

Major Changes to Pension and Postretirement Benefit Accounting are Announced

The Financial Accounting Standards Board (FASB) issued today its long-awaited amendment to the existing standards governing plan sponsor accounting for pension and other postretirement benefits. The amendment, entitled *Statement of Financial Accounting Standards 158* (SFAS 158), appears to be what we anticipated (see our [For Your Information](#) dated August 22, 2006).

The principal changes to current accounting are as follows –

- The funded position of the plan, that is, the excess or deficit of assets over benefit obligations, will appear in the balance sheet as an asset or a liability. For plan sponsors that have publicly-traded equity, this change will be effective for the fiscal year ending after December 15, 2006. For all other plan sponsors, this change will be effective for the fiscal year ending after June 15, 2007.
- Plans in surplus are aggregated as are plans in deficit, so that there can be both a benefit asset and a benefit liability in the balance sheet.
- Assets are always measured at fair (market) value in determining the plan's net funded position for the balance sheet.
- The pension benefit obligation is the projected benefit obligation (PBO) now disclosed in the footnotes. The PBO contains an allowance for future salary growth in plans where the benefit formula is based on salary.
- The obligation for other postretirement benefit obligations (OPEB) is the accumulated postretirement benefit obligation (APBO) now disclosed in footnotes. The APBO contains an allowance for future medical cost inflation.
- In effect, SFAS 158 results in the recognition in accumulated other comprehensive income (after adjustment for deferred taxes) of any previously unrecognized costs. For not-for-profit entities that do not report other comprehensive income, the amendment results in a change to unrestricted net assets.
- There is no change to the income statement. However, gains or losses and prior service costs or credits during a year will be recognized as other comprehensive income for the year.
- Unlike other changes in accounting methodology, there is no retrospective application.

- The measurement date must be aligned with the end of the plan sponsor's fiscal year starting with the fiscal year ending after December 15, 2008.
- Footnote disclosures will change to reflect the new recognition requirements and to identify the impact of applying the new statement in the initial year of application.

We will be issuing a comprehensive *For Your Information* on the new rules shortly.

This Newsflash is intended to provide general information. It does not offer legal advice or purport to treat all the issues surrounding any one topic.

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