The overall impact of the new FASB rules will vary among employers depending on plan characteristics, but in general the latitude for management discretion in pension accounting has been greatly reduced.

Employers' Accounting for Pensions and Other Post-Employment Benefits

Continual legislative changes to private pension plans in the last eight years have led to more complexity and less discretion in the design and funding of pensions. In addition, "private" regulation by the Financial Accounting Standards Board (FASB) has injected an additional element in the form of new accounting rules for pensions.

FASB's objective in the new rules is to inject into pension accounting a way to more meaningfully measure pension expense and to introduce balance sheet items helpful to financial statement readers.

The overall impact of the new rules, known as FASB 87 and 88, will vary among employers depending on plan design, the age of the work force, actuarial assumptions, and the plan's initial financial status. Nevertheless, the latitude for management discretion in pension accounting has been greatly reduced. The sponsor may no longer be able to choose an actuarial cost method that provides the desired stream of pension expense over time, and the range of acceptable discount rates for determining the present value of pension obligations has implicitly been narrowed.

The requirement that liabilities be recorded at market value each year, as opposed to retaining the same discount rate regardless of prevailing financial markets, is perhaps one of the most talked about changes, because the rule can cause volatility in pension expense. Some companies have been able to control this volatility by shifting asset allocation away from stocks to more stable investments. A disadvantage of this strategy is that the sponsor gives up the opportunity to produce additional income that can reduce pension expense.
Introduction

Employers must recognize the economic value of future promises in their financial statements. Income statement accounting affects reported earnings, and this affects profitability and the value of the company. Balance sheet accounting affects the employer’s liabilities and assets, thus the net worth of the enterprise and its ability to borrow money. In short, accounting for benefit promises as they are earned, rather than only when they are paid (or when contributions are made), has significant economic implications and implications for employer decisions on whether or not to provide pensions and other post-employment benefits.

Although various accounting conventions were applied to pension plans prior to 1966, the accounting profession exercised little control over pension accounting.

Accounting procedures for pension plans consist of three components, each of which is controlled by a separate Financial Accounting Standards Board (FASB) Statement.¹ FASB Statement No. 35, Accounting and Reporting by Defined Benefit Pension Plans (FASB 35) establishes financial accounting and reporting standards for the annual financial statement of a defined benefit pension plan. FASB Statement No. 87, Employers’ Accounting for Pensions (FASB 87) establishes financial reporting and accounting standards for an employer that offers pension benefits² to its employees.³ Closely related to FASB 87, FASB Statement No. 88, Employers’ Accounting for Settlements and Curtailment of Defined Benefit Pension Plans and for Termination Benefits (FASB 88) establishes standards for an employer’s accounting for settlement of defined benefit pension obligations, for curtailment of a defined benefit pension plan, and for termination benefits.

This Issue Brief focuses primarily on the impact of FASB 87⁴ and FASB 88 on the financial statements of single-employer pension plan sponsors. Accounting for nonpension, post-employment benefits is also addressed. A brief discussion of the evolution of pension accounting standards is followed by a detailed description of FASB statements, including an analysis of their impact on pension plan sponsors. The Issue Brief concludes with a description of FASB Statement No. 81, Disclosure of Post-retirement Health Care and Life Insurance Benefits, the disclosure practices required by sponsors under this statement, and current FASB efforts to identify an appropriate accounting treatment for these benefits.

The Evolution of Pension Accounting Standards

Although various accounting conventions were applied to pension plans prior to 1966, the accounting profession exercised little control over pension accounting (the government did however exercise considerable control over pension funding).⁵ As a result, pension accounting during this time was essentially a discretionary system in which the amount of pension expense recorded for a year was the employer’s pension contribution.

Starting in 1966, employer pension accounting was governed by Accounting Principles Board (APB)⁶ Opinion No. 8, Accounting for the Cost of Pension Plans (APB 8). This opinion, which dealt with accounting for

¹ Since 1973, FASB has been the primary agency outside the federal government responsible for developing accounting principles. FASB issues Statements of Financial Accounting Standards, which represent generally accepted accounting principles.
² Words that appear in the glossary are set in boldface type the first time they appear in the text.
³ Because of the unusually high number of inquiries received, FASB staff issued a special report, A Guide to Implementation of Statement 87 on Employer’s Accounting for Pensions, as an aid in understanding FASB 87.
⁴ Although provisions treating multiemployer plans are beyond the scope of this Issue Brief, they are also contained in FASB 87. For excellent discussions of the issues and problems that corporations adopting the standard for foreign plans must consider, see Karter, 1986; Lawrey, 1987; Givant, 1987; and Gerboth and McPhee, 1988.
⁵ The following discussion draws heavily from Allen, Givant, Rosenbloom, and VanDerHoeft, 1988.
⁶ Between 1959 and 1973, the Accounting Principles Board of the American Institute of Certified Public Accountants issued Opinions which, unless superseded, still constitute generally accepted accounting principles.
pensions by employers (as opposed to accounting for the plan per se), replaced the previous discretionary method of accounting for pension costs with a possible range of minimum and maximum annual costs based on a number of approved actuarial cost methods. For a variety of reasons, this method has been questioned ever since the passage of the Employee Retirement Income Security Act (ERISA) in 1974.7 At that time, FASB added two pension projects to its agenda—one to cover accounting principles for the pension plan itself and another to cover accounting by employers for pension benefits.

As a result of these projects, FASB 35 and FASB Statement No. 36, Disclosure of Pension Information (FASB 36) were issued in 1980. FASB 35 established rules governing the measurement and reporting of plan assets and plan obligations by the plan itself. Under this accounting standard, plan assets must be measured at market value (with certain exceptions for insurance contracts), while plan liabilities (both vested and nonvested) are valued without taking future salary increases into consideration. FASB 36 established additional rules governing the disclosure of plan assets and liabilities on the sponsoring employer’s financial statement and required a liability measurement procedure compatible with FASB 35. Although FASB 36 was heralded by some financial analysts as a significant improvement in disclosure, it was only a stopgap measure until the more contentious issues raised in response to APB 8 could be resolved.

**FASB 87**

Even with the modifications imposed by FASB 36, the APB 8 approach to pension accounting was criticized because pension costs were not comparable from one company to another, pension costs were not consistent from period to period for the same company, and significant pension obligations and assets were not recognized in the body of the financial statements (although FASB 36 did require footnote disclosure in the balance sheet).

FASB had four basic objectives in the preparation of FASB 87. The first objective was to provide a measure of pension cost that better reflected the terms of the plan and recognized the cost of employees’ pensions over their service with the employer.9 Second, FASB wanted to provide a more comparable measure of pension cost. Not only were pension plan sponsors able to choose from a number of acceptable actuarial cost methods, but they were also given a degree of flexibility in choosing the amortization period for supplemental liabilities.10 Third, FASB desired to have disclosures that would let users better understand the various economic effects (e.g., the cost of benefit accruals) of the employer’s undertaking. While previous pension accounting standards allowed the sponsor to record one net amount for pension expense, disclosure of the individual components of this amount (such as service cost) was proposed to assist users in understanding the economic events that have occurred. In theory, those disclosures also would make it easier to understand why the reported amount changed from period to period, especially when a large cost offsets a large revenue and produces a relatively small net reported amount. Finally, there was a desire to improve reporting of the employer’s financial position with respect to pension liabilities, primarily through the explicit inclusion of underfunded pension liabilities on the balance sheet of the sponsor.

The new accounting requirements mandated by FASB 87 are being phased in over several years. The income statement (expense) provisions must be applied for fiscal years beginning after December 15, 1986, while...
FASB 87 is intended to specify accounting objectives and results rather than specific computational means of obtaining those results.

FASB 87 does not apply to federal minimum or maximum (deductible) funding requirements. Although the projected unit credit method mandated to compute the net periodic pension cost is one of the acceptable actuarial funding methods under Internal Revenue Code (IRC) section 412, the FASB 87 net periodic pension cost probably will differ substantially from the ERISA minimum funding amount. Furthermore, FASB 87 incorporates two different definitions of the sponsor’s pension liability. The projected benefit obligation measures pension cost and is defined as the actuarial present value of all benefits based on employee service rendered prior to that date under the plan's benefit formula (assuming future salary increases if the formula is based on future compensation). In contrast, the accumulated benefit obligation is used for balance sheet recognition. It is determined in the same manner as the projected benefit obligation but without salary increase assumptions. For those plans with non-pay-related pension benefit formulas (e.g., $25 of monthly benefit for each year of service), the projected benefit obligation and the accumulated benefit obligation are the same.

Recognition of Net Periodic Pension Cost

Under FASB 87, the net periodic pension cost is made up of the following six components: (1) service cost; (2) interest cost; (3) actual return on plan assets, if any; (4) amortization of unrecognized prior service cost, if any; (5) gain or loss to the extent recognized; and (6) amortization of the unrecognized net asset or obligation existing at the date of the initial application of FASB 87.

Service cost is the actuarial present value of benefits attributed by the pension benefit formula to employee service during that period. Interest cost is the increase in the projected benefit obligation due to the passage of time. This can be thought of simply as the accrual of interest on a present value or discounted amount. The actual\textsuperscript{12} return on plan assets is based on the fair value of plan assets at the beginning and the end of the period, adjusted for contributions and benefit payments.

The prior service cost component for accounting purposes is the increase in the projected benefit obligation due to a plan amendment, amortized by assigning, at the date of the amendment, an equal amount for each active employee’s future period of service, if he or she is expected to receive benefits under the plan.\textsuperscript{13}

\textsuperscript{11} Turnover and mortality also are assumed.

\textsuperscript{12} While the return is titled "actual" for disclosure purposes, FASB 87 states that the difference between the actual and expected return on plan assets must be accounted for as a part of the gain or loss component of pension expense. The net result of this treatment is that the expected return on plan assets is used to calculate pension cost for the period.

\textsuperscript{13} This is conceptually similar to the amortization of supplemental liability required for minimum funding standards (other than new liabilities for underfunded plans under OBRA); however, the allocation procedure does not result in a level dollar amount assigned to each year in the amortization period.
In certain cases, the amortization of prior service cost must be accelerated. A history of regular plan amendments may indicate that the period during which the employer expects to benefit from the plan (through employee goodwill, wage concessions, etc.) for an amendment is shorter than the remaining service period. This is likely to transpire in collective bargaining agreements with flat dollar plans in which the dollar amount is renegotiated upward every several years to provide improved benefits to active employees and retirees. If participants expect benefits to be liberalized on a periodic basis, it is unlikely that the employer's economic benefits from the amendment will extend beyond one interval.\(^\text{14}\)

The fifth component of net periodic pension cost, gain or loss, results from changes in either the projected benefit obligation or plan assets. These changes result either from experience different from that assumed, including both realized and unrealized gains and losses, or from changes in assumptions. Asset gains and losses are equal to the difference between the actual return on assets during a period and the expected return on assets for that period. The expected return on plan assets is determined by the expected long-term rate of return on plan assets and the market-related value of plan assets. Amortization of net gains or losses that have not yet been recognized in the costs calculated in prior periods is included as a component of the current net pension cost if, at the beginning of the year, the unrecognized net gains or losses (excluding asset gains and losses not yet reflected in market-related value) exceed a so-called corridor amount. This corridor was designed to minimize the pension cost volatility that would otherwise be experienced under the new accounting standard.\(^\text{15}\)

The final component of net periodic pension cost is the amortization of the unrecognized net asset or obligation existing at the date of initial application of FASB 87. At the time the plan sponsor first applies FASB 87, the projected benefit obligation and the fair market value of plan assets\(^\text{16}\) must be determined. The difference between these two amounts is then amortized in equal amounts over the average remaining service period of employees expected to receive benefits under the plan. There are two exceptions to this general rule. First, if the average remaining service period is less than 15 years, the employer may elect to use a 15-year period. Second, if all or almost all of a plan's participants are inactive, the employer must use the inactive participant's average remaining life expectancy instead.

Based on 1986 disclosures, approximately 10 percent of all large plans will have plan assets less than the accumulated benefit obligation (i.e., their accumulated benefit security ratios are less than 1.0) when this provision takes effect next year.

Recognition of Liabilities and Assets

Under FASB 87, a balance sheet entry will be made if there is a discrepancy between net periodic pension cost and employer contributions. Specifically, a liability (unfunded accrued pension cost) is recognized if net periodic pension cost exceeds employer contributions, and an asset (prepaid pension cost) is recognized if net periodic pension cost is less than employer contributions. Moreover, a balance sheet entry will be made if the firm sponsors an “underfunded” plan. If the accumulated benefit obligation is greater than plan assets, employers must recognize a liability (including unfunded accrued pension cost) equal to the difference. The treatment is not symmetrical, however; FASB 87

\(^\text{14}\) It is also possible for a plan amendment to decrease the projected benefit obligation. In that case, the reduction must be used to reduce any existing unrecognized prior service cost, and the excess, if any, must be amortized on the same basis as the cost of benefit increases.

\(^\text{15}\) The corridor is defined as 10 percent of the greater of the projected benefit obligation or the market-related value of plan assets. The annual amortization will be equal to the amount of unrecognized gain or loss in excess of the corridor divided by the average remaining service period of active employees expected to receive benefits under the plan.

\(^\text{16}\) Technically, this amount will be increased by any previously recognized unfunded accrued pension cost and reduced by any previously recognized prepaid pension cost.
does not permit recognition of a net asset if plan assets are greater than the accumulated benefit obligation. If an additional liability is recognized, an equal amount is recognized on the balance sheet as an intangible asset, provided that the asset recognized does not exceed the amount of unrecognized prior service cost. In the case where the additional liability is greater than the unrecognized prior service cost, then the excess is reported as a reduction of equity, net of any tax benefits. Based on 1986 disclosures, approximately 10 percent of all large plans will have plan assets less than the accumulated benefit obligation (i.e., their accumulated benefit security ratios are less than 1.0) when this provision takes effect next year (chart 1).

Measurement of Cost and Obligations—FASB 87 provides more guidance than its predecessors about the assumptions used by the plan sponsor. The interest rate assumption used for cost calculations has two separate elements in the pension accounting context. The first is the assumed discount rate that must reflect the rates at which the pension benefits could be effectively settled. FASB 87 states that it is appropriate to consider rates used to price annuity contracts that could be used to settle the pension obligation (including the rates used by the Pension Benefit Guaranty Corporation [PBGC] to value the liabilities of terminating pension plans). 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 also may be considered. FASB concluded that use of a single discount rate would be inappropriate because interest rates vary depending on the duration of the investment. A plan covering only retired employees would be expected to have significantly different discount rates.

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17 Although these figures do not include the impact of the October 1987 stock market decline, the aggregate impact of 1987 direct equity investments for all private pension plans was a positive 9.2 percent rate of return; the equity investments of defined benefit plans earned a positive 8.9 percent rate of return for the year (EBRI, 1988).
from one covering a work force comprised entirely of young employees.

The second assumption deals with the expected long-term rate of return on plan assets and is not necessarily equal to the discount rate assumption. FASB 87 states that this assumption must reflect the average rate of earnings expected on the funds invested (or to be invested) to cover the projected benefit obligation. This requires an assumption about the rate of return available for current assets as well as future investments.

FASB also provides guidance on the assumptions used to reflect future compensation levels. These rates must reflect an estimate of the actual future compensation levels of the individual employees involved, including future changes attributed to general price level, productivity, seniority, promotion, and other factors.

The relative range of FASB 87 assumptions chosen by sponsors in 1986 is shown in chart 2. Based on the distribution of various actuarial assumptions for large firms that adopted FASB 87 at least one year before the deadline, the mean difference between the discount and compensation rates is 2.4 percentage points; the mean difference in the rate of return and discount rate is 0.9 percentage points.

**Impact of FASB 87 on Plan Sponsors**

It has been alleged that the implementation of FASB 87 will have a major impact on plan sponsors. This section discusses each of the following potential ramifications: change in level of reported pension expense, volatility in reported pension expense, impact on asset management, funding levels, financial market reaction, merging plans, and plan improvements.
Change in Level of Reported Pension Expense

According to data collected by Wright Investors' Service, the implementation of FASB 87 reduced aggregate pension expense of the Fortune 100 companies by 51 percent, from $10.82 billion in 1985 to $5.3 billion in 1986 (Cohen, 1987). Much of this reduction is due to amortization of existing surpluses when corporations with overfunded plans switched to FASB 87. Approximately 75 percent of the firms electing early FASB 87 implementation had assets greater than projected benefit obligation (chart 3). Other factors may also be involved in the expense reduction, however. Out of 46 large firms that both adopted FASB 87 in 1986 and specified what effect the adoption had on their pension expense, only one firm (Firestone) reported an increase in reported pension expense, and this was primarily because the Firestone plan was underfunded at the time FASB 87 was adopted. More than 80 percent of the plans had at least a 25 percent reduction in reported pension expense; more than 10 percent had a decrease in excess of twice the 1986 expense level computed under FASB 36 standards (chart 4).

Volatility in Reported Pension Expense

Although several changes brought about by FASB 87 are likely to make pension expense more volatile, the

According to data collected by Wright Investors' Service, the implementation of FASB 87 reduced aggregate pension expense of the Fortune 100 companies by 51 percent, from $10.82 billion in 1985 to $5.3 billion in 1986.
requirement that liabilities be recorded at market value is perhaps the most feared. Each year the projected benefit obligation must be revalued at the then-current discount rate, and any changes in its amount resulting from either experience different from that assumed or changes in assumptions will be a component of the pension expense calculation (subject to the corridor mentioned above). The PBGC close-out rate since the inception of the agency in 1974 has ranged from a low of 6.75 percent to a high of 11.0 percent (chart 5). To illustrate the potential impact of the change in liability valuation rates, a lump-sum distribution of $1 paid at age 65 would have a financial present value (ignoring actuarial contingencies) for an employee age 35 of $0.1409 under the lowest rate in chart 5 and $0.0436 under the highest rate—a cost differential of 322 percent. This type of relationship was observed by sponsors in the first 18 months after FASB 87 was enacted. During this period the PBGC immediate close-out rate declined by 1.75 percentage points. While the PBGC rate is likely to represent the lower end of the discount rates selected by sponsors under FASB 87, other rates have experienced similar fluctuations in recent years, including two of the more common bond rate series: the Moody’s Aaa and Baa rates.

Although several changes brought about by FASB 87 are likely to make pension expense more volatile, the requirement that liabilities be recorded at market value is perhaps the most feared.

Many companies complying with the FASB rules for pension accounting have been able to minimize the volatility of pension expense that some had feared would result from the new rules. Those who have used FASB 87 for the past two years found that alternatives for controlling pension expense were available through
the statement itself and through external review of the pension plan. These alternatives include:

- amortization of transition amounts that could be used to offset increases in liabilities produced by declining interest rate assumptions;
- asset smoothing techniques (sponsors are allowed to recognize changes in fair value of plan assets in a systematic and rational manner over not more than five years if they use market-related value for computing the gain or loss component);
- a corridor approach for deferring recognition of gains and losses from changes in market value of either assets or liabilities;
- changes in actuarial assumptions such as the settlement rate, the salary scale, and the return on assets; and
- investment strategies to control fluctuations of pension expense such as dedicated bond portfolios (described below).

Impact on Asset Management

It has been suggested that this new volatility will cause many sponsors to switch their asset allocations to more stable investments (under the assumption that this will produce a more stable pension expense) while sacrificing larger long-term expected gains. Indeed, this may increase the demand on the part of plan sponsors for wholesale portfolio immunization or dedication.

FASB 87 redefines pension plan objectives with respect to plan investments. Executives traditionally have focused on total plan assets and ignored their relationship to plan liabilities. FASB 87 will pressure pension fund executives to seek ways to control expense volatility or avoid having pension liabilities appear on the balance sheet. Both objectives are unlikely to be accomplished simultaneously due to the dual nature of the pension liability under FASB 87. In other words, it is still unclear which liability pension executives will want to hedge—the accumulated benefit obligation, which
excludes projected salary increases, or the projected benefit obligation, which includes projected salary increases.

If executives focus solely on preventing (or minimizing) a pension liability on the balance sheet, they will attempt to ensure that the market value of pension assets will change at approximately the same time and in approximately the same amount as the market value of the plan liabilities. This can be accomplished through a form of passive investment of pension plan assets, which makes use of the bond market and has been referred to as dedication, immunization, and contingent immunization. This technique attempts to construct a bond portfolio in which the bonds mature when liabilities come due (such as benefit payments to a group of retirees).

It has been suggested that this new volatility will cause many sponsors to switch their asset allocations to more stable investments (under the assumption that this will produce a more stable pension expense) while sacrificing larger long-term expected gains.

The typical dedication program will start by modelling the expected schedule of liabilities under a particular subset of the plan. The benefits related to the retired population are often chosen because they are already determined (i.e., there is no uncertainty regarding career or final average salary), and the time horizon is shorter than that of the liabilities associated with the active employee population. The model will produce a steadily decreasing payout schedule over time, most likely reaching a negligible amount by the end of 30 years (the maximum maturity for most types of bonds). A computer program will then be used to search for an optimal combination of bonds that will produce a cash flow to meet the liability payout schedule.

In contrast to the cash-matching nature of dedication, an immunization program attempts to construct a portfolio of bonds whose market value equals the present value of the selected subset of liabilities and, even if the interest rate changes, whose value will always be at least as great as the value of the liabilities (Leibowitz, 1986a). Although the feasibility of this approach is not intuitively obvious, it requires that the capital gains arising from the increasing prices of existing bonds offset the decrease in reinvestment income when interest rates fall. As opposed to the relatively simple administrative requirements involved in a dedicated portfolio, an immunized portfolio requires subsequent rebalancing. Moreover, although immunization provides more flexibility in constructing the bond portfolio (and should therefore result in a lower cost to the sponsor), it is possible for the assumptions used in the immunization model to be violated and as a result the sponsor may experience a shortfall from this approach.

A major disadvantage of immunization is that the sponsor gives up the opportunity to produce additional income through active management of the bond portfolio. This is overcome, to a certain extent, by a device known as contingent immunization. This approach assumes the sponsor is willing to accept a minimum rate of return on the bond portfolio one to two percentage points below the current market rate. This differential provides a safety margin for the investment manager to adopt an active management strategy. If the safety margin is exhausted through market losses, the portfolio will be able to be immunized at the minimum rate of return.

Largely in response to the limitations of immunization, a hybrid technique known as horizon matching has been recently introduced. This approach splits the liabilities into two portions. The first portion, consisting of all liabilities that occur up to a certain horizon (three to five years), is handled through a dedicated portfolio. The second portion, consisting of liabilities beyond the horizon, is treated through immunization. Although this tactic gives up some of the cost savings of a full

18 This balancing is accomplished through a concept known as "duration," which provides a measure of the portfolio's sensitivity to interest rate changes (Leibowitz, 1986b).
immunization approach, the restructuring will mitigate the effects of failing to satisfy the assumptions of the immunization approach.

Instead of stabilizing the balance sheet impact of FASB 87, some sponsors may decide to stabilize the income statement impact. Sponsors choosing this strategy would typically have pension plan assets well in excess of the accumulated benefit obligation and, therefore, little immediate concern over the possibility of recording an underfunded pension liability on the balance sheet. Stabilizing the income statement impact requires an investment strategy in which changes in the market value of plan assets move in tandem with changes in projected benefit obligations. The difference between this objective and the previous one is that in addition to interest rate risk, the sponsor must also take wage growth risk into consideration. Arnott and Bernstein (1988) simulated the 30-year relationship between hourly compensation and the income flows of 3 types of investments: stocks (dividend income from the Standard & Poor’s 500 stock composite index), bonds (calculated interest on a corporate bond portfolio), and cash (90-day Treasury bills) and found that bonds were clearly an inadequate hedge against inflation and productivity changes that drive wage increases. One conclusion from this analysis is that the emphasis on the correlation of the accumulated benefit obligation and bond portfolios may be an oversimplification when the incremental increases in projected benefit obligations (due to wage growth) are considered. In other words, the price of stabilizing the balance sheet impact of FASB 87 through an all-bond investment strategy may well be a higher long-run pension expense for final average plans.

**Funding Levels**

Many commentators have suggested that some firms will seriously consider modifying their funding policy in an attempt to attain some level of consistency with the FASB 87 actuarial cost method (the projected unit cost method). This method generally calls for lower annual contributions than alternative methods. This has led many to speculate that the funding levels in the private pension system could be adversely affected in the long run. The implications of this change for PBGC have also been pointed out. If pension contributions are temporarily decreased by a sponsor, there is a higher probability that the plan would be underfunded if it were terminated. It also follows that the average severity of the claims against PBGC would increase if this strategy were widely adopted.

Many commentators have suggested that some firms will seriously consider modifying their funding policy in an attempt to attain some level of consistency with the FASB 87 actuarial cost method.

These changes have already taken place. In 1984 (the last year before FASB 87 was adopted) only 15 percent of plans with more than 1,000 participants were using the projected unit credit method (chart 6). By 1987, the percentage of plans using this actuarial cost method for funding purposes had more than doubled.

**Financial Market Reaction**

Although no empirical evidence has been gathered to date, most commentators are firmly committed to one of two positions about the financial market’s reaction to the new accounting standards. One side argues that the market will have little, if any, reaction because the financial analysts and credit agencies have already included unfunded pension liabilities in their evaluations. The other side counters that FASB 87 could affect everything from price/earnings ratios and debt/equity ratios to capital market access. Furthermore, they argue that there could be real consequences because it will be virtually impossible for those outside of the accounting profession to understand the reasons for the changes.

19 In this scenario, a firm will be affected by FASB 87 because it is facing bond covenant restrictions based on accounting numbers (either balance sheet or income statement). If a firm is prevented from declaring stockholder dividends, issuing new debt, or adding new capital at the desired level, the price of the firm’s stock may be adversely affected.
Three additional issues have also been raised. (1) Will the new intangible asset created by FASB 87 be entirely ignored by readers of the financial statement? (2) Will loan covenants be renegotiated for those firms that need to record liabilities under FASB 87? (3) Will management incentive plans based on accounting numbers be modified to account for the substantial fluctuations introduced to the pension expense by FASB 87? Answers to these questions will not be known until the balance sheet treatment of FASB 87 takes effect in 1989.

Merging Plans

Several commentators have suggested that sponsors with multiple plans may be able to mitigate some of the undesirable consequences of FASB 87 by merging two or more of their pension plans. Perhaps the most obvious situation for this to occur is when a firm is simultaneously sponsoring an underfunded plan for its salaried employees and an underfunded collectively bargained plan. Because FASB 87 does not allow a sponsor to offset the underfunded position of one plan with the excess assets of another, there exists an incentive to merge the two plans in order to prevent a balance sheet liability from being recorded.

The new disclosure requirements could create a situation in which employees participating in an underfunded plan will question their relative lack of security vis-a-vis the employees participating in the overfunded plans, perhaps resulting in a demand for increased funding in the future.

A similar, but more subtle, sponsor objective may also be achieved in the case described above. Instead of (or

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**Chart 6**

**Distribution of Plans by Actuarial Cost Methods in 1984 and 1987**

![Chart showing the distribution of plans by actuarial cost methods in 1984 and 1987.](chart6.png)


Note: Sample size: 806 plans with 1,000 or more active participants.
In addition to fearing the market effect of the newly disclosed pension liabilities, a sponsor may find it impossible to indicate its long-term commitment to retirement security for different groups of employees. The new disclosure requirements could create a situation in which employees participating in an underfunded plan will question their relative lack of security vis-a-vis the employees participating in the overfunded plans, perhaps resulting in a demand for increased funding in the future. Again, a merger of the two plans would eliminate underfunding for one group of employees.

Plan Improvements

Given that many sponsors now are required to fund the extra cost of plan improvements at a faster rate to avoid balance sheet liabilities, some commentators have suggested that the sponsors may decide to forgo such improvements. In collectively bargained situations, the sponsor may gain less by negotiating a package with more retirement income relative to cash compensation. The long-term consequences of this shift could be increased reliance on individual or governmental components of retirement income. Those with a more extreme point of view have again suggested that FASB 87 will be a sufficient inconvenience to cause some sponsors to terminate their defined benefit plans altogether, replacing them with defined contribution plans.

Unresolved FASB 87 Issues

FASB 87 contains implicit assumptions about the desirability of including pension liabilities on the balance sheet as well as the desirability of standardizing actuarial cost methods and discount rates for accounting purposes. This section analyzes the empirical evidence relating to each of these assumptions.

Do Pension Liabilities Belong on the Balance Sheet?

FASB felt that footnote disclosure was not an adequate substitute for balance sheet recognition because footnote disclosure may be adequate for some sophisticated users but not for most users, a point contested by some. In support of the FASB contention that pension liabilities belong on the balance sheet, a recent study examined whether capital market participants view unfunded vested pension obligations not recorded in corporate balance sheets as a form of debt when assessing the market risk of a firm.20 The results of the data analysis indicate that the unfunded vested pension liabilities affect financial leverage. Moreover, the statistical analysis shows that the effect of the liabilities on the firm's market-perceived risk is not significantly different from the effect of debt and other liabilities (Dhaliwal, 1986). This adds credence to the notion that unfunded pension liabilities should be moved to the body of the balance sheet with other long-term liabilities.

Those with a more extreme point of view have again suggested that FASB 87 will be a sufficient inconvenience to cause some sponsors to terminate their defined benefit plans altogether, replacing them with defined contribution plans.

FASB's assertion that supplemental information may not be as useful to less sophisticated users was not supported in an experiment involving 51 bankers and 82 undergraduate accounting students. Although a significantly greater number of subjects included the pension obligation in the numerator of the debt/equity ratio when the subjects were presented with the pension fund information in the balance sheet than when the same information was presented as a supplemental note to the balance sheet, the responses of bankers and students were not statistically different (Harper, Mister, and Strawser, 1987). Moreover, empirical analysis from

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20 The empirical model used in the study related a firm's systematic risk to its financial and business risks. By using pre-FASB 36 pension disclosures, a sample of 55 firms with December 31 fiscal year-ends and material unfunded vested pension liabilities from 1976 to 1979 was randomly selected.
another financial study suggests that PBGC insurance and ERISA decreased the liability nature of unfunded pension obligations since, at that time, sponsors were able to terminate an underfunded pension plan and pay less than the total claim absorbed by PBGC if the claim was greater than 30 percent of the sponsor's net worth (Holland and Sutton, 1988). However, the authors did not consider the expected impact of the changes to Title IV of ERISA brought about by the Single Employer Pension Plan Amendments Act of 1986 (SEPPAA) or the Omnibus Budget Reconciliation Act of 1987 (OBRA). These changes have substantially altered the employer liability provisions upon a plan termination and changed the insured event from any plan termination to, in essence, only those caused by bankruptcy or severe financial hardship of the sponsor.

Should Discount Rates Be "Standardized?"

FASB 87 did not specify a single discount rate to be used by all plans. It merely described more clearly the objective of selecting the discount rates with the expectation that a narrower range of rates used would result because of the concern that rates used for disclosure purposes under FASB 36 varied unreasonably.

A national survey of more than 800 pension plans, each covering 1,000 or more active participants (Wyatt, 1985 and 1988), compared discount rates disclosed on the sponsor's financial statements for 1984 and 1987 (chart 7). The last year before sponsors began to adopt FASB 87 reporting practices was 1984. By 1987, 90 percent of the surveyed plans had adopted the new standard. Although the discount rates generally were larger, the overall variation of rates did not appear to decrease.

One consequence of the FASB standard is that average interest rates are more in line with the rates used by PBGC to value the liabilities of terminating plans. The mean disclosure rate was 8.4 percent in 1984, when the year-end PBGC rate for immediate annuities was 10.0 percent. By 1987, the year-end PBGC immediate rate had decreased to 8.25 percent, but the mean disclosure rate was still 8.8 percent.

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**Chart 7**

**Distribution of Plans with Various Disclosure Interest Rates, 1984 and 1987**


Note: Sample size: 806 plans in 1987; 961 plans in 1984.
Should Sponsors Be Forced to Use the Projected Unit Credit Method?

Perhaps the most controversial aspect of FASB 87 is the imposition of a single actuarial cost method for accounting purposes. There is strong objection to the arbitrary selection of any single actuarial cost method. Critics feel that companies and their actuaries should be permitted to select the most appropriate actuarial cost method for their particular circumstances. At one public hearing prior to the adoption of FASB 87, it was suggested that FASB work with the actuarial profession to determine what specific factors and circumstances warrant the use of particular methods. Although theoretical frameworks based on the relationship between the type of market from which a firm secures its labor force and its pension accounting implications have been introduced to analyze the firm-specific factors and circumstances that are relevant to particular actuarial cost and expense recognition methods (Pesando and Clarke, 1983 and Johnson and VanDerhei, 1985), empirical investigation of the correlation between choice of actuarial cost method and the type of labor market (i.e., short-term versus career employees) found no statistically significant relationships (Johnson and VanDerhei, 1987).

Perhaps the most controversial aspect of FASB 87 is the imposition of a single actuarial cost method for accounting purposes.

Another empirical study (VanDerhei and Joanette, 1988) investigated whether the accounting flexibility with respect to the choice of actuarial cost methods in the pre-FASB 87 era followed an economic rationale. Since the projected unit credit method is likely to result in lower initial pension expense than the other approved actuarial cost methods, *etc. par.*, the choice of an actuarial cost method may have a material effect on the current period's reported net income and on key financial variables that are constrained by contractual arrangements. The results of the analysis, which was limited to large- and medium-sized publicly held industrial corporations, show that economic incentives are correlated with the actuarial cost method choices made by plan sponsors prior to FASB 87. Sponsors who chose projected unit credit methods were more highly leveraged, showed more systematic risk, and had a lower interest coverage ratio. The results add credence to FASB's decision to standardize the actuarial cost method for pension expenses.

A distinction should be drawn however, between FASB's decision to standardize and the choice of a standard for accounting purposes. Even if accounting objectives are completely satisfied by mandating a single actuarial cost method for expenses purposes, secondary considerations, such as benefit security for participants, may enter into consideration. If, as expected, funding and expensing are linked, it may be better, from the viewpoint of both the participants and PBGC, to use a more conservative actuarial cost method selection.

FASB 88

FASB 88 defines one event (a settlement) that requires immediate recognition of previously unrecognized gains and losses, and another event (a curtailment) that requires immediate recognition of previously unrecognized prior service cost. The method of computing gains or losses recognized on asset reversions is also changed and special transition rules for companies that have undergone previous asset reversions are specified. Companies are required to adopt FASB 87 and 88 simultaneously.

Definitions

Before discussing the mechanics behind these new accounting procedures, it is important to note FASB's interpretation of the following terms.

*Settlement*—A settlement is defined as a transaction that is an irrevocable action, that relieves the employer of primary responsibility for a projected benefit obligation and eliminates significant risks related to the obligation and the assets used to effect the settlement. Examples of
settlements include making lump-sum cash payments to plan participants in exchange for their rights to receive specified pension benefits and purchasing nonparticipating annuity contracts to cover vested benefits. For an example of a transaction that would not qualify as a settlement, assume that a sponsor invests in a portfolio of high quality fixed income securities with principal and interest payment dates similar to the estimated payment dates of benefits. In this case, the decision can be reversed and such a strategy does not relieve the employer of primary responsibility for an obligation nor does it eliminate significant risks related to the obligation.

Annuity Contract—If the substance of a participating annuity contract is such that the employer remains subject to most of the risks and rewards associated with the obligation covered or the assets transferred to the insurance company, the purchase of the contract does not constitute a settlement.

Curtailment—A curtailment is 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. Examples of a curtailment include the termination of employees' services earlier than expected (e.g., closing a facility) and termination or suspension of a plan so that employees do not earn additional defined benefits for future services.

Accounting for Settlement of the Pension Obligation

The maximum gain or loss in this case is the unrecognized net gain or loss plus any remaining unrecognized net asset existing at the date of initial application of FASB 87. The entire maximum amount is recognized in earnings only if the entire projected benefit obligation is settled. However, if only part of the projected benefit obligation is settled, the employer will recognize in earnings a pro rata portion of the maximum amount equal to the percentage reduction in the projected benefit obligation.

If a participating annuity contract is purchased, the maximum gain is reduced by the cost of the purchaser's right to receive future dividends or retroactive rate credits from the insurance company. Also, a provision is included to allow flexibility for employers who annually purchase annuities as a funding vehicle. If the costs of all settlements in a year are less than or equal to the sum of the service cost and interest cost components of net periodic pension cost for the plan for the year, gain or loss recognition is permitted but not required for those settlements. However, the accounting policy adopted must be applied consistently from year to year.

Considering recent legislative proposals directed at reducing the flexibility provided to sponsors of overfunded defined benefit pension plans, settlement procedures may become more widely used in the future.

Implications for Sponsors Considering a Reversion—The settlement provisions of FASB 88 allow sponsors with overfunded pension plans to improve their earnings statement without terminating the plan by recognizing as income a portion of the excess assets (relative to the projected benefit obligation) existing at the time of adopting FASB 87. Under prior rules, the only way in which immediate recognition could take place was by terminating the overfunded plan and not providing coverage to the employees under a successor defined benefit plan (i.e., either provide a new defined contribution plan or no new plan benefits at all). The 1984 administration guidelines for the reversion of excess assets issued jointly by PBGC, Treasury Department, and Department of Labor subjected all overfunded terminations to substantial transactions costs such as the immediate vesting of all benefits and the need to purchase annuities for all accrued benefits. Later, the

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21 This will include any net gain or loss first measured at the time of settlement. This may happen if the insurance company uses an interest rate assumption for determining the annuity purchase price that differs from the discount rate assumed by the employer.
Tax Reform Act of 1986 added a 10 percent excise tax that applied to most reversions.

Although, unlike a reversion, the employer will not realize any cash flow from a settlement procedure, a settlement may be attractive to sponsors that would like to improve their income statements because (Rudin, 1986) Internal Revenue Service and PBGC approvals are not required; there is no requirement to vest benefits that are not yet vested; participants do not have to be notified; since all cash stays in the plan, income and excise taxes are avoided; and union approval is not required for collectively bargained single-employer plans.

Considering recent legislative proposals directed at reducing the flexibility provided to sponsors of overfunded defined benefit pension plans, settlement procedures may become more widely used in the future. This summer the U.S. Senate decided to consider increasing the penalty for reversions occurring before May 1, 1989, from 10 to 60 percent of the excess assets. Presumably this action is based on the assumption that some or all excess funding belongs to workers. While the validity of this premise is unresolved, two published studies (Alderson and Chen, 1986 and VanDerhei, 1987) have found evidence of abnormally large returns to the firm’s shareholders after the termination of an overfunded pension plan.

Accounting for a Plan Curtailment

Under FASB 88, the unrecognized prior service cost associated with years of service no longer expected to be rendered as the result of a curtailment is treated as a loss. This amount, which includes the cost of retroactive plan amendments and any remaining unrecognized net obligation existing at the date of initial application of FASB 87, would have eventually been recognized as a pension expense if the plan had not been curtailed. Projected benefit obligations may be decreased or increased by a curtailment. To the extent that such a gain exceeds any unrecognized net loss (or the entire gain, if an unrecognized net gain exists), it is a curtailment gain. To the extent that such a loss exceeds any unrecognized net gain (or the entire loss, if any unrecognized net loss exists), it is a curtailment loss. Any remaining unrecognized net asset existing at the date of initial application of FASB 87 is treated as an unrecognized net gain and is combined with the unrecognized net gain or loss arising subsequent to transition to FASB 87.

Statement 81 requires employers to disclose the cost of their post-employment health care and life insurance benefits, beginning with calendar year 1985 annual reports.

Special Transition Rules for a Reversion

Employers that entered into a reversion before the effective date of FASB 88 must recognize a gain as the cumulative effect of a change in accounting principle at the time of initial application of FASB 87. The amount of gain recognized is the lesser of (1) the unamortized amount related to the asset reversion or (2) any unrecognized net asset for the plan (or the successor plan) existing at the time of transition.

Accounting for Nonpension Post-Employment Benefits

The increasing prevalence of nonpension post-employment benefits, of which retiree health care programs are by far the most expensive, has raised the question of whether the costs of these benefits should be accrued during the employees’ working lives. Per capita medical expenses for those over age 65 are close to $5,000 a year (over 4 times the cost for those under age 65); a preliminary conservative estimate of total private employer liability for retirees (after Medicare integration) in 1987 is $60 billion (Salisbury, 1987). A series of court decisions have indicated that plan sponsors may not terminate or modify benefits already in payment if retirees have been led to believe that they have a benefit for life.

Although FASB originally attempted to design a comprehensive accounting project that would combine
these post-employment benefits with pension benefits. Statement 81 was issued in 1984 as an interim measure. This statement requires employers to disclose the cost of their post-employment health care and life insurance benefits, beginning with calendar year 1985 annual reports. Most employers, however, only include their current annual costs for retiree health care benefits as an expense item. A recent survey of the nation’s largest companies (Wyatt, 1987) indicates that while 69 percent of the industrial companies and 61 percent of the service companies surveyed provide such benefits, only 1 percent indicated that they prefunded medical benefits.

Analyses of the potential impact of the new accounting regulations indicate that it could add a $2,000 expense per active employee against earnings each year.

The average annual pay-as-you-go costs for retiree health care generally amounted to between $200 and $400 per active employee, although the amounts varied by industry.

FASB is currently in the midst of a major project to decide whether an employer should accrue the costs of post-employment medical benefits and, if so, how and when to determine the amount to be recorded. A final accounting standard is expected in late 1988 or early 1989. Deliberations on this question involve the following basic issues (Goldstein and Akresh, 1987): (1) whether accrual accounting is conceptually appropriate; (2) whether the benefit obligation can be reliably measured; and (3) if accrual accounting is mandated, whether there is a practical approach to transition.

Analyses of the potential impact of the new accounting regulations indicate that it could add a $2,000 expense per active employee against earnings each year. This could reduce net income 30 to 60 percent for the median Fortune 500 company and could affect such areas as corporate stock prices, bond ratings, and ability to borrow money (EBRI, 1987).

Although the recent expansion of Medicare to include protection against catastrophic expense may reduce employer obligations, other proposed legislation would increase the income of retirees and allow firms to set up accounts in which health funds would accumulate on a defined contribution basis.

Conclusion

In recent years, FASB statements 87 and 88 have made significant changes to previous pension accounting standards. While these changes have added a great deal of complexity to employers’ accounting for pension plans, proponents of the new requirements argue that they are necessary to reflect the true economic nature of the employer’s undertaking. Opponents argue that the statements are too complex to meet the user’s needs and that FASB did not accomplish its objectives of presenting a more meaningful measure of pension expense and introducing balance sheet items helpful to financial statement readers.

Although it will be several years before sufficient empirical information is available to measure the effect of the statements on funding levels, pension expense volatility, plan modifications, and investment behavior, it is likely that the previous pension accounting practices will be modified substantially. The economic impact of the statements will vary considerably among employers, depending on plan design, the age of the work force, actuarial assumptions, and the plan’s initial financial status. However, the following specific differences will be observed:

- pension expense will no longer be equal to the cash contributions for most plans;
- pension expense will be more volatile than it was in the past for most plans;
- although the OBRA changes in the minimum funding standards and full funding limitation will undoubtedly lead to increased volatility in cash contributions for some plans, pension expense will fluctuate more than cash contributions for most plans;
pension expense for overfunded (underfunded) pension plans will typically be lower (higher) than cash contributions after implementation of FASB 87; a negative pension expense will be recorded for a significant number of plans; balance sheet recognition of underfunded pension obligations will be required for plans with assets less than the accumulated benefit obligation beginning next year; some of these sponsors will experience a reduction in net worth, others will be insulated by an intangible asset on the balance sheet; and even if the cash flow implications are negligible, the sponsor’s financial statements may be dramatically affected by the following events:—plan termination,—asset reversions (where there is a continuing plan),—plant closing or substantial reductions in the work force,—significant annuity purchases or lump-sum distributions for an on-going plan.

The overall impact of FASB 87 and 88 on any particular plan sponsor requires a substantial amount of detailed financial and actuarial analysis; however, it is obvious that the latitude for management discretion in pension accounting will be greatly reduced. The sponsor is no longer able to choose an actuarial cost method that provides the desired stream of pension expense over time. Moreover, the range of acceptable discount rates for determining the present value of the pension obligations has at least implicitly been narrowed. More significant, however, is the requirement that liabilities be recorded at market value each year as opposed to the previous practices by some sponsors of retaining the same discount rate regardless of prevailing financial markets.

Although this lack of flexibility may be considered as the necessary price to be paid for more realistic disclosure, some pension plan sponsors may find that one of the principal advantages of adopting a defined benefit plan has been eliminated. To the extent that accounting implications of a defined contribution plan have much less uncertainty, some sponsors may once again consider whether retention of their defined benefit pension plans is desirable.

Although this lack of flexibility may be considered as the necessary price to be paid for more realistic disclosure, some pension plan sponsors may find that one of the principal advantages of adopting a defined benefit plan has been eliminated.

Unfortunately, FASB 87 and 88 may prove to be the least of the sponsor’s accounting problems. New standards are likely to be forthcoming within the next year or two covering accounting for post-employment health care and death benefits. These standards will most likely result in increased expenses and may even place some modified measure of the stated obligation on the balance sheet. Although the new standard will probably allow some transition period before it completely takes affect, sponsors may find it desirable to consider the combined impact of accounting for all post-employment benefits as soon as possible.
Glossary

Accrued pension cost—cost of annual pension benefit for years of credited service at normal retirement age.

Accumulated benefit obligation—actuarial present value of all benefits attributed by the plan’s benefit formula to employee service prior to that date, without future salary assumptions.

Actual return on plan assets—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 during the period.

Actuarial (cost) method—systems for determining either the contributions to be made under a retirement plan or level of benefits when the contributions are fixed. In addition to forecasts of mortality, interest, and expenses, some of the methods involve estimates as to future labor turnover, salary scales, and retirement rates. Examples of methods are entry age method, attained age, and unit credit.

Actuarial funding methods—any of several techniques that actuaries use in determining the amounts and incidence of employer contributions to provide for pension benefits.

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 discount 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.

Amortization—a technique for gradually extinguishing a liability, deferred charge, or capital expenditure over a period of time.

Annuity contracts (participating and nonparticipating)—a contract in which an insurance company unconditionally undertakes a legal obligation to provide specific pension benefits to specific individuals in return for a fixed premium. If it is a participating contract, the purchaser participates in investment performance.

Curtailment (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 service.

Disclosure—release by companies of all information, positive or negative, that might bear on an investment decision.

Discount rate—interest rate used in determining the present value of future cash flows.

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—rate of return based on the expected long-term rate of return on plan assets and the market related value of plan assets.

Financial leverage—debt in relation to equity in a company measured by the debt-to-equity ratio. The more long-term debt there is, the greater the financial leverage.

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.

Intangible asset—capital assets carried on the balance sheet that are not physical or financial in character and that are shown at cost or assigned value, e.g., copyrights, trademarks.

Interest cost—the increase in the projected benefit obligation due to passage of time.

Interest coverage ratio—earnings divided by interest on bonds and other contractual long-term debt.
Market-related value of plan assets—a balance used to calculate the expected return on plan assets. This can either be fair market value or calculated market value, which recognizes changes in fair value in a systematic and rational manner over not more than five years.

Net periodic pension cost—The amount recognized in an employer’s financial statements as the cost of a pension plan for a period.

PBGC immediate close-out rate—rate used by the PBGC to value the nondeferred liabilities of terminating plans.

Pension (fund) expense—used for government calculations of minimum and maximum funding.

Pension benefit formula—the basis for determining payments to which participants may be entitled under a pension plan.

Pension benefits—periodic (usually monthly) 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 obligations—promises under the pension plan that have been earned by the participants and beneficiaries.

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.

Projected benefit obligation—actuarial present value of all benefits attributed by the plan’s benefit formula to employee service prior to that date, assuming future salary levels.

Service cost—the actuarial present value of benefits attributed by the pension benefit formula to services rendered by employees during that period. The service costs 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 plan of primary responsibility for a pension benefit obligation and eliminates significant risks related to the obligation and the assets used, e.g., lump-sum cash payments, purchasing annuity contracts.

Unfunded accrued pension cost—cumulative net pension cost accrued in excess of the employer’s contributions.

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


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