and obligations are available or a significant event occurs, such as a plan amendment, that would ordinarily call for such measurements.

Disclosures

54. An employer sponsoring a defined benefit pension plan shall disclose the following:

a. A description of the plan including employee groups covered, type of benefit formula, **funding policy**, types of assets held and significant nonbenefit liabilities, if any, and the nature and effect of significant matters affecting comparability of information for all periods presented
b. The amount of net periodic pension cost for the period showing separately the service cost component, the interest cost component, the actual return on assets for the period, and the net total of other components [13]
c. A schedule reconciling the funded status of the plan with amounts reported in the employer's statement of financial position, showing separately:
   (1) The fair value of plan assets
   (2) The projected benefit obligation identifying the accumulated benefit obligation and the vested benefit obligation
   (3) The amount of unrecognized prior service cost
   (4) The amount of unrecognized net gain or loss (including asset gains and losses not yet reflected in market-related value)
   (5) The amount of any remaining unrecognized net obligation or net asset existing at the date of initial application of this Statement
   (6) The amount of any additional liability recognized pursuant to paragraph 36
   (7) The amount of net pension asset or liability recognized in the statement of financial position pursuant to paragraphs 35 and 36 (which is the net result of combining the preceding six items)
d. The weighted-average assumed discount rate and rate of compensation increase (if applicable) used to measure the projected benefit obligation and the weighted-average expected long-term rate of return on plan assets
e. If applicable, the amounts and types of securities of the employer and related parties included in plan assets, and the approximate amount of annual benefits of employees and retirees covered by annuity contracts issued by the employer and related parties. Also, if applicable, the alternative amortization method used pursuant to paragraphs 26 and 33, and the existence and nature of the commitment discussed in paragraph 41.

Employers with Two or More Plans

55. An employer that sponsors two or more separate defined benefit pension plans shall determine net periodic pension cost, liabilities, and assets by separately applying the provisions of this Statement to each plan. In particular, unless an employer clearly has a right to use the assets of one plan to pay benefits of another, a liability required to be recognized pursuant to paragraph 35 or 36 for one plan shall not be reduced or eliminated because another plan has assets in excess of its accumulated benefit obligation or because the employer has prepaid pension cost related to another plan.

56. Except as noted below, disclosures required by this Statement may be aggregated for all of an employer's single-employer defined benefit plans, or plans may be disaggregated in groups so as to provide the most useful information. For purposes of the disclosures required by paragraph 54(c), plans with assets in excess of the accumulated benefit obligation shall not be aggregated with plans that have accumulated benefit obligations that exceed plan assets. Disclosures for plans outside the U.S. shall not be combined with those for U.S. plans unless those plans use similar economic assumptions.

Annuity Contracts

57. An annuity contract is a contract in which an insurance company [14] unconditionally undertakes a legal obligation to provide specified benefits to specific individuals in return for a fixed consideration or premium. An annuity contract is irrevocable and involves the transfer of significant risk from the employer to the insurance company. Some annuity contracts (participating annuity contracts) provide that the purchaser (either the plan or the employer) may participate in the experience of the insurance company. Under those contracts, the insurance company ordinarily pays dividends to the purchaser. If the substance of a participating contract is such that the employer remains subject to all or most of the risks and rewards associated with the benefit obligation covered and the assets transferred to the insurance company, that contract is not an annuity contract for purposes of this Statement.

58. To the extent that benefits currently earned are covered by annuity contracts, the cost of those benefits shall be the cost of purchasing the contracts, except as provided in paragraph 61. That is, if all the benefits attributed by the plan's benefit formula to service in the current period are covered by **nonparticipating annuity contracts**, the cost of the contracts determines the service cost component of net pension cost for that period.

59. Benefits provided by the pension benefit formula beyond benefits provided by annuity contracts (for example, benefits related to future compensation levels) shall be accounted for according to the provisions of this Statement applicable to plans not involving insurance contracts.

60. Benefits covered by annuity contracts shall be excluded from the projected benefit

obligation and the accumulated benefit obligation. Except as provided in paragraph 61, annuity contracts shall be excluded from plan assets.

61. Some annuity contracts provide that the purchaser (either the plan or the employer) may participate in the experience of the insurance company. Under those contracts, the insurance company ordinarily pays dividends to the purchaser, the effect of which is to reduce the cost of the plan. The purchase price of a **participating annuity contract** ordinarily is higher than the price of an equivalent contract without **participation rights**. The difference is the cost of the participation right. The cost of the participation right shall be recognized at the date of purchase as an asset. In subsequent periods, the participation right shall be measured at its fair value if the contract is such that fair value is reasonably estimable. Otherwise, the participation right shall be measured at its amortized cost (not in excess of its net realizable value), and the cost shall be amortized systematically over the expected dividend period under the contract.

Other Contracts with Insurance Companies

62. Insurance contracts that are in substance equivalent to the purchase of annuities shall be accounted for as such. Other contracts with insurance companies shall be accounted for as investments and measured at fair value. For some contracts, the best available evidence of fair value may be contract value. If a contract has a determinable cash surrender value or conversion value, that is presumed to be its fair value.

Defined Contribution Plans

63. For purposes of this Statement, a **defined contribution pension plan** is a plan that provides pension benefits in return for services rendered, provides an individual account for each participant, and has terms that specify how contributions to the individual's account are to be determined rather than the amount of pension benefits the individual is to receive. Under a defined contribution plan, the pension benefits a participant will receive depend only on the amount contributed to the participant's account, the returns earned on investments of those contributions, and forfeitures of other participants' benefits that may be allocated to the participant's account.

64. To the extent that a plan's defined contributions to an individual's account are to be made for periods in which that individual renders services, the net pension cost for a period shall be the contribution called for in that period. If a plan calls for contributions for periods after an individual retires or terminates, the estimated cost shall be accrued during the employee's service period.

65. An employer that sponsors one or more defined contribution plans shall disclose the following separately from its defined benefit plan disclosures:

a. A description of the plan(s) including employee groups covered, the basis for determining contributions, and the nature and effects of significant matters affecting comparability of information for all periods presented

b. The amount of cost recognized during the period.

66. A pension plan having characteristics of both a defined benefit plan and a defined contribution plan requires careful analysis. If the *substance* of the plan is to provide a defined benefit, as may be the case with some "target benefit" plans, the accounting and disclosure requirements shall be determined in accordance with the provisions of this Statement applicable to a defined benefit plan.

Multiemployer Plans

67. For purposes of this Statement, a **multiemployer plan** is a pension plan to which two or more unrelated employers contribute, usually pursuant to one or more collective-bargaining agreements. A characteristic of multiemployer plans is that assets contributed by one participating employer may be used to provide benefits to employees of other participating employers since assets contributed by an employer are not segregated in a separate account or restricted to provide benefits only to employees of that employer. A multiemployer plan usually is administered by a board of trustees composed of management and labor representatives and may also be referred to as a "joint trust" or "union" plan. Generally, many employers participate in a multiemployer plan, and an employer may participate in more than one plan. The employers participating in multiemployer plans usually have a common industry bond, but for some plans the employers are in different industries, and the labor union may be their only common bond. Some multiemployer plans do not involve a union. For example, local chapters of a not-for-profit organization may participate in a plan established by the related national organization.

68. An employer participating in a multiemployer plan shall recognize as net pension cost the required contribution for the period and shall recognize as a liability any contributions due and unpaid.

69. An employer that participates in one or more multiemployer plans shall disclose the following separately from disclosures for a **single-employer plan**:

a. A description of the multiemployer plan(s) including the employee groups covered, the type of benefits provided (defined benefit or defined contribution), and the nature and effect of significant matters affecting comparability of information for all periods presented
b. The amount of cost recognized during the period.

70. In some situations, withdrawal from a multiemployer plan may result in an employer's having an obligation to the plan for a portion of its unfunded benefit obligations. If withdrawal under circumstances that would give rise to an obligation is either probable or reasonably possible, the provisions of FASB Statement No. 5, *Accounting for Contingencies*, shall apply.

Paragraph 7 of Statement 5 is amended to delete the references to accounting for pension cost and Opinion 8.

Multiple-Employer Plans

71. Some pension plans to which two or more unrelated employers contribute are not multiemployer plans. Rather, they are in substance aggregations of single-employer plans combined to allow participating employers to pool their assets for investment purposes and to reduce the costs of plan administration. Those plans ordinarily do not involve collective-bargaining agreements. They may also have features that allow participating employers to have different benefit formulas, with the employer's contributions to the plan based on the benefit formula selected by the employer. Such plans shall be considered single-employer plans rather than multiemployer plans for purposes of this Statement, and each employer's accounting shall be based on its respective interest in the plan.

Non-U.S. Pension Plans

72. Except for its effective date (paragraph 76), this Statement includes no special provisions applicable to pension arrangements outside the United States. To the extent that those arrangements are in substance similar to pension plans in the United States, they are subject to the provisions of this Statement for purposes of preparing financial statements in accordance with accounting principles generally accepted in the United States. The substance of an arrangement is determined by the nature of the obligation and by the terms or conditions that define the amount of benefits to be paid, not by whether (or how) a plan is funded, whether benefits are payable at intervals or as a single amount, or whether the benefits are required by law or custom or are provided under a plan the employer has elected to sponsor.

73. It is customary or required in some countries to provide benefits in the event of a voluntary or involuntary severance of employment (also called termination indemnities). If such an arrangement is in substance a pension plan (for example, if the benefits are paid for virtually all terminations), it is subject to the provisions of this Statement.

Business Combinations

74. When an employer is acquired in a business combination that is accounted for by the purchase method under Opinion 16 and that employer sponsors a single-employer defined benefit pension plan, the assignment of the purchase price to individual assets acquired and liabilities assumed shall include a liability for the projected benefit obligation in excess of plan assets or an asset for plan assets in excess of the projected benefit obligation, thereby eliminating any previously existing unrecognized net gain or loss, unrecognized prior service cost, or unrecognized net obligation or net asset existing at the date of initial application of this Statement. Subsequently, to the extent that those amounts are considered in determining the amounts of contributions, differences between the purchaser's net pension cost and amounts

contributed will reduce the liability or asset recognized at the date of the combination. If it is expected that the plan will be terminated or curtailed, the effects of those actions shall be considered in measuring the projected benefit obligation.

Amendment to Opinion 16

75. The reference to accruals for pension cost in paragraph 88(h) of Opinion 16 and footnote 13 to that Opinion are deleted. The following footnote is added to the end of the last sentence of paragraph 88 of Opinion 16:

> Paragraph 74 of FASB Statement No. 87, *Employers' Accounting for Pensions*, specifies how the general guidelines of this paragraph shall be applied to assets and liabilities related to pension plans.

Transition and Effective Dates

76. Except as noted in the following sentences of this paragraph, this Statement shall be effective for fiscal years beginning after December 15, 1986. For plans outside the U.S. and for defined benefit plans of employers that (a) are **nonpublic enterprises** and (b) sponsor no defined benefit plan with more than 100 participants, this Statement shall be effective for fiscal years beginning after December 15, 1988. For all plans, the provisions of paragraphs 36-38 shall be effective for fiscal years beginning after December 15, 1988. In all cases, earlier application is encouraged. Restatement of previously issued annual financial statements is not permitted. If a decision to initially apply this Statement is made in other than the first interim period of an employer's fiscal year, previous interim periods of that year shall be restated.

77. For a defined benefit plan, an employer shall determine as of the measurement date (paragraph 52) for the beginning of the fiscal year in which this Statement is first applied, the amounts of (a) the projected benefit obligation and (b) the fair value of plan assets plus previously recognized unfunded accrued pension cost or less previously recognized prepaid pension cost. The difference between those two amounts, whether it represents an unrecognized net obligation (and loss or cost) or an unrecognized net asset (and gain), shall be amortized on a straight-line basis over the average remaining service period of employees expected to receive benefits under the plan, except that, (a) if the average remaining service period is less than 15 years, the employer may elect to use a 15-year period, and (b) if all or almost all of a plan's participants are inactive, the employer shall use the inactive participants' average remaining life expectancy period. That same amortization shall also be used to recognize any unrecognized net obligation related to a defined contribution plan.

The provisions of this Statement need not be applied to immaterial items.

This Statement was adopted by the affirmative votes of four members of the Financial Accounting Standards Board. Messrs. Brown, Sprouse, and Wyatt dissented.

Mr. Brown does not support either the pension cost determination or the minimum liability recognition provisions of this Statement. He supports the Board's conclusion that pension costs constitute employee compensation and that pension costs should be recognized over employee service lives. He also agrees that the disclosures called for will be helpful in fostering user understanding of the nature and status of employer pension obligations and of employer progress in providing for these obligations. In his view, however, the evidence available to the Board is insufficient to sustain the argument that a benefit/years-of-service method should be the sole required expense attribution method or that recognition of liabilities and assets beyond unfunded accrued or prepaid pension costs should be required.

Mr. Brown believes that considerations of comparability and understandability argue for a narrowing of accounting methods now used to allocate pension costs to accounting periods but observes that neither the benefit family nor the cost family of attribution methods is inherently and demonstrably superior. He believes, however, that the cost/compensation family of attribution methods has considerable appeal as a solution to the difficult problem of allocating the estimated lifetime cost of an employee's defined benefit pension to years of service. Cost/compensation methods allocate net pension cost to periods based on direct compensation—in his view, a reasonable and understandable allocation method—producing a net pension cost that is a constant percentage of compensation over the years of an employee's career. Mr. Brown also notes that cost/compensation methods are more commonly used for both pension cost determination and for funding in the United States than are benefit methods.

Despite the appeal of cost/compensation methods, Mr. Brown would not specify a single actuarial calculation method to be used for periodic attribution of pension costs. Rather, he would establish an objective that net pension cost be charged over the service lives of the existing work force such that the net pension cost would be a level percentage of current and expected compensation of this work force. (He notes that the aggregate method—a cost/compensation approach—is one practical way to meet that objective.)

He believes that stating the accounting objective rather than specifying a single computational method would be cost beneficial. Comparability and understandability would be improved if methods used aimed at a common objective. Attaining comparability of end result does not require standardization of the calculation method as evidenced by the fact that different actuarial calculation methods can produce very similar cost results and cost patterns for the same plan, depending on plan-specific circumstances. Mr. Brown notes that both the actuarial method and the assumptions used are critical in determining periodic pension costs. Differences in assumptions arise both because of different plan circumstances and because judgments are required in developing assumptions. Thus, standardization in method represents only one step, of undeterminable size, in achieving comparability in end result. Available evidence does not support a conclusion that the comparability achieved by method change alone is worth the costs inevitably involved in making the change.

Permitting flexibility in the specific calculations to be used in achieving the accounting objective would avoid the need for specifying detailed methods for amortizing prior service cost and unrecognized actuarial gains and losses, as is done in this Statement. Those detailed methods are necessarily arbitrary and produce a complex accounting standard. The detailed methodology and the insistence on using settlement rates to measure the service and interest cost components of net periodic pension cost are both, in his view, examples of the pursuit of a level of precision or exactness that is realistically unattainable in this case. Mr. Brown would leave implementation details to those who are aware of and can consider the circumstances of each plan situation.

Mr. Brown believes that an employer has an obligation under a defined benefit plan and that information about that obligation and the resources accumulated to meet it should be included in financial reports. In his view, however, the nature of point-in-time value measures of plan assets and of plan obligations (whether measured in terms of vested benefits, accumulated benefits, or projected benefit obligations) is such that they do not fall meaningfully and readily within the present structure of financial statements. Delayed recognition of price changes and of actuarial gains and losses is embodied in the methodology of this Statement for pension cost determination. To require balance sheet recognition of selected point-in-time market values and actuarial liability estimates—and this only when liabilities exceed assets—is inconsistent both internally and with expense recognition methodology. It would also, in Mr. Brown's view, be confusing to users. He does not believe that the proposed intangible assets and separate components of equity that would be recorded in tandem with additional liability recognition would add meaningful or understandable information. For these reasons, he believes that plan asset and pension obligation information is better presented in disclosures to financial statements.

Mr. Sprouse believes that, although this Statement provides some improvements in employers' accounting for pensions, those improvements are more than offset by certain important deficiencies. As explained below, he would support the requirements for determining net periodic pension cost and for disclosure, if those deficiencies were eliminated.

He starts from the basic position that only unfunded accumulated benefits qualify for accounting recognition as an employer's liability and that plan assets in excess of accumulated benefits qualify for accounting recognition as an employer's asset.

In Mr. Sprouse's view, an employer cannot have a present obligation for pension benefits related to salary increases that are contingent upon future events—future inflation, future promotions, future improved productivity. He believes that the decision to grant increases in wages and salaries, whatever the reason, is an event that has directly related consequences, including increases in employers' social security taxes and pension costs, as well as the wages and salaries themselves. Accounting should recognize all of those directly related consequences at the time the event occurs—when wages and salaries are increased because inflation has reduced the purchasing power of the dollars being paid, when wages and salaries are increased because the more valuable services recognized by promotion are being received, when wages and salaries are increased because the benefits of improved productivity are being realized. Anticipating the effects of those future events on pension cost in accounting for the current period before dollars have lost their purchasing power and before the more valuable services related to promotion and productivity have been received is no more appropriate than anticipating the future higher wages and salaries themselves in accounting for the current period.

Mr. Sprouse believes that past practices in accounting for employers' pension cost that rely on forecasts of nominal salary levels were largely the product of certain actuarial methods that were designed for funding purposes to conform to the provisions of the Internal Revenue Code; those methods are not appropriate for financial accounting purposes. Nevertheless, he recognizes that those practices are firmly embedded in financial accounting and drastic changes in them could be disruptive. Accordingly, he would support the requirements for determining net periodic pension cost and for disclosure as significant improvements in practice. Considering the practical limits within which practice can be changed without undue disruption, he could also support the alternative approach described in paragraph 155.

Mr. Sprouse objects, however, to the unique recognition practices this Statement establishes for an "intangible asset." In certain situations, this Statement calls for an employer to recognize an intangible asset to offset the result of a loss on plan assets or to eliminate an intangible asset to offset the result of a gain on plan assets. Similar recognition or elimination of an intangible asset is required to offset the effects of changes in actuarial assumptions related to the accumulated benefit obligation. Those features are unacceptable to him. In his view, those recognition practices can neither be reconciled with the Board's conceptual framework nor readily understood by financial statement users. He believes they seriously diminish the credibility of employers' accounting for pension costs.

Mr. Sprouse also objects to this Statement's accounting for a business combination under the purchase method that calls for recognition of an asset or liability based on the *projected* benefit obligation as of the date of the combination. For the reasons given above, he holds that the excess of the projected benefit obligation over plan assets does not qualify for recognition as an employer's liability, and plan assets in excess of *accumulated* benefits do qualify for recognition as an employer's asset. In his view, the fallacy of the Statement's requirement is demonstrated by the need to recognize a different net pension obligation or asset if the acquirer plans to terminate the plan than is recognized if the acquirer plans to continue it.

Mr. Wyatt believes the projected benefit obligation, as defined in this Statement, should be the measure of the pension obligation reported in the financial statements. He believes that neither the excess of net periodic pension cost over amounts contributed (unfunded accrued cost) nor the accumulated benefit obligation is an appropriate measure of an entity's pension obligation. He also believes that the use of a market-related asset value base for effecting the delayed recognition of actuarial gains and losses unnecessarily perpetuates an unsound measure for plan assets. As a result, this Statement falls short of achieving the degree of improvement in accounting for pension costs that was attainable and that users of financial statements could justifiably expect from this project.

A majority of the Board concluded that the pension liability is not properly measured by the unfunded accrued cost. Mr. Wyatt agrees with that conclusion. He believes, however, that the accumulated benefit obligation cannot be a faithful presentation of the pension obligation because its determination involves a fundamental inconsistency. The scheduled future pension benefits under this notion exclude any estimates of salary progression, whether based on estimated inflation or other factors. As a result, the amounts that provide the basis for the measure of the obligation do not represent the actual estimated cash flows in future periods. The interest rate used to reduce those scheduled future pension benefits to a present value is a rate at which the pension benefits could effectively be settled. Such a rate incorporates an existing anticipation of future inflation. Thus, the discounting process effectively removes an estimated inflation factor from a series of scheduled future payments that have been measured by specifically excluding any estimate for future inflation. The resulting amount has estimated future inflation removed twice and therefore is not a faithful measure of a liability; in fact, it understates the appropriate measure of the liability, grossly so in some cases.

Mr. Wyatt believes that the use of a market-related asset value as a basis for delayed recognition of gains and losses compromises the rationale that supports use of fair value to measure assets for other aspects of this Statement. It perpetuates a notion ("actuarial asset value") that has no basis as an accounting concept. Furthermore, other approaches to implement the delayed recognition of unamortized gains and losses are available that could only be perceived as practical in nature and that would not carry over into future considerations of pension accounting a concept that persists in spite of its conceptual defects.

The use of a market-related asset value and an expected rate of return on assets to measure the amortization of unrecognized gains and losses introduces unnecessary flexibility into a process that could justifiably be made uniform because it is inherently a practical mechanism to mitigate volatility. Such flexibility diminishes the improvements in comparability, as related to practice under Opinion 8, achieved by adoption of a single attribution method and an assumed discount rate that reflects the rates at which pension benefits could effectively be settled.

Mr. Wyatt agrees with the assenters that, on an overall basis, the conclusions in this Statement will lead to improvements in accounting for and understanding of pension costs. He believes, however, that the degree of improvement is modest when related to the improvement that he believes should have been achieved. Thus, in his view the Statement's deficiencies represent a lost opportunity for improvement in financial reporting.

Members of the Financial Accounting Standards Board:

Donald J. Kirk, *Chairman*
Frank E. Block
Victor H. Brown
Raymond C. Lauver
David Mosso
Robert T. Sprouse
Arthur R. Wyatt

Appendix A

BASIS FOR CONCLUSIONS

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Appendix A: BASIS FOR CONCLUSIONS

Fundamental Conclusions—Single-Employer Defined Benefit Pension Plans

78. This appendix summarizes considerations that were deemed significant by members of the Board in reaching the conclusions in this Statement. It includes reasons for accepting certain views and rejecting others. Individual Board members gave greater weight to some factors than to others. The most significant changes to past practice resulting from the Board's conclusions in this Statement relate to accounting for a single-employer defined benefit pension plan.

The Exchange

79. The Board's conclusions in this Statement derive from the basic idea that a defined benefit pension is an exchange between the employer and the employee. In exchange for services provided by the employee, the employer promises to provide, in addition to current wages and other benefits, an amount of retirement income. It follows from that basic view that pension benefits are not gratuities but instead are part of an employee's compensation, and since payment is deferred, the pension is a type of deferred compensation. It also follows that the employer's obligation for that compensation is incurred when the services are rendered.

Funding and Accrual Accounting

80. In this Statement the Board reaffirms the usefulness of information based on accrual accounting. That does not negate the importance of information about cash flows or the funding of the plan. Accounting recognition of transactions in which cash is disbursed is not controversial. Accrual accounting, however, goes beyond cash transactions to provide information about assets, liabilities, and earnings.

81. Opinion 8 stated, ". . . it is important to keep in mind that the annual pension cost to be charged to expense . . . is not necessarily the same as the amount to be funded for the year" (paragraph 9). However, Opinion 8 allowed any of a range of funding methods to serve as the basis for determining net periodic pension cost, with the result that annual net pension cost and the amount to be funded for the year were commonly the same. This Statement reaffirms the APB's conclusion that funding decisions should not necessarily be used as the basis for accounting recognition of cost. The amount funded (however determined) is, of course, given accounting recognition as a use of cash, but the Board believes this is one of many areas in which information about cash flows alone is not sufficient, and information on an accrual basis is also needed. The question of when to fund the obligation is not an accounting issue. It is a financing question that is properly influenced by many factors (such as tax considerations and the availability of attractive alternative investments) that are unrelated to how the pension obligation is incurred.

82. Any accrual basis of accounting for a defined benefit pension plan inevitably requires estimates of future events because those events determine the amounts of benefits that will be paid. The Board is convinced that information based on such estimates is useful along with information about cash flows, and notes that similar estimates are required for all presently acceptable funding methods and previously permitted accounting methods.

83. The Board's conclusion that accounting information on an accrual basis is needed does not mean accounting information and funding decisions are unrelated. In pensions, as in other areas, managers may use accounting information along with other factors in making financial decisions. Some employers may decide to change their pension funding policies based in part on the new accounting information. The Board believes that financial statements should provide information that is useful to those who make economic decisions, and the decision to fund a pension plan to a greater or lesser extent is an economic decision. The Board, however, does not have as an objective either an increase or a decrease in the funding level of any particular plan or plans. Neither does the Board believe that the information required by this Statement is the only information needed to make a funding decision or that net periodic pension cost, as defined, is necessarily the appropriate amount for any particular employer's periodic contribution.

Fundamentals of Pension Accounting

84. In applying accrual accounting to pensions, this Statement retains three fundamental aspects of past pension accounting: *delaying recognition* of certain events, reporting *net cost*, and *offsetting* liabilities and assets. Those three features of practice have shaped financial reporting for pensions for many years even though they have been neither explicitly addressed nor widely understood and they conflict in some respects with accounting principles applied elsewhere.

85. The *delayed recognition* feature means that certain changes in the pension obligation (including those resulting from plan amendments) and changes in the value of assets set aside to meet those obligations are not recognized as they occur but are recognized systematically and gradually over subsequent periods. All changes are ultimately recognized except to the extent that they may be offset by subsequent changes, but at any point changes that have been identified and quantified await subsequent accounting recognition as net cost components and as liabilities or assets.

86. The *net cost* feature means that the recognized consequences of events and transactions affecting a pension plan are reported as a single net amount (net periodic pension cost) in the employer's financial statements. That approach aggregates at least three items that might be reported separately for any other part of an employer's operations: the compensation cost of benefits promised, interest cost resulting from deferred payment of those benefits, and the results of investing what are often significant amounts of assets.

87. The *offsetting* feature means that recognized values of assets contributed to a plan and

liabilities for pensions recognized as net pension cost of past periods are shown net in the employer's statement of financial position, even though the liability has not been settled, the assets may be still largely controlled, and substantial risks and rewards associated with both of those amounts are clearly borne by the employer.

88. Within those three features of practice that are retained by this Statement, the Board has sought to achieve more useful financial reporting through three changes:

a. This Statement requires a standardized method for measuring net periodic pension cost that is intended to improve comparability and understandability by recognizing the compensation cost of an employee's pension (including prior service cost) over that employee's approximate service period and by relating cost more directly to the terms of the plan.
b. This Statement requires immediate recognition of a liability (the minimum liability) in certain circumstances when the accumulated benefit obligation exceeds the fair value of plan assets, although it continues to delay recognition of the offsetting amount as an increase in net periodic pension cost.
c. This Statement requires expanded disclosures intended to provide more complete and more current information than can be practically incorporated in financial statements at the present time.

Components of Net Periodic Pension Cost

89. The Board concluded that an understanding of pension accounting is facilitated by considering the components of net periodic pension cost separately. The same components were included in net periodic pension cost in prior practice, but they were seldom explicitly or separately addressed. Those components are service cost, interest cost, actual return on plan assets, amortization of unrecognized prior service cost, and gain or loss. An additional component, temporarily, is the amortization of the unrecognized net obligation or asset existing at the date of initial application of this Statement.

90. A plan with no plan assets, no plan amendments, and no gains or losses would still have two components of cost. First, as employees work during the year and earn added benefits, a *service cost* (or compensation cost) accrues. Measurement of that component is difficult and is discussed below. If the service component and the related obligation are measured on a present value basis, a second component—*interest cos*t—must also be accounted for. Measurement of that component is less difficult. The primary issue is the selection of appropriate discount rates.

91. A third component is required for a funded plan. The employer must recognize the *return* (or possibly loss) *on plan assets*. That component ordinarily reduces the net cost of providing a pension. If the amount of assets is relatively great and the return on assets is high, the result can be net pension income for a period instead of net pension cost. The interest cost and return-on-plan-asset components represent financial items rather than employee compensation cost. They can be changed or even eliminated by changes in the employer's financing

arrangements. For example, an employer can increase return on assets by adding more assets to the fund and can decrease interest cost (and return on assets) by purchasing annuity contracts to settle part of the obligation.

92. The next two components arise from plan amendments and gains or losses, both of which are to be recognized as part of net periodic pension cost over a number of periods. The *amortization of unrecognized prior service* cost resulting from plan amendments (including initiation of a plan) ordinarily increases the net cost. This component reflects the compensation cost of pension benefits granted in amendments and attributed by the plan's benefit formula to periods prior to the amendment.

93. The *gain or loss component* may either decrease or increase net periodic pension cost depending on whether the net unrecognized amount is a gain or a loss and whether actual return on assets for a particular period is greater or less than expected return on assets. This component combines gains and losses of various types and therefore includes both compensation and financial items that are not readily separable.

The Principal Issues

94. Among the many issues considered by the Board in this project, three stand out as central to the Board's extensive deliberations and to the public debate. Those issues concern (a) the periods in which net periodic pension cost should be recognized, (b) the method(s) that should be used to allocate or attribute that cost to individual periods, and (c) whether current information about the funded status of a defined benefit pension plan should be included in the employer's statement of financial position.

Cost Recognition Period

95. The Board concluded that, conceptually, compensation cost should be recognized in the period in which the employee renders services. Although the complexity and uncertainty of the pension arrangement may preclude complete achievement of that goal, a fundamental objective of this Statement is to approximate more closely the recognition of the compensation cost of an employee's pension benefits over that employee's service period. Many of the respondents to previous documents issued as part of this project agreed with that objective, which conflicts with some aspects of past practice under Opinion 8.

Attribution Method

96. The Board concluded that the understandability, comparability, and usefulness of pension information could be improved by narrowing the range of different methods for allocating or attributing the cost of an employee's pension to individual periods of service. The Board was significantly aided in its consideration of alternative attribution approaches by the work of several committees of the American Academy of Actuaries and by research conducted by that organization. The Board appreciates the efforts of the individuals and firms involved in those

efforts and recognizes that most of them continue to prefer that accounting be based on any of several approaches. However, the Board was unable to identify differences in circumstances that would make it appropriate for different employers to use fundamentally different accounting methods or for a single employer to use different methods for different plans. Many respondents agreed that the number of acceptable methods at least should be reduced.

97. The Board concluded that the terms of the plan that define the benefits an employee will receive (the plan's benefit formula) provide the most relevant and reliable indication of how pension cost and pension obligations are incurred. In the absence of convincing evidence that the substance of an exchange is different from that indicated by the agreement between the parties, accounting has traditionally looked to the terms of the agreement as a basis for recording the exchange. All attribution methods used in the past consider the plan's benefit formula in estimating the benefit an employee will receive at retirement. However, unlike some other methods previously used for pension accounting, the method required by this Statement focuses more directly on the plan's benefit formula as the basis for determining the benefit earned, and therefore the cost incurred, in each individual period.

Statement of Financial Position

98. The Board believes that an employer with an unfunded pension obligation has a liability and an employer with an overfunded pension obligation has an asset. The most relevant and reliable information available about that liability or asset is based on the fair value of plan assets and a measure of the present value of the obligation using current, explicit assumptions.

99. Many respondents to the Preliminary Views, *Employers' Accounting for Pensions and Other Postemployment Benefits (Preliminary Views)*, and the Exposure Draft, *Employers' Accounting for Pensions*, agreed that at least the obligation for unfunded vested benefits, or the obligation for unfunded accumulated benefits, conceptually represents a recognizable liability. Most respondents, however, did not agree with recognition of any liability in the statement of financial position beyond the amount of accrued but unfunded net periodic pension cost. Most also objected to recognition of any liability based on estimates of future compensation levels. Respondents also objected to recognizing an asset in the case of an overfunded plan, and views differed about how to recognize changes in both the fair value of plan assets and the present value of the obligation.

100. Some argued that the uncertainties inherent in predicting future interest rates and salary levels are sufficiently great that available measures of the projected benefit obligation fail to achieve the level of reliability needed for recognition in financial statements. They would prefer to disclose rather than recognize the obligation. Some Board members were sympathetic to that view.

101. This Statement requires recognition of net periodic pension cost based on the present value of the obligation (with consideration of future compensation levels for pay-related plans).

This Statement also requires recognition of a liability or an asset (unfunded accrued or prepaid pension cost) when the amount of that net periodic pension cost is different from the amount of the employer's contribution to the plan. Over time, therefore, this Statement requires recognition of a liability for the employer's unfunded obligation, including that portion based on estimated future compensation levels for plans with pay-related benefit formulas. Most respondents who argued that a present liability could not include amounts based on future compensation nevertheless argued strongly that the measure of net periodic pension cost must not ignore that factor.

102. This Statement provides for delayed recognition, in net periodic pension cost and in the related liability (accrued unfunded pension cost) or asset (prepaid pension cost), of certain changes in the present value of the obligation and the fair value of plan assets. Those changes (that is, gains and losses and the effects of plan amendments) are recognized in net periodic pension cost on a systematic basis over future periods. The Board concluded that it is not practical at this time to require accelerated recognition of those changes in financial statements as they occur, although certain of those changes are recognized in the statement of financial position through the minimum liability requirement of this Statement.

103. This Statement accepts the unfunded accrued or prepaid pension cost as the recognized liability or asset except when the accumulated benefit obligation (measured without considering future compensation levels) exceeds the fair value of plan assets. In that situation, the Board concluded that the recognized liability should be adjusted so that the statement of financial position would reflect at least the unfunded accumulated benefit obligation.

104. The Board acknowledges that the delayed recognition included in this Statement results in excluding the most current and most relevant information from the employer's statement of financial position. That information is, however, included in the disclosures required, and, as noted above, certain liabilities previously omitted will be recognized.

Information Needed

105. The Board concluded that users of financial reports need additional information to be able to assess the status of an employer's pension arrangements and their effect on the employer's financial position and results of operations. Most respondents agreed, and this Statement requires certain disclosures not previously required.

106. The components of net periodic pension cost and the net funded status of the obligation are among the more significant disclosure requirements of this Statement. One of the factors that made pension information difficult to understand was that past practice and terminology combined elements that are different in substance into net amounts (assets with liabilities and revenues and gains with expenses and losses). Although the Board agreed to retain from past practice the basic features of reporting net cost and offsetting liabilities and assets, the Board believes that disclosure of the components will significantly assist users in understanding the economic events that have occurred. Those disclosures also make it easier to understand why

reported amounts change from period to period, especially when a large cost or asset is offset by a large revenue or liability to produce a relatively small net reported amount.

Evolutionary Changes in Accounting Principles

107. After considering the range of comments on *Preliminary Views* and the Exposure Draft, the Board concluded that the changes required by this Statement represent a worthwhile improvement in financial reporting. Opinion 8 noted in 1966 that "accounting for pension cost is in a transitional stage" (paragraph 17). The Board believes that is still true in 1985. FASB Concepts Statement No. 5, *Recognition and Measurement in Financial Statements of Business Enterprises*, paragraph 2, indicates that "the Board intends future change [in practice] to occur in the gradual, evolutionary way that has characterized past change." The Board realizes that the evolutionary change in some areas may have to be slower than in others. The Board believes that it would be conceptually appropriate and preferable to recognize a net pension liability or asset measured as the difference between the projected benefit obligation and plan assets, either with no delay in recognition of gains and losses, or perhaps with gains and losses reported currently in comprehensive income but not in earnings. However, it concluded that those approaches would be too great a change from past practice to be adopted at the present time. In light of the differences in respondents' views and the practical considerations noted, the Board concluded that the provisions of this Statement as a whole represent an improvement in financial reporting.

Other Conclusions—Single-Employer Defined Benefit Pension Plans

108. This section discusses additional reasons for the Board's conclusions and some of the positions advocated by respondents.

The Nature of the Exchange

109. Some respondents disagreed with the Board's basic view of the nature of the employer's obligation under a defined benefit pension plan. They argued that the employer's only obligation is to make periodic contributions sufficient to support the plan. In this view, it is the plan—as a distinct legal entity—that has an obligation for benefits promised to employees. They concluded that the schedule or budget for making contributions determines the amount of the present obligation and current period cost and that contributions scheduled for future periods, although based upon past events, are future obligations.

110. The Board concluded that viewing the obligation and the cost only in terms of scheduled contributions does not reflect the fundamental difference between the inherent promise and the resulting obligation under a defined benefit plan and the promise and obligation under a defined contribution plan. An employer that has undertaken an obligation to provide defined pension benefits based on service already rendered may view it as an obligation directly to the employees (looking through the funding arrangement) or as an obligation to make future contributions to the plan, but the employer has a present obligation based on the defined benefits either way.

111. The Board believes that creating a separate legal entity to receive and invest contributions and pay benefits does not change the nature of the employer's obligation to pay promised benefits to retirees. Viewing the plan as a truly separate economic entity raises the question of what consideration the plan received for making benefit promises to employees. Although legal requirements are only one factor to be considered in determining accounting standards, the Board also notes that Congress, in enacting ERISA, chose to base the definition of an employee's rights under a defined benefit pension plan on the benefits promised rather than on the amounts the employer has contributed or is scheduled to contribute.

112. Those who subscribe to the separate legal entity idea also argued that plan assets are not the assets of the employer. The Board noted that the employer's future contributions to the plan will be increased or decreased by the performance of the plan assets so that the employer bears the risks and reaps the rewards associated with those assets. The Board also observed that numerous recent situations in which significant amounts of assets have been withdrawn by employers provide compelling evidence that rebuts that argument.

113. Some respondents argued that the pension exchange is between the employer and a collective ongoing work force rather than between the employer and each individual employee. They focus on the open group, including employees to be hired in the future, rather than the closed group of current and past employees. They conclude that the obligation to the work force should be defined in terms of contributions necessary to maintain the plan rather than in terms of the aggregate benefits promised to individuals.

114. The Board recognizes that uncertainty in measuring the benefit obligation for a single employee is greater than for a group because the future events that affect the amount of benefits (such as longevity) cannot be as reliably estimated for a single individual. In the Board's view, however, the fact that a more reliable measurement is possible only for a group does not change the nature of the promise. The actuarial computation considers that some existing or future retirees will live longer than others and that some individuals will terminate before vesting or die before receiving any benefits. Those factors are properly considered in measuring the probable future sacrifice that will result from the presently existing promise of benefits to the employees.

115. The practical effect of the argument that the obligation is to the ongoing employee group is often to defer recognition of part of the cost of an individual's pension to periods after that individual retires. That open-group view provides no basis for recognizing the cost of pension benefits over any particular period. One of the objectives of accrual accounting is to match costs and revenues. The Board believes that application of the matching objective to pension accounting requires that pension cost be recognized in the period in which economic benefits are received (employee services are rendered). The alternative view is no more appropriate than an argument that a machine should be depreciated over years after its retirement because the machine will be replaced and the important thing is the cost of maintaining the ongoing plant. Employee compensation, whether paid currently or deferred, should be recognized as cost when

the services are rendered. The Board concluded that, in concept, the employer's obligation to the existing employee group is the sum of its obligations to individual employees, adjusted to reflect the present value of the amount and the probability of payment (the "actuarial present value").

Recognition versus Disclosure

116. Some respondents agreed that better information about net periodic pension cost and the pension obligation is needed but argued that the information would be just as useful if it were disclosed in the footnotes and, therefore, that changes in the basic financial statements (changes which they believed would be costly) were not necessary. The Board is aware that costs are involved for both preparers and users whenever changes are made in accounting principles, but in the Board's view it is important that elements qualifying for recognition be recognized in the basic financial statements. Footnote disclosure is not an adequate substitute for recognition. The argument that the information is equally useful regardless of how it is presented could be applied to any financial statement element, but the usefulness and integrity of financial statements are impaired by each omission of an element that qualifies for recognition. Further, although the "equal usefulness" argument may be valid for some sophisticated users, the Board does not believe it holds for all or even most other users. Finally, if the argument were valid, the consequences of recognition would not be different from those of not recognizing but disclosing the same information; it is obvious from their arguments that many who assert that disclosure would be equally useful believe recognition would have different consequences.

Measurement of Plan Assets

117. The Board concluded that plan investments should be measured at fair value for purposes of this Statement (except as provided in paragraph 30 for purposes of determining the extent of delayed recognition of asset gains and losses). Fair value provides the most relevant information that can be provided for assessing both the plan's ability to pay benefits as they come due without further contributions from the employer and the future contributions necessary to provide for benefits already promised to employees. The same reasons led to a similar decision in Statement 35.

118. The Board recognizes that there may be practical problems in determining the fair value of certain types of assets. Notwithstanding those difficulties, the Board believes that the relevance of fair value of pension assets is so great as to override objections to its use based on difficulty of measurement. In addition, most pension assets are invested in marketable securities and are priced regularly for investment management purposes.

119. The Board considered the use of an actuarial value of assets instead of fair value. A number of different methods of determining actuarial asset values are available, generally based on some kind of average of past market values or on long-range projections of market values intended to eliminate short-term market fluctuations. The Board concluded that those methods produce information about the assets that is less relevant and more difficult to understand than fair value. Specifically, if an actuarial asset value were used to measure the minimum net

liability defined in paragraph 36, it would sometimes result in recognition of a liability when the fair value of the assets exceeds the obligation, and at other times it would result in no recognition when a net unfunded obligation exists based on the fair value.

120. The Board understands that measuring investments at fair value could introduce volatility into the financial statements as a result of short-term changes in fair values. Some respondents described that volatility as meaningless or even misleading, particularly in view of the long-run nature of the pension commitment and the fact that pension investments are often held for long periods, thus providing the opportunity for some gains or losses to reverse. The Board also recognizes that some changes in the fair value of investments are related to some changes in the measurement of the pension liability because they are affected by the same economic factors. For example, a change in the level of interest rates would be expected to affect the liability by changing the discount rates and would also affect the fair value of at least some types of investments (such as bonds). In many cases such fluctuations in the pension benefit obligation and in the fair value of plan investments would tend to offset each other.

121. The Board concluded that the difference between the actual return on assets and the expected return on assets could be recognized in net periodic pension cost on a delayed basis. Those effects include the gains and losses themselves. That conclusion was based on (a) the probability that at least some gains would be offset by subsequent losses and vice versa and (b) respondents' arguments that immediate recognition would produce unacceptable volatility and would be inconsistent with the present accounting model.

122. The Board also considered whether amounts accrued by the employer but not yet contributed or paid to the plan (that is, unfunded accrued pension cost) should be considered plan assets for purposes of this Statement, noting that Statement 35 does consider some such amounts to be plan assets for purposes of the plan's financial reporting. The Board concluded that including accrued pension cost as plan assets for purposes of the disclosure of funded status (paragraph 54(c)) would be inappropriate because that amount has not been funded (contributed), and would unnecessarily complicate the recognition and disclosure requirements of this Statement.

123. The Board discussed whether securities of the employer held by the plan should be eliminated from plan assets and from the employer's financial statements as, in effect, treasury securities. The Board concluded that elimination would be impractical and might be inappropriate absent a decision that the financial statements of the plan should be consolidated with those of the employer, but that disclosure of the amount of such securities held would be appropriate and should be required.

Measurement of Service Cost and the Obligation

124. Measurement of the service cost component has much in common with measurement of the pension obligation. The service cost is essentially the portion of the projected benefit obligation that is attributable to services rendered in a period. The Board concluded that (a) all

employers should use a single measurement method and (b) that method should reflect the plan benefit formula to the extent that the formula specifies how employees' benefits accrue.

Single Method

125. Some respondents suggested that the Board should not require the use of a single method but should allow a choice among a number of acceptable alternatives. Many noted that choices among accounting methods are allowed in other areas, including accounting for inventory and depreciation. They also suggested that a standardized method would not achieve comparability because of differences in assumptions or would impair comparability because it would obscure different circumstances that call for different approaches.

126. The Board was not convinced by those who made reference to other areas of accounting. The appropriateness of allowing a choice of methods for depreciation and inventory accounting is beyond the scope of this project. The Board also believes that the differences among methods available for pension measurements are significantly more complex and less well understood than other method differences. A knowledgeable user is more likely to understand the approximate difference between straight-line and accelerated depreciation than the difference between two actuarial funding methods.

127. The Board concluded that use of a standardized method would improve comparability. Differences in assumptions are intended, at least conceptually, to reflect real differences in circumstances. The Board noted that comparability is not a characteristic that is either completely present or absent. It concluded that improvements in comparability could be achieved, even though some differences that are not necessarily reflective of real differences will remain because of the exercise of judgment in the selection of assumptions.

128. The Board is not convinced that differences in circumstances among employers require fundamentally different methods for measuring the service component of net periodic pension cost. Differences such as expected rates of turnover and mortality would continue to be reflected. The Board concluded that use of a single method based on the terms of the plan would improve comparability and understandability of financial reporting by reflecting real differences among plans.

Choice of Method

129. The 1981 FASB Discussion Memorandum, *Employers' Accounting for Pensions and Other Postemployment Benefits*, described two families of attribution approaches: the benefit approaches and the cost approaches. Benefit approaches determine an amount of pension benefits attributed to service in a period and then calculate the service cost component for the period as the actuarial present value of those benefits. Cost approaches project an estimated total benefit at retirement and then calculate the level contribution that, together with return on assets expected to accumulate at the assumed rates, would be sufficient to provide that benefit at

retirement. (The amount allocated to each year may be level in dollar amount or level as a percentage of compensation.)

130. A number of respondents indicated a preference for the cost family of approaches, usually the approach defined in the 1981 Discussion Memorandum as cost/compensation. That preference was frequently based on the view that a pension is earned only over an employee's full period of employment with the result that measuring the obligation and the cost on an annual basis is less important than the pattern of net cost from period to period. Although all of the commonly used approaches may be described as systematic and rational, the cost/compensation approach is preferred by many because it is thought to produce a net periodic pension cost that is a level percentage of compensation. In fact, however, that desired pattern of net periodic pension cost will result only if amounts recognized as net periodic pension cost are also the amounts funded and if experience does not vary from assumptions.

131. The Board rejected the cost family of approaches because it believes that the terms of the plan provide a more relevant basis for relating benefits promised to services rendered. The benefit approaches are also more consistent with the Board's definition of liabilities. FASB Concepts Statement No. 3, *Elements of Financial Statements of Business Enterprises*, defines liabilities in terms of obligations, and an employer's obligation under a defined benefit plan as of a particular date is for pension benefits promised by the terms of the plan rather than for an accumulation of level costs. The Board believes that, although the "level percentage of compensation" pattern may be desirable for funding or for budgeting contributions, it does not necessarily reflect how cost is incurred or how a liability arises.

132. All attribution approaches measure service cost and the related obligation by discounting amounts payable in future periods to reflect the time value of money. No respondents advocated solutions that would not include such discounting. The way in which discounting is applied, however, is the fundamental difference between the cost approaches and the benefit approaches. The benefit approach adopted by the Board uses the terms of the plan to determine the benefits earned during a period (that is, the future cash flow) and then calculates the actuarial present value of those benefits. Under the cost approaches the amount attributed to a period is not the actuarial present value of a benefit earned in the period. Instead, the total cost of all the expected benefits is discounted and assigned to periods in a single mathematical step so that the net pension cost (the service cost, plus interest cost, less anticipated return on assets in the fund and to be added in future periods) is a constant amount or a constant percentage of salary.

133. In the Board's view, the benefit approaches reflect the promise of a defined benefit, and the present value of a dollar of benefit promised to a 60-year-old is greater than that of a dollar of benefit promised to a 25-year-old, if both are payable at age 65. Under the cost approaches, the cost charged in the early years of an employee's service will provide an amount of benefit at retirement much greater than the benefits earned in those years based on the plan formula. In the last years of an employee's service, the cost is less than the present value of benefits earned. The result is that at any point before retirement, the amount accrued for an individual under a

cost approach will exceed the present value of benefits earned to that point based on the plan's benefit formula.

134. The Board concluded that the measurements of net periodic pension cost and the projected benefit obligation should reflect the terms of the plan under which they arose. Because a defined benefit pension plan specifies the employer's promise in terms of how benefits are earned based on service, rather than how contributions can be made to adhere to a desired funding pattern, the benefit approaches were preferred.

135. The Board also considered a benefit approach that would attribute benefits to periods based on compensation paid in those periods (a benefit/compensation approach). Some believe that compensation is the best available indicator of the value of the employee's services and, therefore, it is the most logical basis for allocation of benefits. In the Board's view, however, that approach less faithfully represents how the cost is incurred under the terms of the plan than the approach selected. The Board also noted that the benefit/compensation approach is not among those allowable under Internal Revenue Service regulations for funding purposes for certain types of plans.

Funding considerations

136. For purposes of funding a plan, using a cost approach to assign relatively large amounts to early years may be considered by some to be desirable because it allows more time for tax-free earnings on contributed assets to compound and because it provides additional benefit security. That basic funding approach may be particularly useful in achieving funding objectives if the cost of plan amendments is to be funded over a relatively long period after each amendment occurs. The relatively rapid funding of the obligation arising from service in the current and future periods may compensate for delayed funding of obligations arising from plan amendments.

137. Some respondents asserted that the cost of calculating amounts for accounting purposes on a basis different from that used for funding purposes would be high and would exceed the benefits of improved financial reporting. The Board notes, however, that a large part of the cost involved in an actuarial valuation is incurred in gathering and processing the input data and that the data used are largely the same for any computational approach. The Board concluded that the additional cost attributable to the requirements is unlikely to be excessive.

Future compensation levels

138. In response to the Exposure Draft and earlier documents issued as part of this project, some respondents argued that, based on the definition of a liability, pension benefits dependent on future increases in compensation cannot be a present obligation and, therefore, the liability measurement should be based only on actual compensation experience to date. They also noted that if the plan were terminated or if an employee with vested benefits did not render future

services, the employer's obligation would be limited to amounts based on compensation to date.

139. Among those respondents who argued that obligations dependent on future compensation increases are excluded by the definition of a liability, very few were prepared to accept a measure of net periodic pension cost that was based only on compensation to date. The Board notes that under the double entry accounting system, recognition of an accrued cost as a charge against operations requires recognition of a liability for that accrued cost. Thus, excluding future compensation from the liability and including it in net periodic pension cost are conflicting positions.

140. The Board also considered the arguments of respondents who noted that it would be inconsistent (a) to measure pension cost or the obligation ignoring future compensation increases that reflect inflation and (b) to use discount rates that reflect expected inflation rates in making those measurements. In this view, discounting a benefit that does not include the effects of inflation amounts to removing the effect of inflation twice. Those respondents suggested that the effects of inflation should either be considered for both purposes or be eliminated from both. The latter approach would involve use of inflation-free (or "real") discount rates. The Board considered that possibility but concluded that the use of explicit rates observable in actual transactions ("nominal rates") would be more understandable and would present fewer implementation problems, as noted below.

141. The Board notes that at present few private pension plans in the U.S. provide benefits that are increased automatically after an employee retires based on either compensation levels or inflation. If future compensation increases were incorporated *implicitly* by reducing the discount rates used to compute the present value of the benefit obligation, projected benefit increases during the postretirement period would be incorporated automatically at the same time unless different (explicit) discount rates were used for those periods. Using inflation-adjusted (implicit) discount rates would, in effect, anticipate postretirement benefit increases, which would be inconsistent with the Board's decision that future plan amendments should not be anticipated unless there is a present substantive commitment to make such amendments.

142. Other respondents disagreed with the argument that a measurement approach based only on current compensation would be inconsistent with use of nominal interest rates (paragraph 140). They argued that the assumed discount rates should reflect the rates at which the obligation could be settled—for example, by purchasing annuities or perhaps by dedicating a portfolio of securities. They argued that future interest rates (and therefore forecasts of future inflation) are irrelevant.

143. The Board concluded that the pension obligation created when employees render services is a liability under the definition in Concepts Statement 3. That definition, however, does not resolve the issue of whether the measurement of that liability should consider future compensation levels. After considering respondents' views, both practical and conceptual, the Board concluded that estimated future compensation levels should be considered in measuring

the service cost component and the projected benefit obligation if the plan's benefit formula incorporates them. The Board perceives a difference between an employer's promise to pay a benefit of 1 percent of an employee's *final* pay and a promise to pay an employee a fixed amount that happens to equal 1 percent of the employee's *current* pay. Ignoring the future variable (final pay) on which the obligation in the first case is based would result in not recognizing that difference. The Board also concluded that the accumulated benefit obligation, which is measured *without* considering future compensation levels, should continue to be part of the required disclosure and should be the basis on which to decide whether a minimum liability needs to be recognized.

Liabilities

144. *Preliminary Views* proposed requiring recognition of a net pension liability or asset based on the difference between the projected benefit obligation and the fair value of plan assets. However, the net gain or loss not yet included in net periodic pension cost was also unrecognized for purposes of measuring the net pension liability or asset, thereby reducing the volatility of that balance. An intangible asset would have been recognized when a plan was amended, increasing the projected benefit obligation. Respondents objected to the proposal for a number of reasons, both conceptual and pragmatic. Some of those objections, based on doubts about the nature of the employer's obligation, were discussed previously.

145. A number of respondents argued that increased pension benefits granted in a plan amendment are exchanged for employees' *future* services, even when the amount of the benefit is computed based on prior service. In this view, the employer's liability for such benefits arises only as the future services are rendered. Some also argued that a plan amendment is a wholly executory contract and for that reason should not be recognized. The Board agrees that the obligation is undertaken by the employer with the expectation of future economic benefits but believes that does not provide a basis for not recognizing the obligation that arises from the event or for arguing that no obligation exists. The Board does not agree that a plan amendment is a wholly executory contract. To the extent that an amendment increases benefits that will be attributable to future services, neither party has performed. The Board has never proposed to recognize any liability for those benefits. However, to the extent the increased benefits are attributed by the benefit formula to services already rendered, the Board concluded that one party to the contract has performed and the agreement is at most only partially executory.

146. Some respondents argued that the obligation could not be measured with sufficient reliability (or precision) to justify recognition. The Board notes that the measurements of net periodic pension cost and unfunded accrued pension cost, which are based on the same assumptions, are no more or less precise than measurements of the accumulated and projected benefit obligations. In addition, insurance companies often undertake obligations that will be determined in amount by future events (although not by future compensation levels), and those obligations are recognized. When an insurance contract involves obligations similar to pension obligations (for example, an annuity contract), measurement of those obligations involves some

of the same assumptions used in pension accounting. The Board concluded that information about pension cost and obligations based on best estimates of the relevant future events is sufficiently reliable to be useful. The Board recognizes that pension (and other postemployment benefit) liabilities are, as some respondents argued, different from the other recognized liabilities of most employers, but that is because most enterprises other than insurance companies do not ordinarily take on obligations of comparable significance that depend on unknown and uncontrollable future events to define the amount of future sacrifice.

147. Those respondents who challenged the reliability of liability measures based on actuarial calculations generally supported recognition of part of that same liability based on unfunded accrued pension costs. FASB Concepts Statement No. 2, *Qualitative Characteristics of Accounting Information*, defines reliability as a combination of representational faithfulness and verifiability. In the Board's view, the obligation based on the terms of the plan and the unfunded accrued cost are equally difficult to verify, but the former is a more faithful representation of a liability because it is an estimate of a present obligation to make future cash outlays as a result of past transactions and events. The unfunded accrued cost does not purport to be a measure of an obligation; it is a residual resulting from an allocation process and, therefore, it cannot be a faithful representation of a liability.

148. A number of respondents argued that a pension liability must be limited either to the amount that would have to be paid on plan termination or to the amount of vested benefits. Those arguments were based on the view that the employer has discretion to avoid any obligations in excess of those limits. Some who preferred no recognition nevertheless agreed that it is difficult to argue that at least unfunded vested benefits are not a liability.

149. The Board concluded that, in the absence of evidence to the contrary, accounting should be based on a going-concern assumption that, as applied to pensions, assumes that the plan will continue in operation and the benefits defined in the plan will be provided. Under that assumption, the employer's probable future sacrifice is not limited to either the termination liability or amounts already vested. The Board believes that the actuarial measurement of the obligation encompasses the probability that some employees will terminate and forfeit nonvested benefits. Benefits that are expected to vest are probable future sacrifices, and the liability in an ongoing plan situation is not limited to vested benefits. However, the Board was influenced by respondents' views of the nature of vested and accumulated benefit obligations in its decision that a reported liability should not be less than the unfunded accumulated benefit obligation. Some Board members were also influenced by arguments that the accumulated benefit obligation, which requires no estimate of future salary levels, is more reliably measurable than is the projected benefit obligation.

150. Some respondents objected to the accounting proposed in *Preliminary Views* on the grounds that delaying the recognition of gains and losses as part of the measurement of the net pension liability or asset could cause an employer to report a net liability when the fair value of plan assets exceeded the projected benefit obligation, or to report a net asset when the projected

benefit obligation exceeded the fair value of plan assets. The Board noted that delayed recognition of the effects of price changes is an inherent part of historical cost accounting and that the problem results from the Board's retention of the delayed recognition and offsetting features of past pension accounting.

151. The Board understands that the recognition of a minimum liability required by this Statement only updates the statement of financial position in some circumstances when plan obligations are not fully funded. Unlike *Preliminary Views*, this Statement does not update the liability for all amendments when they occur. Also, like past practice and *Preliminary Views*, this Statement will result in recognition of liabilities for certain plans with assets in excess of their projected benefit obligations. That will occur because of delayed recognition of gains and of unrecognized net assets existing at the date of initial application of this Statement, if net periodic pension cost is not funded (for example, because it is not currently tax deductible). The provisions of this Statement, however, will result in recognition of some liabilities not currently reflected and, in the Board's view, in more representationally faithful reporting in those situations. This Statement also requires disclosure of the current information about assets and liabilities that is not reflected in the statement of financial position.

152. The Board believes that this Statement represents an improvement in past practices for the reporting of financial position in two ways. First, recognition of the cost of pensions over employees' service periods will result in earlier (but still gradual) recognition of significant liabilities that were reflected more slowly in the past financial statements of some employers. Second, the requirement to recognize a minimum liability limits the extent to which the delayed recognition of plan amendments and losses can result in omission of liabilities from statements of financial position.

153. Recognition of a measure of at least a minimum pension obligation as a liability is not a new idea. ARB 47, published in 1956, stated that "as a minimum, the accounts and financial statements should reflect accruals which equal the present worth, actuarially calculated, of pension commitments to employees to the extent that pension rights have vested in the employees, reduced, in the case of the balance sheet, by any accumulated trusteed funds or annuity contracts purchased" (paragraph 7). Paragraph 18 of Opinion 8 required that "if the company has a legal obligation for pension cost in excess of amounts paid or accrued, the excess should be shown in the balance sheet as both a liability and a deferred charge." Opinion 8 did not define the term *legal liability*, and the FASB concluded in Interpretation 3 that, pending completion of this project, ERISA should not be presumed to create a legal liability for purposes of applying paragraph 18.

154. The Board considered a minimum liability based on the vested benefit obligation but concluded that the time at which benefits vest should not be the primary point for recognition of either cost or liabilities.

155. The Board also considered an alternative proposal that would differ from the requirements

of this Statement in two ways. First, while it would have recognized the same minimum liability, it would also have recognized a minimum asset when the fair value of plan assets exceeded the projected benefit obligation. Second, it would have recognized an intangible asset only when recognition of a minimum liability resulted directly from a plan amendment. Changes in the minimum liability or the minimum asset not resulting from plan amendments (that is, gains and losses) would have been recognized as a separate component of equity (and thus would have been included in comprehensive income but not in earnings of the current period). The Board rejected that alternative because of the volatility that it would introduce into financial statements and because of its added complexity.

Two or More Plans

156. Some respondents argued that an employer with two or more plans should combine or net all plans and report the funded status only on an overall basis. That would affect the required disclosure and minimum liability recognition provisions of this Statement. They suggested that differences between plans are not substantive because an employer could merge two or more plans. The Board believes that an employer with one well-funded plan and another less well funded or unfunded plan is in a different position than an employer with similar obligations and assets in a single plan. The Board was not convinced that combining plans would be easy or even possible in many cases. For example, the Board believes it would be difficult to combine a qualified plan with an unqualified plan or a flat benefit plan with a final-pay plan. Further, netting all plans would be inconsistent with other standards that preclude offsetting assets and liabilities unless a right of offset exists. The Board concluded that the requirements of this Statement to show separately certain information for plans with assets less than accumulated benefits would provide more useful information than would allowing the netting of all plans.

Recognition of the Cost of Retroactive Plan Amendments

157. When a defined benefit pension plan is initiated or amended to increase benefits, credit is often given for employees' services rendered before the date of the amendment. After such an amendment the projected benefit obligation, based on benefits attributed to past services by the plan's new benefit formula, is greater than before. The Board concluded that the employer's obligation for pension benefits granted in a plan amendment and attributable under the terms of the plan to prior service is not significantly different from the obligation arising year by year in accordance with the plan terms in effect prior to the amendment and that, as a result, the incremental obligation created by a plan amendment should be reflected as an increase in the projected benefit obligation. The increase in obligation is substantive, not simply the result of a computation; for example, vested benefits are increased immediately.

158. A few respondents argued that the retroactive cost of a plan amendment should be recognized as net periodic pension cost in the year of the amendment. They agreed that the obligation for benefits attributed to past service represents a liability and they concluded that, although some intangible future economic benefit may also result, it would not qualify for recognition as an asset. In their view, the retroactive cost of past plan amendments should not be

charged to future periods.

159. Most respondents agreed with the rationale in *Preliminary Views* and the Exposure Draft that a plan initiation or amendment is invariably made with a view to benefiting the employer's operations in future periods rather than in the past or only in the period of the change.[15] The Board believes that a future economic benefit exists, that the cost of acquiring that benefit can be determined, and that amortization of that cost over future periods is consistent with accounting practice in other areas. The Board also believes that a requirement to charge the cost of a retroactive plan amendment immediately to net periodic pension cost would not be representationally faithful and would represent an unacceptably radical change from current practice. The Board concluded that the increase in the projected benefit obligation resulting from a plan change should be recognized as a component of net periodic pension cost over a number of future periods as the anticipated benefit to the employer is expected to be realized.

160. Some respondents argued that the intangible asset proposed in the Exposure Draft does not qualify for recognition. The Board acknowledges the fact that similar future benefits are not recognized as assets in some cases. The Board concluded, however, that the asset should be recognized to the extent that a liability in excess of unfunded accrued pension cost is recognized. The Board also concluded that the asset recognized should be limited to the amount of prior service cost not yet recognized in net periodic pension cost. A plan can have unfunded accumulated benefits in excess of unfunded accrued pension cost only as a result of either retroactive plan amendments or losses. Although the Board agreed to delay recognition of losses in net periodic pension cost, it believes recognition of a loss as an asset would be inappropriate. No respondents argued that unrecognized losses represent future economic benefits.

161. Some respondents suggested that an intangible asset should be recognized but should be grouped with or netted against the pension liability. The Board rejected that approach because the asset cannot be used directly to satisfy the liability. There is no right of offset. That is really an argument against recognizing any liability arising from a plan change. The Board's conclusions on liability recognition were discussed previously.

Amortization of the Cost of Retroactive Plan Amendments

162. The Board recognizes that the number of periods benefited by a retroactive plan amendment (or the amount of the benefit remaining at a subsequent date) is difficult to estimate and is not objectively determinable. However, the Board concluded that amortization based on the expected future service of plan participants who are active at the time of the plan amendment or plan adoption and who are expected to receive benefits under the plan provides a reasonable basis for allocating the cost of a plan amendment to the periods benefited. Amortization beyond that period would be inconsistent with the objective of recognizing the cost of an employee's pension over that individual's service period.

163. The Board concluded that, conceptually, amortization of prior service cost should

recognize the cost of each individual's added benefits over that individual's remaining service period. In practice, the Board believes that the precision of such a computation on an individual basis is unnecessary and might not be worth the cost. The Board viewed a method that allocates the same amount of prior service cost to each expected future year of each employee's service as a reasonable approximation of the results of an individual computation. Use of the more precise method is, of course, appropriate. The Board also concluded that interest on that part of the obligation arising in an amendment and the anticipated future return on assets contributed (or to be contributed) to provide for that part of the obligation are separate components. Neither of those components should affect the recognition of prior service cost.

164. The individual computation, like the method adopted by the Board, would result in a declining amortization charge for the cost of a particular plan amendment because some of the employees who were granted additional benefits in the plan change normally could be expected to retire or terminate each period. In fact, an amortization of prior service cost for each individual as a level amount over that individual's remaining service period would be somewhat more rapid than the method adopted because the individuals receiving the greatest amount of retroactive benefits will usually be those nearest retirement. The method adopted is also consistent with the idea that the benefits realized by the employer as a result of a retroactive plan change are likely to be greatest in the years immediately after the change. An illustration of the method is included in Appendix B.

165. Some respondents to the Exposure Draft argued that the proposed allocation of the same amount of prior service cost to each future year of service would be unnecessarily complex and would require employers to maintain detailed records for long periods. The Board noted that it intends this Statement, to the extent possible, to define accounting objectives rather than specific computational means of attaining those objectives. The Board agreed to allow alternative methods of amortization (explicitly including a straight-line amortization over the average remaining service period of participants expected to receive benefits) that would simplify computations and record keeping as long as such methods do not have the effect of delaying recognition of prior service cost to a greater extent than the method that was defined in the Exposure Draft.

166. Because the cost of an amendment is measured as a present value (an increase in the projected benefit obligation), an amendment also results in an increase in the interest cost component of net periodic pension cost. Opinion 8 permitted amortization of the cost of retroactive plan amendments between a minimum and maximum range (paragraphs 17(a) and (b)), which, in practice, resulted in amortization periods ranging from 10 to 40 years. The method previously most often used in practice was an "interest method" or "mortgage method," which allocates the prior service cost and interest cost on the unamortized (or unfunded) balance as a level total amount. Because that method considers interest only on a net basis (interest on the *unfunded* balance), it actually has the effect of delaying recognition of the cost of retroactive benefits in anticipation of future contributions and the return on the fund expected to be accumulated. That method is often described as producing a level total amortization, but the

total that is level is the sum of principal amortization and interest cost on the related portion of the obligation, less return on the funds that will be built up, assuming future contributions equal to the level total. Under that method small amounts of the cost of the retroactive benefits are recognized in the years immediately after an amendment when interest on the unamortized cost is high, and the largest amounts of the cost of the benefits are recognized in the last years of the amortization period. The Board concluded that method has the effect of deferring a major portion of the cost of pensions beyond the service period of employees receiving them.

167. Some respondents suggested that some plans (for example, those providing benefits that are not pay-related or are related to career-average-pay) are amended more often than plans with final-pay benefit formulas and that as a result, the cost of each amendment should be recognized more rapidly. The Board concluded that if those or other circumstances indicate that the benefits of a retroactive plan amendment have been impaired or will expire more rapidly than would be reflected by the minimum amortization specified, the cost should be recognized more rapidly.

Future Amendments

168. Some respondents suggested that plan amendments should be anticipated or estimated before they are made, in which case increased benefits expected to be granted in the future would be included in determining current period cost. Under that approach plan amendments actually occurring during a period would be treated as changes in estimates to the extent they varied from the assumption. The Board rejected that approach for most situations because of concerns about the ability to make reasonable estimates of future plan amendments and because the Board does not believe that a present obligation ordinarily exists for benefits to be promised in future amendments. Anticipation of future plan amendments also is inconsistent with the basic view that the terms of the present plan provide the best basis for measuring the present obligation.

169. However, respondents to the Exposure Draft argued that in some situations the substance of a plan embodies a present substantive commitment to provide benefits beyond those defined in the written plan formula. One example cited was a career-average-pay plan that produces approximately the same results as a final-pay plan through regular updates. Another example was an unwritten but substantive commitment to increase regularly the benefits paid to retirees to reflect inflation. The Board noted that this Statement retains from Opinion 8 the requirement to account for the substance of an unwritten plan. The Board agreed that employers should account for the substance of such commitments and disclose their existence and nature.

Amendments Affecting Retirees

170. An amendment sometimes increases benefits for individuals already retired. Since those individuals are not expected to render future services, the cost of those benefits cannot be recognized over the individuals' remaining service periods.

171. Some respondents argued that such an amendment does not give rise to a future economic benefit and that its entire cost should be recognized as an expense in the period of the amendment. The Board sees some merit in that argument but concluded that it is reasonable to assume that a plan amendment is the result of an economic decision and that future economic benefits similar to those expected to result from a benefit increase for active employees are expected to result when retirees' benefits are increased. The Board noted that in at least some cases retirees' benefit increases are part of collective-bargaining agreements and that some may view those benefits as being exchanged for services of active employees. The Board agreed that it would be simpler and more practical to recognize the cost of all plan amendments similarly, that is, on a delayed basis.

Amendments That Reduce Benefits

172. The Board recognizes that a situation might exist in which a plan amendment reduces benefits attributed to prior service. The Board concluded that accounting for such amendments should be consistent with accounting for benefit increases and that the accounting specified in paragraph 28 would accomplish that objective.

Volatility and Delayed Recognition of Gains and Losses

173. Gains and losses, sometimes called actuarial gains and losses, are changes in either the value of the projected benefit obligation or the fair value of plan assets arising from changes in assumptions and from experience different from that incorporated in the assumptions. Gains and losses include actual returns on assets greater than or less than the expected rate of return.

174. A number of respondents to the Exposure Draft and earlier documents issued as part of this project expressed concern about the volatility of an unfunded or overfunded pension obligation measure and the practical effects of incorporating that volatility into financial statements. The Board does not believe that reporting volatility per se is undesirable. If a financial measure purports to represent a phenomenon that is volatile, the measure must show that volatility or it will not be representationally faithful. The Board also notes that the volatility of the unfunded or overfunded obligation may be less than some expect if the explicit assumptions used in the valuation of the obligation are changed to reflect fully the changes in interest rate structures that affect the fair values of plan assets, because changes in the assets may tend to offset changes in the obligation.

175. However, in the case of pension liabilities, volatility may not be entirely a faithful representation of changes in the status of the obligation (the phenomenon represented). It may also reflect an unavoidable inability to predict accurately the future events that are anticipated in making period-to-period measurements. That is, the difference in periodic measures of the pension liability (and therefore the funded status of the plan) results partly from the inability to predict accurately for a period (or over several periods) compensation levels, length of employee service, mortality, retirement ages, and other pertinent events. As a result, actual experience often differs significantly from that which was estimated and that leads to changes in the

estimates themselves. Recognizing the effects of revisions in estimates in full in the period in which they occur may result in volatility of the reported amounts that does not reflect actual changes in the funded status of the plan in that period.

176. Some respondents believe that some of the volatility is representationally faithful, for example, gains and losses that result from measuring investments at fair value. They also believe, however, that recognizing those gains and losses, and especially including them in earnings of the current period, would be inconsistent with the present accounting model applicable to employers' financial statements. They argued that such a major departure from the present model should not be made in this project.

177. The Board considered those views and concluded that it should not require that gains and losses be recognized immediately as a component of net periodic pension cost. Accordingly, this Statement provides for recognition of gains and losses prospectively over future periods to the extent they are not offset by subsequent changes. Based on the concerns expressed by many respondents to the Exposure Draft, the Board also concluded that the effects of changes in the fair value of plan assets, including the indirect effect of those changes on the return-on-assets component of net periodic pension cost, should be recognized on a basis that reduces the volatility more effectively than that proposed in the Exposure Draft. The Board believes that both the extent of volatility reduction and the mechanism adopted to effect it are essentially practical issues without conceptual basis. The Board does not believe that the market-related value of assets used in this Statement as a device to reduce the volatility of net periodic pension cost is as relevant as the fair value required for other purposes.

178. The Exposure Draft would have required use of the discount rate and the fair value of assets as the basis for calculating the return-on-assets component of net periodic pension cost. Many respondents argued that the return-on-assets component so determined would generate unacceptable volatility even if gains and losses were never amortized. The Board considered several approaches that would have further reduced volatility and concluded that the approach required by this Statement represents the best pragmatic solution.

179. This Statement requires use of an assumption, described as the expected long-term rate of return on plan assets, and of a market-related value of assets to calculate the expected return on plan assets. Actual returns greater than or less than the expected return are afforded delayed recognition. The Board anticipates that the expected return on assets defined in this Statement will be less volatile than either the actual return on assets or the return on assets that would have been recognized based on the Exposure Draft. The Board noted, however, that an expected long-term return-on-assets rate significantly below the rate at which the obligations could be settled implies that settlement would be economically advantageous.

180. The Board believes the approach required in this Statement has several advantages. First, it is very similar mechanically to past practices intended to achieve similar objectives. As a result, it should be easier for those familiar with the details of past practices to understand and

apply. Second, it avoids the use of discount rates relevant primarily to the pension obligation as part of a calculation related to plan assets. As a result, it reflects more clearly than did the Exposure Draft the Board's basic conclusion that information about a pension plan is more understandable if asset-related or financial aspects of the arrangement are distinguished from the liability-related and compensation cost aspects.

181. This Statement defines market-related asset value as either fair value or a calculated value that recognizes changes in fair value in a systematic and rational manner over not more than five years. The Board considered defining a more specific averaging method to be used by all employers, but it concluded that the definition adopted has the advantage of simplicity. It also allows the use of fair value for some classes of assets, and the Board believes that use of fair value for certain assets (for example, bonds) will reduce the volatility of net periodic pension cost. The Board also noted that the definition adopted is similar to (in fact, it was adapted from) that proposed in an Exposure Draft by the Canadian Institute of Chartered Accountants.

182. The Board also considered a number of respondents' suggestions that would have further reduced the volatility of net periodic pension cost by using a discount rate that would change less often and less significantly than the rate described in paragraph 44. Those respondents were primarily concerned that the service component of net cost would be volatile because of changes in the discount rate assumption. The Board concluded that the service component is the cost of benefits attributed to service in the current period and should reflect prices of that period. The Board noted that accounting generally recognizes the current prices rather than past or average prices in recording transactions of the current period. The Board also noted that the service component under the provisions of this Statement is essentially the same as net pension cost determined under the provisions of Opinion 8 for a plan that purchases annuities annually for all benefits attributed to service of that year.

183. The discount rate also has some effect on the interest cost component of net periodic pension cost, but that was less controversial among respondents because as the rate increases (or decreases) the present value of the obligation determined at that rate decreases (or increases) so that the effect on net periodic pension cost (the rate times the present value of the obligation) is less significant.

184. The Board noted that, if assumptions prove to be accurate estimates of experience over a number of years, gains or losses in one year will be offset by losses or gains in subsequent periods. In that situation, all gains and losses would be offset over time, and amortization of unrecognized gains and losses would be unnecessary. The Board was concerned, however, that the uncertainties inherent in assumptions could lead to gains or losses that increase rather than offset, and concluded that gains and losses should not be ignored completely. Actual experience will determine the final net cost of a pension plan. Therefore, the Board concluded that some amortization, at least when the net unrecognized gain or loss becomes significant, should be required. The Board also noted that amortization of unrecognized gains or losses is part of current funding and past accounting practice.

185. In *Preliminary Views*, the Board proposed a simple amortization based on the average remaining service period of active plan participants. The amount amortized would have been equal to the net unrecognized gain or loss divided by the average remaining service. Many respondents commented that the proposed amortization did not sufficiently reduce the volatility of net periodic pension cost.

186. The Board concluded that once a decision is made to delay recognition of gains and losses, no demonstrably correct period is identifiable over which those items should be amortized. Accordingly, the Board concluded that less rapid amortization could be allowed but that some limit should be retained.

187. The Board was attracted to the "corridor" approach required by this Statement as a minimum amortization approach in part because it allows a reasonable opportunity for gains and losses to offset each other without affecting net periodic pension cost. The Board also noted that the corridor approach is similar in some respects to methods used by some to deal with gains and losses on plan assets for funding purposes.

188. Like the period of amortization of unrecognized gains and losses, a decision about the point at which it becomes necessary to begin amortizing (the width of the corridor) is not conceptually based. The Board believes it is appropriate to relate that requirement to the market-related value of plan assets and the amount of the projected benefit obligation because the gains and losses subject to amortization are changes in those two amounts. The Board concluded that a net gain or loss equal to 10 percent of the greater of those two amounts should not be required to be amortized. The width of the resulting corridor is 20 percent (from 90 percent to 110 percent of the greater balance).

189. The Board considered whether the changes made to the provisions of the Exposure Draft to reduce the volatility of net periodic pension cost obviated the need for the corridor approach to gain or loss amortization, either for all gains and losses or for those related to plan assets. The Board concluded that that approach should be retained as a reasonable way to avoid excessive volatility that might otherwise result from changes in the projected benefit obligation, and that treating asset gains and losses similarly was a simple and reasonable solution to a practical problem.

190. Opinion 8 stated that ". . . actuarial gains and losses should be spread over the current year and future years . . ." (paragraph 30). The Board understands, however, that predominant past practice did not consider gains and losses until after the period in which they arose. *Preliminary Views* would have calculated net periodic pension cost including amortization of the year-end unrecognized net gain or loss. Participants in a field test conducted by the Board and a number of employers associated with the Financial Executives Institute suggested that that approach would unnecessarily complicate the preparation of interim financial statements. The Board agreed, and this Statement requires amortization of unrecognized net gains or losses based on

beginning-of-the-year balances.

Assumptions

191. This Statement requires that each significant assumption used in determining the pension information reflect the best estimate of the plan's future experience solely with respect to that assumption. That method of selecting assumptions is referred to as an *explicit approach*. An *implicit approach*, on the other hand, means that two or more assumptions do not individually represent the best estimate of the plan's future experience with respect to those assumptions, but the aggregate effect of their combined use is presumed to be approximately the same as that of an explicit approach. The Board believes that an explicit approach results in more useful information regarding (a) components of the pension benefit obligation and net periodic pension cost, (b) changes in the pension benefit obligation, and (c) the choice of significant assumptions used to determine the pension measurements. The Board also believes that the explicit approach is more understandable. Most respondents who addressed the question agreed.

192. A number of respondents commented that differences in assumptions, especially the discount rates and the assumed compensation levels, would impair comparability. Some of those respondents concluded that the Board should require all employers to use the same assumptions. Others concluded that the Board could not fix the assumptions and, therefore, any attempt to improve comparability by making other changes in accounting for pensions was futile.

193. The Board concluded that requiring all employers to use the same assumptions is inappropriate. Concepts Statement 2 defines comparability as "the quality of information that enables users to identify similarities in and differences between two sets of economic phenomena." The Board noted that requiring all employers to use the same turnover assumption, for example, would *reduce* comparability to the extent that that assumption would otherwise reflect real differences in expected turnover among employers.

194. This Statement requires use of an assumption described as the expected long-term rate of return on plan assets to calculate the expected return on plan assets. That assumption would not have been required by the Exposure Draft. The Board's reasons for adopting that requirement are discussed in paragraphs 177-181.

195. Most respondents focused their comments on assumed discount rates and compensation levels. Those are generally cited as the assumptions that have the greatest effect on measures of pension cost and benefit obligations, and they are related because both are affected by some of the same economic factors (such as the expected future rates of inflation). Some respondents also believe those assumptions (particularly the discount rates) are less likely than others to reflect real differences among plans.

196. The Board considered a requirement that all employers use common benchmark discount rates, such as those published by the Pension Benefit Guaranty Corporation (PBGC). One reason for that consideration was its concern that rates previously used for disclosure purposes

varied among employers over an unreasonable range. In spite of that concern, however, the Board concluded that requiring use of benchmark rates would be inappropriate, in part because no readily available rates seemed fully suitable. Instead, the Board decided that this Statement should describe more clearly the objective of selecting the discount rates with the expectation that a narrower range of rates used would result. Although the Board concluded that it should not require use of PBGC rates, it noted that certain of those rates, as currently determined, are one source of readily available information that might be considered in estimating the discount rates required by this Statement.

197. The Board notes that discount rates are used to measure the current period's service cost component and to determine the interest cost component of net periodic pension cost. Both of those uses relate to the liability side of pension accounting. From an accounting (as opposed to funding) perspective, they have nothing to do with plan assets. The same assumptions are needed for an unfunded plan.

198. The Board concluded that selection of the discount rates should be based on current prices for settling the pension obligation. Under this Statement, the discount rates are used most significantly to calculate the present value of the obligation and the service cost component of net periodic pension cost. Both of those uses are conceptually independent of the plan's assets. If two employers have made the same benefit promise, the Board believes the service cost component and the present value of the obligation should be the same even if one expected to earn an annual return of 15 percent on its plan assets and the other had an unfunded plan. The Board concluded that a current settlement rate best meets that objective and also is consistent with measurement of plan assets at fair value for purposes of disclosing the plan's funded status.

199. Interest rates vary depending on the duration of investments; for example, U.S. Treasury bills, 7-year bonds, and 30-year bonds have different interest rates. Thus, the weighted-average discount rate (interest rate) inherent in the prices of annuities (or a dedicated bond portfolio) will vary depending on the length of time remaining until individual benefit payment dates. A plan covering only retired employees would be expected to have significantly different discount rates from one covering a work force of 30-year-olds. The disclosures required by this Statement regarding components of the pension benefit obligation will be more representationally faithful if individual discount rates applicable to various benefit deferral periods are selected. A properly weighted average rate can be used for aggregate computations such as the interest cost component of net pension cost for the period.

200. An insurance company deciding on the price of an annuity contract will consider the rates of return available to it for investing the premium received and the rates of return expected to be available to it for reinvestment of future cash flows from the initial investment during the period until benefits are payable. That consideration is indicative of a relationship between rates inherent in the prices of annuity contracts and rates available in investment markets. The Board concluded that it would be appropriate for employers to consider that relationship and information about investment rates in estimating the discount rates required for application of

this Statement.

201. Some believe that year-to-year changes in pension information as a result of changes in assumed discount rates should be avoided to the maximum extent possible. In their view, some averaging technique should be used to smooth potential year-to-year changes so that assumed rates are changed only when it is apparent that the long-term trend has changed. The Board recognizes that long-term interest rates must be considered in determining appropriate assumed discount rates. However, it rejects the view that material changes in long-term rates should be ignored solely to avoid adjusting assumed discount rates.

202. The Board also addressed assumed compensation levels and concluded that they should (a) reflect the best estimate of actual future compensation levels for the individuals involved and (b) be consistent with assumed discount rates to the extent that both incorporate expectations of the same future economic conditions.

203. Some respondents argued that only certain components [16] of future compensation increases should be considered. The Board concluded that the terms of the plan do not distinguish between compensation increments from different causes and that accounting should not do so either. The Board also is not convinced that a meaningful breakdown of a change in compensation levels into its components is practical.

Different Accounting for Smaller Employers

204. The 1983 FASB Discussion Memorandum, *Employers' Accounting for Pensions and Other Postemployment Benefits*, raised the question of whether certain smaller employers should have pension accounting requirements different from those for larger companies.

205. Some respondents argued that different requirements were needed because the costs of obtaining information are relatively more burdensome for smaller employers and because there is less benefit from improved accounting for those employers. In their view, the needs and interests of users of smaller employers' financial statements, especially those of employers that are not publicly held, are different from the needs and interests of users of public companies' financial statements.

206. The Board also considered arguments that certain defined benefit plans of small employers are substantively different from those of larger employers. In this view the smaller employer's plan is primarily a means of sheltering the income of key employees or manager-owners from taxation, and as a result, the nature of the obligation is different.

207. The Board concluded that the measurement of net periodic pension cost and the recognition of net pension liabilities or assets should not differ for smaller or nonpublic employers. Evidence from users of the financial statements of smaller employers (in particular, bankers) does not provide support for a different approach. In the Board's view, the existence of

a separate set of measurement requirements or a range of alternatives for certain employers would probably not improve the cost-benefit relationship but would add complexity and reduce the comparability and usefulness of financial statements.

208. The Exposure Draft proposed to allow certain smaller and nonpublic employers to elect an alternative set of disclosure requirements less extensive than those proposed for other employers. Because changes to reduce the extent of required disclosure for all employers eliminated most of the items that would not have been required of smaller employers, the Board concluded that the same requirements should apply to all employers.

209. Some respondents argued that smaller employers would have a more difficult time than other employers with the initial application of this Statement, in part because advisors involved with pension accounting may put a higher priority on the needs of larger employers. The Board agreed that the transition provisions of this Statement, which allow an extra two years before application is required for certain smaller employers, would be a practical and appropriate means of facilitating its adoption by those employers.

Different Accounting for Certain Industries

210. Some respondents argued that accounting requirements should be different for employers subject to certain types of regulation (rate-regulated enterprises) or for employers that have certain types of government contracts for which reimbursement is a function of costs incurred. In both of those cases it was noted that a change in reported net periodic pension cost might have a direct effect on the revenues of the employer (lower cost would result in reduced revenues), or conversely, that increases in reported net periodic pension cost would not be recoverable. The Board understands the practical concerns of those respondents, but it concluded that the cost of a particular pension benefit is not changed by the circumstances described and that this Statement should include no special provisions relating to such employers. For rate-regulated enterprises, FASB Statement No. 71, *Accounting for the Effects of Certain Types of Regulation*, may require that the difference between net periodic pension cost as defined in this Statement and amounts of pension cost considered for rate-making purposes be recognized as an asset or a liability created by the actions of the regulator. Those actions of the regulator change the timing of recognition of net pension cost as an expense; they do not otherwise affect the requirements of this Statement.

Disclosure

General Considerations

211. Decisions on disclosure requirements involve evaluating and balancing considerations of relevance, reliability, and cost. Relevance and reliability are characteristics that make information useful for making decisions and that make it beneficial to require disclosure of some information. Benefits to users that are expected to result from required disclosures must be compared with the costs of providing and assimilating that information. Evaluating individual

disclosures in relation to those criteria is generally a matter of judgment. Cost, for example, is affected by several factors, one of which is the fact that some employers have a large number of different plans and some disclosures are more difficult than others to aggregate or summarize meaningfully. Also, as the total amount of disclosure increases, the incremental cost to both preparers and users of additional disclosure may be greater than the benefit of the additional information.

212. Many respondents supported the basic idea that additional information about defined benefit pension plans was needed by users of financial reports. Respondents suggested a wide range of possible disclosures.

Specific Disclosure Requirements

Descriptive Information

213. Respondents generally favored disclosure of information about plan provisions and employee groups. The Board concluded that a brief description of the plan and the type of benefit formula could assist users in understanding the financial statements, particularly in view of the fact that the measurement of net periodic pension cost is based on the benefit formula. Respondents and the Board agreed that financial statements should continue to disclose the nature and effects of significant changes in the factors affecting the computation of the net pension liability (or asset) and net periodic pension cost recognized in the financial statements and other significant or unusual matters necessary to an understanding of the impact of the plan on the employer's financial position and results of operations.

214. Respondents also favored disclosure of the funding policy. They noted that the disclosure required by Opinion 8 and Statement 36 had been helpful in understanding differences between funding a pension plan and accounting for it. Information that highlights changes in funding policies also can be useful in predicting future cash flows.

Pension Cost Information

215. Most respondents indicated that the disclosure of net periodic pension cost has been useful and favored continuing that disclosure requirement. The Board concurred and also decided to require disclosure of the components of net periodic pension cost. Some respondents argued that it is important to separate return on assets from the other components because they consider that return to be the result of the employer's financing decisions and not really a part of pension cost. The Board also believes that disclosure of the components will, over time, increase the general understanding of the nature of net periodic pension cost, the reasons for changes in that cost, and the relationship of financing activities and employee compensation cost.

216. The Exposure Draft proposed to require disclosure of both the expected return on assets (as a component of net periodic pension cost) and the actual return on assets (as part of a disclosure of changes in the fair value of plan assets). Respondents suggested that disclosure of

two different measures of return on assets would be confusing. The Board agreed and concluded that, of the two, the actual return was more relevant and important.

Information about Obligations and Assets

217. Disclosure of information about the funded status of the plan was favored by most respondents who addressed that issue. The Board concluded that disclosure of certain components of the pension benefit obligation should be required. The Board believes that disclosure of that information is important to an understanding of the economics of the employer's pension plan. For example, disclosure of vested benefits provides important information about the firmness of the obligation (vested benefits are less avoidable than nonvested benefits). In addition, vested benefits may be a reasonable surrogate for a plan termination liability. The Board believes that this information is not particularly difficult or costly to obtain.

218. The Board concluded that users should also be provided general information about the major types of plan assets (and nonbenefit liabilities, if any) and the actual amount of return on plan assets for the period. Management has a stewardship responsibility for efficient use of plan assets just as it does for operating assets. The Board believes that disclosure of that information will be useful in assessing the profitability of investment policies and the degree of risk assumed.

219. The Board believes that a reconciliation of the amounts included in the employer's statement of financial position to the funded status of the plan's projected benefit obligation is essential to understanding the relationship between the accounting and the funded status of the plan. The Board acknowledges that the amount recognized in the financial statements as a net pension liability or asset under this Statement does not fully reflect the underlying funded status of the plan.

Information about Assumptions

220. Respondents addressing the question generally favored disclosure of the weighted-average assumed discount rate. They noted that the discount rate is a significant assumption that materially affects the computation of the pension benefit information and the comparability of that information among employers. Respondents were divided on whether other assumptions should be disclosed. Some opposed disclosing other assumptions on the basis that additional information would not be understood by most users. Others suggested that for employers with numerous plans, certain of the disclosures (such as turnover and mortality) would be complex and difficult to aggregate or summarize.

221. The Board agreed that information about certain assumptions is useful and this Statement requires disclosure of the assumed weighted-average discount rate and rate of compensation increase. It noted that those two assumptions have the most significant impact on the amounts of net periodic pension cost and the projected benefit obligation and that those two assumptions are

related. It also noted that their effect on reported amounts is relatively easy to understand. The Board concluded that information about those two assumptions is essential if users are to be able to make meaningful comparisons among employers using different assumptions. For the same reasons, when the Board decided to allow the use of an expected long-term rate of return on plan assets different from the discount rate, it concluded that disclosure of that assumption should be required.

222. Some respondents opposed disclosure of assumed future compensation levels because providing that information to employees could affect labor negotiations. The Board concluded that the information is likely to be available to labor negotiators from other sources and that the usefulness of the information to financial statement users justifies its disclosure.

Suggested Disclosures

223. The Exposure Draft would have required the following disclosures in addition to those noted in the preceding paragraphs:

a. The ratio of net periodic pension cost to covered payroll
b. The separate amounts of amortization of unrecognized prior service and amortization of unrecognized net gain or loss
c. Information about the cash flows of the plan separately showing employer contributions, other contributions, and benefits paid during the period
d. The amounts of plan assets classified by major asset category
e. The amounts of the vested benefit obligation owed to retirees and to others
f. The change in the projected benefit obligation that would result from a one-percentage-point change in (1) the assumed discount rate and (2) the assumed rate of compensation increase
g. The change in the service cost and interest cost components of net periodic pension cost that would result from a one-percentage-point change in (1) the assumed discount rate and (2) the assumed rate of compensation increase.

224. Those disclosures had been suggested by respondents to previous documents issued as part of this project and the Board had concluded in the Exposure Draft that they would provide useful information and would not be unduly costly to provide. However, many respondents to the Exposure Draft commented that the volume of the proposed disclosures was too great. The Board agreed and concluded that the disclosures described in the preceding paragraph should not be required. The Board believes those disclosures are relatively less useful or (in the case of the last two items listed) relatively more costly than the disclosures required by this Statement. The Board also believes it would be appropriate for employers to consider disclosing those items if they decide to disclose more information about pension plans than the minimum required by this Statement, for example, because their plans are large relative to their overall operations.

225. The Board also considered an approach that would have allowed reduced disclosures for employers with defined benefit plans not large enough in the aggregate to qualify as a segment of the business under FASB Statement No. 14, *Financial Reporting for Segments of a Business*

Enterprise. The Board concluded that that approach would not be cost effective, in part because of the difficulty of defining how the provisions of Statement 14 should be applied to pension plans.

Other Disclosures Considered

226. Other disclosures noted in the following paragraphs were suggested by respondents and considered by the Board. The Board concluded that those suggested disclosures are less important than the disclosures discussed previously and should not be required because, in the Board's judgment, there is not sufficient evidence that the usefulness of that information is great enough to justify the costs involved.

227. Some respondents favored disclosing estimates of future contributions. They suggested that the information would be relevant to assessing near-term cash flows and would provide more timely information about changes in funding policy. That requirement was opposed by others who believed that presentation of forecasts of future funds flows should not be required for any specific activity. Opponents also suggested that the information would be too costly to produce if done properly and that it implies greater certainty than exists. Similar views were expressed for and against disclosure of estimates of future net periodic pension cost.

228. Disclosure of demographic information about the employee population was advocated by several respondents. They suggested that a limited amount of demographic information could be provided at minimal cost and would be useful. For example, disclosure of the number of covered employees, the number of retirees, and the average age of active employees might contribute to understanding the pension situation. Opponents suggested that those disclosures are outside the scope of financial reporting.

229. Others suggested disclosing the obligation for pension benefits that would be used in determining the PBGC or termination liability. The Board concluded that such information could be costly to determine if done properly and might not be substantially different from other disclosed information (vested and accumulated benefit obligations).

230. Information about the plan's actuary was suggested as another possible disclosure. Recommendations were to provide the name and professional qualifications of the actuary and comments of the actuary about any anticipated changes in plan costs or contribution rates. The Board concluded that such information is outside the scope of financial reporting.

Timeliness of Information

231. The 1983 Discussion Memorandum raised the question of whether the accounting measurements of pension obligations and plan assets should be as of the date of the financial statements or as of an earlier date. Measuring pension assets as of the date of the financial statements does not present very significant or unusual problems; the issue relates primarily to the measures of the pension obligations.

232. Although many respondents preferred that the Board allow measurements as of a date earlier than the date of the financial statements, most of the arguments raised related to a perceived requirement to have an actuarial valuation performed after that date and completed before financial statements are issued. The Board concluded that it should be feasible in most situations to provide information as of the date of financial statements based on a valuation performed at an earlier date with adjustments for relevant subsequent events (especially employee service) after that date. The Board noted that a number of employers have used that approach to provide information previously required. The Board also believes that the benefits of having the information on a timely basis and consistent with other financial information provided would usually outweigh the incremental costs involved. However, the Board acknowledges that practical problems may make it costly in some situations to obtain information, especially that concerning obligations and related components of net periodic pension cost, as of the date of the financial statements. Accordingly, the Board concluded that the information required by this Statement should be as of a date not earlier than three months before the date of the financial statements. The Board also noted that ARB No. 51, *Consolidated Financial Statements*, allows consolidation of a subsidiary with an annual fiscal period ending not more than about three months earlier than the parent's.

233. The Board also considered respondents' requests for clarification of how to apply the provisions of the Exposure Draft to quarterly reports and comments on the practical difficulty of basing current period net pension cost on assumptions related to the current period. The Board concluded that the provisions of paragraphs 52 and 53 of this Statement are practical and responsive to those concerns.

Other Situations and Types of Plans

Contracts with Insurance Companies

234. The Board concluded that some contracts with insurance companies are in substance forms of investments and that the use of those funding arrangements should not affect the accounting principles for determining an employer's net periodic pension cost. Some respondents who agreed with that conclusion were concerned that fair value of those investments would be difficult or impossible to determine. They suggested that contract value be used instead of fair value. The Board concluded that fair value should be the measurement basis for all types of investments but agreed that for some contracts the best available estimate of fair value might be contract value.

235. The Board recognized that some contracts with insurance companies are in substance more than investment vehicles. Most respondents noted that some insurance contracts (for example, nonparticipating annuities) effectively transfer the primary obligation for payment of benefits from the employer to the insurance company. They argued that, in those circumstances,

the premium paid is an appropriate measure of pension cost. The Board agreed that the purchase of nonparticipating annuities is in substance more like a settlement of the pension obligation than like an investment.

236. Under some annuity contracts, the purchaser (either the plan or the employer) acquires the right to participate in the investment performance or experience of the insurance company (participating annuities). Under those contracts, if the insurance company has favorable experience, the purchaser receives dividends. Participating annuities have some characteristics of an investment. However, the employer is as fully relieved of the obligation as with a nonparticipating annuity, and a separate actuarial computation ordinarily would not be performed. The Board concluded that, except as indicated in the following paragraph, it would be appropriate to treat a participating annuity contract the same as a nonparticipating annuity contract and to exclude the benefits covered from measures of the obligation.

237. The Board was concerned, however, that a contract could be structured in such a way that the premium would be materially in excess of the cost of nonparticipating annuities because of the expectation of future dividends. If the full amount of the premium were recognized as periodic cost in the year paid and dividends were recognized as reductions of cost when received, the resulting measures of net periodic pension cost would be unrelated to benefits earned by employees. If the employer had the ability to influence the timing of dividends, it would then be possible to shift cost among periods without regard to underlying economic events. The Board concluded that part of a participating contract is in substance an investment that should be recognized as an asset.

238. The Board believes that measurement of the participation right asset in periods subsequent to its acquisition should be, consistent with the measurement of other assets, at fair value to the extent that fair value can be reasonably determined. The Board understands, however, that some participating annuity contracts may not provide a basis for an estimate of fair value better than that provided by amortized cost and concluded that in that situation amortized cost should be used. That conclusion is not intended to permit use of amortized cost if that amount is in excess of net realizable value.

239. The Exposure Draft would have treated annuity contracts purchased from an insurance company affiliated with the employer as investments (that is, it would have included such contracts and covered benefits in plan assets and the accumulated benefit obligation). Respondents argued that information needed to treat such contracts as investments, including the actuarial present value of the obligations covered by the contract, would be neither available nor cost beneficial. The Board agreed and this Statement requires only contracts purchased from a captive insurance subsidiary to be treated as investments. Because an employer remains indirectly at risk if annuities are purchased from an affiliate, however, the Board concluded that disclosure of the approximate amount of annual benefits covered by such contracts should be required.

Defined Contribution Plans

240. Most respondents supported the past accounting and disclosure requirements for defined contribution plans, and the Board concluded that no significant changes to those requirements were needed. The Board believes that in most cases the formula in a defined contribution plan unambiguously assigns contributions to periods of employee service. Accordingly, the employer's present obligation under the terms of the plan is fully satisfied when the contribution for the period is made, subject to the constraint that costs (defined contributions) should not be deferred and recognized in periods after the termination of service of the individual to whose account the contributions are to be made. Most of the questions that have been referred to the Board about defined contribution plans have dealt with the definition of those plans and how to treat plans that have some of the attributes of both defined benefit and defined contribution plans. The definition of a defined contribution plan in this Statement is similar to the definitions presently established by the Internal Revenue Code and ERISA.

241. The Board also concluded that defined contribution plans are sufficiently different from defined benefit plans that disclosures about them should not be combined. Opinion 8 did not specifically address combining disclosures, and practice has varied as some employers disclosed, for example, net periodic pension cost as a single amount including both types of plans.

Multiemployer Plans

242. The 1983 Discussion Memorandum raised the issue of whether an employer participating in a multiemployer pension plan that provides defined benefits should recognize cost or obligations other than those defined by contributions. Respondents' comments indicated substantial uncertainty as to the legal status of employers' obligations to multiemployer plans. Some noted that the obligation to a multiemployer plan can be changed by events affecting other participating employers and their employees. Respondents also expressed concern about the availability of information sufficiently reliable for accounting recognition.

243. Based on respondents' comments, the Board concluded that it was not appropriate to require changes in the accounting for multiemployer plans as part of this Statement. Many respondents also emphasized the substantive differences between a multiemployer plan and a single-employer plan. The Board concluded that those differences are such that separating disclosure for the two types of plans will enhance the understandability and usefulness of the information.

244. The Exposure Draft would have required certain disclosures intended to provide information about the extent of involvement with multiemployer plans, including available information about the withdrawal liability. Many respondents argued that the withdrawal liability is a contingent liability, which suggests that it should be disclosed. Other respondents, however, argued that information about the withdrawal liability would be difficult and expensive to obtain, would be unreliable and, to the extent readily available, out of date, and would be of

limited value except in cases in which withdrawal was expected to occur under circumstances that would trigger the liability. The Board agreed and the proposed requirements are not included in this Statement. Instead, the Board concluded that the provisions of Statement 5 should determine when withdrawal liabilities are recognized or disclosed.

245. Several respondents to the Exposure Draft argued that some plans involve more than one employer, are in substance multiemployer plans because the assets cannot be attributed to particular employers, and do not involve unions. The Board concluded that it should modify the proposed definition of multiemployer plans to include those plans.

246. The 1983 Discussion Memorandum also inquired about other multiple-employer plans not classified as multiemployer plans under ERISA. The few that responded to that issue indicated that those plans are in substance more like single-employer plans than like multiemployer plans. Accordingly, the definition of multiemployer plans in this Statement is similar to that in ERISA as amended by the Multiemployer Pension Plan Amendments Act of 1980.

Non-U.S. Pension Plans

247. Respondents' reactions to accounting issues concerning pension arrangements outside the United States (foreign plans) varied. Almost equal numbers of respondents supported and opposed special accounting provisions for those plans. Those supporting the position that special provisions should be required for foreign plans argued that either (a) the nature of the arrangement or the substance of the obligation is sufficiently different from that of plans in the United States to preclude similar treatment or (b) circumstances in other countries make it impractical or impossible to implement similar accounting principles.

248. The Board concluded that the substance of the arrangement and the nature of the employer's obligation should determine the appropriate accounting. For foreign plans that are in substance similar to plans in the United States, the Board was not convinced that application of the basic requirements of this Statement would be impractical. The Board is not aware of significant problems arising from the application of prior requirements to foreign plans, and those requirements were based on actuarial calculations and the same assumptions needed to apply this Statement.

249. The Board was convinced, however, that practical problems could arise in communicating the requirements and obtaining the information necessary for initial application of this Statement to plans outside the U.S. The Board concluded that allowing an extra two years before application is required would give employers time to make necessary arrangements in an orderly manner and would reduce the cost of transition.

250. Some respondents also argued that combined disclosures for U.S. plans and for plans in other countries with very different economic conditions would be difficult to understand. The Board agreed and concluded that disclosures for such plans should be presented separately.

Business Combinations

251. The Board is aware of diversity in practice relating to recognition of pension-related assets and liabilities in purchase business combinations. The Board has also been asked how the asset or liability, once recognized, should be subsequently reduced.

252. This Statement requires that in a business combination accounted for as a purchase under Opinion 16, the acquiring company should recognize a pension liability (or asset) if the acquired company has a projected benefit obligation in excess of (or less than) plan assets. It also requires that, if it is expected that the purchaser will restructure the plan, the effects of restructuring should be considered in valuing the projected benefit obligation. The Board concluded that those requirements are consistent with purchase accounting as defined by Opinion 16, which specifies a *new basis of accounting* reflecting bargained (fair) value of assets acquired and liabilities assumed whether or not previously reflected in the financial statements. The Board believes that the unfunded or overfunded projected benefit obligation defined by this Statement is a more appropriate measure of the net pension obligation or asset than the measure required by Opinion 16 in view of the other conclusions in this Statement. The Board also noted that Opinion 16 was predicated on pension accounting that involved alternative methods. One result of the accounting required by this Statement is that the effects of plan amendments and gains and losses of the acquired company's plan that occurred before the acquisition are not a part of future net periodic pension cost of the acquirer.

253. The Board also decided to avoid possible ambiguity and future diversity in practice by clarifying how Opinion 16 should apply to a multiemployer plan situation. The Exposure Draft would have required recognition of a withdrawal liability when the employer is acquired in a business combination accounted for as a purchase. Based on respondents' comments, however, the Board concluded that no recognition of withdrawal liabilities should be required unless withdrawal under conditions that would result in a liability is probable. The Board was led to that conclusion by doubts about the reliability of the measure of the liability in other circumstances. The Board was not convinced that there is an obligation for future contributions to a multiemployer plan or that an estimated withdrawal liability would provide useful information about such an obligation, absent a probable withdrawal.

Transition and Effective Dates

254. In *Preliminary Views* the Board concluded that transition was essentially a practical question and that providing a choice between two specified transition methods (prospective and retroactive) was appropriate. However, the choice of methods was not supported by most respondents principally due to the lack of comparability that would result. Required application of a retroactive approach also had little appeal among respondents because of the practical problems for some employers. In particular, a retroactive determination of the balance of the pension benefit obligation as of a past date would often require a new actuarial valuation as of

that date. Many argued that such an approach would have been costly and might have been impracticable in some cases because relevant data no longer existed. Finally, many argued that a retroactive approach would have adverse consequences for some employers because of the materiality of pension amounts and the wide range of practices used under Opinion 8.

255. The Exposure Draft would have required amortization of the unrecognized net obligation or net asset on a declining basis over the service periods of employees active at the date of transition. Respondents argued that a declining basis amortization of that amount created year-to-year changes in net periodic pension cost that would reflect only transition and that for some companies with short average remaining service periods the transition would be unduly severe. The Board agreed and decided that the amortization required by this Statement would mitigate those concerns. That approach has the additional advantage that the transition will be completed somewhat earlier than would have been the case under the approach proposed in the Exposure Draft.

256. The Board continues to believe that transition is a practical matter and that a major objective of transition is to minimize the cost and to mitigate the disruption involved, to the extent that is possible without unduly compromising the objective of enhancing the ability of financial statements to provide useful information. The transition problem in this Statement is different from some others in several respects. The unrecognized net obligation or net asset described in paragraph 77 is the net total of several components: (a) unrecognized costs of past retroactive plan amendments, (b) unrecognized net gain or loss from previous periods, and (c) the cumulative effect of past use of accounting principles different from those in this Statement. If those components could be treated separately, it would be consistent with other provisions of this Statement to treat the last component as the effect of an accounting change (and to recognize it when this Statement is first applied), but prospective accounting (or delayed recognition) of the first two components is continued by this Statement. As a practical matter, the Board is convinced that it is effectively impossible, at least in many cases, to identify those components separately. Accordingly, the Board concluded that the single method of transition required by this Statement should be used.

257. Some respondents suggested that unrecognized amounts existing at transition should continue to be amortized using past methodologies. The Board noted that such a transition approach would result in delaying recognition of significant amounts for as much as 30 years and concluded that a less-extended transition was practical and preferable.

258. The Board also considered respondents' requests to clarify the appropriate procedures for transition to this Statement in other than the first interim period of a fiscal year. The Board agreed to do so and concluded that requiring restatement of previous interim periods would be appropriate and consistent with existing guidance in other areas.

259. The Board decided to allow more than the normal time between issuance of this Statement and its required application to give time for employers and their advisors to assimilate the

requirements and to obtain the information required. The Board believes that a one-year delay is adequate for those purposes.

260. The Board also decided to allow an additional two years before employers are required to apply the provisions of this Statement that require recognition of a minimum liability because of concerns expressed by some respondents that some employers would have to arrange to renegotiate or to obtain waivers of provisions of some legal contracts. As noted previously, the Board also decided to allow an additional two years before employers are required to apply the provisions of this Statement to plans outside the U.S. and before certain smaller employers are required to apply those provisions.

Appendix B: ILLUSTRATIONS

261. This appendix contains illustrations of the following requirements of this Statement:

1. Delayed recognition and reconciliation of funded status
2. Transition
3. Amortization of unrecognized prior service cost
4. Accounting for gain or loss and timing of measurements
5. Recognition of pension liabilities, including minimum liability
6. Disclosure
7. Accounting for a business combination

Illustration 1—Delayed Recognition and Reconciliation of Funded Status

This Statement provides for delayed recognition of the effects of a number of types of events that change the measures of the projected benefit obligation and the fair value of plan assets. Those events include retroactive plan amendments and gains and losses. Gains and losses as defined in this Statement include the effects of changes in assumptions.

This Statement also requires disclosure of a reconciliation of the funded status of a plan to the net pension liability or asset recognized in the employer's financial statements. This illustration shows how that reconciliation provides information about items that have not been recognized due to delayed recognition. The illustration starts with an assumed funded status at the date of initial application of this Statement and shows how a series of events that change the obligation or the plan assets are reflected in the reconciliation. (Throughout this illustration the fair value of plan assets exceeds the accumulated benefit obligation and, therefore, no recognition of an additional minimum liability is required.)

Case 1—Company T at Transition

The reconciliation as of the date of initial application of this Statement is as follows:

Projected benefit obligation	$(10,000)
Plan assets at fair value	6,500
Funded status	(3,500)
Unrecognized net (gain) or loss	0
Unrecognized prior service cost	0
Unrecognized net obligation or (net asset) at date of initial application	3,500
(Accrued)/prepaid pension cost	$ 0

The unrecognized net gain or loss and the unrecognized prior service cost are both initially zero by definition. The unrecognized net obligation or asset at transition is defined in paragraph 77 as the difference between the funded status and the accrued or prepaid pension cost already recognized. If, as in this case, the past contributions were equal to amounts recognized as net pension cost in past periods, there is no recognized accrued or prepaid pension cost in the statement of financial position and, therefore, the unrecognized net obligation or asset at transition is equal to the funded status.

Case 2—Past Contributions Lower by $400

If Company T had not made a contribution of $400 for the last year before the date of initial application but had recognized the same net periodic pension cost as in Case 1, the situation would be as follows:

Projected benefit obligation	$(10,000)
Plan assets at fair value	6,100
Funded status	(3,900)
Unrecognized net (gain) or loss	0
Unrecognized prior service cost	0
Unrecognized net obligation or (net asset) at date of initial application	3,500
(Accrued)/prepaid pension cost	$ (400)

The unrecognized net obligation at transition is unchanged. It is the amount of the projected benefit obligation not yet recognized in net periodic pension cost and is not directly affected by funding decisions.

Case 3—Past Contributions Greater by $800

If, instead, the employer had made a contribution in excess of net periodic pension cost of $800, but the company had recognized the same net periodic pension cost as in Case 1, the reconciliation would be as follows:

Projected benefit obligation	$(10,000)
Plan assets at fair value	7,300
Funded status	(2,700)
Unrecognized net (gain) or loss	0
Unrecognized prior service cost	0
Unrecognized net obligation or (net asset) at date of initial application	3,500
(Accrued)/prepaid pension cost	$ 800

After Initial Application

At any date after initial application, any change in the projected benefit obligation or the plan assets (other than contributions and benefit payments) either is unrecognized or has been included in net pension cost for some period. Contributions decrease the accrued pension cost or increase the prepaid pension cost, and benefit payments reduce the obligation and the plan assets equally. Thus, all changes in either the obligation or the assets are reflected in the reconciliation. Using Case 1 above as the starting point, the following reconciliations illustrate the effect of various events that change either the projected benefit obligation or the plan assets.

Case 4—Fair Value of Assets Increases by $400

	Before	**After**
Projected benefit obligation	$(10,000)	$(10,000)
Plan assets at fair value	6,500	6,900
Funded status	(3,500)	(3,100)
Unrecognized net (gain) or loss	0	(400)
Unrecognized prior service cost	0	0
Unrecognized net obligation or (net asset) at date of initial application of initial application	3,500	3,500
(Accrued)/prepaid pension cost	$ 0	$ 0

Case 5—Increase in Discount Rate Reduces Obligation by $900

	Before	After
Projected benefit obligation	$(10,000)	$ (9,100)
Plan assets at fair value	6,500	6,500
Funded status	(3,500)	(2,600)
Unrecognized net (gain) or loss	0	(900)
Unrecognized prior service cost	0	0
Unrecognized net obligation or (net asset) at date of initial application of initial application	3,500	3,500
(Accrued)/prepaid pension cost	$ 0	$ 0

Case 6—Plan Amendment Increases the Obligation by $1,500

	Before	After
Projected benefit obligation	$(10,000)	$(11,500)
Plan assets at fair value	6,500	6,500
Funded status	(3,500)	(5,000)
Unrecognized net (gain) or loss	0	0
Unrecognized prior service cost	0	1,500
Unrecognized net obligation or (net asset) at date of initial application of initial application	3,500	3,500
(Accrued)/prepaid pension cost	$ 0	$ 0

Case 7—Employer Accrues Net Pension Cost

Net pension cost includes:

Service cost	$ 600
Interest cost	1,000
Amortization of initial unrecognized net obligation	233
Return on assets	(650)
	$1,183

No contribution is made.

	Before	**After**
Projected benefit obligation	$(10,000)	$(11,600)
Plan assets at fair value	6,500	7,150
Funded status	(3,500)	(4,450)
Unrecognized net (gain) or loss	0	0
Unrecognized prior service cost	0	0
Unrecognized net obligation or (net asset) at date of initial application of initial application	3,500	3,267
(Accrued)/prepaid pension cost	$ 0	$ (1,183)

Illustration 2—Transition

Case 1

As of December 31, 1985, the projected benefit obligation and plan assets of a noncontributory defined benefit plan sponsored by Company A were:

Projected benefit obligation	$(1,500,000)
Plan assets at fair value	1,200,000
Initial unfunded obligation	$ (300,000)

Company A elected to apply the provisions of this Statement for its financial statements for the year ending December 31, 1986. At December 31, 1985, no prepaid or accrued pension cost had been recognized in Company A's statement of financial position (that is, all amounts accrued as net periodic pension cost had been contributed to the plan). The average remaining service period of active plan participants expected to receive benefits was estimated to be 16 years at the date of transition. In this situation the initial unrecognized net obligation (and loss or cost) of $300,000 is to be amortized (recognized as a component of net periodic pension cost) on a straight-line basis over the average remaining service period of 16 years (paragraph 77) as follows:

Year	Beginning-of-Year Balance	Amortization [a]	End-of-Year Balance
1986	300,000	18,750	281,250
1987	281,250	18,750	262,500
1988	262,500	18,750	243,750
1989	243,750	18,750	225,000
1990	225,000	18,750	206,250
1991	206,250	18,750	187,500
1992	187,500	18,750	168,750
1993	168,750	18,750	150,000
1994	150,000	18,750	131,250
1995	131,250	18,750	112,500
1996	112,500	18,750	93,750
1997	93,750	18,750	75,000
1998	75,000	18,750	56,250
1999	56,250	18,750	37,500
2000	37,500	18,750	18,750
2001	18,750	18,750	0

[a] 300,000 ÷ 16 = 18,750.

Case 2

As of December 31, 1985, the projected benefit obligation and plan assets of a noncontributory defined benefit plan sponsored by Company B were:

Projected benefit obligation	$(1,400,000)
Plan assets at fair value	1,600,000
Initial overfunded obligation	$ 200,000

Company B elected to apply the provisions of this Statement for its financial statements for the year ending December 31, 1986. In previous periods, Company B's plan was deemed to be fully funded for tax purposes, and the company decided not to make contributions that would not have been currently tax deductible. As a result, contributions were less than net pension cost for those periods, and the company had recognized unfunded accrued pension cost (a liability) of $150,000 at December 31, 1985.

The unrecognized net asset at transition defined in paragraph 77 consists of amounts previously charged to net pension cost in excess of the projected benefit obligation. Amounts charged to net pension cost in past periods include amounts contributed (plan assets) and amounts unfunded. In this case, at December 31, 1985 those amounts were:

Plan assets in excess of obligation	$200,000
Unfunded accrued pension cost	150,000
Unrecognized net asset	$350,000

The average remaining service period of active plan participants expected to receive benefits was estimated to be 10 years at the date of transition. In this situation, the initial unrecognized net asset of $350,000 may be amortized on a straight-line basis over either 10 years or 15 years (paragraph 77. That amortization will result in an annual credit to net periodic pension cost of either $35,000 or $23,333.

Illustration 3—Amortization of Unrecognized Prior Service Cost

Case 1—Assigning Equal Amounts to Future Years of Service

Determination of Expected Future Years of Service

The amortization of unrecognized prior service cost defined in paragraph 25 is based on the expected future years of service of participants active at the date of the amendment who are expected to receive benefits under the plan. Calculation of the expected future years of service considers population decrements based on the actuarial assumptions and is not weighted for benefits or compensation. Each expected future service year is assigned an equal share of the initially determined prior service cost. The portion of prior service cost to be recognized in each of the future years is determined by the service years rendered in that year.

The following chart illustrates the calculation of the expected future years of service for the defined benefit plan of Company E. At the date of the amendment (January 1, 1987), the company has 100 employees who are expected to receive benefits under the plan. Five percent of that group (5 employees) are expected to leave (either retire or quit) in each of the next 20 years. Employees hired after that date do not affect the amortization. Initial estimates of expected future years of service related to each amendment are subsequently adjusted only for a curtailment.

Determination of Expected Years of Service
Service Years Rendered in Each Year

Individuals	Future Service Years	Year 1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20
A1-A5	5	5																			
B1-B5	10	5	5																		
C1-C5	15	5	5	5																	
D1-D5	20	5	5	5	5																
E1-E5	25	5	5	5	5	5															
F1-F5	30	5	5	5	5	5	5														
G1-G5	35	5	5	5	5	5	5	5													
H1-H5	40	5	5	5	5	5	5	5	5												
I1-I5	45	5	5	5	5	5	5	5	5	5											
J1-J5	50	5	5	5	5	5	5	5	5	5	5										
K1-K5	55	5	5	5	5	5	5	5	5	5	5	5									
L1-L5	60	5	5	5	5	5	5	5	5	5	5	5	5								
M1-M5	65	5	5	5	5	5	5	5	5	5	5	5	5	5							
N1-N5	70	5	5	5	5	5	5	5	5	5	5	5	5	5	5						
O1-O5	75	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5					
P1-P5	80	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5				
Q1-Q5	85	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5			
R1-R5	90	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5		
S1-S5	95	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	
T1-T5	100	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5
	1,050																				
Service Years Rendered		100	95	90	85	80	75	70	65	60	55	50	45	40	35	30	25	20	15	10	5
Amortization Fraction		100/1,050	95/1,050	90/1,050	85/1,050	80/1,050	75/1,050	70/1,050	65/1,050	60/1,050	55/1,050	50/1,050	45/1,050	40/1,050	35/1,050	30/1,050	25/1,050	20/1,050	15/1,050	10/1,050	5/1,050

Amortization of Unrecognized Prior Service Cost

On January 1, 1987, Company E granted retroactive credit for prior service pursuant to a plan amendment. This amendment generated unrecognized prior service cost of $750,000. The amortization of the unrecognized prior service cost resulting from the plan amendment is based on the expected future years of service of active participants as discussed in the previous paragraph.

Amortization of Unrecognized Prior Service Cost

Year	Beginning-of-Year Balance	Amortization Rate	Amortization	End-of-Year Balance
1987	750,000	100/1050	71,429	678,571
1988	678,571	95/1050	67,857	610,714
1989	610,714	90/1050	64,286	546,428
1990	546,428	85/1050	60,714	485,714
1991	485,714	80/1050	57,143	428,571
1992	428,571	75/1050	53,571	375,000
1993	375,000	70/1050	50,000	325,000
1994	325,000	65/1050	46,429	278,571
1995	278,571	60/1050	42,857	235,714
1996	235,714	55/1050	39,286	196,428
1997	196,428	50/1050	35,714	160,714
1998	160,714	45/1050	32,143	128,571
1999	128,571	40/1050	28,571	100,000
2000	100,000	35/1050	25,000	75,000
2001	75,000	30/1050	21,429	53,571
2002	53,571	25/1050	17,857	35,714
2003	35,714	20/1050	14,286	21,428
2004	21,428	15/1050	10,714	10,714
2005	10,714	10/1050	7,143	3,571
2006	3,571	5/1050	3,571	0

Case 2—Using Straight-Line Amortization over Average Remaining Service Period

Determination of Expected Future Years of Service

To reduce the complexity and detail of the computations shown in Illustration 3, Case 1, alternative amortization approaches that recognize the cost of retroactive amendments more quickly may be consistently used (paragraph 26). For example, a straight-line amortization of the cost over the average remaining service period of employees expected to receive benefits under the plan is acceptable.

If Company E (Case 1) had elected to use straight-line amortization over the average remaining service period of employees expected to receive benefits (1,050 future service years/100 employees = 10.5 years), the amortization would have been as follows:

Amortization of Unrecognized Prior Service Cost

Year	Beginning-of-Year Balance	Amortization [a]	End-of-Year Balance
1987	750,000	71,429	678,571
1988	678,571	71,429	607,142
1989	607,142	71,429	535,713
1990	535,713	71,429	464,284
1991	464,284	71,429	392,855
1992	392,855	71,429	321,426
1993	321,426	71,429	249,997
1994	249,997	71,429	178,568
1995	178,568	71,429	107,139
1996	107,139	71,429	35,710
1997	35,710	35,710	0

[a] 750,000 ÷ 10.5 = 71,429.

lllustration 4—Accounting for Gains and Losses and Timing of Measurements

The following shows the funded status of Company I's pension plan at December 31, 1986 and its assumptions and expected components of net periodic pension cost for the following year (all amounts are in thousands):

DECEMBER 1986—INITIAL SITUATION

Assumptions:	
Discount rate	10.00%
Expected long-term rate of return on plan assets	10.00%
Average remaining service	10 years

	Actual 12/31/86	For 1987	Projected 12/31/87
Projected benefit obligation	$(1,000)		$(1,060)
Plan assets at fair value	800		880
Funded status	(200)		(180)
Unrecognized net obligation existing at January 1, 1987	200		180
Unrecognized prior service cost	0		0
Unrecognized net (gain) or loss	0		0
(Accrued)/prepaid	$ 0		$ 0
Service cost component		$ 60 [a]	
Interest cost component		100	
Expected return on assets		(80)	
Amortization of:			
Unrecognized net obligation existing at January 1, 1987		20	
Unrecognized prior service cost		0	
Unrecognized net (gain) or loss		0	
Net cost		$100	
Contribution		$100	
Benefits paid		$100	

Company I elected to apply the provisions of this section as of January 1, 1987 rather than as of an earlier date. Also, the company elected to measure pension-related amounts as of year-end. Alternatively, the company could have chosen to make the measurements as of another date not earlier than September 30. (Throughout this illustration it is assumed that the fair value of plan assets exceeds the accumulated benefit obligation and, therefore, no recognition of an additional minimum liability is required. For simplicity, all contributions and benefit payments are assumed to occur on the last day of the year.)

1987—LIABILITY LOSS

When Company I's plan assets and obligations were measured at December 31, 1987, the amount of the projected benefit obligation was not equal to the expected amount. Because the discount rate had declined to 9 percent and for various other reasons not specifically identified, the projected benefit obligation was higher than had been projected (a loss had occurred). The results were as follows:

Assumptions:		
Discount rate	10.00%	9.00%
Expected long-term rate of return on plan assets	10.00%	10.00%
Average remaining service	10 years	10 years

	Actual 12/31/86	**For 1987**	**Projected 12/31/87**	**Actual 12/31/87**	**For 1988**	**Projected 12/31/88**
Projected benefit obligation	$(1,000)		$(1,060)	$(1,200)		$(1,266) b
Plan assets at fair value	800		880	880		968 c
Funded status	(200)		(180)	(320)		(298)
Unrecognized net obligation existing at January 1, 1987	200		180	180		160
Unrecognized prior service cost	0		0	0		0
Unrecognized net (gain) or loss	0		0	140		138
(Accrued)/prepaid	$ 0		$ 0	$ 0		$ 0
Service cost component		$ 60			$ 72	
Interest cost component		100			108	
Expected return on assets		(80)			(88)	
Market-related value of assets	$ 800			$ 880		
Actual return on assets—(increase)/decrease				(80)		
Amortization of:						
Unrecognized net obligation existing at January 1, 1987		20			20	
Unrecognized prior service cost		0			0	
Unrecognized net (gain) or loss		0 d			2 d	
Net cost		$100			$114	
Contribution		$100			$114	
Benefits paid		$100			$114	

The 1987 financial statements will include the following disclosures:

Cost Components		Reconciliation of Funded Status	
Service cost	$ 60	Projected benefit obligation	$(1,200)
Interest cost	100	Plan assets at fair value	880
Actual return on assets	(80)		
Net amortization and deferral	20 e	Funded status	(320)
		Unrecognized net obligation existing at January 1, 1987	180
Net cost	$100	Unrecognized prior service cost	0
		Unrecognized net (gain) or loss	140
		(Accrued)/prepaid	$ 0 f

1988—ASSET GAIN

When Company I's plan assets and obligations were measured at December 31, 1988, the amount of plan assets was not equal to the expected amount because of market performance better than the expected or assumed 10 percent. The results were as follows:

Assumptions:		
Discount rate	9.00%	9.00%
Expected long-term rate of return on plan assets	10.00%	10.00%
Average remaining service	10 years	10 years

	Actual 12/31/87	For 1988	Projected 12/31/88	Actual 12/31/88	For 1989	Projected 12/31/89
Projected benefit obligation	$(1,200)		$(1,266)	$(1,266)		$(1,345)
Plan assets at fair value	880		968	1,068		1,167
Funded status	(320)		(298)	(198)		(178)
Unrecognized net obligation existing at January 1, 1987	180		160	160		140
Unrecognized prior service cost	0		0	0		0
Unrecognized net (gain) or loss	140		138	38		38
(Accrued)/prepaid	$ 0		$ 0	$ 0		$ 0
Service cost component		$ 72			$ 76	
Interest cost component		108			114	
Expected return on assets		(88)			(99) g	
Market-related value of assets	$ 880			$ 988 h		
Actual return on assets—(increase)/decrease	(80)			(188)		

Amortization of:		
Unrecognized net obligation existing at January 1, 1987	20	20
Unrecognized prior service cost	0	0
Unrecognized net (gain) or loss	2 i	0 i
Net cost	$114	$111
Contribution	$114	$111
Benefits paid	$114	$111

The 1988 financial statements will include the following disclosures:

Cost Components		Reconciliation of Funded Status	
Service cost	$ 72	Projected benefit obligation	$(1,266)
Interest cost	108	Plan assets at fair value	1,068
Actual return on assets	(188)		
Net amortization and deferral	122 j	Funded status	(198)
		Unrecognized net obligation existing at January 1, 1987	160
Net cost	$114	Unrecognized prior service cost	0
		Unrecognized net (gain) or loss	38
		(Accrued)/prepaid	$ 0

1989—ASSET LOSS AND LIABILITY GAIN

When Company I's plan assets and obligations were measured at December 31, 1989, both an asset loss and a liability gain were discovered.

Assumptions:		
Discount rate	9.00%	9.25%
Expected long-term rate of return on plan assets	10.00%	10.00%
Average remaining service	10 years	10 years

	Actual 12/31/88	For 1989	Projected 12/31/89	Actual 12/31/89	For 1990	Projected 12/31/90
Projected benefit obligation	$(1,266)		$(1,345)	$(1,320)		$(1,409)
Plan assets at fair value	1,068		1,167	1,097		1,206
Funded status	(198)		(178)	(223)		(203)
Unrecognized net obligation existing at January 1, 1987	160		140	140		120
Unrecognized prior service cost	0		0	0		0
Unrecognized net (gain) or loss	38		38	83		83
(Accrued)/prepaid	$ 0		$ 0	$ 0		$ 0
Service cost component		$ 76			$ 79	
Interest cost component		114			122	
Expected return on assets		(99)			(109)	
Market-related value of assets	$ 988			$ 1,093 [k]		
Actual return on assets—(increase)/decrease	(188)			(29)		
Amortization of:						
Unrecognized net obligation existing at January 1, 1987		20			20	
Unrecognized prior service cost		0			0	
Unrecognized net (gain) or loss		0 [l]			0 [l]	
Net cost	$111				$112	
Contribution	$111				$112	
Benefits paid	$111				$112	

The 1989 financial statements will include the following disclosures:

Cost Components

Service cost	$ 76
Interest cost	114
Actual return on assets	(29)
Net amortization and deferral	(50) [m]
Net cost	$111

Reconciliation of Funded Status

Projected benefit obligation	$(1,320)
Plan assets at fair value	1,097
Funded status	(223)
Unrecognized net obligation existing at January 1, 1987	140
Unrecognized prior service cost	0
Unrecognized net (gain) or loss	83
(Accrued)/prepaid	$ 0

Illustration 5—Recognition of Pension Liability, Including Minimum Liability

Case 1—Minimum Liability Less Than Unrecognized Prior Service Cost

Company K elected to apply the provisions of this Statement, including those requiring recognition of minimum liability, for its 1986 financial statements. The funded status of its plan for the years 1988 through 1991 is shown below.

	As of December 31,			
	1988	1989	1990	1991
	(in thousands)			
FUNDED STATUS—COMPANY K				
Assets and obligations:				
Accumulated benefit obligation	$(1,254)	$(1,628)	$(1,616)	$(1,554)
Plan assets at fair value	1,165	1,505	1,622	1,517
Unfunded accumulated benefits	$ (89)	$ (123)		$ (37)
Overfunded accumulated benefits			$ 6	
Projected benefit obligation	$(1,879)	$(2,442)	$(2,424)	$(2,331)
Plan assets at fair value	1,165	1,505	1,622	1,517
Items not yet recognized in earnings:				
Unrecognized net obligation (net asset) at January 1, 1986	280	260	240	220
Unrecognized prior service cost	715	1,314	1,172	1,039
Unrecognized net gain	(251)	(557)	(460)	(476)
(Accrued)/prepaid pension cost	$ 30	$ 80	$ 150	$ (31)
DETERMINATION OF AMOUNTS TO BE RECOGNIZED				
(Accrued)/prepaid pension cost at beginning of year	$ 0	$ 30	$ 80	$ 150
Net periodic pension cost	(304)	(335)	(397)	(361)
Contribution	334	385	467	180
(Accrued)/prepaid pension cost at end of year	$ 30	$ 80	$ 150	$ (31)
Required minimum liability (unfunded accumulated benefits)	$ (89)	$ (123)	$ 0	$ (37)
Adjustment required to reflect minimum liability:				
Additional liability [a]	$ (119)	$ (84)	$ 203	$ (6)
Intangible asset (not to exceed unrecognized prior service cost)	$ 119	$ 84	$ (203)	$ 6
Balance of additional liability	$ (119)	$ (203)	$ 0	$ (6)
Balance of intangible asset	$ 119	$ 203	$ 0	$ 6

Journal Entries

The journal entries required to reflect the accounting for the company's pension plan for the years 1988 through 1991 are as follows (in thousands):

Year 1988

Journal Entry 1

Net periodic pension cost	304	
Accrued/prepaid pension cost		304
To record net pension cost for the period (paragraph 35)		

Journal Entry 2

Accrued/prepaid pension cost	334	
Cash		334
To record contribution (paragraph 35)		

Journal Entry 3

Intangible asset	119	
Additional liability		119
To record an additional liability to reflect the required minimum liability (For financial statement presentation, the additional liability account balance is combined with the accrued/prepaid pension cost account balance. Since prepaid pension cost of $30 has been recognized, an additional liability of $119 is needed to reflect the required minimum liability of $89 [equal to unfunded accumulated benefits]. Because the additional liability is less than unrecognized prior service cost, an intangible asset also is recognized.) (paragraphs 36 and 37)		

Year 1989

Journal Entry 1

Net periodic pension cost	335	
Accrued/prepaid pension cost		335
To record net pension cost for the period (paragraph 35)		

Journal Entry 2

Accrued/prepaid pension cost	385	
Cash		385
To record contribution (paragraph 35)		

Journal Entry 3

Intangible asset	84	
Additional liability		84

To adjust the additional liability to reflect the required minimum liability (For financial statement presentation, the additional liability account balance is combined with the accrued/prepaid pension cost account balance. The required minimum liability is determined independently of any prior years' amounts. Since unfunded accumulated benefits are $123 and a prepaid pension cost of $80 has been recognized, the amount of the additional liability is $203 or an increase of $84 from the previous period. Because the balance of the additional liability is less than unrecognized prior service cost, an intangible asset also is recognized.) (paragraphs 36 and 37)

Year 1990

Journal Entry 1

Net periodic pension cost	397	
Accrued/prepaid pension cost		397
To record net pension cost for the period (paragraph 35)		

Journal Entry 2

Accrued/prepaid pension cost	467	
Cash		467
To record contribution (paragraph 35)		

Journal Entry 3

Additional liability	203	
Intangible asset		203

To reverse additional liability no longer required (Since plan assets exceed accumulated benefits, no additional liability is necessary.) (paragraph 38)

Year 1991

Journal Entry 1

Net periodic pension cost	361	
Accrued/prepaid pension cost		361
To record net pension cost for the period (paragraph 35)		

Journal Entry 2

Accrued/prepaid pension cost	180	
Cash		180
To record contribution (paragraph 35)		

Journal Entry 3

Intangible asset	6	
Additional liability		6
To record an additional liability to reflect the required minimum liability amount (For financial statement presentation, the additional liability account balance is combined with the accrued/prepaid pension cost account balance. Since unfunded accumulated benefits of $37 exceed unfunded accrued pension cost of $31, recognition of an additional liability of $6 is necessary. Because the balance of additional liability is less than unrecognized prior service cost, an intangible asset also is recognized.) (paragraphs 36 and 37)		

Case 2—Minimum Liability in Excess of Unrecognized Prior Service Cost

Company L elected to apply the provisions of this Statement, including those requiring recognition of minimum liability, for its 1986 financial statements. The funded status of its plan for the years 1988 and 1989 is shown below.

	As of December 31,	
	1988	1989
	(in thousands)	
FUNDED STATUS—COMPANY L		
Assets and obligations:		
Accumulated benefit obligation	$(1,270)	$(1,290)
Plan assets at fair value	1,200	1,304
Unfunded accumulated benefits	$ (70)	
Overfunded accumulated benefits		$ 14
Projected benefit obligation	$(1,720)	$(1,807)
Plan assets at fair value	1,200	1,304
Items not yet recognized in earnings:		
Unrecognized prior service cost	92	86
Unrecognized net loss	486	497
(Accrued)/prepaid pension cost	$ 58	$ 80
DETERMINATION OF AMOUNTS TO BE RECOGNIZED		
(Accrued)/prepaid pension cost at beginning of year	$ 0	$ 58
Net periodic pension cost	(141)	(144)
Contribution	199	166
(Accrued)/prepaid pension cost at end of year	$ 58	$ 80
Required minimum liability (unfunded accumulated benefits)	$ 70	$ 0
Adjustment required to reflect minimum liability:		
Additional liability [a]	$ (128)	$ 128
Intangible asset (not to exceed unrecognized prior service cost)	$ 92	$ (92)
Charge to equity (excess of additional pension liability over unrecognized prior service cost)	$ 36	$ (36)
Balance of additional liability	$ (128)	$ 0
Balance of intangible asset	$ 92	$ 0
Balance of equity account	$ 36	$ 0

Journal Entries

The journal entries required to reflect the accounting for the company's pension plan for the years 1988 and 1989, are as follows (in thousands):

Year 1988

Journal Entry 1

Net periodic pension cost	141	
Accrued/prepaid pension cost		141
To record net pension cost for the period (paragraph 35)		

Journal Entry 2

Accrued/prepaid pension cost	199	
Cash		199
To record contribution (paragraph 35)		

Journal Entry 3

Excess of additional pension liability over unrecognized prior service cost	36	
Intangible asset	92	
Additional liability		128
To record an additional liability to reflect the required minimum liability (For financial statement presentation, the additional liability account balance is combined with the accrued/prepaid pensioncost account balance. Since prepaid pension cost of $58 has beenrecognized, an additional liability of $128 is needed to reflect the required minimum liability of $70 [equal to unfunded accumulated benefits]. Because the additional liability is greater than unrecognized prior service cost, an intangible asset is recognized for the amount of additional liability up to the amount of unrecognized prior service cost, and equity is charged for the excess of the additional liability over unrecognized prior service cost.) (paragraphs 36 and 37)		

Year 1989

Journal Entry 1

Net periodic pension cost	144	
Accrued/prepaid pension cost		144
To record net pension cost for the period (paragraph 35)		

Journal Entry 2

Accrued/prepaid pension cost	166	
Cash		166
To record contribution (paragraph 35)		

Journal Entry 3

Additional liability	128	
Excess of additional pension liability over unrecognized prior service cost		36
Intangible asset		92
To reverse additional liability no longer required (Since plan assets exceed accumulated benefits, no additional liability is necessary.) (paragraph 38)		

Illustration 6—Disclosure Requirements

Case 1—Simple Case

The following illustrates the disclosure for a sponsor with a single-employer defined benefit pension plan presenting only one year's financial statements.

Note P: The company has a defined benefit pension plan covering substantially all of its employees. The benefits are based on years of service and the employee's compensation during the last five years of employment. The company's funding policy is to contribute annually the maximum amount that can be deducted for federal income tax purposes. Contributions are intended to provide not only for benefits attributed to service to date but also for those expected to be earned in the future.

The following table sets forth the plan's funded status and amounts recognized in the company's statement of financial position at December 31, 1988 (in thousands):

Actuarial present value of benefit obligations:	
Accumulated benefit obligation, including vested benefits of $287	$(335)
Projected benefit obligation for service rendered to date	$(500)
Plan assets at fair value, primarily listed stocks and U.S. bonds	475
Projected benefit obligation in excess of plan assets	(25)
Unrecognized net gain from past experience different from that assumed and effects of changes in assumptions	(53)
Prior service cost not yet recognized in net periodic pension cost	19
Unrecognized net obligation at January 1, 1986 being recognized over 15 years	77
Prepaid pension cost included in other assets	$ 18

Net pension cost for 1988 included the following components (in thousands):	
Service cost—benefits earned during the period	$ 26
Interest cost on projected benefit obligation	39
Actual return on plan assets	(45)
Net amortization and deferral [a]	10
Net periodic pension cost	$ 30

The weighted-average discount rate and rate of increase in future compensation levels used in determining the actuarial present value of the projected benefit obligation were 9 percent and 6 percent, respectively. The expected long-term rate of return on assets was 10 percent.

Case 2—Disclosures for Multiple Plans

Note S: The company and its subsidiaries have a number of noncontributory pension plans covering substantially all U.S. employees. Plans covering salaried and management employees provide pension benefits that are based on the employee's compensation during the three years before retirement. The company's funding policy for those plans is to contribute annually at a rate that is intended to remain a level percentage of compensation for the covered employees (presently 12.9 percent). Plans covering hourly employees and union members generally provide benefits of stated amounts for each year of service and provide for significant supplemental benefits for employees who retire with 30 years of service before age 65. The company's funding policy for those plans is to make the minimum annual contributions required by applicable regulations.

Net periodic pension cost for 1988 and 1987 included the following components (in thousands):

	1988	1987
Service cost—benefits earned during the period	$ 66	$ 66
Interest cost on projected benefit obligation	100	96
Actual return on assets	(79)	(63)
Net amortization and deferral	88	78
Net periodic pension cost	$175	$177

Assumptions used in the accounting were:

	As of December 31,	
	1988	1987
Discount rates	9.0%	8.75%
Rates of increase in compensation levels	6.0%	6.0%
Expected long-term rate of return on assets	9.5%	9.5%

The following table sets forth the plan's funded status and amounts recognized in the company's statement of financial position at December 31, 1988 and 1987, for its U.S. pension plans (in thousands):

	December 31, 1988		December 31, 1987	
	Assets Exceed Accumulated Benefits	Accumulated Benefits Exceed Assets	Assets Exceed Accumulated Benefits	Accumulated Benefits Exceed Assets
Actuarial present value of benefit obligations:				
Vested benefit obligation	$(298)	$(385)	$(268)	$(363)
Accumulated benefit obligation	$(339)	$(442)	$(311)	$(427)
Projected benefit obligation [a]	$(502)	$(620)	$(470)	$(640)
Plan assets at fair value [b]	604	228	548	205
Projected benefit obligation (in excess of) or less than plan assets	102	(392)	78	(435)
Unrecognized net (gain) or loss	(114)	30	(117)	41
Prior service cost not yet recognized in net periodic pension cost	120	292	132	321
Unrecognized net obligation at January 1, 1986	180	225	200	250
Adjustment required to recognize minimum liability	0	(369)	0	(399)
Prepaid pension cost (pension liability) recognized in the statement of financial position	$ 288	$(214)	$ 293	$(222)

Case 3—Disclosure for a Defined Contribution Plan

Note T: The company sponsors a defined contribution pension plan covering substantially all of its employees in both its engine parts and tire subsidiaries. Contributions and cost are determined as 1.5 percent of each covered employee's salary and totaled $231,000 in 1987 and $215,000 in 1986.

Case 4—Disclosure for a Multiemployer Plan

Note W: One of the company's subsidiaries participates in a multiemployer plan. The plan provides defined benefits to substantially all unionized workers in the company's trucking subsidiary. Amounts charged to pension cost and contributed to the plan in 1987 and 1986 totaled $598,000 and $553,000, respectively.

Illustration 7—Accounting for a Business Combination

The following example illustrates how the liability (or asset) recognized by the acquiring firm at the date of a business combination accounted for as a purchase would be reduced in years subsequent to the date of the business combination.

Company R purchased Company S on January 1, 1987. Company S sponsors a single-employer defined benefit pension plan. The reconciliation of funded status of the Company S plan before and after the combination was as follows (in thousands):

	Precombination	Postcombination
Pension benefit obligation	$(1,000)	$(1,000)
Plan assets at fair value	500	500
Unrecognized loss	200	0
Unrecognized prior service cost	300	0
Liability recognized in the statement of financial position—unfunded accrued pension cost	$ 0	$ (500)

In subsequent periods, net periodic pension cost would not include any amortization of either the unrecognized prior service cost or the unrecognized loss existing at the date of the combination. However, the funding of the plan is not directly affected by a business combination. Whatever the basis of funding, it will, over time, reflect the past amendments and losses that underlie those amounts. As they are reflected in the funding process, contributions will, in some periods, exceed the net pension cost, and that will reduce the liability (unfunded accrued pension cost) recognized at the date of acquisition.

Appendix C: BACKGROUND

262. The Board added two pensions projects to its agenda in 1974: accounting and reporting by employee benefit plans and employers' accounting for pensions. Those projects were added to the agenda in response to both the passage of ERISA and certain criticisms concerning perceived deficiencies in Opinion 8. ERISA introduced changes in the legal status and in the perceived nature of an employer's obligation for pension benefits. Critics of Opinion 8 asserted that pension cost was not comparably measured from company to company and often not even from period to period for the same company and that Opinion 8 did not portray adequately the effect of a pension plan on a company. The ability of users of financial reports to understand and assess net periodic pension cost and the funded status of the employer's obligation was challenged because those amounts were determined using a variety of measurement methods or assumptions. Concerns were expressed about the reporting of both unfunded obligations and excess assets, especially when obligations had to be settled and when assets were withdrawn.

263. The following briefly outlines the steps taken on the two major pensions projects:

a. In December 1974, the Board issued Interpretation No. 3, *Accounting for the Cost of Pension Plans Subject to the Employee Retirement Income Security Act of 1974*. That Interpretation was issued to clarify the accounting for employers' obligations for pension plans covered by the Act, pending completion of the major project on employers' accounting for pensions.
b. Task forces for both projects were formed in early 1975.
c. An FASB Discussion Memorandum, *Accounting and Reporting for Employee Benefit Plans*, was issued in October 1975.
d. In February 1976, the Board held a public hearing on the issues covered in the Discussion Memorandum. Twenty-three presentations were made at the hearing.
e. In 1976, the Board decided to focus first on the employee benefit plans project because of the lack of any standards in that area. By deferring action on the accounting by employers project, the Board also expected to benefit from further progress on its conceptual framework project.
f. An FASB Exposure Draft, *Accounting and Reporting by Defined Benefit Pension Plans*, was issued in April 1977. The Board received approximately 700 comment letters, which indicated the need to further consider the issues.
g. In July 1979, the Board issued a revised Exposure Draft, *Accounting and Reporting by Defined Benefit Pension Plans*.
h. Also in July 1979, the Board issued an Exposure Draft, *Disclosure of Pension and Other Post-Retirement Benefit Information*. It proposed amending the disclosure requirements of Opinion 8 pending the Board's comprehensive consideration of accounting and reporting by employers for pensions and similar benefits.

i. In March 1980, the Board issued Statement No. 35, *Accounting and Reporting by Defined Benefit Pension Plans*, which addresses financial reporting by plans rather than by sponsoring employers.
j. In March 1980, the FASB also published *Accounting for Pensions by Employers: A Background Paper*, which highlighted the changing pension environment, present accounting practices and concerns, and areas for consideration.
k. In May 1980, the Board issued Statement No. 36, *Disclosure of Pension Information*. Statement 36 amended Opinion 8 and required disclosure of certain information based on the requirements of Statement 35. Statement 36 made no change in the basic provisions of Opinion 8 that governed measurement of pension cost and pension liabilities. The Statement was an interim step pending completion of the major project on employers' accounting for pensions.
l. In February 1981, the Board issued a Discussion Memorandum, *Employers' Accounting for Pensions and Other Postemployment Benefits*. That memorandum analyzes basic issues related to accounting and reporting requirements for only single-employer, noninsured, defined benefit pension plans in the United States. One hundred ninety-three letters of comment were received in response to the Discussion Memorandum.
m. In July 1981, the Board held a public hearing on the issues covered in the February 1981 Discussion Memorandum. Thirty-seven presentations were made at the hearing.
n. In April 1982, the Board issued Statement No. 59, *Deferral of the Effective Date of Certain Accounting Requirements for Pension Plans of State and Local Governmental Units*. Statement 59 amended Statement 35 and deferred that Statement's effective date for plans sponsored by state or local governments.
o. In November 1982, the Board issued *Preliminary Views* on the issues addressed in the February 1981 Discussion Memorandum. That document was issued to obtain comments on the Board's tentative conclusions at that time before proceeding to an Exposure Draft.
p. In April 1983, the Board issued a Discussion Memorandum, *Employers' Accounting for Pensions and Other Postemployment Benefits*, on additional issues that were not addressed in the February 1981 Discussion Memorandum or in *Preliminary Views*. Over 500 comment letters were received on that document and *Preliminary Views*.
q. In cooperation with the Financial Executives Institute's Committee on Corporate Reporting, the Board conducted a field test of the accounting proposals in *Preliminary Views* and published a special report of the results in October 1983.
r. In November 1983, the Board issued FASB Statement No. 75, *Deferral of the Effective Date of Certain Accounting Requirements for Pension Plans of State and Local Governmental Units*, indefinitely deferring the requirements of Statement 35 for pension plans of state and local governments pending further action by the Board.
s. In January 1984, the Board held a public hearing on the issues covered in *Preliminary Views* and the April 1983 Discussion Memorandum. Fifty-nine presentations were made at the hearing.
t. In February 1984, accounting for postemployment benefits other than pensions was made a separate agenda project. Until that time, other postemployment benefits issues had been combined with the project on employers' accounting for pensions and were addressed in the

documents issued as part of that project. In July 1984, the Board issued an Exposure Draft, *Disclosure of Postretirement Health Care and Life Insurance Benefits Information*.

u. In November 1984, as an interim measure pending completion of the project, the Board issued Statement No. 81, *Disclosure of Postretirement Health Care and Life Insurance Benefits*.

v. An FASB Exposure Draft, *Employers' Accounting for Pensions*, was issued in March 1985. It proposed standards of financial accounting and reporting for an employer that offers pension benefits to its employees. The Board received over 400 comment letters.

w. An FASB Exposure Draft, *Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits*, was issued in June 1985. The Board received over 100 comment letters.

x. In July and August 1985, the Board held a public hearing on the issues covered in the March 1985 and June 1985 Exposure Drafts. Fifty-six presentations were made at the hearing.

Appendix D: GLOSSARY

264. This appendix contains definitions of certain terms used in accounting for pensions.

Accumulated benefit obligation

The actuarial present value of benefits (whether vested or nonvested) attributed by the pension benefit formula to employee service rendered before a specified date and based on employee service and compensation (if applicable) prior to that date. The accumulated benefit obligation differs from the projected benefit obligation in that it includes no assumption about future compensation levels. For plans with flat-benefit or non-pay-related pension benefit formulas, the accumulated benefit obligation and the projected benefit obligation are the same.

Actual return on plan assets component (of net periodic pension cost)

The difference between fair value of plan assets at the end of the period and the fair value at the beginning of the period, adjusted for contributions and payments of benefits during the period.

Actuarial funding method

Any of several techniques that actuaries use in determining the amounts and incidence of employer contributions to provide for pension benefits.

Actuarial gain or loss

See **Gain or loss**.

Actuarial present value

The value, as of a specified date, of an amount or series of amounts payable or receivable thereafter, with each amount adjusted to reflect (a) the time value of money (through discounts for interest) and (b) the probability of payment (by means of decrements for events such as death, disability, withdrawal, or retirement) between the specified date and the expected date of payment.

Allocated contract

A contract with an insurance company under which payments to the insurance company are currently used to purchase immediate or deferred annuities for individual participants. See also **Annuity contract**.

Amortization

Usually refers to the process of reducing a recognized liability systematically by recognizing revenues or reducing a recognized asset systematically by recognizing expenses or costs. In pension accounting, amortization is also used to refer to the systematic recognition in net pension cost over several periods of previously *unrecognized* amounts, including unrecognized prior service cost and unrecognized net gain or loss.

Annuity contract

A contract in which an insurance company unconditionally undertakes a legal obligation to provide specified pension benefits to specific individuals in return for a fixed consideration or premium. An annuity contract is irrevocable and involves the transfer of significant risk from the employer to the insurance company. Annuity contracts are also called **allocated contracts**.

Assumptions

Estimates of the occurrence of future events affecting pension costs, such as mortality, withdrawal, disablement and retirement, changes in compensation and national pension benefits, and discount rates to reflect the time value of money.

Attribution

The process of assigning pension benefits or cost to periods of employee service.

Benefit approach

One of two groups of basic approaches to attributing pension benefits or costs to periods of employee service. Approaches in this group assign a distinct unit of benefit to each year of credited service. The actuarial present value of that unit of benefit is computed separately and determines the cost assigned to that year. The accumulated benefits approach, benefit/compensation approach, and benefit/years-of-service approach are benefit approaches.

Benefit formula

See **Pension benefit formula**.

Benefits

Payments to which participants may be entitled under a pension plan, including pension benefits, death benefits, and benefits due on termination of employment.

Benefit/years-of-service approach

One of three benefit approaches. Under this approach, an equal portion of the total estimated benefit is attributed to each year of service. The actuarial present value of the benefits is derived after the benefits are attributed to the periods.

Captive insurance subsidiary

An insurance company that does business primarily with related entities.

Career-average-pay formula (Career-average-pay plan)

A benefit formula that bases benefits on the employee's compensation over the entire period of service with the employer. A career-average-pay plan is a plan with such a formula.

Contributory plan

A pension plan under which employees contribute part of the cost. In some contributory plans, employees wishing to be covered must contribute; in other contributory plans, employee contributions result in increased benefits.

Cost approach

One of the two groups of basic approaches to attributing pension benefits or costs to periods of service. Approaches in this group assign net pension costs to periods as level amounts or constant percentages of compensation.

Cost/compensation approach

One of two cost approaches. Net pension costs under this approach are attributed to periods so that they are a constant percentage of compensation for each period.

Curtailment

See **Plan curtailment**.

Defined benefit pension plan

A pension plan that defines an amount of pension benefit to be provided, usually as a function of one or more factors such as age, years of service, or compensation. Any pension plan that is not a defined contribution pension plan is, for purposes of this Statement, a defined benefit pension plan.

Defined contribution pension plan

A plan that provides pension benefits in return for services rendered, provides an individual account for each participant, and specifies how contributions to the individual's account are to be determined instead of specifying the amount of benefits the individual is to receive. Under a defined contribution pension plan, the benefits a participant will receive depend solely on the amount contributed to the participant's account, the returns earned on investments of those contributions, and forfeitures of other participants' benefits that may be allocated to such participant's account.

Discount rate

The interest rate used to adjust for the time value of money. See also **Actuarial present value**.

ERISA

The Employee Retirement Income Security Act of 1974.

Expected long-term rate of return on plan assets

An assumption as to the rate of return on plan assets reflecting the average rate of earnings expected on the funds invested or to be invested to provide for the benefits included in the projected benefit obligation.

Expected return on plan assets

An amount calculated as a basis for determining the extent of delayed recognition of the effects of changes in the fair value of assets. The expected return on plan assets is determined based on the expected long-term rate of return on plan assets and the market-related value of plan assets.

Explicit approach to assumptions

An approach under which each significant assumption used reflects the best estimate of the plan's future experience solely with respect to that assumption. See also **Implicit approach to assumptions**.

Fair value

The amount that a pension plan could reasonably expect to receive for an investment in a current sale between a willing buyer and a willing seller, that is, other than in a forced or liquidation sale.

Final-pay formula (Final-pay plan)

A benefit formula that bases benefits on the employee's compensation over a specified number of years near the end of the employee's service period or on the employee's highest compensation periods. For example, a plan might provide annual pension benefits equal to 1 percent of the employee's average salary for the last five years (or the highest consecutive five years) for each year of service. A final-pay plan is a plan with such a formula.

Flat-benefit formula (Flat-benefit plan)

A benefit formula that bases benefits on a fixed amount per year of service, such as $20 of monthly retirement income for each year of credited service. A flat-benefit plan is a plan with such a formula.

Fund

Used as a verb, to pay over to a funding agency (as to fund future pension benefits or to fund pension cost). Used as a noun, assets accumulated in the hands of a funding agency for the purpose of meeting pension benefits when they become due.

Funding method

See **Actuarial funding method**.

Funding policy

The program regarding the amounts and timing of contributions by the employer(s), participants, and any other sources (for example, state subsidies or federal grants) to provide the benefits a pension plan specifies.

Gain or loss

A change in the value of either the projected benefit obligation or the plan assets resulting from experience different from that assumed or from a change in an actuarial assumption. See also **Unrecognized net gain or loss**.

Gain or loss component (of net periodic pension cost)

The sum of (a) the difference between the actual return on plan assets and the expected return on plan assets and (b) the amortization of the unrecognized net gain or loss from previous periods. The gain or loss component is the net effect of delayed recognition of gains and losses (the net change in the unrecognized net gain or loss) except that it does not include changes in the projected benefit obligation occurring during the period and deferred for later recognition.

Implicit approach to assumptions

An approach under which two or more assumptions do not individually represent the best estimate of the plan's future experience with respect to those assumptions. Instead, the aggregate effect of their combined use is presumed to be approximately the same as that produced by an explicit approach.

Interest cost component (of net periodic pension cost)

The increase in the projected benefit obligation due to passage of time.

Interest rate

See **Discount rate**.

Loss

See **Gain or loss**.

Market-related value of plan assets

A balance used to calculate the expected return on plan assets. Market-related value can be either fair market value or a calculated value that recognizes changes in fair value in a systematic and rational manner over not more than five years. Different ways of calculating market-related value may be used for different classes of assets, but the manner of determining market-related value shall be applied consistently from year to year for each asset class.

Measurement date

The date as of which plan assets and obligations are measured.

Mortality rate

The proportion of the number of deaths in a specified group to the number living at the beginning of the period in which the deaths occur. Actuaries use mortality tables, which show death rates for each age, in estimating the amount of pension benefits that will become payable.

Multiemployer plan

A pension plan to which two or more unrelated employers contribute, usually pursuant to one or more collective-bargaining agreements. A characteristic of multiemployer plans is that assets contributed by one participating employer may be used to provide benefits to employees of other participating employers since assets contributed by an employer are not segregated in a separate account or restricted to provide benefits only to employees of that employer. A multiemployer plan is usually administered by a board of trustees composed of management and labor representatives and may also be referred to as a "joint trust" or "union" plan. Generally, many employers participate in a multiemployer plan, and an employer may participate in more than one plan. The employers participating in multiemployer plans usually have a common industry bond, but for some plans the employers are in different industries and the labor union may be their only common bond.

Multiple-employer plan

A pension plan maintained by more than one employer but not treated as a multiemployer plan. Multiple-employer plans are not as prevalent as single-employer and multiemployer plans, but some of the ones that do exist are large and involve many employers. Multiple-employer plans are generally not collectively bargained and are intended to allow participating employers, commonly in the same industry, to pool their assets for investment purposes and reduce the costs of plan administration. A multiple-employer plan maintains separate accounts for each employer so that contributions provide benefits only for employees of the contributing employer. Some multiple-employer plans have features that allow participating employers to have different benefit formulas, with the employer's contributions to the plan based on the benefit formula selected by the employer.

Net periodic pension cost

The amount recognized in an employer's financial statements as the cost of a pension plan for a period. Components of net periodic pension cost are service cost, interest cost, actual return on plan assets, gain or loss, amortization of unrecognized prior service cost, and amortization of the unrecognized net obligation or asset existing at the date of initial application of this Statement. This Statement uses the term *net periodic pension cost* instead of *net pension expense* because part of the cost recognized in a period may be capitalized along with other costs as part of an asset such as inventory.

Nonparticipating annuity contract

An annuity contract that does not provide for the purchaser to participate in the investment performance or in other experience of the insurance company. See also **Annuity contract**.

Nonpublic enterprise

An enterprise other than one (a) whose debt or equity securities are traded in a public market, either on a stock exchange or in the over-the-counter market (including securities quoted only locally or regionally), or (b) whose financial statements are filed with a regulatory agency in preparation for the sale of any class of securities.

Participant

Any employee or former employee, or any member or former member of a trade or other employee association, or the beneficiaries of those individuals, for whom there are pension plan benefits.

Participating annuity contract

An annuity contract that provides for the purchaser to participate in the investment performance and possibly other experience (for example, mortality experience) of the insurance company.

Participation right

A purchaser's right under a participating contract to receive future dividends or retroactive rate credits from the insurance company.

PBGC

The Pension Benefit Guaranty Corporation.

Pension benefit formula (plan's benefit formula or benefit formula)

The basis for determining payments to which participants may be entitled under a pension plan. Pension benefit formulas usually refer to the employee's service or compensation or both.

Pension benefits

Periodic (usually monthly) payments made pursuant to the terms of the pension plan to a person who has retired from employment or to that person's beneficiary.

Plan amendment

A change in the terms of an existing plan or the initiation of a new plan. A plan amendment may increase benefits, including those attributed to years of service already rendered. See also **Retroactive benefits**.

Plan assets

Assets—usually stocks, bonds, and other investments—that have been segregated and restricted (usually in a trust) to provide benefits. Plan assets include amounts contributed by the employer (and by employees for a contributory plan) and amounts earned from investing the contributions, less benefits paid. Plan assets cannot ordinarily be withdrawn by the employer except in certain circumstances when a plan has assets in excess of obligations and the employer has taken certain steps to satisfy existing obligations. For purposes of this Statement, assets not segregated in a trust or otherwise effectively restricted so that they cannot be used by the employer for other purposes are not plan assets even though it may be intended that such assets be used to provide pensions. Amounts accrued by the employer as net periodic pension cost but not yet paid to the plan are not plan assets for purposes of this Statement. Securities of the employer held by the plan are includable in plan assets provided they are transferable. If a plan has liabilities other than for benefits, those nonbenefit obligations may be considered as reductions of plan assets for purposes of this Statement.

Plan assets available for benefits

See **Plan assets**.

Plan curtailment

An event that significantly reduces the expected years of future service of present employees or eliminates for a significant number of employees the accrual of defined benefits for some or all of their future services.

Plan's benefit formula

See **Pension benefit formula**.

Plan suspension

An event in which the pension plan is frozen and no further benefits accrue. Future service may continue to be the basis for vesting of nonvested benefits existing at the date of suspension. The plan may still hold assets, pay benefits already accrued, and receive additional employer contributions for any unfunded benefits. Employees may or may not continue working for the employer.

Plan termination

An event in which the pension plan ceases to exist and all benefits are settled by purchase of annuities or other means. The plan may or may not be replaced by another plan. A plan termination with a replacement plan may or may not be in substance a plan termination for accounting purposes.

Prepaid pension cost

Cumulative employer contributions in excess of accrued net pension cost.

Prior service cost

The cost of retroactive benefits granted in a plan amendment. See also **Unrecognized prior service cost**.

Projected benefit obligation

The actuarial present value as of a date of all benefits attributed by the pension benefit formula to employee service rendered prior to that date. The projected benefit obligation is measured using assumptions as to future compensation levels if the pension benefit formula is based on those future compensation levels (pay-related, final-pay, final-average-pay, or career-average-pay plans).

Retroactive benefits

Benefits granted in a plan amendment (or initiation) that are attributed by the pension benefit formula to employee services rendered in periods prior to the amendment. The cost of the retroactive benefits is referred to as prior service cost.

Return on plan assets

See **Actual return on plan assets component** and **Expected return on plan assets**.

Service

Employment taken into consideration under a pension plan. Years of employment before the inception of a plan constitute an employee's past service; years thereafter are classified in relation to the particular actuarial valuation being made or discussed. Years of employment (including past service) prior to the date of a particular valuation constitute prior service; years of employment following the date of the valuation constitute future service; a year of employment adjacent to the date of valuation, or in which such date falls, constitutes current service.

Service cost component (of net periodic pension cost)

The actuarial present value of benefits attributed by the pension benefit formula to services rendered by employees during that period. The service cost component is a portion of the projected benefit obligation and is unaffected by the funded status of the plan.

Settlement

An irrevocable action that relieves the employer (or the plan) of primary responsibility for a pension benefit obligation and eliminates significant risks related to the obligation and the assets used to effect the settlement. Examples of transactions that constitute a settlement include (a) making lump-sum cash payments to plan participants in exchange for their rights to receive specified pension benefits and (b) purchasing nonparticipating annuity contracts to cover vested benefits.

Single-employer plan

A pension plan that is maintained by one employer. The term also may be used to describe a plan that is maintained by related parties such as a parent and its subsidiaries.

Sponsor

In the case of a pension plan established or maintained by a single employer, the employer; in the case of a plan established or maintained by an employee organization, the employee organization; in the case of a plan established or maintained jointly by two or more employers or by one or more employers and one or more employee organizations, the association, committee, joint board of trustees, or other group of representatives of the parties who have established or who maintain the pension plan.

Turnover

Termination of employment for a reason other than death or retirement.

Unallocated contract

A contract with an insurance company under which payments to the insurance company are accumulated in an unallocated fund (not allocated to specific plan participants) to be used either directly or through the purchase of annuities, to meet benefit payments when employees retire. Funds held by the insurance company under an unallocated contract may be withdrawn and otherwise invested.

Unfunded accrued pension cost

Cumulative net pension cost accrued in excess of the employer's contributions.

Unfunded accumulated benefit obligation

The excess of the accumulated benefit obligation over plan assets.

Unfunded projected benefit obligation

The excess of the projected benefit obligation over plan assets.

Unrecognized net gain or loss

The cumulative net gain or loss that has not been recognized as a part of net periodic pension cost. See **Gain or loss**.

Unrecognized prior service cost

That portion of prior service cost that has not been recognized as a part of net periodic pension cost.

Vested benefit obligation

The actuarial present value of vested benefits.

Vested benefits

Benefits for which the employee's right to receive a present or future pension benefit is no longer contingent on remaining in the service of the employer. (Other conditions, such as inadequacy of the pension fund, may prevent the employee from receiving the vested benefit.) Under graded vesting, the initial vested right may be to receive in the future a stated percentage of a pension based on the number of years of accumulated credited service; thereafter, the percentage may increase with the number of years of service or of age until the right to receive the entire benefit has vested.

Footnotes

FAS87, Footnote 1--Words that appear in the glossary are set in **boldface type** the first time that they appear.

FAS87, Footnote 2--This Statement uses the term *net periodic pension cost* rather than *net pension expense* because part of the cost recognized in a period may be capitalized along with other costs as part of an asset such as inventory.

FAS87, Footnote 3--The Board has a separate project on its agenda to address accounting for postemployment benefits other than pensions. The fact that this Statement does not apply to postemployment health care benefits does not mean that the Board is proscribing or discouraging accrual of the cost of those benefits.

FAS87, Footnote 4--The interest cost component of net periodic pension cost shall not be considered to be interest for purposes of applying FASB Statement No. 34, *Capitalization of Interest Cost*.

FAS87, Footnote 5--Accounting for **plan terminations** and **curtailments** and other circumstances in which recognition of gains and losses might not be delayed is addressed in FASB Statement No. 88, *Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits*.

FAS87, Footnote 6--The amortization must always reduce the beginning-of-the-year balance. Amortization of a net unrecognized gain results in a decrease in net periodic pension cost; amortization of a net unrecognized loss results in an increase in net periodic pension cost.

FAS87, Footnote 7--For purposes of this paragraph, an unrecognized net obligation existing at the date of initial application of this Statement (paragraph 77) shall be treated as unrecognized prior service cost.

FAS87, Footnote 8--Some plans define different benefits for different years of service. For example, a step-rate plan might provide a benefit of 1 percent of final pay for each year of service up to 20 years and 1½ percent of final pay for years of service in excess of 20. Another plan might provide 1 percent of final pay for each year of service but limit the total benefit to no more than 20 percent of final pay. For such plans the attribution called for by this Statement will not assign the same amount of pension benefit to each year of service.

FAS87, Footnote 9--For example, a supplemental early retirement benefit that is a vested benefit after a stated number of years.

FAS87, Footnote 10--For example, a death or disability benefit that is payable only if death or disability occurs during active service.

FAS87, Footnote 11--For example, those currently imposed by Section 415 of the Internal Revenue Code.

FAS87, Footnote 12--For an indication of factors to be considered in determining the discount rate, refer to paragraphs 13 and 14 of APB Opinion No. 21, *Interest on Receivables and Payables*. If significant, the fair value of an investment shall reflect the brokerage commissions and other costs normally incurred in a sale.

FAS87, Footnote 13--The net total of other components is the net effect during the period of certain delayed recognition provisions of this Statement. That net total includes:

a. The net asset gain or loss during the period deferred for later recognition (in effect, an offset or a supplement to the actual return on assets)
b. Amortization of the net gain or loss from earlier periods
c. Amortization of unrecognized prior service cost
d. Amortization of the unrecognized net obligation or net asset existing at the date of initial application of this Statement.

FAS87, Footnote 14--If the insurance company does business primarily with the employer and related parties (a **captive insurer**), or if there is any reasonable doubt that the insurance company will meet its obligations under the contract, the contract is not an annuity contract for purposes of this Statement. Some contracts provide for a refund of premiums if an employee for whom an annuity is purchased does not render sufficient service for the benefit to vest under the terms of the plan. Such a provision shall not by itself preclude a contract from being treated as an annuity contract for purposes of this Statement.

FAS87, Footnote 15--The probable future economic benefits in a particular case may include reduced employee turnover, improved productivity, and reduced demands for increases in cash compensation. The cost of the benefits is measured at the date of the plan change by the discounted amount of the incremental obligation resulting from the change.

FAS87, Footnote 16--The components have been defined as increases due to merit, productivity, and inflation. Merit increases are those that an individual employee will receive as that employee progresses through a career and that are theoretically based on the employee's ability to perform at a more competent or responsible level as the individual becomes older and accumulates more experience. The second component is labor's share of productivity gains. The third component attempts to anticipate general compensation increases that result from inflation.

FAS87, Par. 261, Ill. 4, Footnote a--Throughout this illustration the service cost component is assumed as an input rather than calculated as part of the illustration.

FAS87, Par. 261, Ill. 4 Footnote b--
(Actual projected benefit obligation at 12/31/87) + (service component) + (interest component) - (benefits paid).

FAS87, Par. 261, Ill. 4, Footnote c--
(Actual plan assets at 12/31/87) + (expected return on assets) + (contributions) - (benefits paid).

FAS87, Par. 261, Ill. 4, Footnote d--Paragraph 32 provides that net periodic pension cost may be based on unrecognized net gain or loss as of the beginning of the period. In the year of transition (1987) the beginning balance of unrecognized net gain or loss is zero by definition. The minimum amortization of unrecognized net gain or loss is calculated as follows:

	1987	1988
Unrecognized net (gain) or loss at 1/1	$ 0	$140
Plus asset gain or less asset loss not yet in market-related value of assets at 1/1--(fair value of plan assets) - (market-related value of plan assets)	0	0
Unrecognized net (gain) or loss subject to amortization	0	140
Corridor = 10% of the greater of projected benefit obligation or market-related value of assets at 1/1	100	120
Unrecognized net (gain) or loss outside corridor	0	20
x 1/average remaining service	0.10	0.10
Amortization	$ 0	$ 2

FAS87, Par. 261, Ill. 4, Footnote e--The "net amortization and deferral" consists of:

Amortization of unrecognized net obligation existing at January 1, 1987	$ 20
Amortization of unrecognized prior service cost	0
Amortization of unrecognized net (gain) or loss	0
Asset gain/(loss) deferred	0
	$ 20

FAS87, Par. 261, Ill. 4, Footnote f--The (accrued)/prepaid is the amount included in the company's statement of financial position. If the accumulated benefit obligation had been greater than the plan assets, an additional minimum liability would have been required and would have been shown as an additional item in this reconciliation.

FAS87, Par. 261, Ill. 4 Footnote g--Expected return on plan assets = (expected long-term rate of return on plan assets) x (market-related value of plan assets). If contributions occurred other than at the end of the year, market-related value would consider those amounts.

FAS87, Par. 261, Ill. 4, Footnote h--Market-related asset values may be calculated in a variety of ways. This example uses an approach that adds in 20% of each of the last five years' gains and losses. The only objective of the market-related calculation is to reduce the volatility of net pension cost.

Market-related value of assets at 1/1	$880
Expected return on assets	88
Contributions	114
Benefits paid	(114)
20% of last five years' asset gains & (losses)	20
Market-related value of assets at 12/31	$988

FAS87, Par. 261, Ill. 4, Footnote i--Amortization of unrecognized net gain or loss is calculated as follows:

	1988	1989
Unrecognized net (gain) or loss at 1/1	$140	$ 38
Plus asset gain or less asset loss not yet in market-related value of assets at 1/1-- (fair value of plan assets) - (market-related value of plan assets)	0	80
Unrecognized net (gain) or loss subject to amortization	140	118
Corridor = 10% of the greater of projected benefit obligation or market-related value of assets at 1/1	120	127
Unrecognized net (gain) or loss outside corridor	20	0
x 1/average remaining service	0.10	0.10
Amortization	$ 2	$ 0

FAS 87, Par. 261, Ill. 4, Footnote j--The "net amortization and deferral" consists of:

Amortization of unrecognized net obligation existing at January 1, 1987	$ 20
Amortization of unrecognized prior service cost	0
Amortization of unrecognized net (gain) or loss	2
Asset gain/(loss) deferred	100
	$122

FAS87, Par. 261, Ill. 4, Footnote k--Market-related asset values may be calculated in a variety of ways. This example uses an approach that adds in 20% of each of the last five years' gains and losses. The only objective of the market-related calculation is to reduce the volatility of net pension cost.

Market-related value of assets at 1/1	$988
Expected return on assets	99
Contributions	111
Benefits paid	(111)
20% of last five years' asset gains & (losses) = .20 (100 - 70)	6
Market-related value of assets at 12/31	$1093

FAS87, Par. 261, Ill. 4, Footnote l--Amortization of unrecognized net gain or loss is calculated as follows:

	1989	1990
Unrecognized net (gain) or loss at 1/1	$ 38	$ 83
Plus asset gain or less asset loss not yet in market-related value of assets at 1/1-- (fair value of plan assets) - (market-related value of plan assets)	80	4
Unrecognized net (gain) or loss subject to amortization	118	87
Corridor = 10% of the greater of projected benefit obligation or market-related value of assets at 1/1	127	132
Unrecognized net (gain) or loss outside corridor	0	0
x 1/average remaining service	0.10	0.10
Amortization	$ 0	$ 0

FAS 87, Par. 261, Ill. 4, Footnote m--The "net amortization and deferral" consists of:

Amortization of unrecognized net obligation	
existing at January 1, 1987	$ 20
Amortization of unrecognized prior service cost	0
Amortization of unrecognized net (gain) or loss	0
Asset gain/(loss) deferred	(70)
	$(50)

FAS87, Par. 261, Ill. 5, Case 1 Footnote a--This amount is equal to unfunded accumulated benefits, plus prepaid (or minus accrued) pension cost, minus the previous balance. For financial statement presentation, the additional liability is combined with the (accrued)/prepaid pension cost.

FAS87, Par. 261, Ill. 5, Case 2 Footnote a--This amount is equal to unfunded accumulated benefits, plus prepaid (or minus accrued) pension cost, minus the previous balance. For financial statement presentation, the additional liability is combined with the (accrued)/prepaid pension cost.

FAS87, Par. 261, Ill. 6, Case 1 Footnote a--The net effects of delayed recognition of certain events (for example, unanticipated investment performance) arising during the current period and amortization (recognition) of the net unrecognized effects of past similar events at a rate based on employees' average remaining service life.

FAS87, Par. 261, Ill. 6, Footnote a--The projected benefit obligation and plan assets at December 31, 1988 and 1987 do not include amounts related to an annuity contract purchased from an affiliated company covering annual benefits of approximately $42.

FAS87, Par. 261, Ill. 6, Footnote b--Plan assets include common stock of the company of $50 and $45 at December 31, 1988 and 1987, respectively. About half of the plan assets are invested in listed stocks and bonds. The balance is invested in income-producing real estate.

Financial Accounting Standards Board

ORIGINAL PRONOUNCEMENTS

AS AMENDED

Statement of Financial Accounting Standards No. 158

Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans

an amendment of FASB Statements No. 87, 88,106, and 132(R)

Statement of Financial Accounting Standards No. 158 Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans

an amendment of FASB Statements No. 87, 88,106, and 132(R)

STATUS

Issued: September 2006

Effective Date: An employer with publicly traded equity securities (as defined in paragraph 11) shall initially apply the requirement to recognize the funded status of a benefit plan (paragraph 4) and the disclosure requirements (paragraph 7) as of the end of the fiscal year ending after December 15, 2006; an employer without publicly traded equity securities shall initially apply the requirement to recognize the funded status of a benefit plan (paragraphs 4 and 8) and the disclosure requirements (paragraphs 7 and 10) as of the end of the fiscal year ending after June 15, 2007; an employer without publicly traded equity securities shall provide the disclosures in paragraph 14 in the notes to the financial statements for a fiscal year ending after December 15, 2006, but before June 16, 2007 unless it has applied the recognition provisions of this Statement in preparing those financial statements; the requirement to measure plan assets and benefit obligations as of the date of the employer's fiscal year-end statement of financial position (paragraphs 5, 6, and 9) shall be effective for fiscal years ending after December 15, 2008

Affects: Amends ARB 43, Chapter 3, paragraphs 4 and 7
Amends APB 28, paragraph 30(k)
Amends FAS 87, paragraphs 16, 20, 25, 26, 29, 32 through 34, 49, 52, 55, 74, and 264 and footnotes 5 and 6
Replaces FAS 87, paragraphs 28 and 35 through 38
Adds FAS 87, paragraphs 44A, 74A through 74D, and 261A
Deletes FAS 87, footnote 7
Amends FAS 88, paragraphs 9, 12, and 13 and footnote 2
Adds FAS 88, paragraphs 17A, 17B, and 57A
Effectively amends FAS 106, paragraphs 12 and 13
Amends FAS 106, paragraphs 22, 31, 46, 52, 53, 55, 56, 59, 60, 62, 72, 73, 88, 92, 93, 97, 98, and 518 and footnotes 18, 19, 25, 26, and 28
Adds FAS 106, paragraphs 31A, 44A, 44B, 103A through 103D, and 391A
Amends FAS 130, paragraphs 17, 19, 20, 130, and 131
Deletes FAS 130, paragraph 21
Effectively amends FAS 130, paragraph 39
Amends FAS 132(R), paragraphs 3, 5, 5(c), 5(h), 5(o), 6, 8, 8(g), 9, and C3
Replaces FAS 132(R), paragraphs 5(i) and 8(h)
Deletes FAS 132(R), paragraphs 5(k) and 8(j)
Adds FAS 132(R), paragraphs 10A through 10D
Amends FSP APB 18-1

Affected by: Paragraphs A15(a), A20(a), and A28(a) amended by FSP FAS 158-1, paragraph 14
Paragraph G1 amended by FAS 162, paragraph B8

Other Interpretive Releases: FASB Staff Position FAS 146-1
FASB Staff Position FAS 158-1

Issues Discussed by FASB Emerging Issues Task Force (EITF)

Affects: Nullifies EITF Topic No. D-106
Modifies EITF Issue No. 03-2 and Topic No. D-36

Interpreted by: No EITF Issues

Related Issues: EITF Issues No. 84-35, 86-27, 88-1, 88-5, 88-23, 90-3, 91-7, 92-12, 92-13, 93-3, 93-4, 96-5, 97-14, 03-4, and 05-5 and Topic No. D-27

SUMMARY

This Statement improves financial reporting by requiring an employer to recognize the overfunded or underfunded status of a defined benefit postretirement plan (other than a multiemployer plan) as an asset or liability in its statement of financial position and to recognize changes in that funded status in the year in which the changes occur through comprehensive income of a business entity or changes in unrestricted net assets of a not-for-profit organization. This Statement also improves financial reporting by requiring an employer to measure the funded status of a plan as of the date of its year-end statement of financial position, with limited exceptions.

This Statement requires an employer that is a business entity and sponsors one or more single-employer defined benefit plans to:

a. Recognize the funded status of a benefit plan—measured as the difference between plan assets at fair value (with limited exceptions) and the benefit obligation—in its statement of financial position. For a pension plan, the benefit obligation is the projected benefit obligation; for any other postretirement benefit plan, such as a retiree health care plan, the benefit obligation is the accumulated postretirement benefit obligation.
b. Recognize as a component of other comprehensive income, net of tax, the gains or losses and prior service costs or credits that arise during the period but are not recognized as components of net periodic benefit cost pursuant to FASB Statement No. 87, *Employers' Accounting for Pensions,* or No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions.* Amounts recognized in accumulated other comprehensive income, including the gains or losses, prior service costs or credits, and the transition asset or obligation remaining from the initial application of Statements 87 and 106, are adjusted as they are subsequently recognized as components of net periodic benefit cost pursuant to the recognition and amortization provisions of those Statements.
c. Measure defined benefit plan assets and obligations as of the date of the employer's fiscal year-end statement of financial position (with limited exceptions).
d. Disclose in the notes to financial statements additional information about certain effects on net periodic benefit cost for the next fiscal year that arise from delayed recognition of the gains or losses, prior service costs or credits, and transition asset or obligation.

This Statement also applies to a not-for-profit organization or other entity that does not report other comprehensive income. This Statement's reporting requirements are tailored for those entities.

This Statement amends Statement 87, FASB Statement No. 88, *Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits,* Statement 106, and FASB Statement No. 132 (revised 2003), *Employers' Disclosures about Pensions and Other Postretirement Benefits,* and other related accounting literature. Upon initial application of this Statement and subsequently, an employer should continue to apply the provisions in Statements 87, 88, and 106 in measuring plan assets and benefit obligations as of the date of its statement of financial position and in determining the amount of net periodic benefit cost.

Reasons for Issuing This Statement

The Board issued this Statement to address concerns that prior standards on employers' accounting for defined benefit postretirement plans failed to communicate the funded status of those plans in a complete and understandable way. Prior standards did not require an employer to report in its statement of financial position the overfunded or underfunded status of a defined benefit postretirement plan. Those standards did not require an employer to recognize completely in earnings or other comprehensive income the financial effects of certain events affecting the plan's funded status when those events occurred.

Prior accounting standards allowed an employer to recognize in its statement of financial position an asset or liability arising from a defined benefit postretirement plan, which almost always differed from the plan's overfunded or underfunded status. Those standards allowed an employer to:

a. Delay recognition of economic events that affected the costs of providing postretirement benefits—changes in plan assets and benefit obligations—and recognize a liability that was sometimes significantly less than the underfunded status of the plan.
b. Recognize an asset in its statement of financial position, in some situations, for a plan that was underfunded.

Prior standards relegated information about the overfunded or underfunded status of a plan to the notes to financial statements. That information was in the form of a reconciliation of the overfunded or underfunded status to amounts recognized in an employer's statement of financial position. The Board was told that presenting such information only in the notes made it more difficult for users of financial statements to assess an employer's financial position and ability to satisfy postretirement benefit obligations.

The Board concluded that such reporting, together with other features of the existing standards, did not provide representationally faithful and understandable financial information and might lead to the inefficient allocation of resources in the capital markets. This Statement is the first step in a project to comprehensively reconsider Statements 87, 88, 106, 132(R), and related pronouncements.

How the Changes Improve Financial Reporting

This Statement improves financial reporting because the information reported by a sponsoring employer in its financial statements is more complete, timely, and, therefore, more representationally faithful. Thus, it will be easier for users of those financial statements to assess an employer's financial position and ability to satisfy postretirement benefit obligations.

This Statement results in financial statements that are more complete because it requires an employer that sponsors a single-employer defined benefit postretirement plan to report the overfunded or underfunded status of the plan in its statement of financial position rather than in the notes.

This Statement results in more timely financial information because it requires an employer to recognize all transactions and events affecting the overfunded or underfunded status of a defined benefit postretirement plan in comprehensive income (or changes in unrestricted net assets) in the year in which they occur. Moreover, this Statement requires that plan assets and benefit obligations be measured as of the date of an employer's fiscal year-end statement of financial position, thus eliminating the alternative of a measurement date that could be up to three months earlier.

This Statement results in financial reporting that is more understandable by eliminating the need for a reconciliation in the notes to financial statements.

How the Conclusions Underlying This Statement Relate to the FASB's Conceptual Framework

FASB Concepts Statements No. 1, *Objectives of Financial Reporting by Business Enterprises,* and No. 4, *Objectives of Financial Reporting by Nonbusiness Organizations,* explain that financial reporting should provide information that is useful in making business and resource allocation decisions. FASB Concepts Statement No. 2, *Qualitative Characteristics of Accounting Information,* explains that essential elements of decision usefulness are relevance and reliability. Information must be timely and complete for it to be relevant and reliable. This Statement results in financial information that is more complete, timely, and, therefore, more representationally faithful.

Benefits and Costs

The objective of financial reporting is to provide information that is useful to present and potential investors, creditors, and other capital market participants in making rational investment, credit, and similar resource allocation decisions. The Board recognizes that the benefits of providing information for that purpose should justify the related costs. After careful consideration, the Board concluded that the benefits of the improved financial reporting that result from this Statement outweigh the costs of its implementation.

The Board believes that this Statement provides financial statements that are more complete and easier to understand because information previously reported in the notes will be recognized in an employer's financial statements. Reporting the current funded status of a postretirement benefit plan as an asset or liability in an employer's statement of financial position allows users of those financial statements to assess an employer's financial position and its ability to satisfy the benefit obligations without referring to a reconciliation in the notes to financial statements. L kewise, recognizing transactions and events that affect the funded status in the financial statements in the year in which they occur enhances the timeliness and, therefore, the usefulness of the financial information.

The Board recognizes that employers will incur costs to implement this Statement. However, the Board believes that the expected benefits outweigh the costs. Several provisions of this Statement are intended to minimize the costs of implementation. For example, the Board decided not to require retrospective application of the changes after learning about the significant costs that some employers would incur in retrospectively revising financial statements of previous periods. Moreover, this Statement does not change the basic approach to measuring plan assets, benefit obligations, or annual net periodic benefit cost. Employers were previously required to disclose in the notes to financial statements amounts for a plan that, under the application of this Statement, are recognized in the statement of financial position. Therefore, no new information or new computations other than those related to income tax effects are required.

The Board acknowledges, however, that certain employers who previously did not use a fiscal year-end measurement date may incur incremental one-time costs when initially applying the requirement to measure plan assets and benefit obligations as of the date of the employer's year-end statement of financial position. Furthermore, some employers may have contractual arrangements that are affected because they reference financial statement metrics, such as book value. Those employers may incur costs associated with revising those contractual arrangements. To mitigate those costs, this Statement provides delayed effective dates for certain of its provisions and an alternative approach for initially applying the change in measurement date.

Effective Dates and Transition

The required date of adoption of the recognition and disclosure provisions of this Statement differs for an employer that is an issuer of publicly traded equity securities (as defined) and an employer that is not. For purposes of this Statement, an employer is deemed to have publicly traded equity securities if any of the following conditions is met:

a. The employer has issued equity securities that trade in a public market, which may be either a stock exchange (domestic or foreign) or an over-the-counter market, including securities quoted only locally or regionally.
b. The employer has made a filing with a regulatory agency in preparation for the sale of any class of equity securities in a public market.
c. The employer is controlled by an entity covered by (a) or (b).

An employer with publicly traded equity securities is required to initially recognize the funded status of a defined benefit postretirement plan and to provide the required disclosures as of the end of the fiscal year ending after December 15, 2006.

An employer without publicly traded equity securities is required to recognize the funded status of a defined benefit postretirement plan and to provide the required disclosures as of the end of the fiscal year ending after June 15, 2007.

However, an employer without publicly traded equity securities is required to disclose the following information in the notes to financial statements for a fiscal year ending after December 15, 2006, but before June 16, 2007, unless it has applied the recognition provisions of this Statement in preparing those financial statements:

a. A brief description of the provisions of this Statement
b. The date that adoption is required
c. The date the employer plans to adopt the recognition provisions of this Statement, if earlier.

The requirement to measure plan assets and benefit obligations as of the date of the employer's fiscal year-end statement of financial position is effective for fiscal years ending after December 15, 2008. If in the last quarter of the preceding fiscal year an employer enters into a transaction that results in a settlement or experiences an event that causes a curtailment of the plan, the related gain or loss pursuant to Statement 88 or 106 is required to be recognized in earnings or changes in unrestricted net assets of that quarter.

Earlier application of the recognition or measurement date provisions is encouraged; however, early application must be for all of an employer's benefit plans. Retrospective application of this Statement is not permitted.

Statement of Financial Accounting Standards No. 158

Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans

an amendment of FASB Statements No. 87, 88, 106, and 132(R)

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OBJECTIVE

1. This Statement results from the initial phase of a comprehensive project to improve an employer's accounting for defined benefit pension and other postretirement plans. The objectives of this Statement are for an employer to:

a. Recognize the overfunded or underfunded status of a single-employer[1] defined benefit postretirement plan (benefit plan or plan) as an asset or liability in its statement of financial position and to recognize changes in that funded status in comprehensive income (for a business entity) or changes in unrestricted net assets (for a not-for-profit organization) in the year in which the changes occur.
b. Measure the funded status of a plan as of the date of its year-end statement of financial position, with limited exceptions.

This Statement does not change the accounting for a multiemployer plan.

2. The changes to an employer's accounting and reporting for benefit plans required by this Statement are described in paragraphs 4–22 below. The amendments to the recognition, measurement date, and disclosure requirements of FASB Statements No. 87, *Employers' Accounting for Pensions,* No. 88, *Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits,* No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions,* and No. 132 (revised 2003), *Employers' Disclosures about Pensions and Other Postretirement Benefits,* required to effect those changes are included in appendixes to this Statement. Those amendments are an integral part of this Statement. The definitions of terms used in this Statement are the same as those in Statements 87, 88, and 106 (as amended).

3. This Statement also amends Statements 87 and 106 to include guidance related to the selection of assumed discount rates that was previously included in the basis for conclusions of Statement 106 (see Appendixes C and D).

STANDARDS OF FINANCIAL ACCOUNTING AND REPORTING

Reporting by a Business Entity

Recognition of the Funded Status of a Single-Employer Defined Benefit Postretirement Plan

4. A business entity that sponsors one or more single-employer defined benefit plans shall:

a. Recognize the funded status of a benefit plan—measured as the difference between the fair value of plan assets[2] and the benefit obligation—in its statement of financial position. For a pension plan, the benefit obligation shall be the projected benefit obligation; for any other postretirement benefit plan, such as a retiree health care plan, the benefit obligation shall be the accumulated postretirement benefit obligation.
b. Aggregate the statuses of all overfunded plans and recognize that amount as an asset in its statement of financial position. It also shall aggregate the statuses of all underfunded plans and recognize that amount as a liability in its statement of financial position. A business entity that presents a classified statement of financial position shall classify the liability for an underfunded plan as a current liability, a noncurrent liability, or a combination of both. The current portion (determined on a plan-by-plan basis) is the amount by which the actuarial present value of benefits included in the benefit obligation payable in the next 12 months, or operating cycle if longer, exceeds the fair value of plan assets. The asset for an overfunded plan shall be classified as a noncurrent asset in a classified statement of financial position.
c. Recognize as a component of other comprehensive income[3] the gains or losses and prior service

[1]Consistent with paragraph 71 of FASB Statement No. 87, *Employers' Accounting for Pensions,* and paragraph 84 of FASB Statement No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions,* a multiple-employer plan shall be considered a single-employer plan rather than a multiemployer plan for purposes of this Statement.

[2]Paragraph 49 of Statement 87 and paragraph 65 of Statement 106 address measuring plan assets at fair value. Paragraph 51 of Statement 87 and paragraph 66 of Statement 106 provide an exception to measuring plan assets at fair value. Plan assets used in plan operations shall be measured at cost less accumulated depreciation or amortization. Paragraph 61 of Statement 87 and paragraph 69 of Statement 106 also provide for a non-fair-value measurement of participation rights in certain insurance contracts.

[3]A business entity that is not required to report other comprehensive income pursuant to FASB Statement No. 130, *Reporting Comprehensive Income,* shall apply the provisions of paragraphs 8–10 of this Statement in an analogous manner that is appropriate for its method of financial reporting.

costs or credits that arise during the period but are not recognized as components of net periodic benefit cost of the period pursuant to Statements 87 and 106.

d. Recognize corresponding adjustments in other comprehensive income when the gains or losses, prior service costs or credits, and transition assets or obligations remaining from the initial application of Statements 87 and 106 are subsequently recognized as components of net periodic benefit cost pursuant to the recognition and amortization provisions of Statements 87, 88, and 106.
e. Apply the provisions of FASB Statement No. 109, *Accounting for Income Taxes,* to determine the applicable income tax effects of items (a)–(d) above.

Measurement Date of Plan Assets and Benefit Obligations

5. A business entity shall measure plan assets and benefit obligations as of the date of its fiscal year-end statement of financial position unless:

a. The plan is sponsored by a subsidiary that is consolidated using a fiscal period that differs from its parent's, as permitted by ARB No. 51, *Consolidated Financial Statements.*
b. The plan is sponsored by an investee that is accounted for using the equity method of accounting under APB Opinion No. 18, *The Equity Method of Accounting for Investments in Common Stock,* using financial statements of the investee for a fiscal period that is different from the investor's, as permitted by Opinion 18.

In those cases, a business entity shall measure the subsidiary's plan assets and benefit obligations as of the date used to consolidate the subsidiary's statement of financial position and shall measure the investee's plan assets and benefit obligations as of the date of the investee's financial statements used to apply the equity method. For example, if a calendar year-end parent consolidates a subsidiary using the subsidiary's September 30 financial statements, the funded status of the subsidiary's benefit plan included in the consolidated financial statements shall be measured as of September 30.

6. Unless a business entity remeasures both its plan assets and benefit obligations during the fiscal year, the funded status it reports in its interim-period statement of financial position shall be the same asset or liability recognized in the previous year-end statement of financial position adjusted for (a) subsequent accruals of net periodic benefit cost that exclude the amortization of amounts previously recognized in other comprehensive income (for example, subsequent accruals of service cost, interest cost, and return on plan assets) and (b) contributions to a funded plan, or benefit payments. Sometimes, a business entity remeasures both plan assets and benefit obligations during the fiscal year. That is the case, for example, when a significant event such as a plan amendment, settlement, or curtailment occurs that calls for a remeasurement. Upon remeasurement, a business entity shall adjust its statement of financial position in a subsequent interim period (on a delayed basis if the measurement date provisions of this Statement have not yet been implemented) to reflect the overfunded or underfunded status of the plan consistent with that measurement date.

Disclosure Requirements

7. A business entity that sponsors one or more benefit plans shall disclose the following information in the notes to its annual financial statements, separately for pension plans and other postretirement benefit plans:

a. For each annual statement of income presented, the amounts recognized in other comprehensive income, showing separately the net gain or loss and net prior service cost or credit. Those amounts shall be separated into amounts arising during the period and reclassification adjustments of other comprehensive income as a result of being recognized as components of net periodic benefit cost for the period.
b. For each annual statement of income presented, the net transition asset or obligation recognized as a reclassification adjustment of other comprehensive income as a result of being recognized as a component of net periodic benefit cost for the period.
c. For each annual statement of financial position presented, the amounts in accumulated other comprehensive income that have not yet been recognized as components of net periodic benefit cost, showing separately the net gain or loss, net prior service cost or credit, and net transition asset or obligation.
d. The amounts in accumulated other comprehensive income expected to be recognized as components of net periodic benefit cost over the fiscal year that follows the most recent annual statement of financial position presented, showing

separately the net gain or loss, net prior service cost or credit, and net transition asset or obligation.

e. The amount and timing of any plan assets expected to be returned to the business entity during the 12-month period, or operating cycle if longer, that follows the most recent annual statement of financial position presented.

Reporting by a Not-for-Profit Organization

Recognition of the Funded Status of a Single-Employer Defined Benefit Postretirement Plan

8. A not-for-profit organization that sponsors one or more single-employer defined benefit plans (a not-for-profit employer) shall:

a. Recognize the funded status of a benefit plan—measured as the difference between the fair value of plan assets[4] and the benefit obligation—in its statement of financial position. For a pension plan, the benefit obligation shall be the projected benefit obligation; for any other postretirement benefit plan, such as a retiree health care plan, the benefit obligation shall be the accumulated postretirement benefit obligation.
b. Aggregate the statuses of all overfunded plans and recognize that amount as an asset in its statement of financial position. It also shall aggregate the statuses of all underfunded plans and recognize that amount as a liability in its statement of financial position. A not-for-profit employer that presents a classified statement of financial position shall report the liability for an underfunded plan as a current liability, a noncurrent liability, or a combination of both. The current portion (determined on a plan-by-plan basis) is the amount by which the actuarial present value of benefits included in the benefit obligation payable in the next 12 months, or operating cycle if longer, exceeds the fair value of plan assets. The asset recognized for an overfunded plan shall be presented as a noncurrent asset in a classified statement of financial position.
c. Recognize as a separate line item or items within changes in unrestricted net assets, apart from expenses, the gains or losses and the prior service costs or credits that arise during the period but are not recognized as components of net periodic benefit cost pursuant to Statements 87 and 106. Consistent with the provisions of FASB Statement No. 117, *Financial Statements of Not-for-Profit Organizations,* this Statement does not prescribe whether the separate line item or items shall be included within or outside an intermediate measure of operations or performance indicator, if one is presented. The AICPA Audit and Accounting Guide, *Health Care Organizations,* requires a not-for-profit organization within its scope to report items of other comprehensive income outside the performance indicator.
d. Reclassify to net periodic benefit cost a portion of the net gain or loss and prior service costs or credits previously recognized in a separate line item or items, pursuant to paragraph 8(c), and a portion of the transition asset or obligation remaining from the initial application of Statements 87 and 106, pursuant to the recognition and amortization provisions of Statements 87, 88, and 106. The contra adjustment or adjustments shall be reported in the same line item or items within changes in unrestricted net assets, apart from expenses, as the initially recognized amounts. Net periodic benefit cost shall be reported by functional classification pursuant to paragraph 26 of Statement 117.
e. Apply the provisions of Statement 109 to determine the applicable income tax effects, if any, of items (a)–(d) above.

Measurement Date of Plan Assets and Benefit Obligations

9. A not-for-profit employer shall measure plan assets and benefit obligations as of the date of its fiscal year-end statement of financial position, unless it meets one of the exceptions described in paragraph 5 for a business entity. Similarly, a not-for-profit employer shall report the funded status in interim-period financial statements (if presented) in an analogous manner to that described in paragraph 6 for a business entity.

Disclosure Requirements

10. A not-for-profit employer that sponsors one or more benefit plans shall disclose the following information in the notes to its annual financial statements, separately for pension plans and other postretirement benefit plans:

a. For each annual statement of activities presented, the net gain or loss and net prior service cost or

[4]See footnote 2.

credit recognized in the statement of activities apart from expenses. Those amounts shall be separated into amounts arising during the period and amounts reclassified as components of net periodic benefit cost of the period (unless they are separately reported pursuant to paragraphs 8(c) and 8(d)).

b. For each annual statement of activities presented, the net transition asset or obligation recognized as a component of net periodic benefit cost of the period (if not separately reported pursuant to paragraphs 8(c) and 8(d)).
c. For each annual statement of financial position presented, the amounts that have not yet been recognized as components of net periodic benefit cost, showing separately the net gain or loss, net prior service cost or credit, and net transition asset or obligation.
d. The amounts of net gain or loss, net prior service cost or credit, and net transition asset or obligation that arose previously and are expected to be recognized as components of net periodic benefit cost over the fiscal year that follows the most recent annual statement of financial position presented.
e. The amount and timing of any plan assets expected to be returned to the not-for-profit employer during the 12-month period, or operating cycle if longer, that follows the most recent annual statement of financial position presented.

Effective Dates

11. This Statement provides different effective dates for the recognition and related disclosure provisions and for the required change to a fiscal year-end measurement date. Also, the effective date of the recognition and disclosure provisions differs for an employer that is an issuer of publicly traded equity securities from one that is not. For purposes of this Statement, an employer is deemed to have publicly traded equity securities if any of the following conditions is met:

a. The employer has issued equity securities that trade in a public market, which may be either a stock exchange (domestic or foreign) or an over-the-counter market, including securities quoted only locally or regionally.
b. The employer has made a filing with a regulatory agency in preparation for the sale of any class of equity securities in a public market.
c. The employer is controlled by an entity covered by (a) or (b).

Effective Dates for Recognition and Related Disclosure Provisions

12. An employer with publicly traded equity securities shall initially apply the requirement to recognize the funded status of a benefit plan (paragraph 4) and the disclosure requirements (paragraph 7) as of the end of the fiscal year ending after December 15, 2006. Application as of the end of an earlier fiscal year is encouraged; however, early application shall be for all of an employer's benefit plans.

13. An employer without publicly traded equity securities shall initially apply the requirement to recognize the funded status of a benefit plan (paragraphs 4 and 8) and the disclosure requirements (paragraphs 7 and 10) as of the end of the fiscal year ending after June 15, 2007. Application as of the end of an earlier fiscal year is encouraged; however, early application shall be for all of an employer's benefit plans.

14. An employer without publicly traded equity securities shall disclose the following information in the notes to the financial statements for a fiscal year ending after December 15, 2006, but before June 16, 2007, unless it has applied the recognition provisions of this Statement in preparing those financial statements:

a. A brief description of the provisions of this Statement
b. The date that adoption is required
c. The date the employer plans to adopt the recognition provisions of this Statement, if earlier.

Effective Date for Measurement Date Provisions

15. The requirement to measure plan assets and benefit obligations as of the date of the employer's fiscal year-end statement of financial position (paragraphs 5, 6, and 9) shall be effective for fiscal years ending after December 15, 2008, and shall not be applied retrospectively. Earlier application is encouraged; however, early application shall be for all of an employer's benefit plans. The requirement in paragraphs 5(k) and 8(j) of Statement 132(R) to disclose the measurement date is eliminated, effective in the year the employer initially adopts the measurement date provisions of this Statement.

Transition

Recognition Provisions

16. An employer shall apply the recognition provisions of this Statement as of the end of the fiscal year

of initial application. Retrospective application is not permitted. The amounts recognized in an employer's statement of financial position as of the end of the fiscal year before applying this Statement, including amounts required to recognize any additional minimum pension liability, shall be adjusted so that:

a. For a business entity, gains or losses, prior service costs or credits, and transition assets or obligations that have not yet been included in net periodic benefit cost as of the end of the fiscal year in which the Statement is initially applied are recognized as components of the ending balance of accumulated other comprehensive income, net of tax. Any required adjustment shall be reported as an adjustment of the ending balance of accumulated other comprehensive income.
b. For a not-for-profit employer, gains or losses, prior service costs or credits, and transition assets or obligations that have not yet been included in net periodic benefit cost as of the end of the fiscal year in which this Statement is initially applied are included in the ending balance of unrestricted net assets, net of tax, if any. Any required adjustment shall be reported in the statement of activities, in a separate line item or items within changes in unrestricted net assets, apart from expenses and outside a performance indicator or other intermediate measure of operations, if one is presented.

Measurement Date Provisions

17. This Statement provides two approaches for an employer to transition to a fiscal year-end measurement date. In the first approach (paragraph 18), an employer remeasures plan assets and benefit obligations as of the beginning of the fiscal year that the measurement date provisions are applied. An employer uses those new measurements to determine the effects of the measurement date change as of the beginning of the fiscal year that the measurement date provisions are applied. In the second approach (paragraph 19), an employer continues to use the measurements determined for the prior fiscal year-end reporting to estimate the effects of the change.

18. Under the first approach, an employer shall measure plan assets and benefit obligations as of the beginning of the fiscal year that the measurement date provisions are applied. For an employer that is a business entity:

a. Net periodic benefit cost for the period between the measurement date that is used for the immediately preceding fiscal year-end and the beginning of the fiscal year that the measurement date provisions are applied, exclusive of any curtailment or settlement gain or loss, shall be recognized, net of tax, as a separate adjustment of the opening balance of retained earnings. That is, the pretax amount recognized as an adjustment to retained earnings is the net periodic benefit cost that without a change in measurement date otherwise would have been recognized on a delayed basis during the first interim period for the fiscal year that the measurement date provisions are applied.
b. Any gain or loss arising from a curtailment or settlement between the measurement date that is used for the immediately preceding fiscal year-end and the beginning of the fiscal year that the measurement date provisions are applied shall be recognized in earnings in that period and not as an adjustment to retained earnings. This provision prohibits an employer from early application of the measurement date provisions when the employer has issued financial statements for the prior year without recognition of such a settlement or curtailment. For example, assume an employer with a June 30 year-end that used a March 31 measurement date curtailed its benefit plan on May 31, 2006, resulting in a curtailment loss. That employer would be able to apply early the measurement date provisions in fiscal year 2007 if it recognizes the May 31, 2006 curtailment loss in its financial statements for the year ending June 30, 2006. That would not be the case if its 2006 financial statements had been issued before it wished to early adopt for fiscal year 2007.
c. Other changes in the fair value of plan assets and the benefit obligations (for example, gains or losses) for the period between the measurement date that is used for the immediately preceding fiscal year-end and the beginning of the fiscal year that the measurement date provisions are applied shall be recognized, net of tax, as a separate adjustment of the opening balance of accumulated other comprehensive income for the fiscal year that the measurement date provisions are applied.

The guidance in this paragraph also shall apply to a not-for-profit employer, except that the adjustments that would be made to the opening balances of retained earnings and accumulated other comprehensive income shall instead be recognized as a change in unrestricted net assets in the statement of activities, net of tax, if any. Those amounts shall be reported in a separate line item or items apart from expenses and outside a performance indicator or other intermediate measure of operations, if one is presented.

19. In lieu of remeasuring plan assets and benefit obligations as of the beginning of the fiscal year that the measurement date provisions are applied, under the second approach, an employer shall use earlier measurements determined for the year-end reporting as of the fiscal year immediately preceding the year that the measurement date provisions are applied. For an employer that is a business entity:

a. Net periodic benefit cost for the period between the earlier measurement date and the end of the fiscal year that the measurement date provisions are applied, exclusive of any curtailment or settlement gain or loss, shall be allocated proportionately between amounts to be recognized as an adjustment of retained earnings and net periodic benefit cost for the fiscal year that the measurement date provisions are applied. For example, a calendar-year employer that uses a September 30 measurement date and has no settlement or curtailment during the period would allocate as an adjustment of retained earnings three-fifteenths of net periodic benefit cost determined for the period from September 30, 2007, to December 31, 2008. The remaining twelve-fifteenths would be recognized as net periodic benefit cost for the fiscal year that the measurement date provisions first are applied.
b. Any gain or loss arising from a curtailment or settlement between the measurement date that is used for the immediately preceding fiscal year-end and the beginning of the fiscal year that the measurement date provisions are applied shall be recognized in earnings in that period and not as an adjustment to retained earnings. This provision prohibits an employer from early application of the measurement date provisions when the employer has issued financial statements for the prior year without recognition of such a settlement or curtailment (see paragraph 18(b)).
c. Other changes in the fair value of plan assets and the benefit obligations (for example, gains or losses) for the period between the earlier measurement date and the end of the fiscal year that the measurement date provisions are applied shall be recognized as other comprehensive income for the fiscal year that the measurement date provisions are applied.

That approach shall be adjusted if, during the period between the earlier measurement date and the beginning of the fiscal year that the change in measurement date occurs, an employer elects to remeasure plan assets and benefit obligations or there is an event, such as a settlement or curtailment, that requires an intervening measurement. In that case, a revised net periodic benefit cost for the remainder of that period is determined by prorating the revised net periodic benefit cost for the period from the date of the intervening remeasurement to the end of the fiscal year that the measurement date provisions are applied. The guidance in this paragraph also shall apply to a not-for-profit employer, except that the adjustment that would be made to retained earnings shall instead be recognized as a change in unrestricted net assets in the statement of activities, net of tax, if any. Those amounts shall be reported in a separate line item or items apart from expenses and outside a performance indicator or other intermediate measure of operations, if one is presented. The amounts that would be recognized in other comprehensive income shall be recognized pursuant to paragraph 8 of this Statement.

Disclosures Required in the Year of Application

20. In the year that the recognition provisions of this Statement are initially applied, an employer shall disclose, in the notes to the annual financial statements, the incremental effect of applying this Statement on individual line items in the year-end statement of financial position.

21. In the year that the measurement date provisions of this Statement are initially applied, a business entity shall disclose the separate adjustments of retained earnings and accumulated other comprehensive income from applying this Statement. A not-for-profit employer shall disclose the separate adjustment of unrestricted net assets from applying this Statement.

22. The disclosures specified by paragraphs 17 and 18 of FASB Statement No. 154, *Accounting Changes and Error Corrections,* are not required.

The provisions of this Statement need not be applied to immaterial items.

This Statement was adopted by the unanimous vote of the seven members of the Financial Accounting Standards Board:

Robert H. Herz, *Chairman*	G. Michael Crooch	Edward W. Trott
George J. Batavick	Thomas J. Linsmeier	Donald M. Young
	Leslie F. Seidman	

Appendix A

IMPLEMENTATION GUIDANCE

Introduction

A1. This appendix is an integral part of this Statement. It provides guidance illustrating the transition provisions of this Statement in simplified situations. Applying those provisions to actual situations will require judgment; this appendix is intended to aid in making those judgments. Certain assumptions, including benefit payments, employer contributions, and obligations settled, have not been included because those transactions are not affected by the provisions of this Statement. Therefore, the examples do not include all the assumptions necessary to reconcile between various stated assumptions or the beginning and ending balances of plan assets or benefit obligations. Examples 1 and 2 provide implementation guidance for a business entity that sponsors a defined benefit postretirement plan. Example 3 provides guidance for a not-for-profit organization that sponsors a defined benefit postretirement plan.

Example 1—Application of the Recognition Provisions of This Statement

A2. Company A adopts the recognition and disclosure requirements of this Statement as of the end of its fiscal year (December 31, 2006). For simplicity, this example assumes that Company A's annual report includes a statement of financial position and a statement of changes in stockholders' equity. An income statement is not presented in this example because it is not affected by the recognition provisions of this Statement. Additionally, this example does not consider the effects on financial reporting for interim periods. In applying the recognition provisions of this Statement for transition, Company A adjusts the amounts recognized in the statement of financial position as of December 31, 2006, prior to application of this Statement, so that gains or losses, prior service costs or credits, and the transition asset or obligation that have not yet been included in net periodic benefit cost as of December 31, 2006, are recognized as a component of the ending balance of accumulated other comprehensive income, net of tax (illustrated in paragraph A4). The adjustment is reported as an adjustment of the ending balance of accumulated other comprehensive income (see paragraph A7).

A3. The funded status of Company A's defined benefit pension plan and the amounts not yet recognized as components of net periodic pension cost as of December 31, 2006, and December 31, 2007, are shown below. Company A measures plan assets and benefit obligations as of the date of its financial statements. Under the prior provisions of FASB Statement No. 87, *Employers' Accounting for Pensions,* Company A did not have an additional minimum pension liability at December 31, 2006. Company A is not required to amortize the cumulative net loss because it is less than 10 percent of the greater of the projected benefit obligation or the market-related value of plan assets for all years presented. No plan amendments affect the period from January 1, 2006, to December 31, 2007. Company A's applicable tax rate for 2006 and 2007 is 40 percent. All deferred tax assets recognized are evaluated by Company A, and no valuation allowance is considered necessary at any time. Under the prior provisions of Statement 87, Company A had a recognized liability of $45,000 at December 31, 2006, for the amount that past net periodic pension costs exceeded past contributions to the plan.

	12/31/06	12/31/07
	(in thousands)	
Projected benefit obligation	$(2,525)	$(2,700)
Plan assets at fair value	1,625	1,700
Funded status	$ (900)	$(1,000)
Items not yet recognized as a component of net periodic pension cost:		
Transition obligation	$ 240	$ 200
Prior service cost	375	350
Net loss	240	260
	$ 855	$ 810

A4. At December 31, 2006, Company A recognizes a liability for the underfunded status of its defined benefit pension plan and adjusts ending accumulated other comprehensive income, net of tax, for the transition obligation, prior service cost, and net loss that have not been recognized as a component of net periodic pension cost. The journal entry is shown below:

Accumulated other comprehensive income	855	
Deferred tax asset	342	
Deferred tax benefit—accumulated other comprehensive income		342
Liability for pension benefits		855

A5. The following table illustrates the adjustments made to Company A's statement of financial position for December 31, 2006. The table is not intended to illustrate the disclosure requirements of this Statement (see paragraph A6). This illustration assumes that plan assets exceed the actuarial present value of benefits to be paid over the next fiscal year. Therefore, the entire liability for pension benefits is classified as a long-term liability.

Company A
Statement of Financial Position
December 31, 2006
(in thousands)

	Before Application of Statement 158	Adjustments	After Application of Statement 158
Current assets:			
Cash	$ 40,000	$ 0	$ 40,000
Inventory	720,500	0	720,500
Total current assets	760,500	0	760,500
Intangible assets	100,000	0	100,000
Total assets	$860,500	$ 0	$860,500
Current liabilities	$ 60,000	$ 0	$ 60,000
Liability for pension benefits	45	855	900
Other long-term liabilities	99,955	0	99,955
Deferred income taxes	20,000	(342)	19,658
Total liabilities	180,000	513	180,513
Common stock	150,000	0	150,000
Paid-in capital	300,000	0	300,000
Retained earnings	205,500	0	205,500
Accumulated other comprehensive income	25,000	(513)	24,487
Total stockholders' equity	680,500	(513)	679,987
Total liabilities and stockholders' equity	$860,500	$ 0	$860,500

A6. The following table illustrates the disclosures required by paragraph 20 of this Statement in the year that the recognition provisions are initially adopted.

Incremental Effect of Applying FASB Statement No. 158
on Individual Line Items in the Statement of Financial Position
December 31, 2006
(in thousands)

	Before Application of Statement 158	Adjustments	After Application of Statement 158
Liability for pension benefits	$ 45	$ 855	$ 900
Deferred income taxes	20,000	(342)	19,658
Total liabilities	180,000	513	180,513
Accumulated other comprehensive income	25,000	(513)	24,487
Total stockholders' equity	680,500	(513)	679,987

A7. Company A's statement of changes in stockholders' equity for the year ended December 31, 2006, which includes the effects of applying the provisions of this Statement, follows. Brackets are used to highlight those effects. The table is not intended to illustrate the disclosure requirements of this Statement.

Company A
Statement of Changes in Stockholders' Equity
Year Ended December 31, 2006
(in thousands)

	Total	Comprehensive Income	Retained Earnings	Accumulated Other Comprehensive Income	Common Stock	Paid-in Capital
Balance at December 31, 2005	$612,979		$137,988	$24,991	$150,000	$300,000
Comprehensive income						
Net income for 2006	67,512	$67,512	67,512			
Other comprehensive income, net of tax						
Foreign currency translation gain	15	15				
Unrealized holding loss arising during period	(6)	(6)				
Other comprehensive income		9		9		
Comprehensive income		$67,521				
Adjustment to initially apply FASB Statement No. 158, net of tax	[(513)]			[(513)]		
Balance at December 31, 2006	$679,987		$205,500	$24,487	$150,000	$300,000

A8. In applying this Statement in 2007, Company A:

a. Adjusts other comprehensive income, net of tax, to recognize the amortization of the transition obligation in net periodic pension cost
b. Adjusts other comprehensive income, net of tax, to recognize the amortization of prior service cost in net periodic pension cost
c. Recognizes a pension liability for the additional net loss arising during the year, and a corresponding decrease in other comprehensive income, net of tax
d. Recognizes a pension liability and net periodic pension cost, net of tax, for the service cost, interest cost, and expected return on plan assets.

A9. The components of projected net periodic pension cost for the year ended December 31, 2007, are:

Service cost	$120
Interest cost	95
Expected return on plan assets	(80)
Amortization of prior service cost	25
Amortization of the transition obligation	40
Amortization of net (gain) loss	0
Net periodic benefit cost	$200

A10. For the year ending December 31, 2007, Company A makes the following journal entries in applying the recognition provisions of this Statement:

a. Recognize net periodic pension cost and a corresponding increase in other comprehensive income, net of tax, for amortization of the transition obligation (see paragraph A9):

Net periodic pension cost	40	
Deferred tax benefit—other comprehensive income	16	
Deferred tax benefit—net income		16
Other comprehensive income		40

b. Recognize net periodic pension cost and a corresponding increase in other comprehensive income, net of tax, for amortization of prior service cost (see paragraph A9):

Net periodic pension cost	25	
Deferred tax benefit—other comprehensive income	10	
Deferred tax benefit—net income		10
Other comprehensive income		25

c. Recognize a pension liability and net periodic pension cost, net of tax, for the service cost of $120, interest cost of $95, and the expected return on plan assets of $(80) (see paragraph A9):

Net periodic pension cost	135	
Deferred tax asset	54	
Deferred tax benefit—net income		54
Liability for pension benefits		135

d. Recognize a pension liability for the additional net loss arising during the year and a corresponding decrease in other comprehensive income, net of tax (this is the increase in net loss from $240 to $260 shown in paragraph A3):

Other comprehensive income	20	
Deferred tax asset	8	
Deferred tax benefit—other comprehensive income		8
Liability for pension benefits		20

Example 2(a)—Change in the Measurement Date and Plan Settlement

A11. Company B adopted the recognition provisions of this Statement in its December 31, 2006 financial statements. As required by this Statement, Company B changes the measurement date for its defined benefit pension plan from September 30 to

December 31 for its 2008 financial statements. Company B elects to implement that change by remeasuring plan assets and obligations as of December 31, 2007 (see paragraph 18). Company B has a plan settlement on November 30, 2007, and remeasures its plan assets and benefit obligations as of November 30, 2007, resulting in a settlement loss before taxes of $60,000, which is a portion of the net loss in accumulated other comprehensive income. However, the effects of remeasuring plan assets and obligations as of November 30, 2007, on the funded status reported in Company B's statement of financial position are not recognized until the following fiscal year because the change in measurement date has not been adopted at November 30, 2007. In recognizing the effects of the plan settlement and change in measurement date, Company B:

a. Recognizes the settlement loss in net income in the fourth quarter of 2007 and a corresponding decrease in the cumulative net loss in other comprehensive income (illustrated in paragraph A14)
b. Recognizes the net periodic pension cost incurred from October 1, 2007, to December 31, 2007, net of tax, as an adjustment to beginning retained earnings and beginning accumulated other comprehensive income for 2008 (illustrated in paragraph A15(a))
c. Recognizes any gains or losses arising during the period from October 1, 2007, to December 31, 2007, net of tax, as an adjustment to beginning accumulated other comprehensive income for 2008 (illustrated in paragraph A15(b))
d. Recognizes corresponding changes in its pension liability and deferred tax accounts for the above items.

A12. The funded statuses of Company B's plan as of September 30, 2007, November 30, 2007, December 31, 2007, and December 31, 2008, and amounts included in accumulated other comprehensive income to be recognized as a component of net periodic pension cost are shown below. Company B has no remaining transition asset or obligation. Company B is not required to amortize the cumulative net loss because it is less than 10 percent of the greater of the market-related value of plan assets or the projected benefit obligation for all years presented. Company B's applicable tax rate for 2007 and 2008 is 40 percent. All deferred tax assets recognized are evaluated by Company B, and no valuation allowance is considered necessary at any time.

	9/30/07	11/30/07	12/31/07	12/31/08
	(in thousands)			
Projected benefit obligation	$(3,660)	$(3,200)	$(3,210)	$(3,700)
Plan assets at fair value	2,600	2,200	2,225	2,200
Funded status	$(1,060)	$(1,000)	$ (985)	$(1,500)
Items not yet recognized as a component of net periodic pension cost:				
Prior service cost	$ 380	$ 360	$ 350	$ 230
Net loss	265	220	315	365
	$ 645	$ 580	$ 665	$ 595

A13. Based on actuarial valuations performed as of September 30, 2007, and November 30, 2007, Company B determines its net periodic pension cost for the two-month period from October 1, 2007, to November 30, 2007, and for the one-month period from December 1, 2007, to December 31, 2007, respectively, to be:

Net Periodic Pension Cost for:	**2 Months**	**1 Month**	**Total**
Service cost	$ 25	$ 15	$ 40
Interest cost	30	15	45
Expected return on plan assets	(30)	(15)	(45)
Total service cost, interest cost, and expected return on plan assets	25	15	40
Amortization of prior service cost	20	10	30
Amortization of net loss	0	0	0
Total amortization	20	10	30
Net periodic benefit cost	$ 45	$ 25	$ 70

A14. In the fourth quarter of 2007, Company B makes the following journal entry to recognize the settlement loss:

Net periodic pension cost (settlement loss)	60	
Deferred tax benefit—other comprehensive income	24	
Deferred tax benefit—net income		24
Other comprehensive income		60

A15. In 2008, Company B makes the following journal entries in applying the measurement date provisions of this Statement:

a. Adjust the beginning balances of retained earnings, accumulated other comprehensive income, pension liability, and deferred tax accounts for the amortization of prior service cost and the service cost, interest cost, and expected return on plan assets (see paragraph A13):

Retained earnings	70	
Deferred tax asset ($40 × 40%)	16	
Deferred tax benefit—accumulated other comprehensive income ($30 × 40%)	12	
Deferred tax benefit—retained earnings ($70 × 40%)		28
Accumulated other comprehensive income		30
Liability for pension benefits		40

b. Adjust the beginning balances of accumulated other comprehensive income, pension liability, and deferred tax accounts for the net loss arising during the period:

Accumulated other comprehensive income	110[a]	
Deferred tax asset	44	
Deferred tax benefit—accumulated other comprehensive income		44
Liability for pension benefits		110

[a]This is the net change in the cumulative net loss after recognition of the settlement loss, calculated as follows: Net loss at 12/31/07 of $315 – Net loss at 9/30/07 of $265 + Plan settlement loss of $60 = $110.

A16. Company B's statement of changes in stockholders' equity for 2007 and 2008, which shows the effects of the settlement loss and change in measurement date, follows. Brackets are used to highlight those effects. The table is not intended to illustrate the disclosure requirements of this Statement.

Company B
Statement of Changes in Stockholders' Equity
Years Ended December 31, 2007, and 2008
(in thousands)

	Total	Comprehensive Income	Retained Earnings	Accumulated Other Comprehensive Income	Common Stock	Paid-in Capital
Balance at December 31, 2006	$289,140		$55,000	$(360)	$195,000	$39,500
Comprehensive income						
Net income for 2007	5,464	[$5,464[b]]	5,464			
Other comprehensive income, net of tax						
Settlement loss (see paragraph A14)	[36]	[36]				
Prior service cost	72	72				
Net loss	(99)	(99)				
Other comprehensive income		9		9		
Comprehensive income		$5,473				
Balance at December 31, 2007	294,613		60,464	(351)	195,000	39,500

Effects of changing pension plan measurement date pursuant to FASB Statement No. 158						
Service cost, interest cost, and expected return on plan assets for October 1–December 31, net of tax (see paragraph A15(a))	[(24)]		[(24)]			
Amortization of prior service cost for October 1–December 31, net of tax (see paragraph A15(a))	0		[(18)]	[18]		
Additional loss for October 1–December 31, net of tax (see paragraph A15(b))	[(66)]			[(66)]		
Beginning balance, as adjusted	294,523		60,422	(399)	195,000	39,500
Comprehensive income						
Net income for 2008	12,000	$12,000	12,000			
Other comprehensive income, net of tax						
Prior service cost	72	72				
Net loss	(30)	(30)				
Other comprehensive income		42		42		
Comprehensive income		$12,042				
Balance at December 31, 2008	$306,565		$72,422	$(357)	$195,000	$39,500

[b]Includes the settlement loss of $60 ($36, net of tax).

Example 2(b)—Change in the Measurement Date (Alternative Method)

A17. Company C adopted the recognition provisions of this Statement in its December 31, 2006 financial statements. As required by this Statement, Company C changes the measurement date for its defined benefit pension plan from September 30 to December 31 for its 2008 financial statements. Company C elects the alternative transition method (see paragraph 19). Based on the measurement of plan assets and benefit obligations as of September 30, 2007, Company C's actuary prepares a 15-month projection of net periodic pension cost to December 31, 2008. In recognizing the effects of the change in measurement date for its 2008 financial statements, Company C:

a. Allocates the net periodic pension cost for the 15-month period from October 1, 2007, to December 31, 2008, net of tax, proportionately between amounts to be recognized as an adjustment of retained earnings and net periodic pension cost for 2008 (illustrated in paragraphs A19, A20(a), and A20(b))
b. Recognizes any net gain or loss arising during the period from October 1, 2007, to December 31, 2008, net of tax, in other comprehensive income for 2008 (illustrated in paragraph A21)
c. Recognizes corresponding changes in its pension liability and deferred tax accounts for the above items.

A18. The funded statuses of Company C's plan as of September 30, 2007, and December 31, 2008, and amounts included in accumulated other comprehensive income to be recognized as components of net periodic pension cost are shown below. Company C has no remaining transition asset or obligation. Company C is not required to amortize the cumulative net loss because it is less than 10 percent of the greater of the market-related value of plan assets or the projected benefit obligation for all years presented. Company C's applicable tax rate for 2007 and 2008 is 40 percent. All deferred tax assets recognized are evaluated by Company C, and no valuation allowance is considered necessary at any time.

	9/30/07	**12/31/08**
	(in thousands)	
Projected benefit obligation	$(3,200)	$(3,500)
Plan assets at fair value	2,200	2,330
Funded status	$(1,000)	$(1,170)
Items not yet recognized as a component of net periodic pension cost:		
Prior service cost	$ 400	$ 275
Net loss	265	315
	$ 665	$ 590

A19. Based on an actuarial valuation performed as of September 30, 2007, Company C determines its net periodic pension cost for the 15-month period from October 1, 2007, to December 31, 2008, and allocates its net periodic pension cost proportionately between amounts to be recognized as an adjustment of retained earnings and net periodic pension cost for 2008 as follows:

Net Periodic Pension Cost for:	**15 Months**	**3 Months**	**12 Months**
Service cost	$ 130		
Interest cost	150		
Expected return on plan assets	(105)		
Total service cost, interest cost, and expected return on plan assets	175	$35	$140
Amortization of prior service cost	125		
Amortization of net loss	0		
Total amortization	125	25	100
Net periodic pension cost	$ 300	$60	$240

A20. In 2008, Company C makes the following journal entries in applying the measurement date provisions of this Statement:

a. Adjust retained earnings, accumulated other comprehensive income, pension liability, and deferred tax accounts for three-fifteenths of the net periodic pension cost projected for the 15-month period from October 1, 2007, to December 31, 2008 (see paragraph A19):

Retained earnings	60	
Deferred tax assets ($35 × 40%)	14	
Deferred tax benefit—accumulated other comprehensive income ($25 × 40%)	10	
Deferred tax benefit—retained earnings ($60 × 40%)		24
Accumulated other comprehensive income		25
Liability for pension benefits		35

b. Recognize net periodic pension cost for twelve-fifteenths of the net periodic pension cost projected for the 15-month period from October 1, 2007, to December 31, 2008, and make corresponding changes to the pension liability and deferred tax accounts (see paragraph A19):

Net periodic pension cost	240	
Deferred tax assets ($140 × 40%)	56	
Deferred tax benefit—other comprehensive income ($100 × 40%)	40	
Deferred tax benefit—net income ($240 × 40%)		96
Other comprehensive income		100
Liability for pension benefits		140

A21. In 2008, Company C adjusts other comprehensive income and pension liability for the entire net loss arising during the period from October 1, 2007, to December 31, 2008, because net gains or losses cannot be readily identifiable as arising in certain periods. The journal entry is as follows:

Other comprehensive income	50[a]	
Deferred tax asset	20	
Deferred tax benefit—other comprehensive income		20
Liability for pension benefits		50

[a]This is the net change in the cumulative net loss, calculated as follows: Net loss at 12/31/08 of $315 – Net loss at 9/30/07 of $265 = $50.

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A22. Company C's statement of changes in stockholders' equity for 2007 and 2008, which shows the effects of the change in measurement date, follows. Brackets are used to highlight those effects. The table is not intended to illustrate the disclosure requirements of this Statement.

Company C
Statement of Changes in Stockholders' Equity
Years Ended December 31, 2007, and 2008
(in thousands)

	Total	Comprehensive Income	Retained Earnings	Accumulated Other Comprehensive Income	Common Stock	Paid-in Capital
Balance at December 31, 2006	$559,800		$30,000	$(200)	$400,000	$130,000
Comprehensive income						
Net income for 2007	10,500	$10,500	10,500			
Other comprehensive income, net of tax						
Prior service cost	60	60				
Net loss	(39)	(39)				
Other comprehensive income		21		21		
Comprehensive income		$10,521				
Balance at December 31, 2007	570,321		40,500	(179)	400,000	130,000
Comprehensive income						
Net income for 2008 (see paragraph A20(b))	11,856	[$11,856[b]]	11,856			
Other comprehensive income, net of tax						
Prior service cost (see paragraph A20(b))	[60]	[60]				
Net loss (see paragraph A21)	[(30)]	[(30)]				
Other comprehensive income		30		30		
Comprehensive income		$11,886				

Effects of changing the pension plan measurement date pursuant to FASB Statement No. 158					
Service cost, interest cost, and expected return on plan assets for October 1–December 31, 2007, net of tax (see paragraph A20(a))	[(21)]	[(21)]			
Amortization of prior service cost for October 1–December 31, 2007, net of tax (see paragraph A20(a))	0	[(15)]	[15]		
	(21)	(36)	15		
Balance at December 31, 2008	$582,186	$52,320	$(134)	$400,000	$130,000

[b]Includes the net periodic pension cost of $240 ($144, net of tax).

Example 2(c)—Change in the Measurement Date (Alternative Method) and Plan Settlement

A23. Company D adopted the recognition provisions of this Statement in its December 31, 2006 financial statements. As required by this Statement, Company D changes the measurement date for its defined benefit pension plan from September 30 to December 31 for its 2008 financial statements. Company D elects the alternative transition method (see paragraph 19). As of September 30, 2007, Company D's actuary prepares a 15-month projection of net periodic pension cost to December 31, 2008. Company D has a plan settlement on November 30, 2007, resulting in new measurements of plan assets and obligations and recognition of a loss before taxes of $90,000, which is a portion of the net loss in accumulated other comprehensive income. As a result of the plan settlement, the actuary prepares a new projection of net periodic pension cost for the 13 months to December 31, 2008. Pursuant to paragraph 19, the loss from the plan settlement is recognized in the last quarter of 2007. However, the effects of remeasuring plan assets and obligations as of November 30, 2007, on the funded status reported in Company D's statement of financial position are not recognized until the following fiscal year because the change in measurement date has not been adopted at November 30, 2007. In recognizing the effects of the plan settlement and change in measurement date, Company D:

a. Recognizes the settlement loss in net income in the fourth quarter of 2007 and a corresponding decrease in the cumulative net loss in other comprehensive income (illustrated in paragraph A25)
b. Determines the net periodic pension cost for the period between September 30, 2007, and December 31, 2007, net of tax, to be recognized in 2008 as an adjustment of retained earnings by proportionately allocating projections of net periodic pension cost for 15 months and 13 months made as of September 30, 2007, and November 30, 2007, respectively (illustrated in paragraphs A27, A28(a), and A28(c))
c. Recognizes any net gain or loss arising during the period from October 1, 2007, to November 30, 2007, net of tax, as an adjustment of accumulated other comprehensive income and recognizes any net gain or loss arising during the period from December 1, 2007, to December 31, 2008, net of tax, as an adjustment of other comprehensive income for 2008 (illustrated in paragraphs A28(b) and A29)
d. Recognizes corresponding changes in its pension liability and deferred tax accounts for the above items.

A24. The funded statuses of Company D's plan as of September 30, 2007, November 30, 2007, and December 31, 2008, and amounts previously included in accumulated other comprehensive income that are to be recognized as a component of net periodic pension cost are shown below. Company D has no remaining transition asset or obligation. Company D is not required to amortize the cumulative net loss because it is less than 10 percent of the greater of the market-related value of plan assets or the projected benefit obligation for all years presented. Company D's applicable tax rate for 2007 and 2008 is 40 percent. All deferred tax assets recognized are evaluated by Company D, and no valuation allowance is considered necessary at any time.

	9/30/07	11/30/07	12/31/08
		(in thousands)	
Projected benefit obligation	$(3,550)	$(3,600)	$(3,610)
Plan assets at fair value	2,500	2,525	2,510
Funded status	$(1,050)	$(1,075)	$(1,100)
Items not yet recognized as a component of net periodic pension cost:			
Prior service cost	$ 400	$ 380	$ 250
Net loss	200	250	300
	$ 600	$ 630	$ 550

A25. In the fourth quarter of 2007, Company D makes the following journal entry to recognize the settlement loss:

Net periodic pension cost (settlement loss)	90	
Deferred tax benefit—other comprehensive income	36	
Deferred tax benefit—net income		36
Other comprehensive income		90

A26. Based on actuarial valuations performed as of September 30, 2007, and November 30, 2007, Company D determines its net periodic pension cost for the 2-month period from October 1, 2007, to November 30, 2007, and 13-month period from December 1, 2007, to December 31, 2008, respectively, to be:

Net Periodic Pension Cost for:	**2 Months**	**13 Months**
Service cost	$ 17	$ 110
Interest cost	20	140
Expected return on plan assets	(14)	(100)
Total service cost, interest cost, and expected return on plan assets	23	150
Amortization of prior service cost	20	130
Amortization of net (gain) loss	0	0
Total amortization	20	130
Net periodic pension cost	$ 43	$ 280

A27. Company D allocates its net periodic pension cost proportionately between the amounts to be recognized as an adjustment of retained earnings and net periodic pension cost for 2008 as follows:

Adjustment to Retained Earnings:	**2 Months**	**13 Months (above) × (1/13)**	**Total**
Service cost	$ 17	$ 8	$ 25
Interest cost	20	11	31
Expected return on plan assets	(14)	(7)	(21)
Total service cost, interest cost, and expected return on plan assets	23	12	35
Amortization of prior service cost	20	10	30
Amortization of net (gain) loss	0	0	0
Total amortization	20	10	30
Net periodic pension cost	$ 43	$22	$ 65

Adjustment to Net Periodic Pension Cost:	**13 Months (above) × (12/13)**
Service cost	$101
Interest cost	129
Expected return on plan assets	(92)
Total service cost, interest cost, and expected return on plan assets	138
Amortization of prior service cost	120
Amortization of net (gain) loss	0
Total amortization	120
Net periodic pension cost	$258

A28. In 2008, Company D makes the following journal entries in applying the measurement date provisions of this Statement:

a. Adjust retained earnings, accumulated other comprehensive income, pension liability, and deferred tax accounts for the net periodic pension cost for the 2-month period from October 1, 2007, to November 30, 2007, and one-thirteenth of the net periodic pension cost projected for the 13-month period from December 1, 2007, to December 31, 2008 (see paragraph A27):

Retained earnings	65	
Deferred tax assets ($35 × 40%)	14	
Deferred tax benefit—accumulated other comprehensive income ($30 × 40%)	12	
Deferred tax benefit—retained earnings ($65 × 40%)		26
Accumulated other comprehensive income		30
Liability for pension benefits		35

b. Adjust accumulated other comprehensive income, pension liability, and deferred tax accounts for the net loss arising during the two-month period from October 1, 2007, to November 30, 2007:

Accumulated other comprehensive income	140[a]	
Deferred tax assets	56	
Deferred tax benefit—accumulated other comprehensive income		56
Liability for pension benefits		140

c. Recognize net periodic pension cost, pension liability, and deferred tax assets for twelve-thirteenths of the net periodic pension cost projected for the 13-month period from December 1, 2007, to December 31, 2008 (see paragraph A27):

Net periodic pension cost	258	
Deferred tax assets ($138 × 40%)	55	
Deferred tax benefit—other comprehensive income ($120 × 40%)	48	
Deferred tax benefit—net income ($258 × 40%)		103
Other comprehensive income		120
Liability for pension benefits		138

A29. In 2008, Company D adjusts other comprehensive income and pension liability for the entire net loss arising during the period from December 1, 2007, to December 31, 2008, because net gains and losses cannot be readily identifiable as arising in certain periods. The journal entry is as follows:

Other comprehensive income	50[b]	
Deferred tax asset	20	
Deferred tax benefit—other comprehensive income		20
Liability for pension benefits		50

[a]This is the net change in the cumulative net loss after recognition of the settlement loss, calculated as follows: Net loss at 11/30/07 of $250 – Net loss at 9/30/07 of $200 + Plan settlement loss of $90 = $140.

[b]This is the net change in the cumulative net loss, calculated as follows: Net loss at 12/31/08 of $300 – Net loss at 11/30/07 of $250 = $50.

A30. The following is Company D's statement of changes in stockholders' equity for 2007 and 2008 that shows the effects of the change in measurement date. Brackets are used to highlight those effects. The table is not intended to illustrate the disclosure requirements of this Statement.

Company D
Statement of Changes in Stockholders' Equity
Years Ended December 31, 2007, and 2008
(in thousands)

	Total	Comprehensive Income	Retained Earnings	Accumulated Other Comprehensive Income	Common Stock	Paid-in Capital
Balance at December 31, 2006	$659,100		$100,000	$(900)	$500,000	$60,000
Comprehensive income						
Net income for 2007	20,446	[$20,446[c]]	20,446			
Other comprehensive income, net of tax						
Settlement loss (see paragraph A25)	[54]	[54]				
Prior service cost	72	72				
Net loss	(60)	(60)				
Other comprehensive income		66		66		
Comprehensive income		$20,512				
Balance at December 31, 2007	679,612		120,446	(834)	500,000	60,000
Comprehensive income						
Net income for 2008 (see paragraph A28(c))	11,845	[$11,845[d]]	11,845			
Other comprehensive income, net of tax						
Prior service cost	72	72				
Net loss (see paragraph A29)	[(30)]	[(30)]				
Other comprehensive income		42		42		
Comprehensive income		$11,887				

Effects of accounting change regarding pension plan measurement date pursuant to FASB Statement No. 158						
Service cost, interest cost, and expected return on plan assets for October 1–December 31, 2007, net of tax (see paragraph A28(a))	[(21)]		[(21)]			
Additional net loss for October 1–November 30, 2007 (see paragraph A28(b))	[(84)]			[(84)]		
Amortization of prior service cost for October 1–December 31, 2007, net of tax (see paragraph A28(a))	0		[(18)]	[18]		
	(105)		(39)	(66)		
Balance at December 31, 2008	$691,394		$132,252	$(858)	$500,000	$60,000

[c]Includes the settlement loss of $90 ($54, net of tax).
[d]Includes the net periodic pension cost of $258 ($155, net of tax).

A31. If Company D issues financial information about its financial position as of a date in 2008 but prior to December 31, 2008, the effects of remeasuring plan assets and obligations as of November 30, 2007, on the funded status reported in Company D's statement of financial position would be recognized prior to issuing that information as follows:

a. Adjust other comprehensive income for amortization of prior service cost:

Retained earnings	20	
Deferred tax benefit—other comprehensive income	8	
Deferred tax benefit—retained earnings		8
Other comprehensive income		20

b. Recognize the additional loss in other comprehensive income:

Other comprehensive income	140	
Deferred tax asset	56	
Deferred tax benefit—other comprehensive income		56
Liability for pension benefits		140

Example 3—Application of the Recognition Provisions and Early Adoption of the Measurement Date Provisions of This Statement by a Not-for-Profit Organization

Year of Initial Adoption

A32. Organization E, a not-for-profit, voluntary health and welfare organization, adopts the recognition provisions of this Statement at the end of its fiscal year (June 30, 2007). Organization E also elects to adopt early the measurement date provisions of this Statement and changes the measurement date for its defined benefit pension plan from March 31 to June 30 for its 2007 financial statements. Organization E is able to adopt early because it did not have any settlements or curtailments during the three-month period ended June 30, 2006, for which there would have been delayed recognition (see paragraphs 18(b) and 19(b)). Organization E elects the alternative transition method for the change in measurement date (see paragraph 19). Organization E's actuary prepares a 15-month projection of net periodic pension cost for April 1, 2006, to June 30, 2007 (based on the 12-month projection previously prepared for April 1, 2006, to March 31, 2007).

A33. In applying the recognition provisions of this Statement for transition, Organization E adjusts the amounts recognized in its statement of financial position as of June 30, 2007, prior to application of this Statement, so that gains or losses, prior service costs or credits, and the transition asset or obligation that have not yet been included in net periodic benefit cost as of June 30, 2007, are included in the ending balance of unrestricted net assets, net of tax, if any. Any required adjustment is reported in the statement of activities, in a separate line item or items within changes in unrestricted net assets, apart from expenses and outside a performance indicator or other intermediate measure of operations, if one is presented.

A34. The funded status of Organization E's defined benefit pension plan as of March 31, 2006, and June 30, 2007, and amounts to be recognized as components of net periodic pension cost are shown below. Under the prior provisions of Statement 87, Organization E would not have had an additional minimum pension liability at June 30, 2007. The cumulative net loss not yet recognized as a component of net periodic pension cost is less than 10 percent of the greater of the projected benefit obligation or the market-related value of plan assets for both years presented. No plan amendments affect the period from April 1, 2006, to June 30, 2007. Organization E is not subject to income taxes.

	3/31/06	6/30/07
	(in thousands)	
Projected benefit obligation	$(3,660)	$(3,670)
Plan assets at fair value	2,600	2,510
Funded status	$(1,060)	$(1,160)
Items not yet recognized as a component of net periodic pension cost:		
Transition obligation	$ 290	$ 240
Prior service cost	400	275
Net loss	265	315
	$ 955	$ 830
Components of projected 15 months' net periodic pension cost:		
Service cost	$ 130	
Interest cost	150	
Expected return on plan assets	(155)	
Amortization of prior service cost	125	
Amortization of net (gain) loss	0	
Amortization of transition obligation	50	
Net periodic pension cost	$ 300	

At June 30, 2007, Organization E recognizes a liability for the underfunded status of its defined benefit pension plan and adjusts the ending balance of unrestricted net assets for the transition obligation, prior service cost, and net loss that have not been recognized as components of net periodic pension cost. The journal entry is shown below:

Change in unrestricted net assets to initially apply the recognition provisions of FASB Statement No. 158	830	
Liability for pension benefits		830

A35. In recognizing the effects of the change in measurement date for its 2007 financial statements, Organization E allocates the net periodic pension cost for the 15-month period from April 1, 2006, to June 30, 2007, proportionately between amounts to be recognized as an adjustment of unrestricted net assets and net periodic pension cost for 2007 (illustrated in paragraph A36). The latter is reported within the appropriate functional expense categories.

A36. The 15-month projection of net periodic pension cost is allocated proportionately between amounts to be recognized as an adjustment of unrestricted net assets and net periodic pension cost for 2007:

	4/1/06–6/30/06	7/1/06–6/30/07
Net periodic pension cost	$300 × (3/15) = $60	$300 × (12/15) = $240

The journal entry to recognize the adjustment of unrestricted net assets is as follows:

Change in unrestricted net assets related to change in measurement date under FASB Statement No. 158	60	
Liability for pension benefits		60

A37. The following is Organization E's statement of activities, which includes an intermediate measure of operations. The estimated $240 of net periodic pension cost for 2007 is reported within the appropriate functional expense categories. The $890 decrease in unrestricted assets displayed as the effect of adoption of the recognition and measurement date provisions of this Statement comprises $830 of items not yet recognized in net periodic pension cost as of June 30, 2007 (transition obligation, prior service cost, and net loss), and $60 of net periodic pension cost allocated to the period from April 1, 2006, to June 30, 2006. Pursuant to paragraphs 16(b) and 19, Organization E recognizes the $890 accounting adjustment apart from expenses and outside its intermediate measure of operations. Because Organization E elects to present the accounting changes in a single line item, it discloses the individual components in the notes to financial statements (see paragraphs 10, 20, and 21).

Organization E
Statement of Activities
Year Ended June 30, 2007
(in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating:				
Revenues, gains, and other support:				
Private contributions, other than bequests	$ 65,000	$ 15,800		$ 80,800
Bequests	9,000			9,000
Government grants		7,000		7,000
Investment income used for operating activities	12,000	1,000		13,000
Sales of educational materials	1,000			1,000
Other	3,000			3,000
Net assets released from restrictions	15,000	(15,000)		0
Total revenues, gains, and other support	105,000	8,800		113,800
Expenses:				
Program services:				
Research and medical support	62,000			62,000
Public education	8,000			8,000
Community service	13,000			13,000
Total program services	83,000			83,000
Supporting services:				
Fund raising	9,000			9,000
Management and general	8,000			8,000
Total supporting services	17,000			17,000
Total expenses	100,000			100,000
Increase in net assets from operating activities	5,000	8,800		13,800
Nonoperating:				
Investment income in excess of amount used for operating activities	3,000			3,000
Contributions for endowment funds			$10,000	10,000
Increase in net assets before effect of adoption of FASB Statement No. 158	8,000	8,800	10,000	26,800
Effect of adoption of recognition and measurement date provisions of FASB Statement No. 158	(890)			(890)
Increase in net assets	7,110	8,800	10,000	25,910
Net assets, beginning of year	140,000	40,000	20,000	200,000
Net assets, end of year	$147,110	$ 48,800	$30,000	$225,910

Subsequent Year

A38. Organization E's actuary prepares a 12-month projection of net periodic pension cost for July 1, 2007, to June 30, 2008. The funded status of Organization E's defined benefit pension plan as of June 30, 2007 (repeated from above), and June 30, 2008, and amounts to be recognized as components of net periodic pension cost, are shown below. The cumulative net loss not yet recognized as a component of net periodic pension cost is less than 10 percent of the greater of the projected benefit obligation and the market-related value of plan assets. No plan amendments affect the period from July 1, 2007, to June 30, 2008. Assumptions about benefit payments and contributions made by Organization E have not been included in this example because those transactions are not affected by the provisions of this Statement. During the fiscal year ending June 30, 2008, Organization E:

a. Recognizes the additional net loss as a change in unrestricted net assets and a change in the liability that reflects the underfunded status of the plan
b. Recognizes the amortization of the transition obligation as a component of net periodic pension cost
c. Recognizes the amortization of prior service cost as a component of net periodic pension cost
d. Recognizes net periodic pension cost for 2008, reported within the appropriate functional expense categories.

	6/30/07	6/30/08
	(in thousands)	
Projected benefit obligation	$(3,670)	$(3,600)
Plan assets at fair value	2,510	2,385
Funded status	$(1,160)	$(1,215)
Items not yet recognized as a component of net periodic pension cost:		
Transition obligation	$ 240	$ 200
Prior service cost	275	175
Net loss	315	365
	$ 830	$ 740
Components of projected 12 months' net periodic pension cost for fiscal year 2008:		
Service cost	$ 110	
Interest cost	120	
Expected return on plan assets	(125)	
Amortization of prior service cost	100	
Amortization of net (gain) loss	0	
Amortization of transition obligation	40	
Net periodic pension cost	$ 245	

A39. For the year ending June 30, 2008, Organization E recognizes the amortizations of the transition obligation and prior service cost as components of net periodic pension cost and recognizes the additional loss arising during the year. The journal entries are shown below:

a. Recognize the additional loss in unrestricted net assets:

Net loss not yet recognized in net periodic pension cost	50	
Liability for pension benefits		50

b. Recognize the amortization of the transition obligation in net periodic pension cost:

Net periodic pension cost (functionalized)	40	
Transition obligation not yet recognized in net periodic pension cost		40

c. Recognize the amortization of prior service cost in net periodic pension cost:

Net periodic pension cost (functionalized)	100	
Prior service cost not yet recognized in net periodic pension cost		100

d. Recognize service cost, interest cost, and the expected return on plan assets in net periodic pension cost:

Net periodic pension cost (functionalized)	105[a]	
Liability for pension benefits		105

In its statement of activities, Organization E chooses to present one combined separate line item (encompassing the net loss arising during the year and the amortizations of the transition obligation and prior service cost) apart from expenses. Organization E would disclose the components of that combined line item in the notes to financial statements, pursuant to paragraph 10 of this Statement.

[a]Equals $110 service cost + $120 interest cost – $125 expected return on plan assets.

A40. The following statement of activities reflects the presentation of the combined line item if Organization E chooses to present it outside its intermediate measure of operations:

Organization E
Statement of Activities
Year Ended June 30, 2008
(in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating:				
Revenues, gains, and other support:				
Private contributions, other than bequests	$ 60,000	$ 14,200		$ 74,200
Bequests	17,000			17,000
Government grants		9,000		9,000
Investment income used for operating activities	11,500	1,000		12,500
Sales of educational materials	2,000			2,000
Other	2,000			2,000
Net assets released from restrictions	17,000	(17,000)		0
Total revenues, gains, and other support	109,500	7,200		116,700
Expenses:				
Program services:				
Research and medical support	58,000			58,000
Public education	9,000			9,000
Community service	15,000			15,000
Total program services	82,000			82,000
Supporting services:				
Fund raising	15,000			15,000
Management and general	9,000			9,000
Total supporting services	24,000			24,000
Total expenses	106,000			106,000
Increase in net assets from operating activities	3,500	7,200		10,700
Nonoperating:				
Investment income in excess of amount used for operating activities	1,500			1,500
Contributions for endowment funds			$15,000	15,000
Pension-related changes other than net periodic pension cost	90[b]			90
Increase in net assets	5,090	7,200	15,000	27,290
Net assets, beginning of year	147,110	48,800	30,000	225,910
Net assets, end of year	$152,200	$ 56,000	$45,000	$253,200

[b]Equals $40 amortization of transition obligation + $100 amortization of prior service cost – $50 net loss.

A41. The following statement of activities reflects the presentation of the combined separate line item if, alternatively, Organization E chooses to present it within its intermediate measure of operations. This alternative would not be available to Organization E if it was within the scope of AICPA Audit and Accounting Guide, *Health Care Organizations,* and presented a performance indicator pursuant to the provisions of that Guide.

Organization E
Statement of Activities
Year Ended June 30, 2008
(in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating:				
Revenues, gains, and other support:				
Private contributions, other than bequests	$ 60,000	$ 14,200		$ 74,200
Bequests	17,000			17,000
Government grants		9,000		9,000
Investment income used for operating activities	11,500	1,000		12,500
Sales of educational materials	2,000			2,000
Other	2,000			2,000
Net assets released from restrictions	17,000	(17,000)		0
Total revenues, gains, and other support	109,500	7,200		116,700
Expenses:				
Program services:				
Research and medical support	58,000			58,000
Public education	9,000			9,000
Community service	15,000			15,000
Total program services	82,000			82,000
Supporting services:				
Fund raising	15,000			15,000
Management and general	9,000			9,000
Total supporting services	24,000			24,000
Total expenses	106,000			106,000
Pension-related changes other than net periodic pension cost	90[c]			90
Increase in net assets from operating activities	3,590	7,200		10,790
Nonoperating:				
Investment income in excess of amount used for operating activities	1,500			1,500
Contributions for endowment funds			$15,000	15,000
Increase in net assets	5,090	7,200	15,000	27,290
Net assets, beginning of year	147,110	48,800	30,000	225,910
Net assets, end of year	$152,200	$ 56,000	$45,000	$253,200

[c]Equals $40 amortization of transition obligation + $100 amortization of prior service cost – $50 net loss.

Appendix B

BACKGROUND INFORMATION AND BASIS FOR CONCLUSIONS

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Appendix B

BACKGROUND INFORMATION AND BASIS FOR CONCLUSIONS

Introduction

B1. This appendix summarizes considerations that Board members deemed significant in reaching the conclusions in this Statement. It includes reasons for accepting certain approaches and rejecting others. Individual Board members gave greater weight to some factors than to others.

Background Information

B2. In November 2005, the Board added a project to its agenda to comprehensively reconsider the guidance in FASB Statements No. 87, *Employers' Accounting for Pensions,* No. 88, *Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits,* No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions,* and No. 132 (revised 2003), *Employers' Disclosures about Pensions and Other Postretirement Benefits.* The project was undertaken because of concerns about the existing accounting requirements for defined benefit postretirement obligations, including pensions.

B3. Statement 87 was issued in 1985 and was effective for financial statements for fiscal years beginning after December 15, 1986. It establishes standards of financial reporting and accounting for an employer that offers pension benefits to its employees. Statement 87 prescribes the measurement of net periodic pension cost and required recognition of a liability that at least equaled the excess, if any, of the accumulated benefit obligation over the fair value of plan assets. Statement 87 also did not limit the amount that could be recognized as an employer's asset (for example, contributions to the plan in excess of net periodic pension cost recognized), even if the plan was significantly underfunded.

B4. Statement 106 was issued in 1990 and was effective for financial statements for fiscal years beginning after December 15, 1992. Before the issuance of that Statement, an employer generally recognized, on a cash basis, the costs arising from the exchange of employee service for postretirement benefits other than pensions (principally, retiree health care). That is, the costs were recognized when the obligation was satisfied rather than when it was incurred. Statement 106 requires an employer to recognize the cost incurred over the periods in which employees render service in exchange for the promise to provide postretirement benefits. Statement 106 did not require that a minimum liability be recognized. Similar to Statement 87, it also did not limit the amount that could be recognized as an asset by an employer (for example, contributions to the plan in excess of net periodic postretirement benefit cost recognized).

B5. Statements 87 and 106 take similar approaches to the delayed recognition of certain economic events in measuring periodic benefit cost, to the net reporting of periodic benefit cost, and to the offsetting of assets and liabilities. Delayed recognition allows changes in the value of plan assets or in the benefit obligation (including changes resulting from plan amendments) that were not anticipated in measuring the net periodic benefit cost or benefit obligation to be recognized over subsequent periods instead of in the year they occur.

B6. The net reporting of periodic benefit cost means that the recognized consequences of different types of events and transactions affecting a postretirement benefit plan are aggregated into a single net amount (net periodic benefit cost) in an employer's financial statements. That reporting aggregates certain items that usually would be reported separately for any other part of an employer's operations, such as compensation cost of benefits promised, interest cost resulting from deferred payment of those benefits, and investment results from assets contributed to prefund the obligation.

B7. The offsetting of assets and liabilities refers to combining in an employer's statement of financial position the recognized effects of investing in plan assets and incurring liabilities for benefits. The assets and liabilities are offset, even though the liability has not been settled, the assets may still be largely controlled by the employer, and substantial risks and rewards associated with both of those amounts are borne by an employer.

B8. The primary criticisms of those and other features of the existing and past standards of accounting for postretirement benefit arrangements include the following:

a. An employer that sponsors a defined benefit plan is not required to recognize the economic events that affect the cost of providing postretirement benefits—the changes in plan assets and benefit obligations—as those changes take place.

b. Important information about postretirement plans is relegated to the notes to financial statements, in the form of a reconciliation of the overfunded or underfunded status to amounts recognized in the statement of financial position.
c. Net reporting of periodic benefit cost in an employer's reported results of operations obscures the individual effects of compensation, investing, and financing activities.

B9. The Board understood and acknowledged the first two of the above issues when it developed Statement 87. In Statement 87, the Board concluded that ". . . it would be conceptually appropriate and preferable to recognize a net pension liability or asset measured as the difference between the projected benefit obligation and plan assets, either with no delay in recognition of gains and losses, or perhaps with gains and losses reported currently in comprehensive income but not in earnings. However, it concluded that those approaches would be too great a change from past practice to be adopted at the present time" (paragraph 107). In Statement 87, the Board also noted that "because gains and losses may reflect refinements in estimates as well as real changes in economic values and because some gains in one period may be offset by losses in another or vice versa, this Statement does not require recognition of gains and losses as components of net pension cost of the period in which they arise" (paragraph 29; footnote reference omitted).

B10. The Board improved disclosures twice since Statements 87 and 106 were issued. FASB Statement No. 132, *Employers' Disclosures about Pensions and Other Postretirement Benefits,* issued in 1998, standardized the disclosure requirements for pensions and other postretirement benefits. Statement 132(R) added requirements for disclosures about the:

a. Types of plan assets held and the related investment strategy
b. Employer's annual measurement date(s) used in the accounting for the benefit arrangements
c. Plan obligations and expected near-term cash flows
d. Components of net periodic benefit cost recognized during interim periods.

B11. Some constituents believe the disclosures that are required by Statement 132(R) compensate for the lack of transparency that results from delayed recognition and net reporting. However, in Statement 87, the Board observed that:

> Footnote disclosure is not an adequate substitute for recognition. The argument that the information is equally useful regardless of how it is presented could be applied to any financial statement element, but the usefulness and integrity of financial statements are impaired by each omission of an element that qualifies for recognition. . . . If the argument were valid, the consequences of recognition would not be different from those of not recognizing but disclosing the same information. . . . [paragraph 116]

B12. When issued, Statements 87 and 106 represented evolutionary improvements in accounting. However, many years have passed and requests for the Board to address issues related to employers' accounting for defined benefit postretirement plans have increased. Those requests were made by users of financial statements and others, including the SEC staff (in its June 2005 report to Congress on off-balance-sheet arrangements that was required by the Sarbanes-Oxley Act of 2002), members of the Board's Financial Accounting Standards Advisory Council and User Advisory Council, and representatives of the Pension Benefit Guaranty Corporation. Those constituents urged the Board to undertake a project that would improve the transparency and understandability of an employer's financial statements regarding the costs and obligations of providing postretirement benefits. Those improved financial statements would better serve the informational needs of equity owners, creditors, employees, retirees, donors, and other users.

B13. In light of the Board's discussions in the development of Statement 87, particularly the conclusions summarized in paragraph B9 of this Statement, as well as requests from certain constituents, the Board concluded that the accounting for defined benefit postretirement plans should be reconsidered. Although the trend of sponsoring defined benefit postretirement plans, particularly defined benefit pension plans, has declined in recent years, the Board decided to address the perceived deficiencies in the accounting because of the long-term nature and magnitude of existing arrangements.

B14. In March 2006, the Board issued an Exposure Draft, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans,* and received comment letters from over 245 respondents. On June 27, 2006, the Board held 2 public roundtable meetings with a total of 33 constituents to discuss issues raised in the comment letters. At the roundtable meetings, constituents discussed several aspects of the Exposure Draft, including the scope and objective of the project; implementation of the proposed recognition provisions; measurement and effective date provisions; perceived economic consequences, including the effect of the proposed Statement on financial metrics referenced in contractual arrangements of nonpublic employers; and other matters.

B15. In July and August 2006, the Board redeliberated the issues raised by respondents to the Exposure Draft and by participants in the roundtable meetings. During redeliberations, the Board affirmed its conclusion that greater transparency and understandability of an employer's financial statements related to postretirement benefit obligations were necessary to better serve the needs of investors, creditors, donors, employees, retirees, and other capital market participants in making rational investment, credit, and similar resource allocation decisions.

Scope

B16. The Board intends to comprehensively reconsider the accounting for postretirement benefit plans. A project to improve and internationally converge the accounting will take years to complete. Thus, to provide timely and significant improvements in postretirement benefit accounting, the Board decided to conduct the project in phases. The first phase led to this Statement.

B17. The objective of this Statement is to improve the understandability and representational faithfulness of the amounts reported in an employer's statement of financial position by recognizing as an asset or a liability the overfunded or underfunded status of a single-employer defined benefit postretirement plan. This Statement does not change the accounting and reporting with respect to a multiemployer plan, and it does not change the amount of net periodic benefit cost recognized in earnings.

B18. This Statement does not change the basic approach to measuring plan assets, benefit obligations, or net periodic benefit cost. This Statement requires an employer to recognize the gains or losses and the prior service costs or credits that arise during the period but are not recognized as components of net periodic benefit cost of the period as a component of other comprehensive income, or other appropriate components of equity or net assets in the statement of financial position for an entity that does not report other comprehensive income. To more accurately reflect the funded statuses of defined benefit plans and to further improve the understandability of the financial statements, this Statement also requires that the measurement of plan assets and benefit obligations be as of the date of the employer's statement of financial position, not up to three months earlier as had been permitted by Statements 87 and 106.

B19. Some respondents suggested that the Board expand the scope of the first phase to include reconsideration of measurement of a benefit obligation before requiring recognition of the funded status of a defined benefit postretirement plan in an employer's statement of financial position. Others suggested that the Board address all proposed changes in a single comprehensive project to prevent multiple large adjustments to shareholders' equity should the Board later determine that recognition should be based on measures other than the projected benefit obligation (for pensions) and accumulated postretirement benefit obligation (for other postretirement benefits). They stated that a phased approach could result in confusing financial statements in the interim between the two phases.

B20. Many respondents, whether or not they supported a phased approach, considered the projected benefit obligation to be an inappropriate measure of the liability for pension benefit obligations because they believe it does not meet the definition of a liability under FASB Concepts Statement No. 6, *Elements of Financial Statements.* Specifically, they stated that because that measure reflects estimated future increases in compensation, it does not represent a present obligation. Of those respondents, most thought that the accumulated benefit obligation should be used to measure the liability for pension benefits because it does not reflect future increases in compensation and because it better reflects the amount the obligation could be settled for with a third party.

B21. Other respondents suggested that recognizing the funded status using the projected benefit obligation represented a change in measurement that was outside the scope of the first phase. They considered it to be a change in measurement because Statement 87 only required a minimum pension liability to be recognized when the accumulated benefit obligation was greater than the fair value of plan assets.

B22. During redeliberations, the Board affirmed its prior decision to conduct the project in phases. The objective of the first phase was to make meaningful, near-term improvements in an employer's financial reporting of pensions and other postretirement benefits by making the statement of financial position more complete, transparent, and understandable. In deciding to exclude measurement of the obligation from the scope of this Statement, the Board considered the following factors:

a. In Statement 87, the Board concluded after extensive debate that the pension obligation did meet Concepts Statement 6's definition of a liability and that the projected benefit obligation was the most relevant measure of the pension obligation. That conclusion was not one of the departures from the conceptually preferable alternatives acknowledged in Statement 87. The Board's current decision, therefore, is consistent with that conclusion. The Board decided to accept the Board's assessment in Statement 87 for purposes of the first phase of the project.
b. Most users of financial statements that commented on the Exposure Draft believe the projected benefit obligation reflects an employer's economic obligation and the terms of the substantive plan.
c. Using a measure of the obligation other than the projected benefit obligation might necessitate changing how other assumptions are determined, specifically the discount rate. Views on that issue are described in paragraphs 140–142 of Statement 87's basis for conclusions.
d. For most plans that provide postretirement benefits other than pensions, there is no measure of the obligation that is analogous to the accumulated benefit obligation in a pension plan. Therefore, if the Board was to require that the accumulated benefit obligation be used to measure the pension obligation, the Board also would have to determine the equivalent measure for other postretirement benefits. Thus, the issue is broader than pension plans alone.
e. There generally has been no criticism that the measure of net periodic pension cost should exclude the effects of future compensation increases. Paragraph 139 of Statement 87's basis for conclusions states:

> Among those respondents who argued that obligations dependent on future compensation increases are excluded by the definition of a liability, very few were prepared to accept a measure of net periodic pension cost that was based only on compensation to date. The Board notes that under the double entry accounting system, recognition of an accrued cost as a charge against operations requires recognition of a liability for that accrued cost. Thus, excluding future compensation from the liability and including it in net periodic pension cost are conflicting positions.

B23. Furthermore, present measurements of the pension obligation, including the accumulated benefit obligation, reflect factors relating to expectations about the future, for example, future employee service and eligibility for actuarially unreduced early retirement benefits. The Board affirmed that the scope of the first phase of the project should exclude reconsidering which forward-looking information should be included in the measure of the obligation to be recognized. The Board noted that it would be inconsistent to reconsider some and not others.

B24. Some respondents did not support recognition of other postretirement benefits using the accumulated postretirement benefit obligation. Those respondents stated that retiree health care is a revocable commitment by an employer because an employer typically has the discretion to unilaterally freeze, reduce, or withdraw those benefits. Therefore, respondents suggested that obligations should only be recognized when participants become fully eligible for the benefits or when the obligation is legally enforceable.

B25. The Board acknowledges that the legal statuses of pension benefits and retiree health care benefits are generally different. However, that difference existed when Statement 106 was issued. Statement 106 focuses on substantive postretirement benefit plans. The issues raised by certain respondents to the Exposure Draft are fundamental to the accounting and are inconsistent with the assumption of an ongoing plan that underlies both Statements 87 and 106.

B26. For the reasons noted in paragraphs B22–B25, the Board affirmed its prior decision to require an employer to recognize the funded status—measured as the difference between the fair value of plan assets and the benefit obligation—in its statement of financial position. For a pension plan, the benefit obligation should be the projected benefit obligation; for any other postretirement benefit plan, such as a retiree health care plan, the benefit obligation should be the accumulated postretirement benefit obligation.

The Board's decision simply carries over the measurement principles from Statements 87 and 106 and the conclusion that the projected benefit obligation is the most relevant measure of a defined benefit pension obligation.

B27. The Board expects to readdress in the second phase of the project many issues that were initially addressed by Statements 87 and 106 as well as those that have been raised about the measurement of postretirement benefit obligations, such as the effects of evolving changes in benefit plan design (for example, cash balance pension plans and plans with lump-sum benefits payable upon an employee's termination). However, the Board's commitment to readdress those issues and the issues raised by respondents to the Exposure Draft should not be viewed as a conclusion that the present measurements of defined benefit postretirement obligations are inappropriate or will change. The issues about measurement of postretirement benefit obligations are complex, and considering them will require substantial time. Therefore, considering those issues as part of this Statement would have delayed other significant improvements the Board concluded should be made promptly. In the second multiyear phase of the project, the Board will comprehensively reconsider those and other accounting issues for postretirement benefit obligations, including:

a. How the items that affect the cost of providing postretirement benefits should be recognized and displayed in earnings or other comprehensive income
b. How to measure an employer's benefit obligations, including whether more or different guidance should be provided about measurement assumptions
c. Whether postretirement benefit trusts should be consolidated by the plan sponsor.

B28. The Board expects that the second phase of the project will benefit from:

a. Progress on the project to complete, improve, and converge the FASB's conceptual framework with the International Accounting Standards Board's (IASB) framework
b. Progress on the joint FASB-IASB project on financial statement presentation
c. Progress on researching and analyzing the accounting for cash balance pension plans and plans with lump-sum benefits payable upon an employee's termination.

However, the Board does not intend that progress on the second phase must await completion of any other project on its agenda.

Amendments Considered and Made

Recognition of the Funded Status

B29. The Board wished to implement significant improvements in financial reporting on a more timely basis than would be possible in the context of its comprehensive project described in paragraph B27. Therefore, the Board decided not to consider in this Statement changes in either the basic approach for measuring plan assets and benefit obligations or the basic approach for measuring and reporting the amount of net periodic benefit cost recognized in annual or interim financial statements. As described in paragraph B22, the Board concluded in Statement 87 that the projected benefit obligation is the conceptually appropriate and preferable measure of the benefit obligation. Statement 87's basis for conclusions explains the Board's reasons for that conclusion.

B30. The Board reasoned that financial reporting will be significantly improved by requiring recognition in an employer's statement of financial position of the funded statuses of its sponsored defined benefit postretirement plans other than multiemployer plans. The Board believes that recognition requirement will significantly improve the understandability of reported financial information, thereby facilitating analysis of an employer's financial reports.

B31. After determining that the funded statuses of all plans should be recognized, the Board considered how those recognized amounts should be displayed. The Board decided to require separate recognition of an asset for overfunded plans and separate recognition of a liability for underfunded plans. The Board rejected the alternative of aggregating all plans and reporting the net amount as a single net asset or net liability because an employer does not have the ability to offset excess assets of one plan against the underfunded obligations of another plan, other than through a legal merger that may or may not be possible. In reaching that conclusion, the Board affirmed paragraph 156 of Statement 87's basis for conclusions, which states:

> The Board believes that an employer with one well-funded plan and another less well funded or unfunded plan is in a different position than an employer with similar obligations and assets in a single plan. The Board

was not convinced that combining plans would be easy or even possible in many cases. For example, the Board believes it would be difficult to combine a qualified plan with an unqualified plan or a flat benefit plan with a final-pay plan. Further, netting all plans would be inconsistent with other standards that preclude offsetting assets and liabilities unless a right of offset exists.

Respondents generally agreed that the funded statuses of overfunded plans and underfunded plans should not be aggregated and recognized as a single net amount.

Gains and Losses

B32. Gains and losses are changes in measures of the benefit obligation or plan assets that occur during a period because of differences between experience and assumptions or that occur because of changes in one or more actuarial assumptions. For example, gains and losses can arise from differences between the expected return and actual return on plan assets, from changes in the benefit obligation due to changes in discount rates, or from changes in assumptions about future compensation, retirement dates, mortality rates, employee turnover, retiree participation rates, health care cost trend rates, or government subsidies.

B33. The Board acknowledges that before this Statement delayed recognition in net periodic benefit cost of gains and losses was often the principal reason why an employer had not recognized the overfunded or underfunded statuses of its postretirement benefit plans in its statement of financial position. In developing the provisions of this Statement, the Board considered how those previously unrecognized gains and losses should be recognized, specifically, whether they should be recognized by a business entity in other comprehensive income.

B34. The Board proposed that gains and losses arising during a period but not included as a component of net periodic benefit cost of that period be recognized as increases or decreases in other comprehensive income. Gains and losses initially recognized in other comprehensive income should be adjusted as they are subsequently recognized as a component of net periodic benefit cost based on the applicable recognition or amortization requirements of Statement 87, 88, or 106.

B35. Most respondents supported recognition through other comprehensive income. Respondents representing cooperative businesses stated that recognizing gains and losses in that manner would be a disadvantage to businesses with contractual arrangements that require an employer to buy or sell equity or membership interests at book value. They asked the Board to consider allowing recognition as an asset (a deferred charge) or as a liability (a deferred credit) amounts that would otherwise decrease or increase shareholders' equity. The Board considered that suggestion but concluded that it would not be representationally faithful to report losses and gains, such as those from the performance of plan assets, as deferred charges or credits because those items do not meet the definition of an asset or a liability in Concepts Statement 6.

B36. In affirming its conclusions about the recognition of previously unrecognized gains and losses, the Board noted that the recognition requirements of this Statement eliminate any need to recognize a minimum pension liability. In addition, recognition of previously unrecognized gains and losses through other comprehensive income is consistent with the prior required accounting for any net unrecognized gain or loss that was recognized when an additional minimum pension liability was recognized. Recognition of gains and losses in other comprehensive income is consistent with the objective of this Statement not to change how net periodic benefit cost is determined. This Statement does not change the past practice of delaying recognition of gains and losses as a component of net periodic benefit cost, reflecting the long-term nature of postretirement benefit arrangements. Furthermore, that treatment is consistent with the practice of including in other comprehensive income certain changes in value that have not been recognized in earnings (for example, unrealized gains or losses on available-for-sale equity securities). Decisions about such potential changes in the recognition of net periodic benefit cost will be considered in the second phase of the project.

Prior Service Costs and Credits

B37. Before this Statement, the effect of a plan amendment that retroactively changes benefits attributable to prior employee service was not fully recognized in net periodic benefit cost in the period the amendment was adopted. The Board considered the following two alternatives for a business entity for recognizing the remaining unamortized prior service costs or credits that result from previous plan amendments or initiations:

a. Recognition through other comprehensive income
b. Recognition as an intangible asset (or negative intangible asset that would be considered as a reduction of employee-related intangible assets, some of which are unrecognized).

B38. The Board members who supported the alternative to classify previously unrecognized prior service costs and credits in the statement of financial position on an aggregate basis for all plans as a net intangible asset (or net negative intangible asset) considered that approach to be consistent with the previous accounting required when an additional minimum pension liability was recognized and an intangible asset was recognized to the extent of any unrecognized prior service cost. Those Board members also noted that unrecognized prior service costs and credits are not characterized as losses or gains in Statements 87 and 106. Therefore, they are unlike other items presently recognized in other comprehensive income. Although those Board members questioned whether the effect of a plan amendment qualifies conceptually for recognition as an asset or negative asset, they concluded that the characterization of such an effect, as set forth in Statements 87 and 106, would best be reconsidered during the second phase of the project.

B39. The Board members who supported recognition through other comprehensive income noted the reasoning in paragraph 286 of Statement 106:

> Some Board members support immediate recognition of prior service cost as an expense, particularly the portion related to existing retirees. Although some intangible economic benefits of a plan initiation or amendment may be received in future periods from benefit improvements for active plan participants, they believe that those intangible benefits do not qualify for recognition as an asset. Therefore, they believe there is little basis for delaying recognition of the underlying prior service cost to future periods. Other Board members believe that a plan initiation or amendment is made with a view to benefiting the employer's future operations through reduced employee turnover, improved productivity, or reduced demands for increases in cash compensation.

B40. The Board decided to adopt the first alternative and require prior service costs and credits to be recognized initially through other comprehensive income and subsequently recognized as a component of net periodic benefit cost based on the existing recognition and amortization provisions of Statements 87, 88, and 106.

B41. That approach also is consistent with the treatment of previously unrecognized gains and losses. The Board reasoned that there is not a sufficient distinction between previously unrecognized gains and losses and prior service costs and credits to support different accounting treatment. In addition, the resulting accounting is simple, transparent, and symmetrical. The Board believes that an amendment that increases benefits attributable to service already rendered does not give rise to an asset and the reduction of benefits by a negative plan amendment does not give rise to a liability. The Board rejected the notion of a negative intangible asset on both conceptual and understandability grounds. The Board also concluded that recognition of prior service costs and credits related to both retired employees and active employees should be reconsidered in the second phase of the project. Doing so will take full advantage of the ongoing work in the conceptual framework project related to the definitions of an asset and a liability.

Transition Assets and Obligations

B42. Upon initial application of Statement 87 or 106, an employer typically had an unrecognized net asset or an unrecognized net obligation measured as the difference between the funded status of the plan and amounts recognized in the employer's statement of financial position. For postretirement benefits other than pensions, it often was a net obligation because those benefits are not typically funded by plan assets. Statement 87 required delayed recognition for the net transition asset or obligation by requiring prospective recognition (amortization) as part of net periodic benefit cost.

B43. The transition guidance in Statement 106 permitted, but did not require, an employer to delay recognition and amortize the transition asset or obligation on a basis similar to Statement 87's requirements. The Board observed that even though Statement 87 was issued in 1985, and Statement 106 was issued in 1990, certain employers have yet to completely amortize the transition asset or obligation.

B44. The Board considered various alternatives for a business entity to recognize any remaining transition asset or obligation upon initial application of this Statement, including:

a. Adjust retained earnings, similar to the accounting for changes in an accounting principle.
b. Recognize an intangible asset for a transition obligation or recognize a credit in accumulated other comprehensive income for a transition asset.
c. Recognize an increase or decrease in accumulated other comprehensive income, similar to the recognition treatment for unrecognized gains and losses.
d. Elect either alternative (a) or (b).

B45. The Board proposed the first alternative in the Exposure Draft, which would have required that any remaining transition amounts be recognized under the retrospective transition method proposed by the Exposure Draft as direct charges or credits to beginning retained earnings, net of applicable income taxes. Those amounts would not have been subsequently recognized as a component of net periodic benefit cost. The Board viewed any remaining transition asset or obligation as similar to the cumulative effect resulting from a change in accounting principle that should not affect current or future reported earnings. The Board believed that alternative would reduce recordkeeping costs and improve the comparability of ongoing net periodic benefit cost reported between an employer that elected immediate recognition of the transition amount for Statement 106 and one that did not.

B46. Some respondents stated that recognizing any remaining transition asset or obligation as an adjustment of retained earnings was inconsistent with the Board's stated objective of not changing net periodic benefit cost, since those amounts would no longer be amortized. Furthermore, some respondents indicated that the amount of the transition asset or obligation remaining after having been amortized for many years since initial adoption of Statements 87 and 106 generally was not significant and, therefore, the costs associated with changing accounting procedures should not be imposed by the Board. Other respondents were concerned with the proposed accounting's effects for rate regulated entities.

B47. As a result of respondents' feedback through comment letters and the roundtable meetings, the Board concluded that the benefits of recognizing any remaining transition asset or obligation as an adjustment of retained earnings did not exceed the costs and was inconsistent with the Board's intent not to change amounts reported as net periodic benefit cost as part of the first phase of the project. Therefore, the Board decided that previously unrecognized transition assets or obligations resulting from the initial adoption of Statements 87 and 106 should be recognized in the same way as previously unrecognized net gains and losses and prior service costs and credits (the second alternative); that is, those previously unrecognized transition assets or obligations should be recognized as an adjustment to accumulated other comprehensive income with subsequent amortization as a component of net periodic benefit cost pursuant to the existing recognition and amortization provisions of Statements 87, 88, and 106.

Classification of Recognized Assets and Liabilities

B48. Respondents to the Exposure Draft asked the Board to clarify how net postretirement benefit liabilities would be reported in a classified statement of financial position. The Board decided to provide explicit guidance about the net postretirement assets and liabilities in a classified statement of financial position. The Board concluded that an employer that presents a classified statement of financial position should report the liability for an underfunded plan as a current liability, a noncurrent liability, or a combination of both. The current portion (determined on a plan-by-plan basis) is the amount by which the actuarial present value of benefits included in the benefit obligation payable in the next 12 months, or operating cycle if longer, exceeds the fair value of plan assets. If plan assets exceed the actuarial present value of those payments, the unfunded obligation should be classified as a noncurrent liability. The amount classified as a current liability is limited to the amount of the plan's unfunded status recognized in the employer's statement of financial position.

B49. The Board considered an alternative whereby a current liability would be based on the contributions required to prefund the plan over the next fiscal year or operating cycle if longer. Board members who supported that alternative reasoned that postretirement benefit plans are not consolidated and that the net liability recognized for an underfunded plan represents an employer's obligation to contribute assets to the plan.

B50. The Board rejected the alternative approach. The Board reasoned that the amount expected to be contributed to prefund the plan was substantively an intercompany transaction that should not affect the classification of the benefit payment liability. Because the net overfunded or underfunded status is based on the difference between the plan assets and benefit obligation, the plan assets and benefit obligation have been effectively consolidated and presented on a net basis for reporting purposes. The Board decided to place the emphasis on cash outflows from the employer to independent third parties. To the extent there are sufficient plan assets to cover benefit payments to plan participants and settlements of the obligation (for example, to a retiree or an insurance company), none of the net postretirement liability should be classified as current. To the extent there are insufficient plan assets, the employer would disburse cash to an independent third party (for example, a retiree). The amount of that expected disbursement should be classified as a current liability. The Board reasoned that net postretirement assets should be classified as noncurrent because their use is generally restricted to the payment of benefit obligations and because any refunds from the plan essentially represent a transfer of the employer's assets to itself. The Board decided to require disclosure of the amount and timing of any plan assets expected to be returned to the employer during the 12-month period, or operating cycle if longer, that follows the most recent statement of financial position presented in annual financial statements.

Measurement Date

B51. Statements 87 and 106 required that plan assets and benefit obligations be measured as of the date of an employer's fiscal year-end statement of financial position or, if used consistently from year to year, as of a date not more than three months before that date. The Exposure Draft proposed eliminating the choice of a measurement date other than the date of an employer's fiscal year-end statement of financial position. Measuring postretirement plans as of the date of an employer's fiscal year-end statement of financial position would improve the representational faithfulness of amounts recognized by eliminating delayed recognition of events and transactions arising between the measurement date and the fiscal year-end.

B52. Some respondents stated that any change in measurement date should be considered in the second phase of the project because it relates to measurement, which the Board stated was beyond the scope of the first phase. The Board noted that the notion of recognizing the overfunded or underfunded statuses of postretirement plans as of the fiscal year-end is inseparable from measuring those statuses as of the same point in time. Therefore, aligning the measurement date with the date of an employer's statement of financial position is a prerequisite to recognizing the overfunded or underfunded status as of the reporting date. The Board acknowledges that a change in measurement date will affect net periodic benefit cost for some employers. However, those changes in amounts are not the result of a fundamental change in how the amounts are determined. Therefore, those changes are consistent with the objectives and scope of the first phase of the project.

B53. Many respondents to the Exposure Draft acknowledged the conceptual merit of measuring plan assets and benefit obligations as of the date of an employer's statement of financial position. However, a majority of respondents thought the costs would outweigh the benefits. Those respondents stated that collecting data related to certain plan assets and benefit obligations could be time-consuming. Determining the fair value of plan assets that do not have readily available market values (for example, private equity and real estate) and collecting data related to foreign plans can be particularly difficult. They also noted that the sequential nature of the flow of information from an investment manager to an actuary, and then to an employer and an auditor, adds a significant amount of time to the data collection and analysis process. Other respondents raised concerns that the proposed change would put additional stress on actuarial resources at the end of the calendar year and would likely increase the cost of services.

B54. Some respondents stated that aligning the measurement date and fiscal year-end would not result in more reliable measures of liabilities due to the long-term nature of postretirement benefit obligations. Respondents described the long-term nature of postretirement benefit obligations, the relative uncertainty associated with estimating future cash flows, and what they believed was an illusory improvement (false precision) associated with measuring benefit obligations as of the date of the statement of financial position.

B55. The Board reasoned that allowing alternative measurement dates added complexity and reduced understandability because potentially significant changes in plan assets and benefit obligations that arise after the measurement date but before the fiscal year-end are not recognized until the following period. The required note disclosures to reconcile plan assets and benefit obligations as of that earlier measurement date to amounts recognized in an employer's statement of financial position as of the reporting date also added complexity. Aligning the measurement date with the date of an employer's statement of financial position makes reported postretirement benefit information more representationally faithful and increases the comparability of financial statements of employers with similar fiscal years.

B56. During redeliberations, the Board considered an alternative to an explicit requirement that an employer measure plan assets and benefit obligations at the date of its statement of financial position. That alternative would have established an objective similar to IAS 19, *Employee Benefits,* which does not specify the date on which plan assets and benefit obligations are to be measured. Instead, IAS 19 requires that amounts recognized not be materially different from what they would be if they had been determined as of the date of an employer's statement of financial position. The Board noted that such a provision can raise issues about how to determine materiality and whether such a provision was intended to be different from, or in addition to, the materiality exemption set forth at the end of the standards section of this Statement. Further, that provision may often require an employer to measure plan assets and benefit obligations as of its fiscal year-end so it can assess the materiality of any differences between those amounts and amounts determined as of an earlier measurement date. The notion in IAS 19 could be applied to other amounts in an employer's statement of financial position; however, that notion is not present in other standards. Therefore, the Board decided against adopting that approach as an alternative to requiring that plan assets and benefit obligations be measured as of the employer's fiscal year-end.

B57. The Board noted that many employers already measure postretirement plan assets and obligations, at least for some of their plans, as of their fiscal year-ends, which suggests that it is often practicable to obtain the necessary data as of the reporting date. Furthermore, the Board noted that recognizing the funded statuses of postretirement plans in the statement of financial position increases the importance of measuring postretirement assets and obligations as of the same date as the employer's other reported assets and liabilities. Therefore, the Board affirmed its prior decision to require an employer to measure the funded status of a plan as of the date of its statement of financial position. However, the effective date for this change was delayed to fiscal years ending after December 15, 2008, to provide more time for a preparer and its external resource providers to implement any necessary changes in systems and processes in an efficient manner.

Note Disclosures Required

Transitional Disclosures

B58. This Statement requires transitional disclosures for a fiscal year ending after December 15, 2006, and before June 16, 2007, if an employer has not implemented this Statement as a result of the delayed effective date allowed for an employer without publicly traded equity securities (paragraph 14). The Board decided that an employer should provide a brief description of the provisions of this Statement, the date that adoption is required, and the date that the employer plans to adopt the recognition provisions of this Statement, if earlier. That disclosure will provide users, particularly parties that have contractual or other relationships with an employer that might be affected by this Statement, with an early notice of any significant accounting changes resulting from this Statement. Such disclosure is similar to the disclosures required for SEC registrants pursuant to SEC Staff Accounting Bulletin No. 74, *Disclosure of the Impact That Recently Issued Accounting Standards Will Have on the Financial Statements of the Registrant When Adopted in a Future Period.*

B59. The Board agreed to explicitly require an employer to disclose in the notes to financial statements the incremental effect of applying this Statement on line items in the year-end statement of financial position for the year that the recognition provisions of this Statement are initially applied. The Board noted that this disclosure will give users a basis to isolate the effects of this Statement from other changes that occur during the year. The Board concluded that this Statement has the potential to affect several line items on an employer's statement of financial position and, therefore, it was important to provide users with clear information about this Statement's effects.

B60. The Board agreed that any other disclosures ordinarily required by FASB Statement No. 154, *Accounting Changes and Error Corrections,* would not apply to the recognition of the net overfunded or underfunded status or to changes in the measurement date required to measure plan assets and benefit obligations as of the date of an employer's statement of financial position. The Board concluded that the disclosures required by Statement 154 are not necessary for those changes. However, the Board decided that this Statement should require that the effects of the changes on retained earnings, accumulated other comprehensive income, and other comprehensive income not be obscured through aggregation of the effects with other unrelated items. Furthermore, the Board decided that a business entity should disclose, in the year the measurement date provisions of this Statement are initially adopted, the separate adjustments of retained earnings and accumulated other comprehensive income from applying this Statement. That disclosure may be made either by reporting the adjustments as separate line items within the statement of changes in shareholders' equity or by disclosing the adjustments in the notes to financial statements. A not-for-profit organization should disclose similarly the separate adjustments of unrestricted net assets either within the statement of activities or in the notes to financial statements.

Amendments to Existing Disclosure Requirements Made Necessary by Changes in Recognition

Reconciliation of the funded status to amounts recognized

B61. This Statement's recognition requirements for gains or losses, prior service costs or credits, and any remaining transition asset or obligation related to the initial application of Statement 87 or 106 eliminate all differences between a plan's funded status and amounts recognized in an employer's statement of financial position. Therefore, this Statement eliminates the previous requirement in paragraph 5(c) of Statement 132(R) to reconcile the funded status of the plan to amounts recognized in the employer's statement of financial position once the employer applies both the recognition provisions and measurement date provisions of this Statement. Likewise, this Statement eliminates the Statement 132(R) disclosures that reference the additional minimum pension liability (paragraphs 5(i), 8(g), and 8(h)) and measurement date (paragraphs 5(k) and 8(j)).

Disclosure by a business entity of amounts recognized in other comprehensive income and accumulated other comprehensive income

B62. The Board considered the items that are initially recognized in other comprehensive income pursuant to this Statement and subsequently recognized as components of net periodic benefit cost based on the recognition and amortization provisions of Statements 87, 88, and 106 and concluded that they should be separately disclosed. That is, gains or losses and prior service costs or credits from plan amendments arising during the period and amortization of gains or losses, prior service costs or credits, and the transition asset or obligation for the period should be disclosed to provide information about the nature of the items affecting an employer's financial statements. The Board decided not to require separate disclosure of the amount recognized in other comprehensive income from application of the measurement date provisions of this Statement when the alternative transition approach (paragraph 19) is elected. Under the alternative approach for a change in measurement date, the net gain or loss associated with the change in measurement date cannot be separated from the net gain or loss recognized in other comprehensive income for the period. The Board concluded that requiring an employer that elects this method to allocate the net gain or loss recognized in other comprehensive income would result in disclosures that are based on arbitrary amounts that may not be representationally faithful.

B63. The Board recognizes that certain of those disclosures might be redundant with other standards, given paragraphs 17 and 24–26 of FASB Statement No. 130, *Reporting Comprehensive Income*. However, disclosure related to certain amounts reported in the statement of changes in shareholders' equity could be satisfied by cross-referencing to the postretirement benefits note, which would be more complete under the approach selected by the Board. Furthermore, Statement 130 allows alternative disclosure formats. Requiring certain disclosures in the notes describing postretirement benefits will result in more consistent disclosure of the information by all employers. It also will eliminate the need for a user to analyze multiple parts of the financial statements and notes to find all relevant information about the accounting for postretirement benefits.

Estimated amount of amortization for the next fiscal year

B64. Some respondents requested additional disclosures about the effect of the delayed recognition provisions of Statements 87 and 106 on net periodic benefit cost for future periods because they find it difficult to project the amortization of gains or losses and prior service costs or credits. Others asked the Board to consider requiring disclosure of all projected components, including service cost, interest cost, and investment returns. However, others noted that all elements of net periodic benefit cost already recognized are disclosed in interim-period financial reports. Therefore, projections for at least the remainder of the year should be enhanced.

The Board considered three alternatives:

a. Require separate disclosure of the amounts subject to amortization (that is, gains or losses beyond the corridor established by paragraphs 32 and 33 of Statement 87 and paragraphs 59 and 60 of Statement 106, respectively, and prior service costs or credits) and the average period over which each item is amortized
b. Require disclosure of the estimated portions of the net gain or loss and the prior service cost or credit in accumulated other comprehensive income that will be recognized as components of net periodic benefit cost over the fiscal year that follows the most recent annual statement of financial position presented
c. Permit an employer to choose either of the foregoing alternatives and require that disclosure only if the amount is expected to differ significantly from the current period.

B65. The Board evaluated those alternatives in light of its decision to make only those changes in disclosure requirements that are directly related to the changes to recognition made by this Statement. The Board noted that the first alternative might be of limited usefulness, and potentially misleading, if the reclassification pattern is other than straight line. Therefore, the Board affirmed the disclosure proposed in the Exposure Draft (the second alternative) because that alternative provides a straightforward and easily understood forecast (and not merely the information that could be used to form a forecast). Also, the data to prepare that forecast should be readily available to an employer. The Board decided that such disclosure should include all amounts subject to amortization and, therefore, also should include the estimated portion of any net transition asset or obligation that will be recognized as a component of net periodic benefit cost over the fiscal year that follows the most recent statement of financial position presented.

Excess or surplus plan assets

B66. Respondents asked the Board to provide additional guidance on the current-noncurrent classification of net postretirement benefit assets and liabilities recognized. The Board decided to provide additional guidance and to require disclosure of the amount and timing of any plan assets expected to be returned to the employer during the 12-month period, or operating cycle if longer, that follows the most recent statement of financial position presented (see paragraphs B48–B50).

Note Disclosures Considered but Not Required

B67. The Board considered, but decided not to require, the disclosures described in paragraphs B68–B74. Each proposed disclosure was rejected for reasons noted below as well as for one or more of the following reasons: the disclosed information would have limited usefulness, the disclosure was considered and rejected by the Board during previous projects, such as Statement 132(R), and the disclosure was outside the scope of the first phase of the project.

Disclosure of the Retroactive Effect of This Statement on the Prior Year's Statement of Financial Position

B68. To make year-to-year financial statements comparable, the Exposure Draft proposed requiring retrospective application of this Statement effective for fiscal years ending after December 15, 2006, for all changes except those that relate to the measurement date. Respondents argued that the costs associated with retrospective application would exceed the benefits that would be derived from year-to-year comparability. The Board determined in its redeliberations that retrospective application would not be required or permitted by this Statement.

B69. Some respondents suggested limited retrospective application, at least for the year immediately preceding the initial year the recognition provisions of this Statement are implemented. The Board considered whether to require disclosure of the effect that recognizing the funded statuses would have had on the individual line items in the statement of financial position for the end of the year immediately preceding the year of adoption. The Board considered the implementation issues associated with providing that disclosure, primarily those related to accounting for deferred income taxes. Preparers would still have to assess the realizability of any incremental deferred tax assets and possibly other issues as noted in paragraphs B89 and B90. Additionally, not all employers would be affected equally if the Board retained an impracticability exemption from the disclosure requirement because an employer was unable to assess the realizability of deferred tax assets for the prior year without considering information that subsequently became available.

B70. The Board considered allowing an employer to use information obtained after the end of the prior fiscal year in developing its forecast of the reversal of temporary differences and future taxable income. The Board decided, however, that determining the deferred tax accounting, including the realizability of deferred taxes on a retrospective basis, with or without the use of hindsight, was subject to sufficient implementation difficulties that made it not justifiable on a benefit-cost basis. The Board also concluded that there was extensive information already available in the notes to financial statements for that prior year.

Market-Related Value

B71. The market-related value of plan assets is used to determine the expected-return-on-plan-assets component of net periodic benefit cost. It also is used to establish the minimum annual amortization threshold (that is, 10 percent of the greater of the market-related value of plan assets or the benefit obligation) for gains or losses not yet recognized as a component of net periodic benefit cost. The Board considered, but decided not to require, disclosure of the market-related value of plan assets and the method used to determine it. Certain users of financial statements asked the Board to consider that disclosure because it would help them forecast the expected return on plan assets and future amortization of gains or losses. The Board observed that the new disclosures stated in paragraph 7 are responsive, in part, to that request. In addition, the Board observed that disclosure of the market-related value of plan assets would not add sufficient benefits to justify the additional costs of compliance. An aggregate market-related value would not necessarily be useful for an employer with multiple plans. To make the information more useful, an employer with several plans with different characteristics would need to provide disaggregated information about market-related values. The Board concluded that requiring that level of disclosure was beyond the limited scope of this Statement.

Sensitivity of the Postretirement Benefit Obligation to Changes in Interest Rates

B72. Certain respondents asked the Board to consider requiring disclosure of the sensitivity of the postretirement benefit obligation to changes in interest rates. Those respondents believe the potential volatility of amounts recognized from changes in interest rates should be quantified in the notes to financial statements. The Board acknowledges that the requirements of this Statement may increase both the amount and volatility of assets and liabilities recognized in an employer's statement of financial position. However, the Board reasoned that sensitivity analysis focusing only on a plan's postretirement benefit obligation could be misleading because some changes in plan obligations and assets have the same cause. For example, a change in interest rates would affect the amounts of both plan assets and benefit obligations, particularly if the plan has a dedicated bond portfolio. In addition, the Board observed that disclosure of sensitivity information was considered during the deliberations that led to the issuance of Statement 132(R). Therefore, that disclosure would be better addressed in the second phase of the project.

Alternative Amortization Method

B73. The Board was asked to require disclosure of the method used to amortize gains or losses if that method differs from the minimum amortization required by Statements 87 and 106. The Board observed that paragraph 5(o) of Statement 132(R) requires disclosure of any alternative methods used to amortize gains or losses or prior service costs or credits.

Contributions to the Plan

B74. The Board considered whether it should require disclosure of an employer's significant plan contributions that might be triggered under certain circumstances by the Employee Retirement Income Security Act or other funding requirements. The Board concluded that existing disclosures (that is, those required by FASB Statements and, for public companies, SEC regulations) should provide sufficient information about contributions to the plans over the fiscal year that follows the most recent statement of financial position presented. In developing disclosures that focus solely on certain U.S. regulatory or other requirements that apply only in limited circumstances, the Board would have had to consider whether there are similar requirements elsewhere in the world applicable to plans of multinational companies. That effort was beyond the scope of the project and was not considered necessary to meet the objectives of this Statement. After the Board completed its redeliberations, the Pension Protection Act of 2006 was enacted and will affect future funding by U.S. employers. The Board concluded that consideration of any additional disclosures associated with that legislation would have delayed issuance of this Statement. Therefore, the Board decided that disclosure of an employer's significant plan contributions should be considered in a separate project.

Reporting by a Not-for-Profit Organization or Other Entity That Does Not Report Other Comprehensive Income

B75. The Board employs a differences-based approach in setting accounting standards for not-for-profit organizations. Under that approach, the standards applicable to a business entity apply to a not-for-profit organization unless substantive transactional or reporting considerations justify different accounting or reporting. In the deliberations that led to Statements 87 and 106, the Board concluded that the guidance developed for a business entity also should apply to a not-for-profit organization. In the deliberations that led to the issuance of the Exposure Draft, the Board similarly concluded that the changes to Statements 87 and 106 made by this Statement for a business entity should apply equally to a not-for-profit organization. The Board concluded that reporting the funded statuses of postretirement benefit plans in the statement of financial position of a not-for-profit employer would make it easier for creditors, donors, and others to assess the not-for-profit organization's financial position and liquidity. Virtually no respondents suggested that not-for-profit organizations be excluded from the scope of this Statement. Thus, in its redeliberations, the Board affirmed the applicability of the basic recognition, measurement date, and disclosure provisions of this Statement to not-for-profit organizations.

B76. In its initial deliberations, the Board acknowledged that its decision to require recognition by a business entity of gains or losses and prior service costs or credits in other comprehensive income in the periods in which they arise could not be applied by a not-for-profit organization and other entities that are not required to report other comprehensive income. A not-for-profit organization that prepares financial statements under the provisions of FASB Statement No. 117, *Financial Statements of Not-for-Profit Organizations,* is explicitly excluded from the scope of Statement 130. Thus, this Statement contains additional application guidance that focuses on the reporting by a not-for-profit organization. Appendix A of this Statement includes an illustrative example to help constituents better understand the guidance for a not-for-profit organization.

B77. The key not-for-profit issue addressed in this Statement is where the gains or losses and prior service costs or credits recognized by a business entity in other comprehensive income should be reported within a not-for-profit organization's statement of activities, particularly in relation to any performance indicator or other intermediate measure of operations. In its initial deliberations, the Board noted that Statement 117 neither requires nor prohibits a not-for-profit organization from reporting an intermediate measure of operations (or performance indicator) within its statement of activities (statement of changes in net assets), nor does it prescribe the components of such a measure if it is presented. The Board also noted, however, that other authoritative accounting pronouncements (in particular, the AICPA's Statement of Position (SOP) 02-2, *Accounting for Derivative Instruments and Hedging Activities by Not-for-Profit Health Care Organizations, and Clarification of the Performance Indicator,* and its Audit and Accounting Guide, *Health Care Organizations*) require a not-for-profit health care provider to present a performance indicator that is the functional equivalent of income from continuing operations of a for-profit provider. Finally, the Board noted that other not-for-profit organizations may elect to present a performance indicator that is the functional equivalent of income from continuing operations. Although the Board was unaware of specific organizations outside the health care sector that were doing so, the Board decided that, for consistency, the Exposure Draft should provide similar guidance for both health care providers required to present a functionally equivalent performance indicator and other employers that voluntarily choose to present a similar operating measure. The Board decided that those employers should apply the provisions of the Exposure Draft in the same manner as a business entity, that is, by reporting gains or losses, prior service costs or credits, and the transition asset or obligation outside the performance indicator or other intermediate operating measure in the period in which they arise. Likewise, those employers should subsequently reclassify those amounts to net periodic benefit cost pursuant to the recognition and amortization provisions of Statements 87, 88, and 106.

B78. The Board also considered how this Statement would be applied by an organization that presents an intermediate measure of operations that is not the functional equivalent of income from continuing operations or by an organization that elects not to present an intermediate measure of operations. Consistent with the provisions of Statement 117, in the

Exposure Draft the Board decided not to prescribe how those organizations should report gains or losses and prior service costs or credits in the periods in which they arise. However, the Board decided to require that those amounts be reported in the statement of activities apart from functional expenses. The Board noted that the gains or losses and the prior service costs or credits could be significant and, thus, decided that separate reporting would make it easier for users to compare the financial statements of different organizations.

B79. Respondents generally agreed with the separate reporting proposed by the Exposure Draft. A couple of respondents, however, noted that some not-for-profit organizations present expenses by natural classification in their statements of activities and disclose expenses by functional classification in the notes to financial statements or in a separate statement of functional expenses. All of those alternatives are permitted by Statement 117. Those respondents suggested that the requirement for separate reporting be extended to apply to all presentations of expenses, whether by functional or natural category. The Board agreed. This Statement requires that the items be separately reported apart from all expenses. If the items are reported in the aggregate in the basic financial statements, the components should be disclosed in the notes.

B80. Some respondents disagreed with the approach described in paragraphs B77 and B78 and suggested that the Board require reported amounts to be presented outside any intermediate measure of operations or performance indicator. Other respondents agreed with the approach but asked for clarification of when an intermediate measure of operations is "functionally equivalent" to income from continuing operations of a business entity. Those respondents expressed their view that, absent clarification, the proposed requirement might not be adequately understood or consistently applied by other not-for-profit organizations.

B81. In its redeliberations, the Board rejected the suggested approach of always presenting the reported amounts outside an operating measure, noting that not-for-profit organizations are diverse, have diverse aims for an operating measure, and, therefore, may choose different components to include in an operating measure. The Board concluded that the requirement for separate reporting would help ensure transparency whether presented within or outside such diverse operating measures. The Board concluded that there was no compelling reason to deviate from the spirit of Statement 117 by being more prescriptive on this matter. The Board also concluded that attempting to define a *functionally equivalent* operating measure was outside the scope of this Statement. The Board decided that this Statement should simply reference the existing guidance concerning operating measures and performance indicators and impose no new display requirements beyond presentation in a discrete line item or items apart from expenses.

B82. During its initial deliberations, the Board also addressed whether the amounts separately presented should be subsequently recognized as components of net periodic benefit cost. Because there are no equivalents to retained earnings or accumulated other comprehensive income in the financial statements of a not-for-profit organization, the Board considered amending Statements 87 and 106 to require that not-for-profit organizations report gains or losses and prior service costs or credits in net periodic benefit cost (and, therefore, expenses) in the period in which they arise. The Board decided that given the objective and scope of the project that led to this Statement (paragraphs B2–B28), it was preferable to include reconsideration of the measurement of net periodic benefit cost for this one sector in its broader reconsideration of the issue as part of the next phase of the project. Thus, the Exposure Draft changed neither the way in which a not-for-profit organization measures its net periodic benefit cost nor the way in which it reports that cost by expense category (functional or natural).

B83. Several respondents nevertheless asked the Board to reconsider its prior decision. In its redeliberations, the Board examined the possible consequences of amending Statements 87 and 106 either to allow immediate recognition in expenses (bypassing the separate line item recognition) or no recognition in expenses (retaining the separate line item recognition but eliminating the subsequent reclassification). In addition to not wanting to change the measure of net periodic benefit cost for not-for-profit organizations before a broad reconsideration, the Board also chose not to make those changes because of the possibility of unintended or undesirable consequences for not-for-profit organizations, including non-transparent volatility in expenses, circumvention of functional expense reporting for a portion of an organization's resources, and issues related to an organization's recoverability of such amounts under grants and contracts. Accordingly, the Board affirmed its prior decision on this matter.

B84. One respondent asked the Board to provide additional guidance concerning permissible display in the statement of financial position of the cumulative effect on unrestricted net assets of adopting the provisions of this Statement, in the absence of the separate component of equity (accumulated other comprehensive income) contained in a business entity's statement of financial position. The respondent was especially concerned about situations in which adoption of the Statement would largely or entirely eliminate a not-for-profit organization's reported unrestricted net assets. The Board, while understanding the concern, concluded that providing guidance beyond referring to Statement 117's flexibility of display within net asset classes was outside the scope of this Statement. The Board also noted that in such instances there also would generally be a certain degree of transparency from the presence in the statement of financial position of a large, noncurrent liability and other information provided by the notes to financial statements.

B85. The Board decided that for reasons similar to those described in paragraphs B75–B84, other entities that do not report other comprehensive income pursuant to Statement 130 should apply the guidance that is applicable to not-for-profit organizations in an analogous manner that is appropriate for how they report their results of operations and financial positions.

Guidance on Discount Rates

B86. The Board decided to amend Statements 87 and 106 to incorporate guidance on the selection of appropriate discount rates that previously resided in other literature (such as in paragraph 186 of Statement 106's basis for conclusions). The Board considered whether codifying only that guidance without considering completely other guidance on various aspects of Statements 87 and 106 was consistent with the Board's objectives for this Statement.

B87. The Board does not consider the codification to be a change to existing standards. Certain constituents advocated that the existing standards should provide all necessary guidance on the objective and method of selecting the discount rate assumptions and that codifying the guidance would improve consistency between Statements 87 and 106. They noted that the wording in paragraph 186 was specifically cited in a September 22, 1993 letter from the SEC to the Chairman of the Emerging Issues Task Force (EITF). In that letter, the SEC staff stated its belief "that the guidance that is provided in paragraph 186 of Statement 106 for selecting discount rates to measure the postretirement benefit obligation also is appropriate guidance for measuring the pension benefit obligation." Paragraph 186 of Statement 106 was incorporated into the *Current Text* and EITF Topic No. D-36, "Selection of Discount Rates Used for Measuring Defined Benefit Pension Obligations and Obligations of Postretirement Benefit Plans Other Than Pensions." The Board believes its decision to incorporate the paragraph into Statements 87 and 106 is consistent with the objectives of both this project and its broader project on codification. The Board further decided to emphasize that the determination of the assumed discount rates is separate from the determination of the expected return on plan assets whenever the actual portfolio of plan assets differs from the hypothetical portfolio of high-quality fixed-income investments described in paragraph 44 of Statement 87, as amended, and paragraph 31 of Statement 106, as amended.

Effective Date and Transition

Recognition of the Funded Status

B88. The Exposure Draft proposed requiring retrospective application of this Statement effective for fiscal years ending after December 15, 2006, for all changes except those that relate to the measurement date (paragraphs B51–B57). The Board selected that effective date because most of the information needed to apply this Statement already is required for notes to financial statements and the Board wanted to implement improvements in financial reporting for postretirement benefits as soon as possible. Retrospective application was proposed because it is the transition method for a change in accounting principle generally required by Statement 154. That Statement generally requires that method because it improves interperiod comparability.

B89. Many respondents to the Exposure Draft stated that the costs of retrospectively applying this Statement would outweigh the benefits. Some noted that there would be significant complexities in assessing the realizability of any incremental deferred tax assets recognized in prior periods. Multiple years of financial statements and financial summaries would have to be restated, and the effects on financial metrics referenced in contractual arrangements would have to be assessed. Additional complications would arise if prior-period financial statements were audited by different auditors. Other respondents stated that retrospective application would not increase comparability because of the impracticability exemption related to deferred income taxes included in the Exposure Draft.

B90. The Board decided that retrospective application of this Statement would not ensure comparable financial statements from year to year for a single employer or between employers and would be costly to implement. Therefore, the Board decided that this Statement should be implemented on a prospective basis. The Board decided not to permit retrospective application so that all employers would apply the same method of transition, thereby enhancing comparability.

B91. Because of the implementation issues raised by respondents about retrospective application, the Board also concluded that the effect of initially applying the recognition provisions of this Statement should be recognized as an adjustment of accumulated other comprehensive income as of the end rather than as of the beginning of the year for an employer that is subject to Statement 130. A not-for-profit organization should report the effect as a change in unrestricted net assets in its statement of activities, in a separate line item or items apart from expenses and outside any performance indicator or other intermediate measure of operations.

B92. The Exposure Draft proposed no special provisions for a nonpublic employer regarding recognition provisions in this Statement. The Board did not consider the implementation issues for a nonpublic employer to be sufficiently different from those of a public employer to justify a delayed effective date. The Board concluded that because the information necessary to recognize the funded status of a defined benefit postretirement plan already is determined and generally included in note disclosures, a nonpublic employer would be able to apply the provisions of this Statement related to recognition for fiscal years ending after December 15, 2006. The Board decided to gather additional information through the notice for recipients of the Exposure Draft to determine whether nonpublic employers with contractual arrangements, other than debt covenants, that reference certain financial metrics, including book value, return on equity, or debt to equity, should be given a delayed effective date.

B93. Respondents to the Exposure Draft noted that reductions in equity that could result from recognizing the funded status of benefit plans pursuant to the provisions of this Statement would have significant effects on employers with contractual arrangements that reference book value. During redeliberations, the Board noted that the majority of employers with those arrangements included cooperative businesses that transact with member-owners on a book value basis, and other nonpublic employers that have compensation arrangements referencing book value. Therefore, the Board decided to delay the effective date to fiscal years ending after June 15, 2007, for those employers to provide them with additional time to address the effects of this Statement on the contractual arrangements noted above. Because a significant number of cooperatives issue publicly traded debt, which would result in their meeting the definition of the term *public* that is used in Statement 132(R), the Board decided to use an approach that focuses on issuance of equity securities and is similar to the definition of a nonpublic entity, defined in FASB Statement No. 123 (revised 2004), *Share-Based Payment,* as follows:

> Any entity other than one (a) whose equity securities trade in a public market either on a stock exchange (domestic or foreign) or in the over-the-counter market, including securities quoted only locally or regionally, (b) that makes a filing with a regulatory agency in preparation for the sale of any class of equity securities in a public market, or (c) that is controlled by an entity covered by (a) or (b). An entity that has only debt securities trading in a public market (or that has made a filing with a regulatory agency in preparation to trade only debt securities) is a nonpublic entity for purposes of this Statement.

B94. The Board concluded that the recognition provisions of this Statement should be implemented as soon as possible by employers that have issued publicly traded equity securities because of the use of their financial statements by participants in the public marketplace, the more limited arrangements that may be affected, and the greater resources they have to address issues with contractual arrangements. Therefore, the Board affirmed the effective date for fiscal years ending after December 15, 2006, for those employers with publicly traded equity securities. The Board decided to encourage early application of this Statement's recognition provisions; however, the

Board was concerned about the complexity and possible confusion for users if there were multiple accounting changes over different periods, which could result if it permitted early application on a plan-by-plan basis. Therefore, the Board decided that early application should be for all of an employer's benefit plans.

Measurement Date

B95. The Exposure Draft proposed that employers remeasure plan assets and benefit obligations as of the beginning of the fiscal year that the measurement date provisions are effective. In considering the implementation issues associated with performing a second measurement in the year the measurement date is changed, the Board noted that Statements 87 and 106 do not require that all measurement procedures related to postretirement obligations be performed as of the measurement date. In Statement 87, the Board stated that "as with other financial statement items requiring estimates, much of the information can be prepared as of an earlier date and projected forward to account for subsequent events . . ." (paragraph 52).

B96. Due to the costs noted in paragraph B53, the Board decided to allow an alternative approach for the transition to a fiscal year-end measurement date. In lieu of remeasuring plan assets and benefit obligations as of the beginning of the fiscal year that the measurement date provisions are effective, an employer may use earlier measurements determined for year-end reporting as of the fiscal year immediately preceding the year the measurement date provisions are initially applied. The adjustment to retained earnings is approximated by prorating a portion of net periodic benefit cost determined for the period beginning with the last measurement date used for the immediately preceding fiscal year and ending with the last day of the fiscal year that the measurement provisions are applied. For example, a calendar-year employer that uses a September 30 measurement date would allocate three-fifteenths of net period benefit cost determined for the period from September 30, 2007, to December 31, 2008. It is not possible to quantify adjustments to beginning accumulated other comprehensive income without a measurement as of the beginning of the fiscal year. Therefore, the effect of the change in measurement date on accumulated other comprehensive income is recognized during the fiscal year in other comprehensive income, not distinguishing the effects of changing the measurement date from other changes during the period. Curtailment and settlement gains and losses are recognized in earnings as they arise. The Board concluded that alternative would simplify transition and reduce implementation costs because a second measurement of plan assets and benefit obligations would not be required during transition.

B97. The Board considered whether eliminating the earlier measurement date alternative should be applied retrospectively because that application necessitates conducting an additional measurement of plan assets and benefit obligations for each individual plan as of the financial reporting date for each prior year presented if an employer has been using an alternative measurement date. The Exposure Draft acknowledged that retrospective application could be impracticable because of the need to determine the fair value of certain plan assets. For that reason, and to reduce the costs of implementation, the Exposure Draft proposed not requiring or permitting retrospective application of the provision related to the change in measurement date. Respondents supported that approach and the Board affirmed that decision during its redeliberations.

B98. Before issuing the Exposure Draft, the Board considered two alternative effective dates for the change in measurement date for a public employer. Under the first alternative, the change would be effective for fiscal years beginning after December 15, 2006. Under the second alternative, the change would be effective for fiscal years ending after December 15, 2007. The Board preferred the first alternative because it required that net periodic benefit cost for that fiscal year be based on measurements as of the beginning of the year. Thus, results of operations for each interim period and the fiscal year would be more representationally faithful of the events occurring during those periods. The Board considered the costs that would be incurred to conduct the necessary measurements under both alternatives and concluded that the costs would likely be similar.

B99. Certain respondents expressed a concern about the short time frame expected between issuance of this Statement and the proposed effective date of fiscal years ending after December 15, 2006, for recognition of the funded status and the proposed effective date of years beginning after December 15, 2006, for the change in measurement date. Those respondents stated that it would be difficult and costly to implement both accounting changes simultaneously. The Board determined that recognition of the funded status is the most important provision in this Statement and decided to delay the effective date for the measurement date change to fiscal years ending after December 15, 2008, for all employers. That delay will provide sufficient time for preparers and resource providers to implement necessary system and process changes in an efficient manner. The Board decided to encourage early application of this Statement's measurement date provisions; however, the Board was concerned about the complexity and possible confusion for users if there were multiple accounting changes over different periods, which could result if it permitted early application on a plan-by-plan basis. Therefore, the Board decided that early application should be for all of an employer's benefit plans.

Amendments Considered but Not Made

Separate Line Item Presentation

B100. In developing the Exposure Draft, the Board considered whether to require that postretirement-benefit-related assets and liabilities be presented as separate line items in an employer's statement of financial position. That presentation would be consistent with this Statement's objective to increase the transparency of the funded statuses of the postretirement benefit plans in an employer's statement of financial position.

B101. The Board decided not to specify at this time the display of postretirement benefit assets or liabilities. The Board reasoned that required note disclosures provide adequate information about amounts recognized. In addition, SEC registrants already are subject to certain reporting requirements for significant assets and liabilities. Respondents did not comment on separate line-item presentation and the Board affirmed it prior decision.

Interim-Period Remeasurement

B102. Because the primary objective of the first phase of the project was recognition of the funded statuses of an employer's postretirement benefit plans, the Board considered whether the status of each plan should be measured each interim reporting period or whether interim-period recognition could be based on a limited remeasurement approach. Limited remeasurement might involve updating certain, but not all, assumptions and other valuation shortcuts. The Board decided not to require that plan assets and benefit obligations be remeasured for interim-period reporting because:

a. There would be additional costs to implement that change.
b. It would raise additional issues not addressed by Statement 87 or 106.
c. It would represent a fundamental change in the measurement of net periodic benefit cost, and measurement issues were beyond the scope and objectives of this Statement.

The Board observed that employers can establish a consistent policy for periodic measurements of plan assets and benefit obligation pursuant to Statements 87 and 106. The Board also decided not to allow a limited remeasurement approach because doing so would inevitably necessitate the need for the Board to address issues about measurement that were beyond the scope of this Statement. The Board noted that unless an employer remeasures both its plan assets and benefit obligations during the fiscal year, the amount it reports in interim-period financial statements should be the same asset or liability recognized in the previous year-end statement of financial position adjusted for (a) subsequent accruals of net periodic benefit cost, other than the amortization of amounts previously recognized in accumulated other comprehensive income (that is, those amounts are reclassified from accumulated other comprehensive income as components of net periodic benefit cost and do not affect the asset or liability recognized in the statement of financial position) and (b) contributions to a funded plan, or benefit payments. However, sometimes an employer remeasures both the benefit obligation and plan assets during the fiscal year. That is the case, for example, when a significant event, such as a plan amendment, settlement, or curtailment occurs that calls for a remeasurement. Upon remeasurement, the employer should adjust its statement of financial position (on a delayed basis until the measurement date provisions of this Statement have been implemented) to reflect the overfunded or underfunded status of the defined benefit plan as of that remeasurement date. Until the measurement date provisions of this Statement have been adopted, the employer should continue to recognize the overfunded or underfunded status of its plans on a delayed basis (for example, on a three-month lag for a calendar-year employer that measures plan assets and benefit obligations as of September 30). The Board will deliberate the accounting issues related to interim periods during the second phase of the project.

Implementation Guidance

B103. When they were issued, Statements 87, 88, and 106 represented fundamental changes in the accounting for defined benefit postretirement plans, changes in the depiction of those plans, and changes in their effects on an employer's financial statements. Those Statements include examples to illustrate the application of certain accounting and disclosure requirements.

B104. Many of the illustrations would have required extensive changes to implement the provisions of this Statement. The Board concluded that the changes that would be necessary included eliminating reconciliations of the funded status to amounts recognized in an employer's statement of financial position, eliminating references to the additional minimum pension liability, and eliminating references to unrecognized gains or losses, unrecognized prior service costs or credits, and the unrecognized transition asset or obligation to reflect that those items now would be recognized in accumulated other comprehensive income.

B105. The Board believes the original need for those illustrations, particularly those relating to the transition provisions of Statements 87 and 106, are not essential to understanding or applying the provisions of this Statement. The Board decided to consider further those illustrations included in Statements 87, 88, and 106 and to update those that have continuing relevance following the issuance of this Statement.

B106. The Board believes many of the staff Q&As contained in FASB Special Reports, *A Guide to Implementation of Statement 87 on Employers' Accounting for Pensions; A Guide to Implementation of Statement 88 on Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits;* and *A Guide to Implementation of Statement 106 on Employers' Accounting for Postretirement Benefits Other Than Pensions,* are not essential to understanding or applying the provisions of this Statement. Additionally, the Board believes the need for those Q&As has diminished over the many years since Statements 87, 88, and 106 were first issued. The Board decided to consider further those Q&As and to update those that have continuing relevance following the issuance of this Statement.

Benefit-Cost Considerations

B107. The objective of financial reporting is to provide information that is useful to present and potential investors, creditors, donors, and other capital market participants in making rational investment, credit, and similar resource allocation decisions. However, the benefits of providing information for that purpose should justify the related costs. Investors, creditors, donors, and other users of financial information benefit from improvements in financial reporting, while the costs to implement a new standard are borne primarily by the preparer. The Board's assessment of the costs and benefits of issuing an accounting standard is unavoidably more qualitative than quantitative because there is no method to objectively measure the costs to implement an accounting standard or to quantify the value of improved information in financial statements.

Benefits

B108. The benefits of this Statement are as follows:

a. Reporting of postretirement benefit obligations in statements of financial position will be more complete. Under the prior accounting standards, significant obligations were not recognized in the statement of financial position. Important information about the nature and amount of an employer's obligations for postretirement benefits, including those for retiree health care plans (which are not usually funded), was relegated to the notes to financial statements.
b. The understandability of financial statements will be improved. Users of financial statements will be better able to assess an employer's financial position and its ability to carry out the obligations of its pension and other postretirement benefit plans.
c. The timeliness of recognition in the financial statements will be improved, either as net periodic benefit cost or other comprehensive income. Also improved will be the timeliness of recognizing the effects of the events that affect the costs of providing postretirement benefits, including changes in plan assets and benefit obligations that occur during a period because of differences between experience and assumptions, or that occur as a result of changes in one or more actuarial assumptions.
d. The comparability of financial statements between employers will be improved, and the representational faithfulness of statements of financial position enhanced, by requiring that plan

assets and benefit obligations be measured as of the date of an employer's year-end statement of financial position, not up to three months earlier as was previously permitted.

B109. This Statement requires the recognition of information about events that affect postretirement benefit obligations and plan assets that previously was included only in note disclosures. The Board believes that disclosure is not a substitute for recognition in financial reporting. The changes in accounting for postretirement benefits that are required by this Statement provide a benefit because of the increased credibility and representational faithfulness of financial reporting that results from requiring the recognition (and not merely the disclosure) of the funded statuses of an employer's postretirement benefit obligations. Furthermore, this Statement should reduce or eliminate the effort required by users that adjust financial statements to include unrecognized benefit obligations or plan assets on a pro forma basis in an employer's statement of financial position.

Costs

B110. Based on input from constituents, the Board believes that the incremental costs of implementing the principal provisions of this Statement will not be significant because the information needed to recognize a plan's funded status (that is, gains or losses, prior service costs or credits, and the transition asset or obligation) is already needed to determine net periodic benefit cost and is included in annual note disclosures.

B111. In addition, the Board took certain steps to reduce the costs of implementation. For example, this Statement requires prospective application rather than retrospective application. This Statement also provides an alternative transition for the requirement to measure plan assets and benefit obligations as of the date of an employer's year-end statement of financial position. An employer that previously used an earlier measurement date (that is, up to three months earlier pursuant to the prior provisions of Statements 87 and 106) would ordinarily need to perform an additional measurement in the year the new requirement is implemented to align the measurement date with the date of an employer's year-end statement of financial position. For example, to have beginning balances for the year that the change in measurement date provision is effective, an employer with a calendar year-end that used September 30 as its measurement date would need to perform an additional measurement at December 31. Time and other resources would be needed to collect, process, and validate information used in that measurement.

B112. Incremental one-time costs associated with measuring plan assets as of the financial reporting date (that is, if plan assets and benefit obligations are not already being measured as of that date) may include the following:

a. Costs to implement changes in systems and processes used to gather and roll forward demographic information and other data related to measurement assumptions
b. Fees paid to external consultants involved in the measurement of benefit obligations or the valuation of plan assets
c. Fees paid to external auditors to audit the results of a second measurement of plan assets, benefit obligations, and related effects on net periodic benefit cost.

In addition to the alternative approach (see paragraph B96), the Board delayed the effective date for the change in measurement date to alleviate those costs.

B113. The Board acknowledges there still will be incremental one-time costs. However, the Board believes the ongoing financial reporting benefits derived from measuring postretirement benefit assets and obligations included in an employer's year-end statement of financial position as of the same date as all other assets and liabilities included in that statement will exceed those one-time costs.

Potential Economic Consequences of Recognition of the Funded Status

B114. Some respondents to the Exposure Draft said that required recognition of the funded statuses of an employer's plans may have undesirable economic consequences. They suggested that such recognition is likely to cause some employers to reduce, eliminate, or otherwise revise their postretirement benefit plans. Some also contended that recognition will raise the cost of capital for employers whose plans are significantly underfunded.

B115. The Board is aware that changes in the behavior of lenders, employers, and others may occur as a result of this Statement. However, it is not the Board's intention to affect the likelihood of any changes in those behaviors. FASB Concepts Statement No. 2, *Qualitative Characteristics of Accounting Information,* explains neutrality. It states:

> Neutrality means that either in formulating or implementing standards, the primary concern should be the relevance and reliability of the information that results, not the effect that the new rule may have on a particular interest.
>
> To be neutral, accounting information must report economic activity as faithfully as possible, without coloring the image it communicates for the purpose of influencing behavior in *some particular direction.* [paragraphs 98 and 100]

B116. Neutrality does not imply that improved financial reporting should have no economic consequences. To the contrary, a change in accounting standards that results in financial statements that are more relevant and representationally faithful, and thus more useful for decision making, presumably will have economic consequences. For example, required recognition of a plan's funded status and the events that affect that plan's status based on the provisions of this Statement results in recognizing to a greater degree the difference between a defined benefit plan and a defined contribution plan.

B117. The Board believes it is the economic nature of postretirement benefit arrangements that determines decisions made by employers, lenders, investors, donors, and others. That economic nature is not affected by the financial accounting treatment of those arrangements. However, the decision usefulness of information about those arrangements is affected by the reporting standards that govern how those arrangements are depicted in the financial statements. This Statement results in a more relevant, complete, representationally faithful, and comparable depiction of postretirement benefit plans in an employer's financial statements.

International Accounting Comparison

B118. The U.S. and international accounting standards for employers' accounting for defined benefit postretirement plans are similar regarding delayed recognition of certain events in measuring net periodic benefit cost, net periodic benefit cost reporting, and offsetting of liabilities and assets. Under those standards, returns on invested assets are recognized based on an expected long-term rate of return, the individual elements of net periodic benefit cost are combined and reported as a single amount in an employer's financial statements, and the values of assets contributed and liabilities recognized are shown net in an employer's statement of financial position. The U.S. and international accounting standards differ in some areas, including the following:

a. Statements 87 and 106 require, at a minimum, that gains and losses be amortized as a component of net periodic benefit cost if the accumulated amount exceeds 10 percent of the greater of the market-related value of plan assets or the benefit obligation. Under IAS 19 amortization requires using a similar formula except that in applying the threshold plan assets are measured at fair value, not at market-related value.
b. IAS 19 requires that prior service costs be recognized as a component of net periodic benefit cost over the vesting period. If the benefits vest immediately, the cost is recognized immediately. Statements 87 and 106 require that the cost (for vested and nonvested benefits) generally be recognized as a component of net periodic benefit cost over the active plan participants' future service periods.
c. IAS 19 requires that plan assets be measured at fair value for purposes of determining the expected return on plan assets; Statements 87 and 106 allow the use of fair values that are averaged over a period of up to five years (that is, market-related values).

B119. This Statement was issued as a result of a limited-scope phase of a comprehensive project conducted by the FASB. The IASB recently added to its agenda a project to review pension accounting standards. The IASB's project will be conducted in two phases. The first phase is aimed at making targeted improvements to pension accounting. The second phase is a fundamental review of accounting for postretirement benefits. The goal of the second phase is to converge with the FASB. The objective of phase two for both Boards is to develop a single, converged, and high-quality accounting standard that will cover all aspects of employers' accounting for defined benefit postretirement plans.

B120. The limited amendments adopted by this Statement that relate to recognition of the funded statuses of postretirement benefit plans differ from the provisions of IAS 19. This Statement requires that gains or losses and prior service costs or credits not recognized by a business entity as part of net periodic benefit cost be recognized as increases or decreases in an employer's assets or liabilities and as corresponding adjustments to other comprehensive income. IAS 19 does not require recognition of all gains or losses. However, it permits an employer to adopt a policy of recognizing all gains or losses, subject to certain limitations on the recognition of assets, in the period in which they occur—but outside profit or loss—"in a statement of changes in equity titled statement of recognized income and expense" (IAS 19, paragraphs 58, 93B, and 93C).

B121. This Statement's requirement to measure plan assets and benefit obligations as of the date of an employer's year-end statement of financial position is similar to IAS 19, which requires that measurements of plan assets and benefit obligations be determined with sufficient regularity to ensure that the amounts recognized in the financial statements do not differ materially from those that would be determined at the date of the year-end statement of financial position.

Appendix C

AMENDMENTS TO STATEMENTS 87 AND 88

C1. This appendix contains the amendments to FASB Statements No. 87, *Employers' Accounting for Pensions,* and No. 88, *Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits,* as a result of this Statement. The following principal topics are addressed:

a. Amendments related to the recognition of the funded status of a defined benefit plan in an employer's statement of financial position, that is, recognition of gains or losses, prior service costs or credits, and the transition asset or obligation remaining from the initial adoption of Statement 87 that were previously unrecognized as of the date this Statement is initially applied.
b. Amendments to codify into Statement 87 the guidance from the basis for conclusions of FASB Statement No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions,* that describes the objective of selecting assumed discount rates from a portfolio of high-quality debt instruments.
c. Amendments related to measuring plan assets and benefit obligations as of the date of an employer's year-end statement of financial position, eliminating the alternative of selecting a measurement date not more than three months prior to the date of an employer's year-end statement of financial position.
d. Amendments to conform the terms in the glossary of Statement 87 to this Statement.
e. Amendments needed to provide additional guidance for applying the amendments noted in (a) above to a not-for-profit organization or other entity that does not report other comprehensive income pursuant to FASB Statement No. 130, *Reporting Comprehensive Income.*

C2. Statement 87 is amended as follows: [Added text is underlined and deleted text is ~~struck out~~.]

a. Paragraph 16:

   Net periodic pension cost has often been viewed as a single homogeneous amount, but in fact it is made up of several *components* that reflect different aspects of the employer's financial arrangements as well as the cost of benefits earned by employees. The cost of a benefit can be determined without regard to how the employer decides to finance the plan. The **service cost component** of net periodic pension cost is the **actuarial present value** of benefits attributed by the plan's benefit formula to services rendered by employees during the period. The service cost component is conceptually the same for an unfunded plan, a plan with minimal funding, and a well-funded plan. The other components of net periodic pension cost are **interest cost**[4] (interest on the **projected benefit obligation,** which is a discounted amount), **actual return on plan assets, amortization** of any~~**unrecognized**~~ **prior service cost** or credit included in accumulated other comprehensive income, and **gain or loss,** which includes, to the extent recognized, amortization of the net gain or loss included in accumulated other comprehensive income. Both the return on plan assets and interest cost components are in substance financial items rather than employee compensation costs.

b. Paragraph 20:

The following components shall be included in the net pension cost recognized for a period by an employer **sponsoring** a defined benefit pension plan:

a. Service cost
b. Interest cost
c. Actual return on plan assets, if any
d. Amortization of any prior service cost or credit included in accumulated other comprehensive income~~Amortization of unrecognized prior service cost, if any~~
e. Gain or loss (including the effects of changes in assumptions) to the extent recognized (paragraph 34)
f. Amortization of any net transition asset or obligation existing at the date of initial application of this Statement and remaining in accumulated other comprehensive income (paragraph 77).~~Amortization of the unrecognized net obligation (and loss or cost) or unrecognized net asset (and gain) existing at the date of initial application of this Statement (paragraph 77).~~

c. Paragraph 25:

~~The cost of retroactive benefits (including benefits that are granted to retirees) is the increase in the projected benefit obligation at the date of the amendment.~~A plan amendment that retroactively increases benefits (including benefits that are granted to retirees) increases the projected benefit obligation. The cost of the benefit improvement shall be recognized as a charge to other comprehensive income at the date of the amendment. Except as specified in paragraphs 26 and 27, that prior service cost shall be amortized as a component of net periodic pension cost by assigning an equal amount to each future period of service of each employee active at the date of the amendment who is expected to receive benefits under the plan. If all or almost all of a plan's **participants** are inactive, the cost of retroactive plan amendments affecting benefits of inactive participants shall be amortized based on the remaining life expectancy of those participants instead of based on the remaining service period. Other comprehensive income is adjusted each period as prior service cost is amortized.

d. Paragraph 26:

To reduce the complexity and detail of the computations required, consistent use of an alternative ~~amortization~~ approach that more rapidly ~~reduces~~amortizes the ~~unrecognized~~ cost of retroactive amendments is acceptable. For example, a straight-line amortization of the cost over the average remaining service period of employees expected to receive benefits under the plan is acceptable. The alternative method used shall be disclosed.

e. Paragraph 28:

A plan amendment that retroactively reduces, rather than increases, benefits decreases the projected benefit obligation. The reduction in benefits shall be recognized as a credit (prior service credit) to other comprehensive income that shall be used first to reduce any remaining prior service cost included in accumulated other comprehensive income. Any remaining prior service credit shall be amortized as a component of net periodic pension cost on the same basis as the cost of a benefit increase.~~A plan amendment can reduce, rather than increase, the projected benefit obligation. Such a reduction shall be used to reduce any existing unrecognized prior service cost, and the excess, if any, shall be amortized on the same basis as the cost of benefit increases.~~

f. Paragraph 29 and its related footnote 5:

Gains and losses are changes in the amount of either the projected benefit obligation or plan assets resulting from experience different from that assumed and from changes in assumptions. This Statement does not distinguish between those sources of gains and losses. Gains and losses include amounts that have been realized, for example by sale of a security, as well as amounts that are unrealized. Because gains and losses may reflect refinements in estimates as well as real changes in economic values and because some gains in one period may be offset by losses in another or vice versa, this Statement does not require recognition of gains and losses as components of net pension cost of the period in which they arise.[5] Gains and losses that are not recognized immediately as a component of net periodic pension cost shall be recognized as increases or decreases in other comprehensive income as they arise.

[5]Accounting for **plan terminations** and **curtailments** and other circumstances in which recognition of gains and losses as a component of net periodic pension cost might not be delayed is addressed in FASB Statement No. 88, *Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits.*

g. Paragraph 32 and its related footnote 6:

As a minimum, amortization of ~~an~~ ~~**unrecognized net gain or loss**~~a net gain or loss included in accumulated other comprehensive income (excluding asset gains and losses not yet reflected in market-related value) shall be included as a component of net pension cost for a year if, as of the beginning of the year, that ~~unrecognized~~ net gain or loss exceeds 10 percent of the greater of the projected benefit obligation or the market-related value of plan assets. If amortization is required, the minimum amortization[6] shall be that excess divided by the average remaining service period of active employees expected to receive benefits under the plan. If all or almost all of a plan's participants are inactive, the average remaining life expectancy of the inactive participants shall be used instead of average remaining service.

[6]The amortization must always reduce the beginning-of-the-year balance. Amortization of a net ~~unrecognized~~ gain results in a decrease in net periodic pension cost; amortization of a net ~~unrecognized~~ loss results in an increase in net periodic pension cost.

h. Paragraph 33:

Any systematic method of amortizing~~amortization of unrecognized~~ gains or losses may be used in lieu of the minimum specified in the previous paragraph provided that (a) the minimum is used in any period in which the minimum amortization is greater (reduces the net balance included in accumulated other comprehensive income by more), (b) the method is applied consistently, (c) the method is applied similarly to both gains and losses, and (d) the method used is disclosed.

i. Paragraph 34:

The gain or loss component of net periodic pension cost shall consist of (a) the difference between the actual return on plan assets and the expected return on plan assets and (b) amortization of the ~~unrecognized~~ net gain or loss included in accumulated other comprehensive income~~from previous periods~~.

j. Paragraph 35:

If the projected benefit obligation exceeds the fair value of plan assets, the employer shall recognize in its statement of financial position a liability that equals the **unfunded projected benefit obligation.** If the fair value of plan assets exceeds the projected benefit obligation, the employer shall recognize in its statement of financial position an asset that equals the overfunded projected benefit obligation.~~A liability (**unfunded accrued pension cost**) is recognized if net periodic pension cost recognized pursuant to this Statement exceeds amounts the employer has contributed to the plan. An asset (**prepaid pension cost**) is recognized if net periodic pension cost is less than amounts the employer has contributed to the plan.~~

k. Paragraph 36:

The employer shall aggregate the statuses of all overfunded plans and recognize that amount as an asset in its statement of financial position. It also shall aggregate the statuses of all underfunded plans and recognize that amount as a liability in its statement of financial position. An employer that presents a classified statement of financial position shall classify the liability for an underfunded plan as a current liability, a noncurrent liability, or a combination of both. The current portion (determined on a plan-by-plan basis) is the amount by which the actuarial present value of benefits included in the benefit obligation payable in the next 12 months, or operating cycle if longer, exceeds the fair value of plan assets. The asset for an overfunded plan shall be classified as a noncurrent asset in a classified statement of financial position.~~If the accumulated benefit obligation exceeds the fair value of plan assets, the employer shall recognize in the statement of financial position a liability (including unfunded accrued pension cost) that is at least equal to the **unfunded accumulated benefit obligation.** Recognition of an additional minimum liability is required if an unfunded accumulated benefit obligation exists and (a) an asset has been recognized as prepaid pension cost, (b) the liability already recognized as unfunded accrued pension cost is less than the unfunded accumulated benefit obligation, or (c) no accrued or prepaid pension cost has been recognized.~~

l. Paragraph 37, as amended, and its related footnote 7:

> The asset or liability that is recognized pursuant to paragraph 35 may result in a temporary difference, as defined in FASB Statement No. 109, *Accounting for Income Taxes.* The deferred tax effects of any temporary differences shall be recognized in income tax expense or benefit for the year and shall be allocated to various financial statement components, including other comprehensive income, pursuant to paragraphs 35–39 of Statement 109.~~If an additional minimum liability is recognized pursuant to paragraph 36, an equal amount shall be recognized as an intangible asset, provided that the asset recognized shall not exceed the amount of unrecognized prior service cost.[7] If an additional liability required to be recognized exceeds unrecognized prior service cost, the excess (which would represent a net loss not yet recognized as net periodic pension cost) shall be reported in other comprehensive income, net of any tax benefits that result from considering such losses as temporary differences for purposes of applying the provisions of FASB Statement No. 109, *Accounting for Income Taxes.*~~
>
> ~~[7]For purposes of this paragraph, an unrecognized net obligation existing at the date of initial application of this Statement (paragraph 77) shall be treated as unrecognized prior service cost.~~

m. Paragraph 38, as amended:

> If a new determination of the funded status of a plan to be recognized as an asset or a liability in the employer's statement of financial position is made (paragraph 52), or when net gains or losses, prior service costs or credits, or the net transition asset or obligation existing at the date of initial application of this Statement are amortized as components of net periodic pension cost, the related balances for those net gains or losses, prior service costs or credits, and transition asset or obligation in accumulated other comprehensive income shall be adjusted as necessary and reported in other comprehensive income.~~When a new determination of the amount of additional liability is made to prepare a statement of financial position, the related intangible asset and the balance accumulated in a separate component of equity shall be eliminated or adjusted as necessary. Eliminations of or adjustments to that balance shall be reported in other comprehensive income.~~

n. Paragraph 44A is added as follows:

> Pursuant to paragraph 44, an employer may look to rates of return on high-quality fixed-income investments in determining assumed discount rates. The objective of selecting assumed discount rates using that method is to measure the single amount that, if invested at the measurement date in a portfolio of high-quality debt instruments, would provide the necessary future cash flows to pay the pension benefits when due. Notionally, that single amount, the projected benefit obligation, would equal the current market value of a portfolio of high-quality zero coupon bonds whose maturity dates and amounts would be the same as the timing and amount of the expected future benefit payments. Because cash inflows would equal cash outflows in timing and amount, there would be no reinvestment risk in the yields to maturity of the portfolio. However, in other than a zero coupon portfolio, such as a portfolio of long-term debt instruments that pay semiannual interest payments or whose maturities do not extend far enough into the future to meet expected benefit payments, the assumed discount rates (the yield to maturity) need to incorporate expected reinvestment rates available in the future. Those rates shall be extrapolated from the existing yield curve at the measurement date. The determination of the assumed discount rate is separate from the determination of the expected rate of return on plan assets whenever the actual portfolio differs from the hypothetical portfolio above. Assumed discount rates shall be reevaluated at each measurement date. If the general level of interest rates rises or declines, the assumed discount rates shall change in a similar manner.

o. Paragraph 49, as amended:

> For purposes of ~~measuring the minimum liability required by~~applying the provisions of paragraph 35~~36~~ and for purposes of the disclosures required by paragraphs 5 and 8 of FASB Statement No. 132 (revised 2003), *Employers' Disclosures about Pensions and Other Postretirement Benefits,* plan investments, whether equity or debt securities, real estate, or other, shall be measured at their fair value as of the measurement date.[12]

Note: FASB Statement No. 157, *Fair Value Measurements,* amended paragraph 49 prior to the issuance of this Statement, eliminating additional guidance about the measurement of plan assets at fair value. The preexisting guidance is effective for an employer until it adopts Statement 157. The changes to paragraph 49, as previously amended, and its related footnotes 11a, as previously added, and 12 made by Statement 157 and this Statement are shown below:

> For purposes of ~~measuring the minimum liability required by~~applying the provisions of paragraph 35~~36~~ and for purposes of the disclosures required by paragraphs 5 and 8 of FASB Statement No. 132 (revised 2003), *Employers' Disclosures about Pensions and Other Postretirement Benefits,* plan investments, whether equity or debt securities, real estate, or other, shall be measured at their fair value as of the measurement date. ~~The fair value of an investment is the amount that the plan could reasonably expect to receive for it in a current sale between a willing buyer and a willing seller, that is, other than in a forced or liquidation sale. Fair value shall be measured by the market price if an active market exists for the investment. If no active market exists for an investment but such a market exists for similar investments, selling prices in that market may be helpful in estimating fair value. If a market price is not available, a forecast of expected cash flows[11a] may aid in estimating fair value, provided the expected cash flows are discounted at a current rate commensurate with the risk involved.~~[12]
>
> ~~[11a]This pronouncement was issued prior to FASB Concepts Statement No. 7, *Using Cash Flow Information and Present Value in Accounting Measurements,* and therefore the term *expected cash flows* does not necessarily have the same meaning as that term in Concepts Statement 7.~~
>
> [12]~~For an indication of factors to be considered in determining the discount rate, refer to paragraphs 13 and 14 of APB Opinion No. 21, *Interest on Receivables and Payables.* If significant, t~~The fair value of an investment shall be reduced by ~~reflect the~~ brokerage commissions and other costs normally incurred in a sale if those costs are significant (similar to fair value less cost to sell).

p. Paragraph 52:

> The measurements of plan assets and benefit obligations required by this Statement shall be as of the date of the employer's fiscal year-end statement of financial position unless (a) the plan is sponsored by a subsidiary that is consolidated using a fiscal period that differs from its parent's, as permitted by ARB No. 51, *Consolidated Financial Statements,* or (b) the plan is sponsored by an investee that is accounted for using the equity method of accounting under APB Opinion No. 18, *The Equity Method of Accounting for Investments in Common Stock,* using financial statements of the investee for a fiscal period that is different from the investor's, as permitted by Opinion 18. In those cases, the employer shall measure the subsidiary's plan assets and benefit obligations as of the date used to consolidate the subsidiary's statement of financial position and shall measure the investee's plan assets and benefit obligations as of the date of the investee's financial statements used to apply the equity method.~~financial statements or, if used consistently from year to year, as of a date not more than three months prior to that date.~~ Requiring that the pension measurements be as of a particular date is not intended to require that all procedures be performed after that date. As with other financial statement items requiring estimates, much of the information can be prepared as of an earlier date and projected forward to account for subsequent events (for example, employee service). Unless a business entity remeasures both its plan assets and benefit obligations during the fiscal year, the funded status it reports in its interim-period statement of financial position shall be the same asset or liability recognized in the previous year-end statement of financial position adjusted for (1) subsequent accruals of net periodic pension cost that exclude the amortization of amounts previously recognized in other comprehensive income (for example, subsequent accruals of service cost, interest cost, and return on plan assets) and (2) contributions to a funded plan, or benefit payments. Sometimes, a business entity remeasures both plan assets and benefit obligations during the fiscal year. That is the case, for example, when a significant event such as a plan amendment, settlement, or curtailment occurs that calls for a remeasurement. Upon remeasurement, a business entity shall adjust its statement of financial position in a subsequent interim period (on a delayed basis if the measurement date provisions of FASB Statement No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans,* have not yet been implemented) to reflect the overfunded or underfunded status of the plan consistent with that measurement date.~~The additional minimum~~

~~liability reported in interim financial statements shall be the same additional minimum liability (paragraph 36) recognized in the previous year-end statement of financial position, adjusted for subsequent accruals and contributions, unless measures of both the obligation and plan assets are available as of a more current date or a significant event occurs, such as a plan amendment, that would ordinarily call for such measurements.~~

q. Paragraph 55:

An employer that sponsors two or more separate defined benefit pension plans shall determine net periodic pension cost, liabilities, and assets by separately applying the provisions of this Statement to each plan. In particular, unless an employer clearly has a right to use the assets of one plan to pay benefits of another, a liability required to be recognized pursuant to paragraph 35 ~~or 36~~ for one plan shall not be reduced or eliminated because ~~another plan has~~the employer has recognized an asset for another plan that has assets in excess of its ~~accumulated~~ projected benefit obligation~~ or because the employer has prepaid pension cost related to another plan~~.

r. Paragraph 74, as amended:

When an employer is acquired in a business combination and that employer sponsors a single-employer defined benefit pension plan, the assignment of the purchase price to individual assets acquired and liabilities assumed shall include a liability for the projected benefit obligation in excess of plan assets or an asset for plan assets in excess of the projected benefit obligation, thereby eliminating any previously existing ~~unrecognized~~ net gain or loss, ~~unrecognized~~ prior service cost or credit, or transition asset or obligation recognized in accumulated other comprehensive income. ~~or unrecognized net obligation or net asset existing at the date of initial application of this Statement. Subsequently, to the extent that those amounts are considered in determining the amounts of contributions, differences between the purchaser's net pension cost and amounts contributed will reduce the liability or asset recognized at the date of the combination.~~If it is expected that the plan will be terminated or curtailed, the effects of those actions shall be considered in measuring the projected benefit obligation.

s. Paragraphs 74A–74D and the related heading are added as follows:

Not-for-Profit Organizations and Other Entities That Do Not Report Other Comprehensive Income

74A. A not-for-profit employer shall recognize as a separate line item or items within changes in unrestricted net assets, apart from expenses, the gains or losses and the prior service costs or credits that would be recognized in other comprehensive income pursuant to paragraphs 25, 28, and 29 of this Statement. Consistent with the provisions of FASB Statement No. 117, *Financial Statements of Not-for-Profit Organizations,* this Statement does not prescribe whether the separate line item or items shall be included within or outside an intermediate measure of operations or performance indicator, if one is presented. The AICPA Audit and Accounting Guide, *Health Care Organizations,* requires a not-for-profit organization within its scope to report items of other comprehensive income outside the performance indicator.

74B. A not-for-profit employer shall reclassify to net periodic pension cost a portion of the net gain or loss and prior service costs or credits previously recognized in a separate line item or items and a portion of the transition asset or obligation remaining from the initial application of this Statement, pursuant to the recognition and amortization provisions of paragraphs 24–34 and 77. The contra adjustment or adjustments shall be reported in the same line item or items within changes in unrestricted net assets, apart from expenses, as the initially recognized amounts. Net periodic pension cost shall be reported by functional classification pursuant to paragraph 26 of Statement 117.

74C. In applying the provisions of this Statement to a not-for-profit employer, the references to accumulated other comprehensive income or a separate component of equity in paragraphs 20(d), 20(f), 28, 32–34, 38, 74, and 264, and the references to amounts previously recognized in other comprehensive income in paragraphs 52 and 264, shall instead be to the gains or losses, the prior service costs or credits, and the transition asset or obligation that have been recognized as changes in unrestricted net assets arising from a defined benefit plan but not yet reclassified as components of net periodic pension cost.

74D. An employer other than a not-for-profit employer that does not report other comprehensive income pursuant to FASB Statement No. 130, *Reporting Comprehensive Income,* shall apply the provisions of paragraphs 74A–74C in an analogous manner that is appropriate for its method of reporting financial performance and financial position.

t. Paragraph 261A and its related footnote 17 are added as follows:

The illustrations included in this appendix demonstrate the application of the requirements of this Statement prior to the amendments required by FASB Statement No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans.* Many of those illustrations would require changes to implement the provisions of Statement 158. Those changes include eliminating reconciliations of the funded status to amounts recognized in an employer's statement of financial position, eliminating references to the additional minimum pension liability, and eliminating references to unrecognized gains and losses, unrecognized prior service costs and credits, and unrecognized transition assets and obligations to reflect that those items would be recognized in accumulated other comprehensive income pursuant to Statement 158.[17] Those illustrations remain applicable until the provisions of Statement 158 are applied. The provisions of Statement 158 are illustrated in Appendix A of that Statement.

[17]The Board has a project on its technical agenda to consider further the illustrations included in this appendix and to supersede those that become irrelevant after the provisions of Statement 158 are applied and to amend those that have continuing relevance.

u. Paragraph 264 (glossary):

Amortization

Usually refers to the process of reducing a recognized liability systematically by recognizing revenues or reducing a recognized asset systematically by recognizing expenses or costs. In pension accounting, amortization is also used to refer to the systematic recognition in net pension cost over several periods of amounts previously recognized in other comprehensive income, that is, prior service costs or credits, gains or losses,~~previously *unrecognized* amounts, including unrecognized prior service cost and unrecognized net gain or loss~~ and the transition asset or obligation existing at the date of initial application of this Statement.

Gain or loss

A change in the value of either the projected benefit obligation or the plan assets resulting from experience different from that assumed or from a change in an actuarial assumption. Gains and losses that are not recognized in net periodic pension cost when they arise are recognized in other comprehensive income. Those gains or losses are subsequently recognized as a component of net periodic pension cost based on the amortization provisions of this Statement.~~See also **Unrecognized net gain or loss.**~~

Gain or loss component (of net periodic pension cost)

The sum of (a) the difference between the actual return on plan assets and the expected return on plan assets and (b) the amortization of ~~unrecognized~~ net gain or loss recognized in accumulated other comprehensive income~~from previous periods~~. The gain or loss component is the net effect of delayed recognition of gains and losses in determining net periodic pension cost (the net change in the gain or loss) in accumulated other comprehensive income~~(the net change in the unrecognized net gain or loss)~~ except that it does not include changes in the projected benefit obligation occurring during the period and deferred for later recognition in net periodic pension cost.

~~**Measurement date**~~

~~The date as of which plan assets and obligations are measured.~~

Net periodic pension cost

The amount recognized in an employer's financial statements as the cost of a pension plan for a period. Components of net periodic pension cost are service cost, interest cost, actual return on plan assets, gain or loss, amortization of ~~unrecognized~~ prior service cost or credit, and amortization of the ~~unrecognized net~~transition asset or obligation ~~or asset~~ existing at the date of initial application of this Statement. This Statement uses the term *net periodic pension cost* instead of *net pension expense* because part of the cost recognized in a period may be capitalized along with other costs as part of an asset such as inventory.

Prior service cost
The cost of retroactive benefits granted in a plan amendment.~~ See also **Unrecognized prior service cost.**~~

~~**Unfunded accumulated benefit obligation**~~
~~The excess of the accumulated benefit obligation over plan assets.~~

~~**Unrecognized net gain or loss**~~
~~The cumulative net gain or loss that has not been recognized as a part of net periodic pension cost. See **Gain or loss.**~~

~~**Unrecognized prior service cost**~~
~~That portion of prior service cost that has not been recognized as a part of net periodic pension cost.~~

C3. Statement 87 represented fundamental changes in how defined benefit postretirement pension plans were measured and recognized in an employer's financial statements. Appendix B of Statement 87 includes various illustrations that described how certain aspects of the accounting requirements were to be applied.

C4. Many of the illustrations would have required extensive changes to implement the provisions of this Statement. The Board concluded that necessary changes included eliminating the following:

a. Reconciliations of the funded status to amounts recognized in the employer's statement of financial position
b. References to the additional minimum pension liability
c. References to unrecognized gains and losses and unrecognized prior service costs and credits to reflect that those items should be recognized in accumulated other comprehensive income.

C5. The Board believes that many of those illustrations are not essential to understanding or applying the provisions of this Statement. Additionally, the Board believes the need for examples of how to apply Statement 87 has diminished over the many years since Statement 87 was first issued. The Board decided to consider further those illustrations in Statement 87 and in related guidance and to update those that have continuing relevance following the issuance of this Statement.

C6. Statement 88 is amended as follows:

a. Paragraph 9 and its related footnote 2:

For purposes of this Statement, the maximum gain or loss subject to recognition in earnings when a pension obligation is settled is the ~~unrecognized~~ net gain or loss remaining in accumulated other comprehensive income defined in paragraph 29 of Statement 87[2] plus any ~~remaining unrecognized net asset existing at the date of~~transition asset remaining in accumulated other comprehensive income from initial application of Statement 87~~ (as discussed in paragraph 21 of this Statement)~~. That maximum amount includes any gain or loss first measured at the time of settlement. The maximum amount shall be recognized in earnings if the entire projected benefit obligation is settled. If only part of the projected benefit obligation is settled, the employer shall recognize in earnings a pro rata portion of the maximum amount equal to the percentage reduction in the projected benefit obligation.

[2]Paragraph 29 of Statement 87 states:

Gains and losses are changes in the amount of either the projected benefit obligation or plan assets resulting from experience different from that assumed and from changes in assumptions. This Statement does not distinguish between those sources of gains and losses. Gains and losses include amounts that have been realized, for example by sale of a security, as well as amounts that are unrealized. Because gains and losses may reflect refinements in estimates as well as real changes in economic values and because some gains in one period may be offset by losses in another or vice versa, this Statement does not require recognition of gains and losses as components of net pension cost of the period in which they arise. Gains and losses that are not recognized immediately as a component of net periodic pension cost shall be recognized as increases or decreases in other comprehensive income as they arise. [Footnote reference omitted.]

b. Paragraph 12:

The ~~unrecognized~~ prior service cost included in accumulated other comprehensive income associated with years of service no longer expected to be rendered as the result of a curtailment is a loss. For example, if a curtailment eliminates half of the estimated remaining future years of service of those who were employed at the date of a prior plan amendment and were expected to receive benefits under the plan, then the loss associated with the curtailment is half of the ~~remaining unrecognized~~ prior service cost included in accumulated other comprehensive income related to that amendment that has not been amortized as a component of net periodic pension cost~~related to that plan amendment~~. For purposes of applying the provisions of this paragraph, ~~unrecognized~~ prior service cost includes the cost of retroactive plan amendments (refer to paragraphs 24–25 of Statement 87) and any ~~remaining unrecognized net obligation existing at the date of~~ transition obligation remaining in accumulated other comprehensive income from initial application of Statement 87.~~initial application of Statement 87 (as discussed in paragraph 21 of this Statement).~~

c. Paragraph 13:

> The projected benefit obligation may be decreased (a gain) or increased (a loss) by a curtailment.[4]
>
> a. To the extent that such a gain exceeds any ~~unrecognized~~ net loss included in accumulated other comprehensive income (or the entire gain, if ~~an unrecognized net gain~~a net gain exists), it is a *curtailment gain*
> b. To the extent that such a loss exceeds any ~~unrecognized~~ net gain included in accumulated other comprehensive income (or the entire loss, if ~~an unrecognized net loss~~a net loss exists), it is a *curtailment loss.*
>
> For purposes of applying the provisions of this paragraph, any transition asset remaining in accumulated other comprehensive income from initial application of Statement 87 ~~remaining unrecognized net asset existing at the date of initial application of Statement 87 (as discussed in paragraph 21 of this Statement)~~ shall be treated as ~~an unrecognized net gain~~ a net gain and shall be combined with the ~~unrecognized~~ net gain or loss arising subsequent to transition to Statement 87.

d. Paragraphs 17A and 17B and the related heading are added as follows:

> **Not-for-Profit Organizations and Other Entities That Do Not Report Other Comprehensive Income**
>
> 17A. Not-for-profit employers and other employers that do not report other comprehensive income in accordance with the provisions of FASB Statement No. 130, *Reporting Comprehensive Income,* shall apply the provisions of paragraphs 9, 10, and 14 of this Statement in an analogous manner that is appropriate for their method of reporting financial performance and financial position.
>
> 17B. For such employers, the references to accumulated other comprehensive income in paragraphs 9, 12, and 13 of this Statement shall instead be to the gains or losses, the prior service costs or credits, and the transition asset or obligation that have been recognized as changes in unrestricted net assets arising from a defined benefit plan but not yet reclassified as components of net periodic pension cost. In footnote 2 to paragraph 9, the reference to paragraph 29 of Statement 87 shall also be to paragraph 74A of that Statement.

e. Paragraph 57A and its related footnote 6a are added as follows:

> The illustrations included in this appendix demonstrate the application of the requirements of this Statement prior to the amendments required by FASB Statement No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans.* Many of those illustrations would require changes to implement the provisions of Statement 158. Those changes include eliminating reconciliations of the funded status to amounts recognized in an employer's statement of financial position, eliminating references to the additional minimum pension liability, and eliminating references to unrecognized gains and losses, unrecognized prior service costs and credits, and unrecognized transition assets and obligations to reflect that those items would be recognized in accumulated other comprehensive income pursuant to Statement 158.[6a] Those illustrations remain applicable until the provisions of Statement 158 are applied. The provisions of Statement 158 are illustrated in Appendix A of that Statement.
>
> [6a]The Board has a project on its technical agenda to consider further the illustrations included in this appendix and to supersede those that become irrelevant after the provisions of Statement 158 are applied and to amend those that have continuing relevance.

C7. Statement 88 represented fundamental changes in how defined benefit postretirement plans were measured and recognized in an employer's financial statements when settled or curtailed or when employers offered benefits to employees in connection with their termination of employment. Appendix B of Statement 88 includes various illustrations that described how certain aspects of the accounting requirements were to be applied.

C8. Many of the illustrations would have required extensive changes to implement the provisions of this Statement. The Board concluded that necessary changes included eliminating the following:

a. Reconciliations of the funded status to amounts recognized in the employer's statement of financial position
b. References to additional minimum pension liability
c. References to unrecognized gains and losses and unrecognized prior service costs and credits to reflect that those items should be recognized in accumulated other comprehensive income.

C9. The Board believes that many of those illustrations are not essential to understanding or applying the provisions of this Statement. Additionally, the Board believes the need for examples of how to apply Statement 88 has diminished over the many years since Statement 88 was first issued. The Board decided to consider further those illustrations included in Statement 88 and in related guidance and to update those that have continuing relevance following the issuance of this Statement.

Appendix D

AMENDMENTS TO STATEMENT 106

D1. This appendix contains the amendments to FASB Statement No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions,* as a result of this Statement. The following principal topics are addressed:

a. Amendments related to the recognition of the funded status of a defined benefit plan in an employer's statement of financial position, that is, recognition of gains or losses, prior service costs or credits, and the transition asset or obligation remaining from the initial adoption of Statement 106 that were previously unrecognized as of the date this Statement is initially applied.
b. Amendments to codify into the standards section the guidance from the basis for conclusions of Statement 106 that describes the objective of selecting the assumed discount rates from a portfolio of high-quality debt instruments.
c. Amendments related to measuring plan assets and benefit obligations as of the date of an employer's year-end statement of financial position, eliminating the alternative of selecting a measurement date not more than three months prior to the date of an employer's year-end statement of financial position.
d. Amendments to conform the terms in the glossary of Statement 106 to this Statement.
e. Amendments needed to provide additional guidance for applying the amendments noted in (a) above to a not-for-profit organization or other entity that does not report other comprehensive income pursuant to FASB Statement No. 130, *Reporting Comprehensive Income.*

D2. Statement 106 is amended as follows: [Added text is underlined and deleted text is ~~struck out~~.]

a. Paragraph 22:

> Net periodic postretirement benefit cost comprises several components that reflect different aspects of the employer's financial arrangements. The **service cost** component of net periodic postretirement benefit cost is the actuarial present value of benefits attributed to services rendered by employees during the period (the portion of the expected postretirement benefit obligation attributed to service in the period). The service cost component is the same for an unfunded plan, a plan with minimal funding, and a well-funded plan. The other components of net periodic postretirement benefit cost are **interest cost**[8] (interest on the accumulated postretirement benefit obligation, which is a discounted amount), **actual return on plan assets, amortization** of ~~**unrecognized**~~any **prior service cost** or credit included in accumulated other comprehensive income, amortization of the **transition obligation** or **transition asset,** and the **gain or loss component,** which includes, to the extent recognized, amortization of the net gain or loss included in accumulated other comprehensive income.

b. Paragraph 31:

Assumed discount rates shall reflect the time value of money as of the ~~**measurement date**~~ measurement date in determining the present value of future cash outflows currently expected to be required to satisfy the postretirement benefit obligation. In making that assumption, employers shall look to rates of return on high-quality fixed-income investments currently available whose cash flows match the timing and amount of expected benefit payments. If settlement of the obligation with third-party insurers is possible (for example, the purchase of nonparticipating life insurance contracts to provide death benefits), the interest rates inherent in the amount at which the postretirement benefit obligation could be settled are relevant in determining the assumed discount rates. Assumed discount rates are used in measurements of the expected and accumulated postretirement benefit obligations and the service cost and interest cost components of net periodic postretirement benefit cost.

c. Paragraph 31A is added as follows:

Pursuant to paragraph 31, an employer shall look to rates of return on high-quality fixed-income investments in determining assumed discount rates. The objective of selecting assumed discount rates using that method is to measure the single amount that, if invested at the measurement date in a portfolio of high-quality debt instruments, would provide the necessary future cash flows to pay the postretirement benefits when due. Notionally, that single amount, the accumulated postretirement benefit obligation, would equal the current market value of a portfolio of high-quality zero coupon bonds whose maturity dates and amounts would be the same as the timing and amount of the expected future benefit payments. Because cash inflows would equal cash outflows in timing and amount, there would be no reinvestment risk in the yields to maturity of the portfolio. However, in other than a zero coupon portfolio, such as a portfolio of long-term debt instruments that pay semiannual interest payments or whose maturities do not extend far enough into the future to meet expected benefit payments, the assumed discount rates (the yield to maturity) need to incorporate expected reinvestment rates available in the future. Those rates shall be extrapolated from the existing yield curve at the measurement date. The determination of the assumed discount rate is separate from the determination of the expected rate of return on plan assets whenever the actual portfolio differs from the hypothetical portfolio described above. Assumed discount rates shall be reevaluated at each measurement date. If the general level of interest rates rises or declines, the assumed discount rates shall change in a similar manner.

d. Paragraphs 44A and 44B and the related heading are added as follows:

Recognition of liabilities and assets

44A. An employer that sponsors one or more single-employer defined benefit postretirement plans other than pensions shall recognize in its statement of financial position the funded statuses of those plans. The status for each plan shall be measured as the difference between the fair value of plan assets and the accumulated postretirement benefit obligation as it is defined in this Statement.

44B. The employer shall aggregate the statuses of all overfunded plans and recognize that amount as an asset in its statement of financial position. It also shall aggregate the statuses of all underfunded plans and recognize that amount as a liability in its statement of financial position. An employer that presents a classified statement of financial position shall classify the liability for an underfunded plan as a current liability, a noncurrent liability, or a combination of both. The current portion (determined on a plan-by-plan basis) is the amount by which the actuarial present value of benefits included in the benefit obligation payable in the next 12 months, or operating cycle if longer, exceeds the fair value of plan assets. The asset for an overfunded plan shall be classified as a noncurrent asset in a classified statement of financial position.

e. Paragraph 46 and its related footnote 18:

The following components shall be included in the net postretirement benefit cost recognized for a period by an employer sponsoring a defined benefit postretirement plan:

a. Service cost (paragraph 47)
b. Interest cost (paragraph 48)

c. Actual return on plan assets, if any (paragraph 49)

d. Amortization of any prior service cost or credit included in accumulated other comprehensive income to the extent required by paragraphs 50–55~~Amortization of unrecognized prior service cost, if any (paragraphs 50–55)~~

e. **Gain or loss** (including the effects of changes in assumptions) to the extent recognized (paragraphs 56–62)

f. Amortization of any obligation or asset existing at the date of initial application of this Statement, hereinafter referred to as the transition obligation[18] or transition asset remaining in accumulated other comprehensive income (paragraphs 110 and 112). ~~Amortization of the unrecognized obligation or asset existing at the date of initial application of this Statement, hereinafter referred to as the **unrecognized transition obligation**[18] or **unrecognized transition asset** (paragraphs 110 and 112).~~

[18]Amortization of the ~~unrecognized~~ transition obligation or asset will be adjusted prospectively to recognize the effects of (a) a negative plan amendment pursuant to paragraph 55, (b) a constraint on immediate recognition of a net gain or loss pursuant to paragraph 60, (c) settlement accounting pursuant to paragraphs 92 and 93, (d) plan curtailment accounting pursuant to paragraphs 97–99, and (e) a constraint on delayed ~~recognition~~ amortization of the ~~unrecognized~~ transition obligation pursuant to paragraph 112.

f. Paragraph 52:

~~The cost of benefit improvements (including improved benefits that are granted to **fully eligible plan participants**) is the increase in the accumulated postretirement benefit obligation as a result of the plan amendment, measured at the date of the amendment.~~A plan amendment that retroactively increases benefits (including benefits that are granted to **fully eligible plan participants**) increases the accumulated postretirement benefit obligation. The cost of the benefit improvement shall be recognized as a charge to other comprehensive income at the date of the amendment. Except as specified in the next sentence and in paragraphs 53 and 54, that prior service cost shall be amortized as a component of net periodic postretirement benefit cost by assigning an equal amount to each remaining year of service to the full eligibility date of each plan participant active at the date of the amendment who was not yet fully eligible for benefits at that date. If all or almost all of a plan's participants are fully eligible for benefits, the prior service cost shall be amortized based on the remaining life expectancy of those plan participants rather than on the remaining years of service to the full eligibility dates of the active plan participants. Other comprehensive income is adjusted as a result of amortizing prior service cost.

g. Paragraph 53:

To reduce the complexity and detail of the computations required, consistent use of an alternative~~ amortization~~ approach that more rapidly ~~reduces~~ amortizes the~~unrecognized~~ prior service cost recognized in accumulated other comprehensive income is permitted. For example, a straight-line amortization of the cost over the average remaining years of service to full eligibility for benefits of the active plan participants is acceptable.

h. Paragraph 55:

A plan amendment ~~can reduce, rather than increase,~~that retroactively reduces, rather than increases, benefits decreases the accumulated postretirement benefit obligation. The reduction in benefits shall be recognized as a corresponding credit (prior service credit) to other comprehensive income that~~ A reduction in that obligation~~ shall be used first to reduce any remaining ~~existing unrecognized~~ prior service cost included in accumulated other comprehensive income, then to reduce any ~~remaining unrecognized~~ transition obligation remaining in accumulated other comprehensive income. The excess, if any, shall be amortized as a component of net periodic postretirement benefit cost on the same basis as specified in paragraph 52 for prior service cost. Immediate recognition of the excess is not permitted.

i. Paragraph 56:

Gains and losses are changes in the amount of either the accumulated postretirement benefit obligation or plan assets resulting from experience different from that assumed or from changes in assumptions. This Statement generally does not distinguish between those sources of gains and losses. Gains and losses include amounts that have been realized, for example, by the sale of a security, as well as amounts that are unrealized. Because gains and losses may reflect refinements in estimates as well as real changes in economic values and because some gains in one period may be offset by losses in another or vice versa, this Statement does not require recognition of gains and losses as components of net postretirement benefit cost in the period in which they arise, except as described in paragraph 61. Gains and losses that are not recognized immediately as a component of net periodic postretirement benefit cost shall be recognized as increases or decreases in other comprehensive income as they arise. (Gain and loss recognition in accounting for settlements and curtailments is addressed in paragraphs 90–99.)

j. Paragraph 59 and its related footnote 19:

As a minimum, amortization of ~~an **unrecognized net gain or loss**~~a net gain or loss included in accumulated other comprehensive income (excluding plan asset gains and losses not yet reflected in market-related value) shall be included as a component of net periodic postretirement benefit cost for a year if, as of the beginning of the year, that ~~unrecognized~~ net gain or loss exceeds 10 percent of the greater of the accumulated postretirement benefit obligation or the market-related value of plan assets. If amortization is required, the minimum amortization[19] shall be that excess divided by the average remaining service period of active plan participants. If all or almost all of a plan's participants are inactive, the average remaining life expectancy of the inactive participants shall be used instead of the average remaining service period.

[19]The amortization must always reduce the beginning-of-the-year balance included in accumulated other comprehensive income. Amortization of ~~an unrecognized net gain~~a net gain included in accumulated other comprehensive income results in a decrease in net periodic postretirement benefit cost; amortization of ~~an unrecognized net loss~~a net loss included in accumulated other comprehensive income results in an increase in net periodic postretirement benefit cost.

k. Paragraph 60:

Any systematic method of ~~amortization of unrecognized~~amortizing gains and losses included in accumulated other comprehensive income may be used in place of the minimum amortization specified in paragraph 59 provided that (a) the minimum amortization is recognized in any period in which it is greater (reduces the ~~unrecognized amount~~net gain or loss balance by more) than the amount that would be recognized under the method used, (b) the method is applied consistently, (c) the method is applied similarly to both gains and losses, and (d) the method used is disclosed. If an enterprise uses a method of consistently recognizing gains and losses immediately, any gain that does not offset a loss previously recognized in income pursuant to this paragraph shall first offset any ~~unrecognized~~ transition obligation remaining in accumulated other comprehensive income; any loss that does not offset a gain previously recognized in income pursuant to this paragraph shall first offset any ~~unrecognized~~ transition asset remaining in accumulated other comprehensive income.

l. Paragraph 62:

The gain or loss component of net periodic postretirement benefit cost shall consist of (a) the difference between the actual return on plan assets and the expected return on plan assets, (b) any gain or loss immediately recognized or the amortization of the ~~unrecognized~~ net gain or loss ~~from previous periods~~included in accumulated other comprehensive income, and (c) any amount immediately recognized as a gain or loss pursuant to paragraph 61.

m. Paragraph 65:

Note: FASB Statement No. 157, *Fair Value Measurements,* amended paragraph 65 prior to the issuance of this Statement, eliminating additional guidance about the measurement of plan assets at fair value. The preexisting guidance is effective for an employer until it adopts Statement 157. The changes to paragraph 65, as previously amended, and its related footnotes 20a, as previously added, and 21 made by Statement 157 are shown below:

For purposes of the disclosures required by paragraphs 5 and 8 of FASB Statement No. 132 (revised 2003), *Employers' Disclosures about Pensions and Other Postretirement Benefits,* plan investments, whether equity or debt securities, real estate, or other, shall be measured at their fair value as of the measurement date. ~~The fair value of an investment is the amount that the plan could reasonably expect to receive for it in a current sale between a willing buyer and a willing seller, that is, other than in a forced or liquidation sale. Fair value shall be measured by~~

~~the market price if an active market exists for the investment. If no active market exists for an investment but an active market exists for similar investments, selling prices in that market may be helpful in estimating fair value. If a market price is not available, a forecast of expected cash flows[20a] may aid in estimating fair value, provided the expected cash flows are discounted at a current rate commensurate with the risk involved.~~[21] (Refer to paragraph 71.)

~~[20a]This pronouncement was issued prior to FASB Concepts Statement No. 7, *Using Cash Flow Information and Present Value in Accounting Measurements,* and therefore the term *expected cash flows* does not necessarily have the same meaning as that term in Concepts Statement 7.~~

[21]~~For an indication of factors to be considered in determining the discount rate, refer to paragraphs 13 and 14 of APB Opinion No. 21, *Interest on Receivables and Payables.* If significant, t~~The fair value of an investment shall be reduced by ~~reflect the~~ brokerage commissions and other costs normally incurred in a sale if those costs are significant (similar to fair value less cost to sell).

n. Paragraph 72:

The measurements of *plan assets and benefit obligations* required by this Statement shall be as of the date of the employer's fiscal year-end statement of financial position, unless (a) the plan is sponsored by a subsidiary that is consolidated using a fiscal period that differs from its parent's, as permitted by ARB No. 51, *Consolidated Financial Statements,* or (b) the plan is sponsored by an investee that is accounted for using the equity method of accounting under APB Opinion No. 18, *The Equity Method of Accounting for Investments in Common Stock,* using financial statements of the investee for a fiscal period that is different from the investor's, as permitted by Opinion 18. In those cases, the employer shall measure the subsidiary's plan assets and benefit obligations as of the date used to consolidate the subsidiary's statement of financial position and shall measure the investee's plan assets and benefit obligations as of the date of the investee's financial statements used to apply the equity method.~~financial statements or, if used consistently from year to year, as of a date not more than three months prior to that date.~~ Even though the postretirement benefit measurements are required as of a particular date, all procedures are not required to be performed after that date. As with other financial statement items requiring estimates, much of the information can be prepared as of an earlier date and projected forward to account for subsequent events (for example, employee service).

o. Paragraph 73:

Measurements of *net periodic postretirement benefit cost* for both interim and annual financial statements generally shall be based on the assumptions at the beginning of the year (assumptions used for the previous year-end measurements of plan assets and obligations) unless more recent measurements of both plan assets and the accumulated postretirement benefit obligation are available. For example, if a significant event occurs, such as a plan amendment, settlement, or curtailment, that ordinarily would call for remeasurement, the assumptions used for those later measurements shall be used to remeasure net periodic postretirement benefit cost from the date of the event to the year-end measurement date. Unless an employer remeasures both its plan assets and benefit obligations during the fiscal year, the funded status it reports in its interim-period statement of financial position shall be the same asset or liability recognized in the previous year-end statement of financial position adjusted for (a) subsequent accruals of net periodic postretirement benefit cost that exclude the amortization of amounts previously recognized in other comprehensive income (for example, subsequent accruals of service cost, interest cost, and return on plan assets) and (b) contributions to a funded plan, or benefit payments. Upon remeasurement, a business entity shall adjust its statement of financial position in a subsequent interim period (on a delayed basis if the measurement date provisions of FASB Statement No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans,* have not yet been implemented) to reflect the overfunded or underfunded status of the plan consistent with that measurement date.

p. Paragraph 88:

As a result of applying the provisions of paragraphs 86 and 87, any previously existing ~~unrecognized~~ net gain or loss, ~~unrecognized~~ prior service cost or credit, or ~~unrecognized~~ transition obligation or transition asset remaining in accumulated other comprehensive income is eliminated for the acquired employer's plan. ~~Subsequently, to the extent that the net obligation~~

~~assumed or net assets acquired are considered in determining the amounts of contributions to the plan, differences between the purchaser's net periodic postretirement benefit cost and amounts it contributes will reduce the liability or asset recognized at the date of the combination.~~

q. Paragraph 92:

For purposes of this Statement, the maximum gain or loss subject to recognition in income when a postretirement benefit obligation is settled is the ~~unrecognized~~ net gain or loss included in accumulated other comprehensive income defined in paragraphs 56–60 plus any ~~remaining unrecognized~~ transition asset remaining in accumulated other comprehensive income. That maximum gain or loss includes any gain or loss resulting from remeasurements of plan assets and the accumulated postretirement benefit obligation at the time of settlement.

r. Paragraph 93 and its related footnotes 25 and 26:

If the entire accumulated postretirement benefit obligation is settled and the maximum amount subject to recognition is a gain, the settlement gain shall first reduce any ~~remaining unrecognized~~ transition obligation remaining in accumulated other comprehensive income;[25] any excess gain shall be recognized in income.[26] If the entire accumulated postretirement benefit obligation is settled and the maximum amount subject to recognition is a loss, the maximum settlement loss shall be recognized in income. If only part of the accumulated postretirement benefit obligation is settled, the employer shall recognize in income the excess of the pro rata portion (equal to the percentage reduction in the accumulated postretirement benefit obligation) of the maximum settlement gain over any remaining ~~unrecognized~~ transition obligation or a pro rata portion of the maximum settlement loss.

[25]As discussed in paragraph 112, in measuring the gain or loss subject to recognition in income when a postretirement benefit obligation is settled, it shall first be determined whether amortization~~recognition~~ of an additional amount of any ~~unrecognized~~ transition obligation is required.

[26]Because the plan is the unit of accounting, the determination of the effects of a settlement considers only the ~~unrecognized~~ net gain or loss and transition obligation or asset included in accumulated other comprehensive income~~and unrecognized transition obligation or asset~~ related to the plan for which all or a portion of the accumulated postretirement benefit obligation is being settled.

s. Paragraph 97 and its related footnote 28:

The ~~unrecognized~~ prior service cost included in accumulated other comprehensive income associated with the portion of the future years of service that had been expected to be rendered, but as a result of a curtailment are no longer expected to be rendered, is a loss. For purposes of measuring the effect of a curtailment, ~~unrecognized~~ prior service cost includes the cost of plan amendments and any remaining ~~unrecognized~~ transition obligation. For example, a curtailment may result from the termination of a significant number of employees who were plan participants at the date of a prior plan amendment.[28] The loss associated with that curtailment is measured as ~~(a)~~ the portion of the remaining ~~unrecognized~~ prior service cost included in accumulated other comprehensive income related to that (and any prior) plan amendment attributable to the previously expected remaining future years of service of the employees who were terminated and ~~(b)~~ the portion of the remaining ~~unrecognized~~ transition obligation attributable to the previously expected remaining future years of service of the terminated employees who were plan participants at the date of transition.

[28]A curtailment also may result from terminating the accrual of additional benefits for the future services of a significant number of employees. The loss in that situation is (a) a proportionate amount of the remaining ~~unrecognized~~ prior service cost included in accumulated other comprehensive income based on the portion of the remaining expected years of service in the amortization period that originally was attributable to those employees who were plan participants at the date of the plan amendment and whose future accrual of benefits has been terminated and (b) a proportionate amount of the ~~remaining unrecognized~~ transition obligation remaining in accumulated other comprehensive income based on the portion of the remaining years of service of all participants active at the date of transition that originally was attributable to the remaining expected future years of service of the employees whose future accrual of benefits has been terminated.

t. Paragraph 98:

The accumulated postretirement benefit obligation may be decreased (a gain) or increased (a loss) by a curtailment.[29] That (gain) loss shall reduce any ~~unrecognized~~ net loss (gain) included in accumulated other comprehensive income.

a. To the extent that such a gain exceeds any ~~unrecognized~~ net loss included in accumulated other comprehensive income (or the entire gain, if ~~an unrecognized net gain~~a net gain exists), it is a curtailment gain.

b. To the extent that such a loss exceeds any ~~unrecognized~~ net gain included in accumulated other comprehensive income (or the entire loss, if ~~an unrecognized net loss~~ a net loss exists), it is a curtailment loss.

For purposes of applying the provisions of this paragraph, any ~~remaining unrecognized~~ transition asset remaining in accumulated other comprehensive income shall be treated as ~~an unrecognized net gain~~ a net gain and shall be combined with the ~~unrecognized~~ net gain or loss arising subsequent to transition to this Statement.

u. Paragraphs 103A–103D and the related heading are added as follows:

Not-for-Profit Organizations and Other Entities That Do Not Report Other Comprehensive Income

103A. A not-for-profit employer shall recognize as a separate line item or items within changes in unrestricted net assets, apart from expenses, the gains or losses and the prior service costs or credits that would be recognized in other comprehensive income pursuant to paragraphs 52, 55, and 56 of this Statement. Consistent with the provisions of FASB Statement No. 117, *Financial Statements of Not-for-Profit Organizations,* this Statement does not prescribe whether the separate line item or items shall be included within or outside an intermediate measure of operations or performance indicator, if one is presented. The AICPA Audit and Accounting Guide, *Health Care Organizations,* requires a not-for-profit organization within its scope to report items of other comprehensive income outside the performance indicator.

103B. A not-for-profit employer shall reclassify to net periodic postretirement benefit cost a portion of the net gain or loss and prior service costs or credits previously recognized in a separate line item or items and a portion of the transition asset or obligation remaining from the initial application of this Statement, pursuant to the recognition and amortization provisions of paragraphs 50–62, 112, and 113. The contra adjustment or adjustments shall be reported in the same line item or items within changes in unrestricted net assets, apart from expenses, as the initially recognized amounts. Net periodic postretirement benefit cost shall be reported by functional classification pursuant to paragraph 26 of Statement 117.

103C. In applying the provisions of this Statement to not-for-profit employers, the references to accumulated other comprehensive income in paragraphs 22, 46(d), 46(f), 53, 55, 59 (and its related footnote 19), 60, 62, 88, 92, 93 (and its related footnote 26), 97 (and its related footnote 28), 98, and 518, and the references to amounts previously recognized in other comprehensive income in paragraphs 73 and 518, shall instead be to the gains or losses, prior service costs or credits, and transition obligation or asset that have been recognized as changes in unrestricted net assets arising from a postretirement benefit plan but not yet reclassified as components of net periodic postretirement benefit cost.

103D. An employer other than a not-for-profit employer that does not report other comprehensive income pursuant to FASB Statement No. 130, *Reporting Comprehensive Income,* shall apply the provisions of paragraphs 103A–103C in an analogous manner that is appropriate for its method of reporting financial performance and financial position.

v. Paragraph 391A and its related footnote 38 are added as follows:

The illustrations included in this appendix demonstrate the application of the requirements of this Statement prior to the amendments required by FASB Statement No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans.* Many of those illustrations would require changes to implement the provisions of Statement 158. Those changes include eliminating reconciliations of the funded status to amounts recognized in an employer's statement of financial position, eliminating references to the additional minimum pension liability, and eliminating references to unrecognized gains and losses, unrecognized prior service costs and credits, and unrecognized transition assets and obligations to reflect that those items would be recognized in accumulated other comprehensive income pursuant to Statement 158.[38] Those illustrations remain applicable until the provisions of Statement 158 are applied. The provisions of Statement 158 are illustrated in Appendix A of that Statement.

[38]The Board has a project on its technical agenda to consider further the illustrations included in this appendix and to supersede those that become irrelevant after the provisions of Statement 158 are applied and to amend those that have continuing relevance.

w. Paragraph 518 (glossary):

Amortization

Usually refers to the process of reducing a recognized liability systematically by recognizing revenues or of reducing a recognized asset systematically by recognizing expenses or costs. In accounting for postretirement benefits, amortization is also used to refer to the systematic recognition in net periodic postretirement benefit cost over several periods of amounts previously recognized in other comprehensive income ~~previously *unrecognized* amounts, including unrecognized prior service cost, unrecognized net gain or loss~~, that is, gains or losses, prior service cost or credits, and any ~~unrecognized~~ transition obligation or asset.

Gain or loss

A change in the value of either the accumulated postretirement benefit obligation or the plan assets resulting from experience different from that assumed or from a change in an actuarial assumption, or the consequence of a decision to temporarily deviate from the substantive plan. Gains or losses that are not recognized in net periodic postretirement benefit cost when they arise are recognized in other comprehensive income. Those gains or losses are subsequently recognized as a component of net periodic postretirement benefit cost based on the recognition and amortization provisions of this Statement. ~~Also refer to **Unrecognized net gain or loss.**~~

Gain or loss component (of net periodic postretirement benefit cost)

The sum of (a) the difference between the actual return on plan assets and the expected return on plan assets, (b) any gain or loss immediately recognized or the amortization of the ~~unrecognized~~ net gain or loss recognized in accumulated other comprehensive income ~~from previous periods~~, and (c) any amount immediately recognized as a gain or loss pursuant to a decision to temporarily deviate from the substantive plan. The gain or loss component is generally the net effect of delayed recognition in determining net periodic postretirement benefit cost of gains and losses (the net change in the ~~unrecognized~~ net gain or loss recognized in accumulated other comprehensive income) except that it does not include changes in the accumulated postretirement benefit obligation occurring during the period and deferred for later recognition in net periodic postretirement benefit cost.

~~**Measurement date**~~

~~The date of the financial statements or, if used consistently from year to year, a date not more than three months prior to that date, as of which plan assets and obligations are measured.~~

Net periodic postretirement benefit cost

The amount recognized in an employer's financial statements as the cost of a postretirement benefit plan for a period. Components of net periodic postretirement benefit cost include service cost, interest cost, actual return on plan assets, gain or loss, amortization of ~~unrecognized~~ prior service cost or credit, and amortization of the ~~unrecognized~~ transition obligation or asset.

Prior service cost

The cost of benefit improvements attributable to plan participants' prior service pursuant to a plan amendment or a plan initiation that provides benefits in exchange for plan participants' prior service. ~~Also refer to **Unrecognized prior service cost.**~~

Transition asset

The ~~unrecognized~~ amount, as of the date this Statement is initially applied, of (a) the fair value of plan assets plus any recognized accrued postretirement benefit cost or less any recognized prepaid postretirement benefit cost in excess of (b) the accumulated postretirement benefit obligation.

Transition obligation

The ~~unrecognized~~ amount, as of the date this Statement is initially applied, of (a) the accumulated postretirement benefit obligation in excess of (b) the fair value of plan assets plus any recognized accrued postretirement benefit cost or less any recognized prepaid postretirement benefit cost.

~~**Unrecognized net gain or loss**~~
~~The cumulative net gain or loss that has not been recognized as a part of net periodic postretirement benefit cost or as a part of the accounting for the effects of a settlement or a curtailment. Also refer to **Gain or loss.**~~

~~**Unrecognized prior service cost**~~
~~The portion of prior service cost that has not been recognized as a part of net periodic postretirement benefit cost, as a reduction of the effects of a negative plan amendment, or as a part of the accounting for the effects of a curtailment.~~

~~**Unrecognized transition asset**~~
~~The portion of the transition asset that has not been recognized either immediately as the effect of a change in accounting or on a delayed basis as a part of net periodic postretirement benefit cost, as an offset to certain losses, or as a part of accounting for the effects of a settlement or a curtailment.~~

~~**Unrecognized transition obligation**~~
~~The portion of the transition obligation that has not been recognized either immediately as the effect of a change in accounting or on a delayed basis as a part of net periodic postretirement benefit cost, as an offset to certain gains, or as a part of accounting for the effects of a settlement or a curtailment.~~

D3. Statement 106 represented fundamental changes in how defined benefit postretirement plans other than pensions were measured and recognized in an employer's financial statements. Appendix C of Statement 106 includes various illustrations that described how certain aspects of the accounting requirements were to be applied.

D4. Many of the illustrations would have required extensive changes to implement the provisions of this Statement. The Board concluded that necessary changes included eliminating the following:

a. Reconciliations of the funded status to amounts recognized in the employer's statement of financial position
b. References to unrecognized gains and losses and unrecognized prior service costs and credits to reflect that those items should be recognized in accumulated other comprehensive income.

D5. The Board believes that many of those illustrations are not essential to understanding or applying the provisions of this Statement. Additionally, the Board believes the need for examples of how to apply Statement 106 has diminished over the many years since Statement 106 was first issued. The Board decided to consider further those illustrations included in Statement 106 and in related guidance and to update those that have continuing relevance following the issuance of this Statement.

Appendix E

AMENDMENTS TO STATEMENT 132(R)

E1. FASB Statement No. 132 (revised 2003), *Employers' Disclosures about Pensions and Other Postretirement Benefits,* is amended as follows: [Added text is underlined and deleted text is ~~struck out~~.]

a. Paragraph 3:

This Statement incorporates all of the disclosure requirements of FASB Statement No. 132, *Employers' Disclosures about Pensions and Other Postretirement Benefits.* This Statement amends APB Opinion No. 28, *Interim Financial Reporting,* to require interim-period disclosure of the components of net periodic benefit cost and, if significantly different from previously disclosed amounts, the amounts of contributions and projected contributions to fund pension plans and other postretirement benefit plans. Information required to be disclosed about pension plans should not be combined with information required to be disclosed about other postretirement benefit plans except as permitted by paragraph 12 of this Statement. Public and nonpublic entities shall provide the disclosures required in paragraphs 5–9, as applicable. Paragraphs 10A–10D describe how those requirements shall be applied to not-for-profit organizations and other entities that do not report other comprehensive income.~~***The disclosures that are new or have been changed are identified with an asterisk (*).***~~ Appendix A provides background information and the basis for the Board's conclusions in this Statement. Appendix B provides background information and the basis for the Board's conclusions as originally contained in Statement 132. Appendix C provides illustrations of the required disclosures. Appendix D provides information about the impact of this Statement on the consensuses reached on EITF Issues relating to disclosures about pension plans and other postretirement benefit plans. Appendix E provides a glossary of terms that are used in this Statement.

b. Paragraph 5:

Certain terms used in this Statement, such as **projected benefit obligation,**[3] **accumulated benefit obligation, accumulated postretirement benefit obligation,** and *net pension cost,* are defined in Statements 87 and 106. An employer that sponsors one or more defined benefit pension plans or one or more other defined benefit postretirement plans shall provide the following information, separately for pension plans and other postretirement benefit plans. Amounts related to the employer's results of operations (including items of other comprehensive income) shall be disclosed for each period for which a statement of income is presented. Amounts related to the employer's statement of financial position~~, unless otherwise stated,~~ shall be disclosed as of the ~~measurement~~ date of ~~used for~~ each statement of financial position presented.

[3]Terms defined in Appendix E are set in **boldface type** the first time they appear.

c. Paragraph 5(c):

The funded status of the plans~~, the amounts not recognized in the statement of financial position,~~ and the amounts recognized in the statement of financial position, ~~including:~~showing separately the assets and current and noncurrent liabilities recognized.

~~(1) The amount of any unamortized prior service cost.~~

~~(2) The amount of any unrecognized net gain or loss (including asset gains and losses not yet reflected in market related value).~~

~~(3) The amount of any remaining unamortized, unrecognized net obligation or net asset existing at the initial date of application of Statement 87 or Statement 106.~~

~~(4) The net pension or other postretirement benefit prepaid assets or accrued liabilities.~~

~~(5) Any intangible asset and the amount of accumulated other comprehensive income recognized pursuant to paragraph 37 of Statement 87, as amended.~~

d. Paragraph 5(h):

The amount of net periodic benefit cost recognized, showing separately the service cost component, the interest cost component, the expected return on plan assets for the period, the gain or loss component, the prior service cost or credit component, the transition asset or obligation component, and the gain or loss recognized due to settlements or curtailments.~~the amortization of the unrecognized transition obligation or transition asset, the amount of recognized gains or losses, the amount of prior service cost recognized, and the amount of gains or losses recognized due to a settlement or curtailment.~~

e. Paragraph 5(i):

~~The amount included within other comprehensive income for the period arising from a change in the additional minimum pension liability recognized pursuant to paragraph 37 of Statement 87, as amended.~~Separately the net gain or loss and net prior service cost or credit recognized in other comprehensive income for the period pursuant to paragraphs 25 and 29 of Statement 87 and paragraphs 52 and 56 of Statement 106, as amended, and reclassification adjustments of other comprehensive income for the period, as those amounts, including amortization of the net transition asset or obligation, are recognized as components of net periodic benefit cost.

f. Paragraph 5(ii) is added as follows:

The amounts in accumulated other comprehensive income that have not yet been recognized as components of net periodic benefit cost, showing separately the net gain or loss, net prior service cost or credit, and net transition asset or obligation.

g. Paragraph 5(k):

~~The measurement date(s) used to determine pension and other postretirement benefit measurements for the pension plans and other postretirement benefit plans that make up at least the majority of plan assets and benefit obligations.*~~

h. Paragraph 5(o):

If applicable, any alternative method used to amortize prior service amounts or ~~unrecognized~~ net gains and losses pursuant to paragraphs 26 and 33 of Statement 87 or paragraphs 53 and 60 of Statement 106.

i. Paragraph 5(s) is added as follows:

The amounts in accumulated other comprehensive income expected to be recognized as components of net periodic benefit cost over the fiscal year that follows the most recent annual statement of financial position presented, showing separately the net gain or loss, net prior service cost or credit, and net transition asset or obligation.

j. Paragraph 5(t) is added as follows:

The amount and timing of any plan assets expected to be returned to the employer during the 12-month period, or operating cycle if longer, that follows the most recent annual statement of financial position presented.

k. Paragraph 6:

The disclosures required by this Statement shall be aggregated for all of an employer's defined benefit pension plans and for all of an employer's other defined benefit postretirement plans unless disaggregating in groups is considered to provide useful information or is otherwise required by this paragraph and paragraph 7 of this Statement. ~~Unless otherwise stated, d~~Disclosures shall be as of the ~~measurement~~ date ~~for~~of each statement of financial position presented. ~~Disclosure of amounts recognized in the statement of financial position shall present prepaid benefit costs and accrued benefit liabilities separately.~~ Disclosures about pension plans with assets in excess of the accumulated benefit obligation generally may be aggregated with disclosures about pension plans with accumulated benefit obligations in excess of assets. The same aggregation is permitted for other postretirement benefit plans. If aggregate disclosures are presented, an employer shall disclose:

a. The aggregate benefit obligation and aggregate fair value of plan assets for plans with benefit obligations in excess of plan assets as of the measurement date of each statement of financial position presented
b. The aggregate pension accumulated benefit obligation and aggregate fair value of plan assets for pension plans with accumulated benefit obligations in excess of plan assets.

l. Paragraph 8:

A **nonpublic entity** is not required to disclose the information required by paragraphs 5(a)–(c), 5(h), 5(m), and 5(o)–(r) of this Statement. A nonpublic entity that sponsors one or more defined benefit pension plans or one or more other defined benefit postretirement plans shall provide the following information, separately for pension plans and other postretirement benefit plans. Amounts related to the employer's results of operations (including items of other comprehensive income) shall be disclosed for each period for which a statement of income is presented. Amounts related to the employer's statement of financial position shall be disclosed as of the ~~measurement date used for~~date of each statement of financial position presented.

m. Paragraph 8(g):

The amounts recognized in the statements of financial position, showing separately the postretirement benefit assets and current and noncurrent postretirement benefit liabilities.~~including net pension and other postretirement benefit prepaid assets or accrued liabilities and any intangible asset and the amount of accumulated other comprehensive income recognized pursuant to paragraph 37 of Statement 87, as amended.~~

n. Paragraph 8(h):

~~The amount of net periodic benefit cost recognized and the amount included within other comprehensive income arising from a change in the minimum pension liability recognized pursuant to paragraph 37 of Statement 87, as amended.~~Separately, the net gain or loss and net prior service cost or credit recognized in other comprehensive income for the period pursuant to paragraphs 25 and 29 of Statement 87 and paragraphs 52 and 56 of Statement 106, as amended, and reclassification adjustments of other comprehensive income for the period, as those amounts, including amortization of the net transition asset or obligation, are recognized as components of net periodic benefit cost.

o. Paragraph 8(hh) is added as follows:

The amounts in accumulated other comprehensive income that have not yet been recognized as components of net periodic benefit cost, showing separately the net gain or loss, net prior service cost or credit, and net transition asset or obligation.

p. Paragraph 8(j):

~~The measurement date(s) used to determine pension and other postretirement benefit measurements for the pension plans and other postretirement benefit plans that make up at least the majority of plan assets and benefit obligations.*~~

q. Paragraph 8(n) is added as follows:

The amounts in accumulated other comprehensive income expected to be recognized as components of net periodic benefit cost over the fiscal year that follows the most recent annual statement of financial position presented, showing separately the net gain or loss, net prior service cost or credit, and net transition asset or obligation.

r. Paragraph 8(o) is added as follows:

The amount and timing of any plan assets expected to be returned to the employer during the 12-month period, or operating cycle if longer, that follows the most recent annual statement of financial position presented.

s. Paragraph 9:

A **publicly traded entity** shall disclose the following information in its interim financial statements that include a statement of income:

a. The amount of net periodic benefit cost recognized, for each period for which a statement of income is presented, showing separately the service cost component, the interest cost component, the expected return on plan assets for the period, ~~the amortization of the unrecognized transition obligation or transition asset, the amount of recognized gains or losses~~the gain or loss component, the ~~amount of~~ prior service cost or credit component~~recognized~~, the transition asset or obligation component, and the ~~amount of~~ gain or loss recognized due to a settlement or curtailment~~*~~

b. The total amount of the employer's contributions paid, and expected to be paid, during the current fiscal year, if significantly different from amounts previously disclosed pursuant to paragraph 5(g) of this Statement. Estimated contributions may be presented in the aggregate combining (1) contributions required by funding regulations or laws, (2) discretionary contributions, and (3) noncash contributions.~~*~~

t. Paragraphs 10A–10D and the related heading are added as follows:

Not-for-Profit Organizations and Other Entities That Do Not Report Other Comprehensive Income

10A. For not-for-profit employers and other employers that do not report other comprehensive income in accordance with FASB Statement No. 130, *Reporting Comprehensive Income,* the references to the net gain or loss, net prior service cost or credit, and net transition asset or obligation recognized in other comprehensive income in paragraphs 5(i) and 8(h) of this Statement shall instead be to such amounts recognized as changes in unrestricted net assets arising from a defined benefit plan but not yet included in net periodic benefit cost.

10B. For those employers, the references to reclassification adjustments of other comprehensive income in paragraphs 5(i) and 8(h) of this Statement shall instead be to reclassifications to net periodic benefit cost of amounts previously recognized as changes in unrestricted net assets arising from a defined benefit plan but not included in net periodic benefit cost when they arose.

10C. For those employers, the references to the net gain or loss, net prior service cost or credit, and net transition asset or obligation recognized in accumulated other comprehensive income in paragraphs 5(ii), 5(s), 8(hh), and 8(n) of this Statement shall instead be to such amounts that have been recognized as changes in unrestricted net assets arising from a defined benefit plan but not yet reclassified as components of net periodic benefit cost.

10D. For those employers, the references to results of operations (including items of other comprehensive income) in paragraphs 5 and 8 shall instead be to changes in unrestricted net assets and the references to a statement of income in those paragraphs shall instead be to a statement of activities.

u. Paragraph C3:

During 20X3, Company A acquired FV Industries and amended its plans. ~~For one of the defined benefit pension plans, the accumulated benefit obligation exceeds the fair value of plan assets, and Company A recognized an additional minimum liability in accordance with the provisions of paragraphs 36 and 37 of Statement 87.~~

Notes to Financial Statements

Pension and Other Postretirement Benefit Plans

Company A has both funded and unfunded noncontributory defined benefit pension plans that together cover substantially all of its employees. The plans provide defined benefits based on years of service and final average salary.

Company A also has other postretirement benefit plans covering substantially all of its employees. The health care plans are contributory with participants' contributions adjusted annually; the life insurance plans are noncontributory. The accounting for the health care plans anticipates future cost-sharing changes to the written plans that are consistent with the company's expressed intent to increase retiree contributions each year by 50 percent of health care cost increases in excess of 6 percent. The postretirement health care plans include a limit on the company's share of costs for recent and future retirees.

Company A acquired FV Industries on December 27, 20X3, including its pension plans and other postretirement benefit plans. Amendments made at the end of 20X3 to Company A's plans increased the pension benefit obligations by $70 and reduced the other postretirement benefit obligations by $75.

~~Company A uses a December 31 measurement date for the majority of its plans.~~

Obligations and Funded Status

At December 31	Pension Benefits 20X3	Pension Benefits 20X2	Other Benefits 20X3	Other Benefits 20X2
Change in benefit obligation				
Benefit obligation at beginning of year	$1,246	$1,200	$ 742	$ 712
Service cost	76	72	36	32
Interest cost	90	88	55	55
Plan participants' contributions			20	13
Amendments	70		(75)	
Actuarial loss	20		25	
Acquisition	900		600	
Benefits paid	(125)	(114)	(90)	(70)
Benefit obligation at end of year	2,277	1,246	1,313	742
Change in plan assets				
Fair value of plan assets at beginning of year	1,068	894	206	87
Actual return on plan assets	29	188	5	24
Acquisition	1,000		25	
Employer contributions	75	100	137	152
Plan participants' contributions			20	13
Benefits paid	(125)	(114)	(90)	(70)
Fair value of plan assets at end of year	2,047	1,068	303	206
Funded status at end of year	$ (230)	$ (178)	$(1,010)	$(536)
~~Unrecognized net actuarial loss (gain)~~	~~94~~	~~18~~	~~(11)~~	~~(48)~~
~~Unrecognized prior service cost (benefit)~~	~~210~~	~~160~~	~~(92)~~	~~(22)~~
~~Net amount recognized~~	~~$ 74~~	~~$ 0~~	~~$(1,113)~~	~~$(606)~~

Note: Nonpublic entities are not required to provide information in the above tables; they are required to disclose the employer's contributions, participants' contributions, benefit payments, and the funded status~~, and the net amount recognized~~.

Amounts recognized in the statement of financial position consist of:

	Pension Benefits		Other Benefits	
	20X3	20X2	20X3	20X2
~~Prepaid benefit cost~~Noncurrent assets	$ 227	$ 127	$ 0	$ 0
~~Accrued benefit cost~~	~~(236)~~	~~(180)~~	~~(1,113)~~	~~(606)~~
Current liabilities	(125)	(125)	(150)	(150)
Noncurrent liabilities	(332)	(180)	(860)	(386)
~~Intangible assets~~	~~50~~	~~53~~	~~0~~	~~0~~
~~Accumulated other comprehensive income~~	~~33~~	~~0~~	~~0~~	~~0~~
~~Net amounts recognized~~	~~$ 74~~	~~$ 0~~	~~$(1,113)~~	~~$(606)~~
	$(230)	$(178)	$(1,010)	$(536)

Amounts recognized in accumulated other comprehensive income consist of:

	Pension Benefits		Other Benefits	
	20X3	20X2	20X3	20X2
Net loss (gain)	$ 94	$ 18	$ (11)	$(48)
Prior service cost (credit)	210	160	(92)	(22)
	$304	$178	$(103)	$(70)

The accumulated benefit obligation for all defined benefit pension plans was $1,300 and $850 at December 31, 20X3, and 20X2, respectively.

Information for pension plans with an accumulated benefit obligation in excess of plan assets

	December 31	
	20X3	20X2
Projected benefit obligation	$263	$247
Accumulated benefit obligation	237	222
Fair value of plan assets	84	95

Components of Net Periodic Benefit Cost and Other Amounts Recognized in Other Comprehensive Income

	Pension Benefits		Other Benefits	
Net Periodic Benefit Cost	**20X3**	**20X2**	**20X3**	**20X2**
Service cost	$ 76	$ 72	$ 36	$ 32
Interest cost	90	88	55	55
Expected return on plan assets	(85)	(76)	(17)	(8)
Amortization of prior service cost	20	16	(5)	(5)
Amortization of net (gain) loss	0	0	0	0
Net periodic benefit cost	$101	$100	$ 69	$ 74
Other Changes in Plan Assets and Benefit Obligations Recognized in Other Comprehensive Income				
Net loss (gain)	$ 76	$112	$ 37	$(48)
Prior service cost (credit)	70	0	(75)	(27)
Amortization of prior service cost	(20)	(16)	5	5
Total recognized in other comprehensive income	126	96	(33)	(70)
Total recognized in net periodic benefit cost and other comprehensive income	$227	$196	$ 36	$ 4

The estimated net loss and prior service cost for the defined benefit pension plans that will be amortized from accumulated other comprehensive income into net periodic benefit cost over the next fiscal year are $4 and $27, respectively. The estimated prior service credit for the other defined benefit postretirement plans that will be amortized from accumulated other comprehensive income into net periodic benefit cost over the next fiscal year is $10.

Note: Nonpublic entities are not required to separately disclose components of net periodic benefit cost.

~~**Additional Information**~~

	~~Pension Benefits~~		~~Other Benefits~~	
	~~20X3~~	~~20X2~~	~~20X3~~	~~20X2~~
~~Increase in minimum liability included in other comprehensive income~~	~~$33~~	~~$0~~	~~N/A~~	~~N/A~~

[Note: The remaining sections of Illustration 1 are omitted because they are unaffected by this Statement.]

Appendix F

AMENDMENTS TO OTHER EXISTING PRONOUNCEMENTS

F1. This appendix includes substantive amendments to existing pronouncements other than those contained in Appendixes C–E of this Statement that have been altered as a direct result of the guidance contained in this Statement. [Added text is underlined and deleted text is ~~struck out~~.]

F2. ARB No. 43, Chapter 3, "Working Capital," is amended, as follows:

a. Paragraph 4, as amended:

> For accounting purposes, the term *current assets* is used to designate cash and other assets or resources commonly identified as those which are reasonably expected to be realized in cash or sold or consumed during the normal operating cycle of the business. Thus the term comprehends in general such resources as (a) cash available for current operations and items which are the equivalent of cash; (b) inventories of merchandise, raw materials, goods in process, finished goods, operating supplies, and ordinary maintenance material and parts; (c) trade accounts, notes, and acceptances receivable; (d) receivables from officers, employees, affiliates, and others, if collectible in the ordinary course of business within a year; (e) instalment or deferred accounts and notes receivable if they conform generally to normal trade practices and terms within the business; (f) marketable securities representing the investment of cash available for current operations, including investments in debt and equity securities classified as trading securities under FASB Statement No. 115, *Accounting for Certain Investments in Debt and Equity Securities;* and (g) prepaid expenses such as insurance, interest, rents, taxes, unused royalties, current paid advertising service not yet received, and operating supplies. Prepaid expenses are not current assets in the sense that they will be converted into cash but in the sense that, if not paid in advance, they would require the use of current assets during the operating cycle. An asset representing the overfunded status of a single-employer defined benefit postretirement plan shall be classified pursuant to FASB Statement No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans.*

b. Paragraph 7, as amended:

> The term *current liabilities* is used principally to designate obligations whose liquidation is reasonably expected to require the use of existing resources properly classifiable as current assets, or the creation of other current liabilities. As a balance-sheet category, the classification is intended to include obligations for items which have entered into the operating cycle, such as payables incurred in the acquisition of materials and supplies to be used in the production of goods or in providing services to be offered for sale; collections received in advance of the delivery of goods or performance of services[2]; and debts which arise from operations directly related to the operating cycle, such as accruals for wages, salaries, commissions, rentals, royalties, and income and other taxes. Other liabilities whose regular and ordinary liquidation is expected to occur within a relatively short period of time, usually twelve months, are also intended for inclusion, such as short-term debts arising from the acquisition of capital assets, serial maturities of long-term obligations, amounts required to be expended within one year under sinking fund provisions, and agency obligations arising from the collection or acceptance of cash or other assets for the account of third persons.[3] The current liability classification is also intended to include obligations that, by their terms, are due on demand or will be due on demand within one year (or operating cycle, if longer) from the balance sheet date, even though liquidation may not be expected within that period. It is also intended to include long-term obligations that are or will be callable by the creditor either because the debtor's violation of a provision of the debt agreement at the balance sheet date makes the obligation callable or because the violation, if not cured within a specified grace period, will make the obligation callable. Accordingly, such callable obligations shall be classified as current liabilities unless one of the following conditions is met:
>
> a. The creditor has waived[3a] or subsequently lost[3b] the right to demand repayment for more than one year (or operating cycle, if longer) from the balance sheet date.

b. For long-term obligations containing a grace period within which the debtor may cure the violation, it is probable[3c] that the violation will be cured within that period, thus preventing the obligation from becoming callable.

If an obligation under (b) above is classified as a long-term liability (or, in the case of an unclassified balance sheet, is included as a long-term liability in the disclosure of debt maturities), the circumstances shall be disclosed. Short-term obligations that are expected to be refinanced on a long-term basis, including those callable obligations discussed herein, shall be classified in accordance with FASB Statement No. 6, *Classification of Short-Term Obligations Expected to Be Refinanced.* A liability representing the underfunded status of a single-employer defined benefit postretirement plan shall be classified pursuant to Statement 158.

F3. APB Opinion No. 28, *Interim Financial Reporting,* is amended as follows:

a. Paragraph 30(k), as amended:

The following information about defined benefit pension plans and other defined benefit postretirement benefit plans, disclosed for all periods presented pursuant to the provisions of FASB Statement No. 132 (revised 2003), *Employers' Disclosures about Pensions and Other Postretirement Benefits:*

(1) The amount of net periodic benefit cost recognized, for each period for which a statement of income is presented, showing separately the service cost component, the interest cost component, the expected return on plan assets for the period, the gain or loss component, the prior service cost or credit component, the transition asset or obligation component, and the gain or loss recognized due to a settlement or curtailment.~~the amortization of the unrecognized transition obligation or transition asset, the amount of recognized gains or losses, the amount of prior service cost recognized, and the amount of gain or loss recognized due to a settlement or curtailment.*~~

(2) The total amount of the employer's contributions paid, and expected to be paid, during the current fiscal year, if significantly different from amounts previously disclosed pursuant to paragraph 5(g) of Statement 132(R). Estimated contributions may be presented in the aggregate combining (a) contributions required by funding regulations or laws, (b) discretionary contributions, and (c) noncash contributions.~~*~~

F4. FASB Statement No. 130, *Reporting Comprehensive Income,* is amended as follows:

a. Paragraph 17:

Items included in other comprehensive income shall be classified based on their nature. For example, under existing accounting standards, other comprehensive income shall be classified separately into foreign currency items, gains or losses associated with pension or other postretirement benefits, prior service costs or credits associated with pension or other postretirement benefits, transition assets or obligations associated with pension or other postretirement benefits,~~minimum pension liability adjustments,~~ and unrealized gains and losses on certain investments in debt and equity securities. Additional classifications or additional items within current classifications may result from future accounting standards.

b. Paragraph 19:

An enterprise shall determine reclassification adjustments for each classification of other comprehensive income~~, except minimum pension liability adjustments~~. The requirement for a reclassification adjustment for Statement 52 foreign currency translation adjustments is limited to translation gains and losses realized upon sale or upon complete or substantially complete liquidation of an investment in a foreign entity.

c. Paragraph 20:

An enterprise may display reclassification adjustments on the face of the financial statement in which comprehensive income is reported, or it may disclose reclassification adjustments in the notes to the financial statements. Therefore, for all classifications of other comprehensive income~~ other than minimum pension liability adjustments~~, an enterprise may use either (a) a gross display on the face of the financial statement or (b) a net display on the face of the financial statement and disclose the gross change in the notes to the financial statements.[6] Gross and net displays are illustrated in Appendix B. An example of the calculation of reclassification adjustments for Statement 115 available-for-sale securities is included in Appendix C.

d. Paragraph 21:

~~An enterprise shall not determine a reclassification adjustment for minimum pension liability adjustments. Therefore, an enterprise shall use a net display for that classification.~~

e. Paragraph 130:

Brackets are used to highlight certain basic totals that must be displayed in financial statements to comply with the provisions of this Statement. This Statement requires not only displaying those certain basic totals but also reporting components of those aggregates. For example, it requires reporting information about unrealized gains and losses on available-for-sale securities, foreign currency items, gains or losses associated with pension or other postretirement benefits, prior service costs or credits associated with pension or other postretirement benefits, and transition assets or obligations associated with pension or other postretirement benefits~~and minimum pension liability adjustments~~.

f. Paragraph 131, as amended:

Note: Only the illustrations in paragraph 131 have been affected by this Statement. Therefore, they are the only part of paragraph 131 that has been reproduced here.

Format A: One-Statement Approach

Enterprise
Statement of Income and Comprehensive Income
Year Ended December 31, ~~19X9~~20X9

Revenues		$140,000
Expenses		(25,000)
Other gains and losses		8,000
Gain on sale of securities		2,000
Income from operations before tax		125,000
Income tax expense		(31,250)
Income before extraordinary item~~ and cumulative effect of accounting change*~~		93,750
Extraordinary item, net of tax		~~(28,000)~~ (30,500)
~~Income before cumulative effect of accounting change*~~		~~65,750~~
~~Cumulative effect of accounting change,*net of tax~~		~~(2,500)~~
[Net income		63,250]
Other comprehensive income, net of tax:		
Foreign currency translation adjustments[a]		8,000
Unrealized gains on securities:[b]		
Unrealized holding gains arising during period	$13,000	
Less: reclassification adjustment for gains included in net income	(1,500)	11,500
Defined benefit pension plans:[c]		
~~Minimum pension liability adjustment~~[e]		~~(2,500)~~
Prior service cost arising during period	(1,600)	
Net loss arising during period	(1,000)	
Less: amortization of prior service cost included in net periodic pension cost	100	(2,500)
Other comprehensive income		17,000
[Comprehensive income		$ 80,250]

Alternatively, components of other comprehensive income could be displayed before tax with one amount shown for the aggregate income tax expense or benefit:

Other comprehensive income, before tax:		
Foreign currency translation adjustments[a]		$10,666
Unrealized gains on securities:[b]		
Unrealized holding gains arising during period	$17,333	
Less: reclassification adjustment for gains included in net income	(2,000)	15,333
Defined benefit pension plans:[c]		
~~Minimum pension liability adjustment~~[e]		~~(3,333)~~
Prior service cost arising during period	(2,133)	
Net loss arising during period	(1,333)	
Less: amortization of prior service cost included in net periodic pension cost	133	(3,333)
Other comprehensive income, before tax		22,666
[Income tax expense related to items of other comprehensive income		(5,666)]
Other comprehensive income, net of tax		$17,000

~~*After the effective date of FASB Statement No. 154, *Accounting Changes and Error Corrections,* voluntary changes in accounting principle will no longer be reported via a cumulative-effect adjustment through the income statement of the period of change.~~

[a]It is assumed that there was no sale or liquidation of an investment in a foreign entity. Therefore, there is no reclassification adjustment for this period.

[b]This illustrates the gross display. Alternatively, a net display can be used, with disclosure of the gross amounts (current-period gain and reclassification adjustment) in the notes to the financial statements.

[c]This illustrates the gross display~~required net display for this classification~~. Alternatively, a net display can be used, with disclosure of the gross amounts (prior service cost and net loss for the defined benefit pension plans less amortization of prior service cost) in the notes to financial statements.

Format B: Two-Statement Approach

Enterprise
Statement of Income
Year Ended December 31, ~~19X9~~20X9

Revenues	$140,000
Expenses	(25,000)
Other gains and losses	8,000
Gain on sale of securities	2,000
Income from operations before tax	125,000
Income tax expense	(31,250)
Income before extraordinary item ~~and cumulative effect of accounting change*~~	93,750
Extraordinary item, net of tax	~~(28,000)~~ (30,500)
~~Income before cumulative effect of accounting change*~~	~~65,750~~
~~Cumulative effect of accounting change,*net of tax~~	~~(2,500)~~
[Net income	$ 63,250]

Enterprise
Statement of Comprehensive Income
Year Ended December 31, ~~19X9~~20X9

[Net income		$63,250]
Other comprehensive income, net of tax:		
Foreign currency translation adjustments[a]		8,000
Unrealized gains on securities:[b]		
Unrealized holding gains arising during period	$13,000	
Less: reclassification adjustment for gains included in net income	(1,500)	11,500
Defined benefit pension plans:[c]		
~~Minimum pension liability adjustment~~[e]		~~(2,500)~~
Prior service cost arising during period	(1,600)	
Net loss arising during period	(1,000)	
Less: amortization of prior service cost included in net periodic pension cost	100	(2,500)
Other comprehensive income		17,000
[Comprehensive income		$80,250]

Alternatively, components of other comprehensive income could be displayed before tax with one amount shown for the aggregate income tax expense or benefit as illustrated in Format A.

~~*After the effective date of Statement 154, voluntary changes in accounting principle will no longer be reported via a cumulative effect adjustment through the income statement of the period of change.~~

[a]It is assumed that there was no sale or liquidation of an investment in a foreign entity. Therefore, there is no reclassification adjustment for this period.

[b]This illustrates the gross display. Alternatively, a net display can be used, with disclosure of the gross amounts (current-period gain and reclassification adjustment) in the notes to the financial statements.

[c]This illustrates the gross display.~~required net display for this classification.~~ Alternatively, a net display can be used, with disclosure of the gross amounts (prior service cost and net loss for defined benefit pension plans less amortization of prior service cost) in the notes to financial statements.

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Format C: Statement-of-Changes-in-Equity Approach (Alternative 1)

Enterprise
Statement of Changes in Equity
Year Ended December 31, ~~19X9~~20X9

	Total	Comprehensive Income[a]	Retained Earnings	Accumulated Other Comprehensive Income	Common Stock	Paid-in Capital
Beginning balance	$~~563,500~~ 561,500		$ 88,500	$~~25,000~~ 23,000	$150,000	$300,000
Comprehensive income						
Net income	63,250	$63,250	63,250			
Other comprehensive income, net of tax						
Unrealized gains on securities, net of reclassification adjustment (see disclosure)	11,500	11,500				
Foreign currency translation adjustments	8,000	8,000				
Defined benefit pension plans:						
Net prior service cost (see disclosure)	(1,500)	(1,500)				
Net loss	(1,000)	(1,000)				
~~Minimum pension liability adjustment~~	~~(2,500)~~	~~(2,500)~~				
Other comprehensive income		17,000		17,000		
Comprehensive income		$80,250				
Common stock issued	150,000				50,000	100,000
Dividends declared on common stock	(10,000)		(10,000)			
Ending balance	$~~783,750~~ 781,750		$141,750	$~~42,000~~ 40,000	$200,000	$400,000

Disclosure of reclassification amount:[b]

Unrealized holding gains arising during period	$13,000
Less: reclassification adjustment for gains included in net income	(1,500)
Net unrealized gains on securities	$11,500
Prior service cost from plan amendment during period	$ (1,600)
Less: amortization of prior service cost included in net periodic pension cost	100
Net prior service cost arising during period	(1,500)
Net loss arising during period	(1,000)
Defined benefit pension plans, net	$ (2,500)

[a]Alternatively, an enterprise can omit the separate column labeled "Comprehensive Income" by displaying an aggregate amount for comprehensive income ($80,250) in the "Total" column.
[b]It is assumed that there was no sale or liquidation of an investment in a foreign entity. Therefore, there is no reclassification adjustment for this period.

Format D: Statement-of-Changes-in-Equity Approach (Alternative 2)

Enterprise
Statement of Changes in Equity
Year Ended December 31, ~~19X9~~20X9

Retained earnings		
Balance at January 1	$ 88,500	
Net income	63,250	[$63,250]
Dividends declared on common stock	(10,000)	
Balance at December 31	141,750	
Accumulated other comprehensive income[a]		
Balance at January 1	~~25,000~~ 23,000	
Unrealized gains on securities, net of reclassification adjustment (see disclosure)		11,500
Foreign currency translation adjustments		8,000
Defined benefit pension plans:		
Net prior service cost (see disclosure)		(1,500)
Net loss		(1,000)
~~Minimum pension liability adjustment~~		~~(2,500)~~
Other comprehensive income	17,000	17,000
Comprehensive income		[$80,250]
Balance at December 31	~~42,000~~ 40,000	
Common stock		
Balance at January 1	150,000	
Shares issued	50,000	
Balance at December 31	200,000	
Paid-in capital		
Balance at January 1	300,000	
Common stock issued	100,000	
Balance at December 31	400,000	
Total equity	$~~783,750~~ 781,750	

Disclosure of reclassification amount:[b]

Unrealized holding gains arising during period	$ 13,000
Less: reclassification adjustment for gains included in net income	(1,500)
Net unrealized gains on securities	$ 11,500
Prior service cost from plan amendment during period	$ (1,600)
Less: amortization of prior service cost included in net periodic pension cost	100
Net prior service cost arising during period	(1,500)
Net loss arising during period	(1,000)
Defined benefit pension plans, net	$ (2,500)

[a]All items of other comprehensive income are displayed net of tax.
[b]It is assumed that there was no sale or liquidation of an investment in a foreign entity. Therefore, there is no reclassification adjustment for this period.

All Formats: Required Disclosure of Related Tax Effects Allocated to Each Component of Other Comprehensive Income

Enterprise
Notes to Financial Statements
Year Ended December 31, ~~19X9~~20X9

	Before-Tax Amount	Tax (Expense) or Benefit	Net-of-Tax Amount
Foreign currency translation adjustments	$10,666	$(2,666)	$ 8,000
Unrealized gains on securities:			
Unrealized holding gains arising during period	17,333	(4,333)	13,000
Less: reclassification adjustment for gains realized in net income	(2,000)	500	(1,500)
Net unrealized gains	15,333	(3,833)	11,500
Defined benefit pension plans:			
~~Minimum pension liability adjustment~~	~~(3,333)~~	~~833~~	~~(2,500)~~
Prior service cost from plan amendment during period	(2,133)	533	(1,600)
Less: amortization of prior service cost included in net periodic pension cost	133	(33)	100
Net prior service cost arising during period	(2,000)	500	(1,500)
Net loss arising during period	(1,333)	333	(1,000)
Defined benefit pension plans, net	(3,333)	833	(2,500)
Other comprehensive income	$22,666	$(5,666)	$17,000

Alternatively, the tax amounts for each component can be displayed parenthetically on the face of the financial statement in which comprehensive income is reported.

All Formats: Disclosure of Accumulated Other Comprehensive Income Balances

Enterprise
Notes to Financial Statements
Year Ended December 31, ~~19X9~~20X9

	Foreign Currency Items	Unrealized Gains on Securities	Defined Benefit Pension Plans	~~Minimum Pension Liability Adjustment~~	Accumulated Other Comprehensive Income
					$~~25,000~~
Beginning balance	$ (500)	$25,500	$(2,000)	~~$ 0~~	23,000
Current-period change	8,000	11,500	(2,500)	~~(2,500)~~	17,000
					$~~42,000~~
Ending balance	$7,500	$37,000	$(4,500)	~~$(2,500)~~	40,000

Alternatively, the balances of each classification within accumulated other comprehensive income can be displayed in a statement of changes in equity or in a statement of financial position.

All Formats: Accompanying Statement of Financial Position

Enterprise
Statement of Financial Position
December 31, ~~19X9~~20X9

Assets:	
Cash	$ 150,000
Accounts receivable	175,000
Available-for-sale securities	112,000
Plant and equipment	985,000
Total assets	$1,422,000
Liabilities:	
Accounts payable	$ 112,500
Accrued liabilities	~~79,250~~
	78,583
~~Pension l~~Liability for pension benefits	~~128,000~~
	130,667
Notes payable	318,500
Total liabilities	$ ~~638,250~~
	640,250
Equity:	
Common stock	$ 200,000
Paid-in capital	400,000
Retained earnings	141,750
[Accumulated other comprehensive income	~~42,000~~]
	40,000
Total equity	~~783,750~~
	781,750
Total liabilities and equity	$1,422,000

Appendix G

IMPACT ON RELATED LITERATURE

G1. This appendix addresses the impact of this Statement on authoritative accounting literature included in categories (*b*), (*c*), and (*d*) in the GAAP hierarchy discussed in FASB Statement No. 162, *The Hierarchy of Generally Accepted Accounting Principles.*

G2. The Board believes many of the staff Q&As contained in FASB Special Reports, *A Guide to Implementation of Statement 87 on Employers' Accounting for Pensions; A Guide to Implementation of Statement 88 on Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits;* and *A Guide to Implementation of Statement 106 on Employers' Accounting for Postretirement Benefits Other Than Pensions,* are not essential to understanding or applying the provisions of this Statement. Additionally, the Board believes the need for those Q&As has diminished over the many years since Statements 87, 88, and 106 were first issued. The Board decided to consider further those Q&As and to update those that have continuing relevance following the issuance of this Statement.

G3. The following tables list Emerging Issues Task Force (EITF) Issues and Topics, FASB Staff Positions (FSPs), guidance issued by the American Institute of Certified Public Accountants (AICPA) or its staff, and guidance issued by the SEC or its staff relating to postretirement benefit obligations, including pensions, and indicate (a) the status of that literature after issuance of this Statement and (b) the impact of this Statement on that literature (if any). (**Note:** The *EITF Abstracts* will be updated accordingly following issuance of this Statement.)

G4. Decisions about whether to amend AICPA guidance are made by the FASB in conjunction with the AICPA. (**Note:** The AICPA will make the changes until there is an FASB codification.)

G5. Decisions about whether to amend SEC or SEC staff guidance are made by the SEC and its staff.

G6. The following guidance is related to the accounting for pensions or other postretirement benefits but is either outside the scope of this Statement or unaffected by this Statement:

Literature	Title
Issue 84-35	Business Combinations: Sale of Duplicate Facilities and Accrual of Liabilities
Issue 86-27	Measurement of Excess Contributions to a Defined Contribution Plan or Employee Stock Ownership Plan
Issue 88-1	Determination of Vested Benefit Obligation for a Defined Benefit Pension Plan
Issue 88-5	Recognition of Insurance Death Benefits
Issue 88-23	Lump-Sum Payments under Union Contracts
Issue 90-3	Accounting for Employers' Obligations for Future Contributions to a Multiemployer Pension Plan
Issue 91-7	Accounting for Pension Benefits Paid by Employers after Insurance Companies Fail to Provide Annuity Benefits
Issue 92-12	Accounting for OPEB Costs by Rate-Regulated Enterprises
Issue 92-13	Accounting for Estimated Payments in Connection with the Coal Industry Retiree Health Benefit Act of 1992
Issue 93-3	Plan Assets under FASB Statement No. 106
Issue 93-4	Accounting for Regulatory Assets
Issue 96-5	Recognition of Liabilities for Contractual Termination Benefits or Changing Benefit Plan Assumptions in Anticipation of a Business Combination
Issue 97-14	Accounting for Deferred Compensation Arrangements Where Amounts Earned Are Held in a Rabbi Trust and Invested

Literature	**Title**
Issue 03-4	Determining the Classification and Benefit Attribution Method for a "Cash Balance" Pension Plan
Issue 05-5	Accounting for Early Retirement or Postemployment Programs with Specific Features (Such As Terms Specified in Altersteilzeit Early Retirement Arrangements)
Topic D-27	Accounting for the Transfer of Excess Pension Assets to a Retiree Health Care Benefits Account
FSP FAS 146-1	Determining Whether a One-Time Termination Benefit Offered in Connection with an Exit or Disposal Activity Is, in Substance, an Enhancement to an Ongoing Benefit Arrangement

G7. The following guidance is affected by the issuance of this Statement:

Status Legend	
Nullified	Guidance is deemed unnecessary upon adoption of this Statement.
Modified	Guidance is partially nullified and replaced upon adoption of this Statement.

Literature	Title	Status	Description
EITF Issues and Topics			
Issue 03-2	Accounting for the Transfer to the Japanese Government of the Substitutional Portion of Employee Pension Fund Liabilities	Modified	Issue 03-2 clarifies how an employer should account for the separation of the government-required portion (similar to social security) of the benefit obligation of a Japanese Employee Pension Fund from the employer's discretionary portion. It also clarifies how to account for the transfer of the government-required portion and related assets to the Japanese government as authorized under the June 2001 amendment to the Japanese Welfare Pension Insurance Law. It states that subsequent to this separation, accounting should continue to be in accordance with Statements 87 and 88. This Statement eliminates minimum pension liability adjustments and requires the recognition of gains or losses, prior service costs or credits, and transition assets and obligations in other comprehensive income to the extent not yet recognized as components of net periodic benefit cost.

Literature	Title	Status	Description
Topic D-36	Selection of Discount Rates Used for Measuring Defined Benefit Pension Obligations and Obligations of Postretirement Benefit Plans Other Than Pensions	Modified	Topic D-36 presents the SEC staff position on the selection of discount rates for Statements 87 and 106, including the guidance in paragraph 186 of Statement 106. This Statement incorporates paragraph 186 of Statement 106 into the standards section of both Statements 87 and 106. Therefore, the duplicate guidance is eliminated.
Topic D-106	Clarification of Q&A No. 37 of FASB Special Report, *A Guide to Implementation of Statement 87 on Employers' Accounting for Pensions*	Nullified	Topic D-106 clarifies the guidance in Q&A No. 37 on how to determine an additional minimum liability when the report date is December 31 and the measurement date is September 30. This Statement eliminates the provisions related to an additional minimum liability. Therefore, Topic D-106 is nullified.

FASB FSPs and Statement 133 Implementation Issues			
FSP APB 18-1	Accounting by an Investor for Its Proportionate Share of Accumulated Other Comprehensive Income of an Investee Accounted for under the Equity Method in Accordance with APB Opinion No. 18 upon a Loss of Significant Influence	Modified	FSP APB 18-1 provides guidance on how an investor should account for its proportionate share of an investee's equity adjustments for other comprehensive income upon a loss of significant influence. FSP APB 18-1 includes minimum pension liability adjustments as an example of one of the investee's equity adjustments related to other comprehensive income. This Statement eliminates minimum pension liability adjustments and requires the recognition of gains or losses, prior service costs or credits, and transition assets or obligations in other comprehensive income to the extent not yet recognized as components of net periodic benefit cost. The background and issue section in FSP APB 18-1 is amended by eliminating the reference to minimum pension liability adjustments and adding the recognition of gains or losses, prior service costs or credits, and transition assets or obligations as some of the investee's equity adjustments related to other comprehensive income.

Literature	Title	Status	Description
AICPA Literature			
AICPA Audit and Accounting Guide	*Health Care Organizations,* 2005	Modified	The Guide on health care organizations assists preparers of financial statements in preparing financial statements in conformity with GAAP and assists auditors in auditing and reporting on such financial statements in accordance with generally accepted auditing standards. The Guide requires health care organizations to report an earnings measure (performance indicator) that is the functional equivalent of income from continuing operations of a for-profit enterprise. Paragraph 10.21(e) requires health care organizations to report separately from the performance indicator "items that are required to be reported in or reclassified from other comprehensive income. . . ." Minimum pension liabilities are included as an example of those items. This Statement eliminates minimum pension liability adjustments and requires the recognition of gains or losses, prior service costs or credits, and transition assets or obligations in other comprehensive income to the extent not yet recognized as components of net periodic benefit cost. Paragraph 10.21(e) of the Guide is amended to eliminate the references to minimum pension liabilities and to add references to gains or losses, prior service costs or credits, and transition assets or obligations recognized in accordance with Statements 87, as amended, and 106, as amended.

AICPA Audit and Accounting Guide	*Life and Health Insurance Entities*, 2005	Modified	The Guide on life and health insurance entities assists preparers of financial statements in preparing financial statements in conformity with GAAP and assists auditors in auditing and reporting on such financial statements in accordance with generally accepted auditing standards. The Guide is directed primarily to the aspects of the preparation and audit of life and health insurance entities' financial statements that are unique to those organizations and are considered significant to them. Paragraph 14.70(f) states that a reporting entity that uses an actuarial valuation as of a date prior to the financial statement date to measure plan assets and obligations, and determines that an additional minimum liability is required to be established in accordance with paragraph 37 of Statement 87, and if the reporting entity contributes amounts to the plan to fund that additional minimum liability prior to the financial statement date, such amount funded may be used to reduce the additional minimum liability recognized in the reporting entity's financial statements. This Statement eliminates the provisions in Statements 87 and 106 that permit plan assets and benefit obligations to be measured as of a date that is not more than three months prior to the date of the employer's statement of financial position. Therefore, paragraph 14.70(f) is eliminated.

Literature	Title	Status	Description
SOP 02-2	*Accounting for Derivative Instruments and Hedging Activities by Not-for-Profit Health Care Organizations, and Clarification of the Performance Indicator*	Modified	Among other matters, SOP 02-2 amended the Guide on health care organizations to clarify that the performance indicator reported by not-for-profit health care organizations excludes items required by Statement 130 to be reported as items of other comprehensive income, and to clarify that any changes to guidance on other comprehensive income would trigger conforming changes to the definition of *performance indicator* in the Guide. This Statement eliminates minimum pension liability adjustments and requires the recognition of gains or losses, prior service costs or credits, and transition assets or obligations in other comprehensive income to the extent not yet recognized as components of net periodic benefit cost. Paragraphs 9 and 19 of SOP 02-2 are amended to eliminate the references to minimum pension liability adjustments and to add references to gains or losses, prior service costs or credits, and transition assets or obligations recognized in other comprehensive income. Additionally, footnote 5 is amended to state that the Statement 87 guidance referred to in that note has been amended by this Statement.

April 12, 2018

Table of Contents

[715-30-25]	**Defined Benefit Plans—Pension - Recognition**
	General
[715-30-25-1]	> Recognition of Liabilities and Assets
[715-30-25-7]	> Participation Rights
	Settlements, Curtailments, and Certain Termination Benefits
[715-30-25-8]	> Certain Termination Benefits

General Note: The Recognition Section provides guidance on the required criteria, timing, and location (within the financial statements) for recording a particular item in the financial statements. Disclosure is not recognition.

General

> Recognition of Liabilities and Assets

715-30-25-1 If the **projected benefit obligation** exceeds the fair value of **plan assets**, the employer shall recognize in its statement of financial position a liability that equals the **unfunded projected benefit obligation**. If the fair value of plan assets exceeds the projected benefit obligation, the employer shall recognize in its statement of financial position an asset that equals the overfunded projected benefit obligation.

715-30-25-2 The employer shall aggregate the statuses of all overfunded plans and recognize that amount as an asset in its statement of financial position. It also shall aggregate the statuses of all underfunded plans and recognize that amount as a liability in its statement of financial position.

715-30-25-3 The asset or liability that is recognized pursuant to paragraph 715-30-25-1 may result in a temporary difference, as defined in Subtopic 740-10. The deferred tax effects of any temporary differences shall be recognized in income tax expense or benefit for the year and shall be allocated to various financial statement components, including other comprehensive income, pursuant to Section 740-20-45.

715-30-25-4 If a new determination of the funded status of a plan to be recognized as an asset or a liability in the employer's statement of financial position is made (see paragraphs 715-30-35-62 through 35-69), or when net gains or losses, prior **service** costs or credits, or the net transition asset or obligation existing at the date of initial application of this Subtopic are amortized as components of **net periodic pension cost**, the related balances for those net gains or losses, prior service costs or credits, and transition asset or obligation in accumulated other comprehensive income shall be adjusted as necessary and reported in other comprehensive income.

715-30-25-5 Sometimes, an entity remeasures both plan assets and benefit obligations during the fiscal year. Paragraph 715-30-35-66 provides an example of some events that may require a remeasurement. Upon remeasurement, a business entity shall adjust its statement of financial position in a subsequent interim period to reflect the overfunded or underfunded status of the plan consistent with that measurement date.

715-30-25-6 An employer that sponsors two or more separate **defined benefit pension plans** shall determine net periodic pension cost, liabilities, and assets by separately applying the provisions of this Subtopic to each plan. In particular, unless an employer clearly has a right to use the assets of one plan to pay **benefits** of another, a liability required to be recognized pursuant to paragraph 715-30-25-1 for one plan shall not be reduced or eliminated because the employer has recognized an asset for another plan that has assets in excess of its projected benefit obligation.

> Participation Rights

715-30-25-7 If an **annuity contract** with a **participation right** is purchased, the cost of the participation right shall be recognized at the date of purchase as an asset. To the extent that benefits currently earned are covered by annuity contracts, the cost of those benefits shall be the cost of purchasing the contracts, except for the cost of the participation right.

Settlements, Curtailments, and Certain Termination Benefits

> Certain Termination Benefits

715-30-25-8 This Subsection addresses the accounting for **termination benefits** that are not otherwise addressed in the Subtopic and Topics indicated in paragraph 715-30-15-6c.

715-30-25-9 An employer may provide benefits to employees in connection with their termination of employment. Those benefits may be either special termination benefits offered only for a short period of time or contractual termination benefits required by the terms of a plan only if a specified event, such as a plant closing, causes employees' services to be terminated involuntarily.

715-30-25-10 Termination benefits may take various forms including lump-sum payments, periodic future payments, or both. They may be paid directly from an employer's assets, an existing pension plan, a new employee benefit plan, or a combination of those means. An employer that offers special termination benefits to employees shall recognize a liability and a **loss** when the employees accept the offer and the amount can be reasonably estimated. An employer that provides contractual termination benefits shall recognize a liability and a loss when it is probable that employees will be entitled to benefits and the amount can be reasonably estimated.

715-30-25-11 The cost of termination benefits within the scope of this Subsection recognized as a liability and a loss shall include the amount of any lump-sum payments and the present value of any expected future payments. The liability and the loss from the acceptance of the offer of special termination benefits is the difference as of the date the employees accept the offer between the **actuarial present value** of the respective employees' accumulated **pension benefits** without considering the special termination benefits and the actuarial present value of their accumulated pension benefits considering the special termination benefits.

715-30-25-12 See Example 6 (paragraph 715-30-55-226) for an illustration of the determination of the liability and the losses from employees' acceptance of an offer of special termination benefits.

715-30-25-13 A situation involving termination benefits may also involve a **curtailment** to be accounted for under paragraphs 715-30-35-92 through 35-95.