

Employers' Accounting for Defined Benefit Pension and Other Postretirement Benefit Plans

Statement 158 . . . and forward

Presented by:

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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

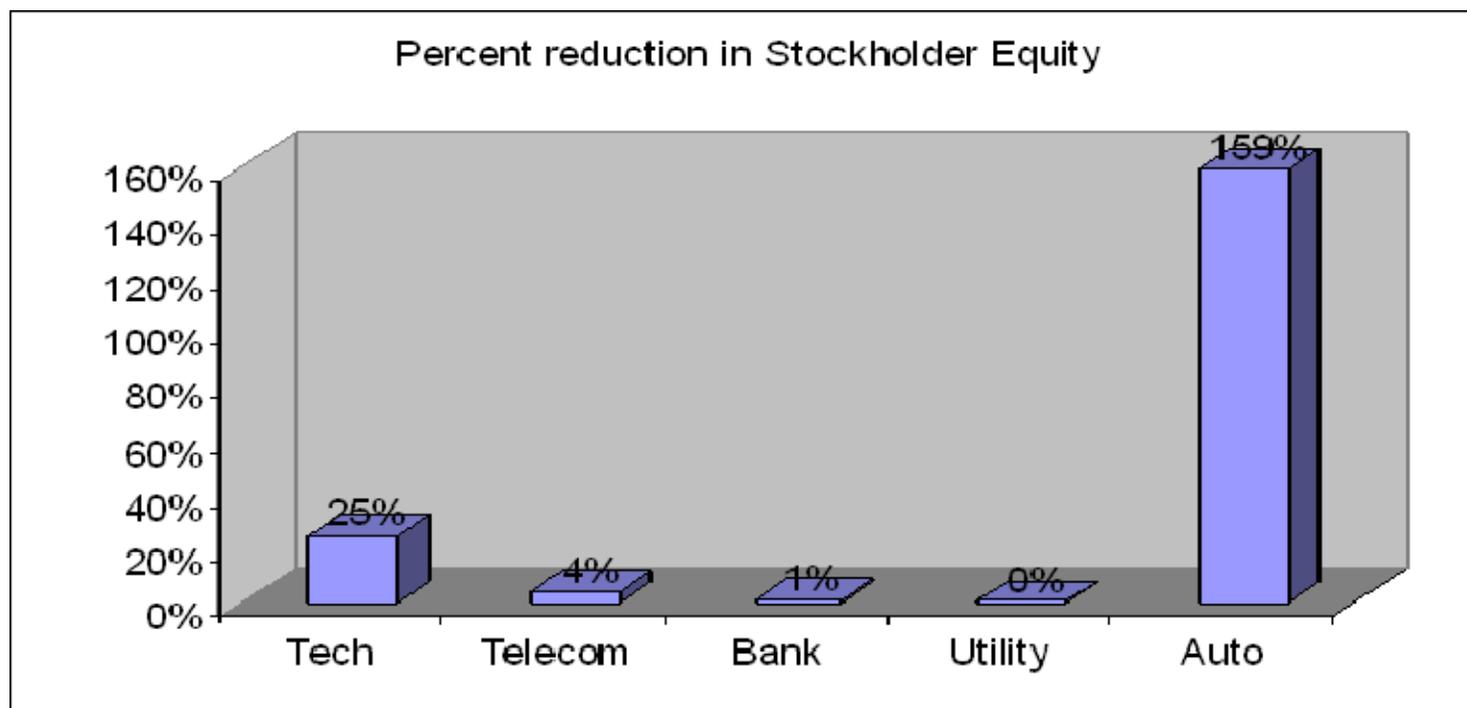
Major Changes in FAS 158

- 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

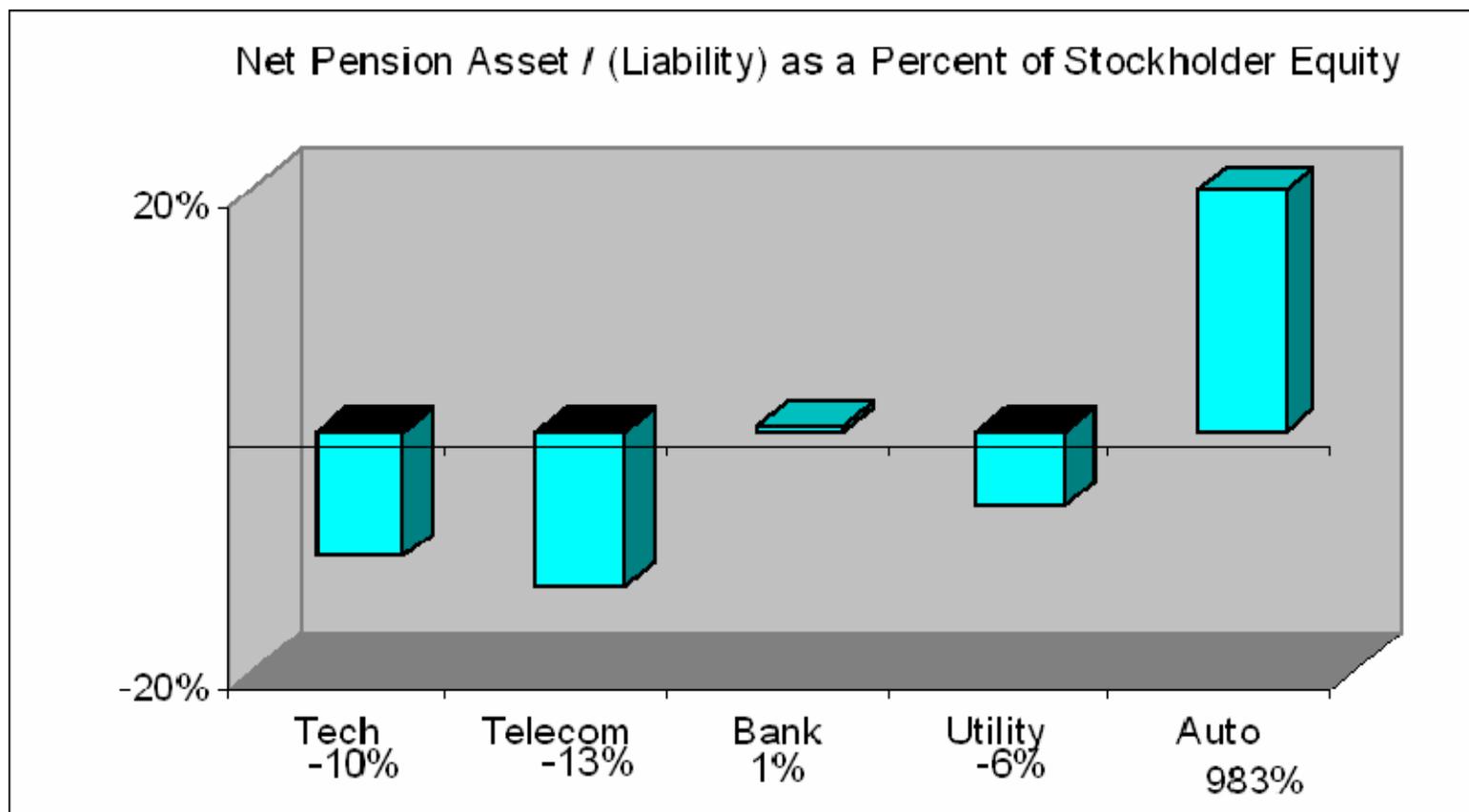
Balance Sheet Changes

- 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



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