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Changes in Defined Benefit Disclosure Requirements

The Financial Accounting Standards Board has issued a final Accounting Standards Update that affects pension and postretirement benefit accounting. The update adds, removes, and clarifies some current footnote disclosures. The final provisions vary somewhat from the proposed ASU issued in 2016 and take into account comments received on the utility of the information to financial statement users relative to the burden imposed on reporting entities. While some disclosure items were removed, some have been added, and the net effect could be an increase in the time required to complete disclosure information.

Background

The Financial Accounting Standards Board (FASB) has been working for several years to improve the effectiveness of the disclosures included in the notes to financial statements so that information important to users of those statements is communicated more clearly. Although not necessarily an explicit objective for the project, FASB is hoping to achieve a reduction in the volume of notes as well.

Disclosure for an employer's postretirement benefit plans was selected as one of four areas to be evaluated for consistency with the stated objectives and decisions reached under the Disclosure Framework project. FASB has now issued an Accounting Standards Update (ASU), putting forth changes to those disclosure requirements and taking into account comments received in response to the proposed ASU released in 2016 (see our January 29, 2016 *For Your Information*).

Summary of Changes to Disclosures

The final ASU 2018-14, Disclosure Framework-Changes to the Disclosure Requirements for Defined Benefit Plans, was updated substantially relative to the proposed version. The following items were added to the disclosure requirements for defined benefit plans including pension and other postretirement benefit plans:

- The interest crediting rates for cash balance plans and other plans with promised interest crediting rates, on a weighted-average basis
- A statement explaining the reasons for significant gains and losses pertaining to the benefit obligation over the measurement period

The new requirement on interest crediting rates should generally not be a burden to provide; however, extra work may be required to examine valuation results to determine the various reasons for any significant liability gains and losses. The ASU does not define what would be considered “significant,” nor how much explanation would be deemed sufficient to meet this requirement. Practice around compliance with this requirement will likely evolve over time.

In the meantime, since the ASU requirements must be applied retrospectively to all periods presented, plan sponsors should confirm that their actuaries are collecting sufficient data to provide the required information for all years presented on the first financial statements where the new disclosure requirements apply. For example, for a public business entity with a January 1 to December 31 tax year that does not early adopt, information on gains or losses will need to be collected beginning with 2019, since 2019 and 2020 information will need to be included in disclosure items as of December 31, 2020.

The proposed ASU would have added the requirement that nonpublic entities report the sensitivity of the benefit obligation, service cost, and interest cost due to a change in the healthcare trend rate (which is currently only required for public entities). Instead of adding this, the final ASU removes this requirement entirely due to its reduced relevance in financial decision-making.

As expected, several other requirements for disclosure were removed:

- For the fiscal year following the most recent statement of financial position reported, the amounts in accumulated other comprehensive income expected to be recognized as components of net periodic benefit cost
- The amount of plan assets expected to be returned to the employer as well as the associated timing
- For postretirement healthcare benefits, the effects of a one-percentage-point change in the assumed healthcare cost trend rates on the accumulated benefit obligation and the aggregate of the service and interest cost
- Certain disclosures related to Japanese Welfare Pension Insurance Law
- Disclosures about the amount of future annual benefits covered by insurance and annuity contracts and significant transactions between the employer or related parties and the plan during the period
- For nonpublic entities, the reconciliation of the opening and closing balances of Level 3 plan assets. However, these entities will be required to disclose the amounts of transfers into and out of Level 3 assets and purchases of Level 3 plan assets during the year

The removal of the requirement to disclose sensitivity to changes in trend rates may motivate some public entities to early adopt.

Several proposed items were left out of the final ASU:

- The proposed removal of the ABO from the disclosure was abandoned, as many commenters still found it useful and the additional burden of calculating that value was expected to be negligible.
- The addition of a description of the nature of the benefits provided, the employee groups covered, and the type of plan formula was dropped due to arguments that the information would be of limited usefulness when reported for multiple plans.
- Plan assets measured at Net Asset Value (NAV) was not added as a disclosure requirement as proposed because the NAV disclosures only apply to a portion of plan assets, and the additional cost required to produce this information was not justified by its usefulness.
- The proposal to require disaggregation of U.S. plans and plans outside the U.S. was omitted from the final ASU because it didn't consider the significance to the total benefit obligation and the use of significantly different assumptions. FASB decided that the current language allowing for disaggregation was sufficient.

Some items were clarified for entities that sponsor two or more plans and present aggregate disclosures:

- For pension plans, the projected benefit obligation and fair value of assets for plans with projected benefit obligations in excess of plan assets, and the accumulated benefit obligation and fair value of assets for plans with accumulated benefit obligations in excess of plan assets.
- For other postretirement benefit plans, the accumulated postretirement benefit obligation and fair value of plan assets for plans with accumulated postretirement benefit obligations in excess of plan assets.

Transition

The amendments in this ASU are effective for fiscal years ending after December 15, 2020, for public business entities, and for fiscal years ending after December 15, 2021, for all other entities. Early adoption is permitted. The update should be applied retrospectively to all periods presented. As noted earlier, this means that if the additional information is first reported for the fiscal year ending December 31, 2020, an explanation of significant gains and losses related to the benefit obligation would be needed for 2019 and 2020, since both years would be shown.

In Closing

The updates required in the final ASU will somewhat streamline and clarify pension and postretirement accounting disclosures. The interest crediting information that will now be required should be readily available for entities with plans that include that feature. However, actuaries may need to begin collecting and retaining additional information so they are prepared to help sponsors explain any significant gains and losses of the benefit obligation. Early adoption may be attractive to some entities, particularly public entities with postretirement medical plans due to the removal of the requirement to disclose sensitivity to changes in trend rates.

Authors
Michael Antoine, FSA, EA, MAAA
Tonya Manning, FSA, MAAA, FCA, EA

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