

# The Technical Guide

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## **FASB No. 158: EMPLOYERS' ACCOUNTING FOR DEFINED BENEFIT PENSION AND OTHER POSTRETIREMENT PLANS**

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### ***General***

On September 29, 2006, the Financial Accounting Standards Board (FASB) released FASB No. 158, "*Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*" a statement on employers' accounting for defined benefit pension and other postretirement plans. This Technical Guide will provide information and guidance on the implementation of this new Standard.

### ***History***

The Financial Accounting Standards Board (FASB) has issued FASB No. 158 to address the concern that existing standards on employers' accounting for defined benefit postretirement plans fail to produce fair and understandable financial statements. Prior to FASB No. 158, the existing standards did not require an employer to report the current economic status (the overfunded or underfunded status) of a defined benefit postretirement plan in its statement of financial position (balance sheet).

FASB No. 158 improves existing reporting for defined benefit postretirement plans by requiring an employer to recognize certain financial activity occurring in the plan in its financial statements. This activity would include the overfunded or underfunded status of a defined benefit postretirement plan in the balance sheet. The actuarial gains and losses, prior service costs, transition obligations, and credits that arise during the period will continue to be recognized through the income statement with several variations.

### ***New Requirements***

The new requirements under FASB No. 158 are long over due and will improve the understanding of these types of plans for the financial statement reader. This Technical Guide provides a review of the new Standard; however, there are several exceptions and variables, which should be considered by a credit union and its CPA firm prior to the implementation of this new Standard. Several terms that a credit union should be aware of relating to FASB No. 158 are as follows:

**Funded Status:** The difference between the pension liability (Projected Benefit Obligation) and the Plan Assets.

**Measurement Date:** The requirement that plan assets and projected benefit obligations be measured as of the date of a credit union's fiscal year-end statement of financial position, thus eliminating the alternative of a measurement date which under the old rules could be up to three months earlier.

**Net Periodic Pension Cost:** Represents the annual expense incurred by the employer because of its pension plan. The net periodic pension cost is composed of the service costs, interest cost, expected return on assets, and amortization of prior service costs, transition obligations and gains or losses.

**Pension Provider:** This is the organization that administers a credit union's pension plan. For example, CUNA Mutual Group.

**Plan Assets (PA):** Is the amount that a pension plan could reasonably expect to receive for a current sale of plan assets that are held to provide pension benefits.

**Projected Benefit Obligation (PBO):** Is the actuarial present value, as of a specified date, of the total cost of all employees' vested and non-vested pension benefits that have been attributed by the pension benefit formula to services performed by employees to that date.

**Statement of Financial Position:** The statement of financial position is another phrase for the balance sheet. For this Technical Guide, we will use the term balance sheet.

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### ***Balance Sheet Classifications***

At the inception of this new Statement, the funded status of a benefit plan should be calculated by the credit union. The determination of the funded status should be determined as of the audit date (measurement date), and is defined as the difference between the Projected Benefit Obligation (PBO) and Plan Assets (PA). Depending on the differences between the PBO and PA, several areas of the balance sheet could be affected. For instance:

A. **PA > PBO:** An overfunded plan exists when the  $PA > PBO$ , and the difference would be classified as a non-current asset in the balance sheet.

B. **PA < PBO:** An underfunded plan exists when the  $PA < PBO$ , and the difference would be classified as a liability (current and/or long term) in the balance sheet. The classification of the liability as a current and/or long term liability will be determined and provided by the Pension Provider.

Once the funded status of the benefit plan has been calculated, adjustments may need to be made to the existing pension balances in the credit union's balance sheet. These adjustments will be posted as an off-set to the equity account in the balance sheet and can be either an addition or reduction to the equity section. These temporary adjustments are treated in the equity section of the balance sheet in the same manner as the "***unrealized gains/losses on investments***" pursuant to FASB No. 115. In addition, these temporary adjustments are **not** calculated in the credit union's net worth calculation. The final result of these entries will result in the funded status equaling either the non-current asset or the liability based on the difference of the PA and PBO. The provisions of FASB No. 158 also eliminates the accounting for the potential additional minimum liability, which resulted under the old requirement.

### ***Income Statement Classifications***

A credit union's net periodic pension cost is the annual expense incurred by the employer because of its pension plan. Under FASB No. 158, the pension expense will continue to be recognized as a component of the income statement in a similar fashion prior to FASB No. 158. However, while the expense (*debit*) is recognized through the income statement, the second part of the entry (*credit*) results in adjustments to the balance sheet accounts, which have been expanded to include the adjustment to the equity account. The net of the service cost, interest cost, and expected return on plan assets will continue to be an adjustment as a component of either the non-current asset or the liability, whichever component the credit union is reflecting in its financial statements due to the new funded status. However, the amounts of the net gain or loss, net prior service costs or credits, and net transition asset or obligation will be off set against the equity account.

### ***Disclosures***

Disclosures for the financial statements will be provided by the Pension Provider. At a minimum, there will be additional information about certain effects on net periodic benefit cost, the amount and timing of any plan assets expected to be returned to the credit union, etc. In addition, amounts recorded as adjustments to the equity section of the balance sheet will result in an adjustment in the Statement of Comprehensive Income in the credit union's financial statements. This information should be provided to your CPA firm for inclusion in the audited financial statements.

### ***Recommendations***

All credit unions currently enrolled in any defined benefit plans should contact their Pension Provider and request the plan's "measurement date" be moved to coincide with the credit union's audit date. This will provide current and accurate information for inclusion in the audited financial statements. In addition, the credit union's CPAs should also be contacted prior to the audit date to ensure the proper accounting is reflected in the credit union's financial statements.

### ***Effective date***

The effective date of this statement for entities without publicly traded equity securities is at the end of the fiscal year ending after June 15, 2007.

If you have any questions or need further information, call us at (800) 288-0293 or e-mail us at [info@nearman.com](mailto:info@nearman.com)

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