Employers’ Accounting for Defined Benefit Pension and Other Postretirement Benefit Plans
Statement 158 . . . and forward

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History

• Prior standards:
  – FAS 87 & 88—Pension accounting (December 1985)
  – FAS 106—PBOP accounting (December 1990)
  – FAS 132 (R)—Disclosures (December 2003)

• Two-phase project to revamp standards
  – Phase 1 Pension and Other Postretirement Benefits
    • Exposure Draft – (March 2006)
    • FAS 158 – (September 2006)
  – Phase 2 . . .

Meanwhile . . . Sarbanes Oxley (SOX)
Criticisms of prior standards

- Current economic status of plans not reported in a complete and understandable way
- Relegated important information to footnotes
- Obscured results of operations by combining effects of compensation, investing, and financing activities
- Difficult to assess employers’ ability to satisfy plan obligations
- Recognized asset or liability almost always differed from plan funded status
Major Changes in FAS 158

• Moves funded status to the balance sheet
• Eliminates option to measure up to three months prior to fiscal-year-end
• Discloses expected amortizations of gains and losses, prior service costs or credits and the transition obligation or asset for next fiscal year

• But will not change the calculation of Net Periodic Benefit Cost
Balance Sheet Changes

- Liabilities (Projected Benefit Obligation) minus Assets (Fair Value) reported as an asset or liability on the balance sheet.
- Remaining obligations being spread into pension cost over time recognized in accumulated other comprehensive income.
  - Stockholders’ equity reduced by an offsetting amount.

![Percent reduction in Stockholder Equity]

- Tech: 25%
- Telecom: 4%
- Bank: 1%
- Utility: 0%
- Auto: 159%
Balance Sheet Changes

- Impact on the Balance Sheet
  - Liability for OPEBs would likely much larger
  - Potentially highly volatile
Phase 2...

- Goal: High-quality common standards that would apply internationally (joint effort with the IASB)
- Comprehensive review of all of the existing accounting standards for postretirement benefits
- Some of the Issues expected to be discussed in Phase 2:
  - Plan Assets (Smoothing issue)
  - Benefit Obligations (PBO vs. ABO)
  - Determination of Discount Rate
  - Actuarial Gains/Losses & 10% Corridor
  - Plan Amendments
  - Additional Disclosure Items