Statement of Financial Accounting Standards No. 132

FAS132 Status Page
FAS132 Summary

Employers' Disclosures about Pensions and Other Postretirement Benefits

(an amendment of FASB Statements No. 87, 88, and 106)

February 1998

Financial Accounting Standards Board
of the Financial Accounting Foundation
401 MERRITT 7, P.O. BOX 5116, NORWALK, CONNECTICUT 06856-5116

Statement of Financial Accounting Standards No. 132

Employers' Disclosures about Pensions and Other Postretirement Benefits

an amendment of FASB Statements No. 87, 88, and 106

February 1998

CONTENTS

FAS 132: Employers' Disclosures about Pensions and Other Postretirement Benefits

an amendment of FASB Statements No. 87, 88, and 106

FAS 132 Summary

This Statement revises employers' disclosures about pension and other postretirement benefit plans. It does not change the measurement or recognition of those plans. It standardizes the disclosure requirements for pensions and other postretirement benefits to the extent practicable, requires additional information on changes in the benefit obligations and fair values of plan assets that will facilitate financial analysis, and eliminates certain disclosures that are no longer as useful as they were when FASB Statements No. 87, *Employers' Accounting for Pensions,* No. 88, *Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits,* and No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions,* were issued. The Statement suggests combined formats for presentation of pension and other postretirement benefit disclosures. The Statement also permits reduced disclosures for nonpublic entities.

This Statement is effective for fiscal years beginning after December 15, 1997. Earlier application is encouraged. Restatement of disclosures for earlier periods provided for comparative purposes is required unless the information is not readily available, in which case the notes to the financial statements should include all available information and a description of the information not available.

INTRODUCTION

1. The Board added a project on effectiveness of disclosures about pensions and other postretirement benefits to its technical agenda in October 1996 in response to concerns about disclosure discussed in the 1994 report of the AICPA Special Committee on Financial Reporting, *Improving Business Reporting—A Customer Focus,* and the July 1995 FASB Prospectus, *Disclosure Effectiveness.* The project's objective was twofold: (a) to improve disclosures about pensions and other postretirement benefits and (b) to determine whether any of the approaches

undertaken to improve those disclosures might apply to other accounting topics.

2. Although current disclosure requirements for pensions and other postretirement benefits are extensive, many users of financial statements told the Board in their responses to the Prospectus that the information provided only partly met their needs. Most of those users wanted information that would assist them in (a) evaluating the employer's obligation under pension and other postretirement benefit plans and the effects on the employer's prospects for future cash flows, (b) analyzing the quality of currently reported net income, and (c) estimating future reported net income. The Board concluded that disclosures about pensions and other postretirement benefits could be improved to provide information that is more comparable, understandable, and concise and that would better serve users' needs.

3. This Statement standardizes the disclosure requirements for pensions and other postretirement benefits to the extent practicable. Appendix A contains background information and the basis for the Board's conclusions. Appendix B contains illustrations of suggested formats for presenting the required disclosures.

STANDARDS OF FINANCIAL ACCOUNTING AND REPORTING

Scope

4. This Statement supersedes the disclosure requirements in FASB Statements No. 87, *Employers' Accounting for Pensions*, No. 88, *Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits*, and No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions*. [1] This Statement addresses disclosure only. It does not address measurement or recognition. Information required to be disclosed about pensions and other postretirement benefits shall not be combined except as permitted by paragraph 10 of this Statement.

Disclosures about Pensions and Other Postretirement Benefits

5. An employer that sponsors one or more defined benefit pension plans or one or more defined benefit postretirement plans shall provide the following information:

a. A reconciliation of beginning and ending balances of the benefit obligation [2] showing separately, if applicable, the effects during the period attributable to each of the following: service cost, interest cost, contributions by plan participants, actuarial gains and losses, foreign currency exchange rate changes, [3] benefits paid, plan amendments, business combinations, divestitures, curtailments, settlements, and special termination benefits
b. A reconciliation of beginning and ending balances of the fair value of plan assets showing

separately, if applicable, the effects during the period attributable to each of the following: actual return on plan assets, foreign currency exchange rate changes, [4] contributions by the employer, contributions by plan participants, benefits paid, business combinations, divestitures, and settlements

c. The funded status of the plans, the amounts not recognized in the statement of financial position, and the amounts recognized in the statement of financial position, including:
   (1) The amount of any unamortized prior service cost
   (2) The amount of any unrecognized net gain or loss (including asset gains and losses not yet reflected in market-related value)
   (3) The amount of any remaining unamortized, unrecognized net obligation or net asset existing at the initial date of application of Statement 87 or 106
   (4) The net pension or other postretirement benefit prepaid assets or accrued liabilities
   (5) Any intangible asset and the amount of accumulated other comprehensive income recognized pursuant to paragraph 37 of Statement 87, as amended
d. The amount of net periodic benefit cost recognized, showing separately the service cost component, the interest cost component, the expected return on plan assets for the period, the amortization of the unrecognized transition obligation or transition asset, the amount of recognized gains and losses, the amount of prior service cost recognized, and the amount of gain or loss recognized due to a settlement or curtailment
e. The amount included within other comprehensive income for the period arising from a change in the additional minimum pension liability recognized pursuant to paragraph 37 of Statement 87, as amended
f. On a weighted-average basis, the following assumptions used in the accounting for the plans: assumed discount rate, rate of compensation increase (for pay-related plans), and expected long-term rate of return on plan assets
g. The assumed health care cost trend rate(s) for the next year used to measure the expected cost of benefits covered by the plan (gross eligible charges) and a general description of the direction and pattern of change in the assumed trend rates thereafter, together with the ultimate trend rate(s) and when that rate is expected to be achieved
h. The effect of a one-percentage-point increase and the effect of a one-percentage- point decrease in the assumed health care cost trend rates on (1) the aggregate of the service and interest cost components of net periodic postretirement health care benefit cost and (2) the accumulated postretirement benefit obligation for health care benefits (For purposes of this disclosure, all other assumptions shall be held constant, and the effects shall be measured based on the substantive plan that is the basis for the accounting.)
i. If applicable, the amounts and types of securities of the employer and related parties included in plan assets, the approximate amount of future annual benefits of plan participants covered by insurance contracts issued by the employer or related parties, and any significant transactions between the employer or related parties and the plan during the period
j. If applicable, any alternative amortization method used to amortize prior service amounts or unrecognized net gains and losses pursuant to paragraphs 26 and 33 of Statement 87 or paragraphs 53 and 60 of Statement 106

k. If applicable, any substantive commitment, such as past practice or a history of regular benefit increases, used as the basis for accounting for the benefit obligation
l. If applicable, the cost of providing special or contractual termination benefits recognized during the period and a description of the nature of the event
m. An explanation of any significant change in the benefit obligation or plan assets not otherwise apparent in the other disclosures required by this Statement.

Amounts related to the employer's results of operations shall be disclosed for each period for which an income statement is presented. Amounts related to the employer's statement of financial position shall be disclosed for each balance sheet presented.

Employers with Two or More Plans

6. The disclosures required by this Statement may be aggregated for all of an employer's defined benefit pension plans and may be aggregated for all of an employer's defined benefit postretirement plans or may be disaggregated in groups if that is considered to provide the most useful information or is otherwise required by paragraph 7. Disclosures about pension plans with assets in excess of the accumulated benefit obligation generally may be aggregated with disclosures about pension plans with accumulated benefit obligations in excess of assets. The same aggregation is permitted for postretirement plans. However, if those disclosures are combined, an employer shall disclose the aggregate benefit obligation and aggregate fair value of plan assets for plans with benefit obligations in excess of plan assets. The aggregate pension accumulated benefit obligation and aggregate fair value of plan assets for pension plans with accumulated benefit obligations in excess of plan assets also shall be disclosed. Disclosure of amounts recognized in the statement of financial position shall present prepaid benefit costs and accrued benefit liabilities separately.

7. An employer may combine disclosures about pension or postretirement benefit plans outside the United States with those for U.S. plans unless the benefit obligations of the plans outside the United States are significant relative to the total benefit obligation and those plans use significantly different assumptions.

Reduced Disclosure Requirements for Nonpublic Entities

8. A nonpublic entity [5] may elect to disclose the following for its pension and other postretirement benefit plans in lieu of the disclosures required by paragraph 5 of this Statement:

a. The benefit obligation, fair value of plan assets, and funded status of the plan
b. Employer contributions, participant contributions, and benefits paid
c. The amounts recognized in the statement of financial position, including the net pension and other postretirement benefit prepaid assets or accrued liabilities and any intangible asset and the amount of accumulated other comprehensive income recognized pursuant to paragraph 37 of Statement 87, as amended

d. The amount of net periodic benefit cost recognized and the amount included within other comprehensive income arising from a change in the minimum pension liability recognized pursuant to paragraph 37 of Statement 87, as amended
e. On a weighted-average basis, the following assumptions used in the accounting for the plans: assumed discount rate, rate of compensation increase (for pay-related plans), and expected long-term rate of return on plan assets
f. The assumed health care cost trend rate(s) for the next year used to measure the expected cost of benefits covered by the plan (gross eligible charges) and a general description of the direction and pattern of change in the assumed trend rates thereafter, together with the ultimate trend rate(s) and when that rate is expected to be achieved
g. If applicable, the amounts and types of securities of the employer and related parties included in plan assets, the approximate amount of future annual benefits of plan participants covered by insurance contracts issued by the employer or related parties, and any significant transactions between the employer or related parties and the plan during the period
h. The nature and effect of significant nonroutine events, such as amendments, combinations, divestitures, curtailments, and settlements.

Defined Contribution Plans

9. An employer shall disclose the amount of cost recognized for defined contribution pension or other postretirement benefit plans during the period separately from the amount of cost recognized for defined benefit plans. The disclosures shall include a description of the nature and effect of any significant changes during the period affecting comparability, such as a change in the rate of employer contributions, a business combination, or a divestiture.

Multiemployer Plans

10. An employer shall disclose the amount of contributions to multiemployer plans during the period. An employer may disclose total contributions to multiemployer plans without disaggregating the amounts attributable to pensions and other postretirement benefits. The disclosures shall include a description of the nature and effect of any changes affecting comparability, such as a change in the rate of employer contributions, a business combination, or a divestiture.

11. Paragraph 70 of Statement 87 and paragraph 83 of Statement 106 are carried forward without reconsideration. Paragraphs 70 and 83 read as follows:

> In some situations, withdrawal from a multiemployer plan may result in an employer's having an obligation to the plan for a portion of its unfunded benefit obligations. If withdrawal under circumstances that would give rise to an obligation is either probable or reasonably possible, the provisions of FASB Statement No. 5, *Accounting for Contingencies,* shall apply.

In some situations, withdrawal from a multiemployer plan may result in an employer's having an obligation to the plan for a portion of the plan's unfunded accumulated postretirement benefit obligation. If it is either probable or reasonably possible that (a) an employer would withdraw from the plan under circumstances that would give rise to an obligation or (b) an employer's contribution to the fund would be increased during the remainder of the contract period to make up a shortfall in the funds necessary to maintain the negotiated level of benefit coverage (a "maintenance of benefits" clause), the employer shall apply the provisions of FASB Statement No. 5, *Accounting for Contingencies*.

Amendments to Existing Pronouncements

12. FASB Statement No. 87, *Employers' Accounting for Pensions,* is amended as follows:

a. Paragraph 54 is replaced by the following:

> Refer to paragraphs 5 and 8 of FASB Statement No.132, *Employers' Disclosures about Pensions and Other Postretirement Benefits.*

b.Paragraphs 55 and 56 are replaced by the following:

> Refer to paragraphs 6 and 7 of Statement 132.

c. Paragraph 65 is replaced by the following:

> Refer to paragraph 9 of Statement 132.

d. Paragraph 66 is replaced by the following:

> Refer to paragraphs 5 and 8 of Statement 132.

e. Paragraph 69 is replaced by the following:

> Refer to paragraph 10 of Statement 132.

13. Paragraph 17 of FASB Statement No. 88, *Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits,* is replaced by the following:

> Refer to paragraphs 5(a), 5(b), 5(d), 5(l), and 8(h) of FASB Statement No. 132, *Employers' Disclosures about Pensions and Other Postretirement Benefits*.

14. FASB Statement No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions,* is amended as follows:

a. Paragraph 74 is replaced by the following:

Refer to paragraphs 5 and 8 of FASB Statement No. 132, *Employers' Disclosures about Pensions and Other Postretirement Benefits.*

b. Paragraphs 77 and 78 are replaced by the following:

Refer to paragraphs 6 and 7 of Statement 132.

c. Paragraph 82 is replaced by the following:

Refer to paragraph 10 of Statement 132.

d. Paragraph 106 is replaced by the following:

Refer to paragraph 9 of Statement 132.

e. Paragraph 107 is replaced by the following:

Refer to paragraphs 5 and 8 of Statement 132.

Effective Date

15. This Statement shall be effective for fiscal years beginning after December 15, 1997. Earlier application is encouraged. Restatement of disclosures for earlier periods provided for comparative purposes is required unless the information is not readily available, in which case the notes to the financial statements shall include all available information and a description of the information not available.

The provisions of this Statement need not be applied to immaterial items.

This Statement was adopted by the unanimous vote of the seven members of the Financial Accounting Standards Board:

Edmund L. Jenkins, *Chairman*
Joseph V. Anania
Anthony T. Cope
John M. Foster
Gaylen N. Larson
James J. Leisenring
Gerhard G. Mueller

Appendix A

BACKGROUND INFORMATION AND BASIS FOR CONCLUSIONS

CONTENTS

Appendix A: BACKGROUND INFORMATION AND BASIS FOR CONCLUSIONS

Introduction

16. This appendix summarizes considerations that were deemed significant by Board members in reaching the conclusions in this Statement. It includes reasons for accepting certain approaches and rejecting others. Individual Board members gave greater weight to some factors than to others. The Board concluded that it could reach an informed decision on the basis of existing information without a public hearing.

17. The AICPA Special Committee on Financial Reporting (Special Committee) issued a report, *Improving Business Reporting—A Customer Focus,* in December 1994. In that report, the Special Committee recommended that "standard setters should search for and eliminate less relevant disclosures." The Special Committee also noted that many users indicated that "they would be willing to give up less important disclosures to make room for more important information."

18. Disclosure effectiveness has been a concern of the Board for some time. FASB documents that have addressed this issue include the 1980 Invitation to Comment, *Financial Statements and Other Means of Financial Reporting,* and the 1981 Exposure Draft, *Reporting Income, Cash Flows, and Financial Position of Business Enterprises.* Board members and FASB staff have written numerous articles on the topic. In addition, disclosure effectiveness was discussed at an April 1995 Financial Accounting Standards Advisory Council (FASAC) meeting and at several liaison meetings during 1995.

19. The Board issued a Prospectus, *Disclosure Effectiveness,* in July 1995. The Prospectus asked readers to consider possible changes to disclosure requirements consistent with one or both of two objectives: to reduce the cost of preparing and disseminating disclosures while providing users with information they need and to eliminate disclosures that are not useful for decision making. The Prospectus also encouraged further research and discussion on improving the effectiveness of financial reporting.

20. The Board received 71 letters in response to the Prospectus. Respondents generally supported a project to improve disclosure effectiveness, and many respondents suggested that pensions, other postretirement benefits, income taxes, and leases were topics that required specific attention. Several respondents suggested that the Board develop a framework for disclosure.

21. At the January 1996 FASAC meeting, several Council members suggested that the Board take an inductive approach to disclosure effectiveness, beginning by evaluating the requirements for disclosure about pensions and other postretirement benefits. A working group of FASAC members was formed to follow up on that suggestion. That group prepared a proposal that was discussed at the July 1996 FASAC meeting and in August 1996 at a public Board meeting with representatives of the Financial Executives Institute, the Association for Investment Management and Research, and other interested parties.

A Conceptual Framework for Disclosure

22. Some participants in the August 1996 meeting did not favor proceeding with a project before defining the general objectives of disclosure. The Board considered developing a framework for disclosure based on FASB Concepts Statement No. 1, *Objectives of Financial Reporting by Business Enterprises,* and a review of published studies but concluded that not enough information was available to formulate a framework at that time. In October 1996, the Board decided to proceed with an inductive approach to disclosure by initiating a project to examine pensions and other postretirement benefits to determine whether disclosures in that specific area could be improved, and, if so, whether any of the approaches undertaken could be applied to other accounting topics.

23. In June 1997, the Board issued an Exposure Draft, *Employers' Disclosures about Pensions and Other Postretirement Benefits.* The Board received 90 comment letters in response to that Exposure Draft. Most respondents supported the Board's goal of improving disclosure effectiveness and generally stated that the revised disclosures proposed in the Exposure Draft were an improvement over those required by Statements 87, and 106. A few respondents noted that they were able to easily apply the requirements of the Exposure Draft to their prior year's pension and other postretirement benefits note disclosures and that the requirements resulted in more understandable disclosure.

General Considerations

24. Discussions with certain users of financial statements indicated that the disclosures required by Statements 87 and 106, although extensive, did not provide sufficient information to understand the changes in the benefit obligation or to analyze the quality of earnings. This Statement is intended to enhance the utility of the information disclosed.

25. As a result of those discussions, the Board identified two distinct sets of information used by analysts. Some requested information that enabled them to analyze the benefit obligation, fair value of plan assets, and changes in both during the period, including unrecognized gains and losses. The Board stated in Statement 87 that it believed that "it would be conceptually appropriate and preferable to recognize a net pension liability or asset measured as the difference between the projected benefit obligation and plan assets, either with no delay in recognition of

gains and losses, or perhaps with gains and losses reported currently in comprehensive income but not in earnings" (paragraph 107). However, because Statement 87 did not require that accounting, the Board decided that this Statement should require disclosure of additional information about the changes in the benefit obligation and the fair value of plan assets during the period, including unrecognized gains and losses.

26. The second set of information was most often requested by those analysts who follow publicly traded companies. Those users stated that they needed information about the quality of current earnings, including recognized and unrecognized amounts, that is useful in forecasting earnings for future periods in an effective and efficient manner.

27. This Statement standardizes the disclosure requirements of Statements 87 and 106 to the extent practicable so that the required information should be easier to prepare and easier to understand. This Statement also suggests a parallel format for presenting information about pensions and other postretirement benefits in a more understandable manner.

Benefits and Costs

28. Most or all of the additional information required by this Statement should be already available in actuarial or accounting calculations used to account for an employer's pension and other postretirement benefit plans. The Board believes that standardizing the format of the disclosures and eliminating some of the current requirements may reduce preparation time. The benefits to users are in the form of additional relevant amounts and reduced time and effort required to read and understand the pension and other postretirement benefit notes to the financial statements.

Specific Disclosure Requirements

Benefit Obligation and Fair Value of Plan Assets

29. The Board concluded in Statements 87 and 106 that disclosure of the benefit obligation and fair value of plan assets is essential to an understanding of the economics of the employer's benefit plans and that disclosure of the fair value of plan assets is useful in assessing management's stewardship responsibilities for efficient use of those assets.

30. Because the obligation and plan assets are offset in determining the amounts recognized in the statement of financial position and offsetting of assets and liabilities generally is not appropriate unless a right of offset exists, [6] disclosure of the amounts offset provides essential information about future economic benefits and sacrifices.

Explanation of the Changes in the Benefit Obligation and the Fair Value of Plan Assets

31. This Statement amends Statements 87 and 106 to include disclosure of the changes in the

benefit obligation and plan assets during the period, including the effects of economic events during the period (including amendments, combinations, divestitures, curtailments, and settlements). Statement 87 required disclosure of the nature and effect of significant matters affecting comparability of information for all periods presented. Statement 106 required the same disclosure but specifically referred to business combinations or divestitures. In practice, those requirements have not resulted in the anticipated level of disclosure. The Board believes that an explanation of the changes in the benefit obligation and fair value of plan assets in the form of a reconciliation of the beginning and ending balances will provide a format for more complete disclosure that also should be more understandable to users of financial statements.

32. Disclosure of the benefit obligation, fair value of plan assets, and changes in them during the period is consistent with the Board's conceptual framework, which states that "financial reporting should provide information about the economic resources of an enterprise, the claims to those resources (obligations of the enterprise to transfer resources to other entities and owners' equity), and the effects of transactions, events, and circumstances that change resources and claims to those resources" (Concepts Statement 1, paragraph 40; footnote reference omitted).

Reconciliation of the Funded Status with the Amounts Recognized in the Financial Statements

33. Both Statement 87 and Statement 106 require a reconciliation of the funded status of the plan with the amounts recognized in the financial statements. The Board considered eliminating those requirements but decided to retain them in this Statement after financial analysts commented that information about unamortized balances of prior service cost and transition amounts is useful in assessing current earnings and forecasting future amortization. The Board also concluded, as it did in Statement 87, that the amount recognized in the financial statements as a net benefit liability or asset does not reflect fully the underlying financial status of the plan and that a reconciliation of the amounts is essential to an understanding of the relationship between the accounting methodology and the funded status of the plan. For those reasons the Board decided to retain disclosure of the unrecognized amounts, including unamortized prior service cost, unamortized transition amounts, and unrecognized gains and losses.

34. If an additional minimum liability is recognized, the reconciliation includes disclosure of any amount recognized as an intangible asset or included in accumulated other comprehensive income. The format recommended in Statement 87 disclosed those amounts as an additional minimum liability. The format that is illustrated in this Statement includes all amounts recognized.

Components of Net Periodic Benefit Cost

35. The Exposure Draft proposed eliminating the requirement in Statements 87 and 106 to disclose the components of net periodic benefit cost. Several respondents suggested that that disclosure be retained to provide greater visibility of the amounts included in the employer's results of operations. In addition, certain users, primarily equity analysts, stated that information included in that disclosure was useful in forecasting an employer's net income. In response to

those concerns, the Board decided to retain the requirement in Statements 87 and 106 to disclose the components of net periodic benefit cost and to add disclosures about the expected return on plan assets, the amortization of the transition obligation or asset, and the recognition of gains and losses.

Employers with Two or More Plans

36. Both Statement 87 and Statement 106 required additional disclosure of certain benefit plan information if an employer has plans with benefit obligations in excess of plan assets and plans with assets in excess of benefit obligations. Statement 87 required separate schedules reconciling the funded status of the plan with amounts reported in the employer's statement of financial position for plans with assets in excess of accumulated pension benefit obligations and plans with accumulated pension benefit obligations in excess of plan assets. Statement 106 required separate disclosure of the aggregate plan assets and the aggregate benefit obligation of underfunded plans. The Board decided to change the requirements for pension plans to parallel those for other postretirement benefit plans because those requirements are less complex and provide satisfactory information about the financial position of an employer's plans. The Board decided to retain disclosure of the accumulated pension benefit obligation for pension plans with accumulated benefit obligations in excess of plan assets because that disclosure is useful to regulators and other users of financial information. The Board included a requirement to disclose separately amounts recognized as prepaid benefit costs and accrued benefit costs so that users could determine the amounts included in the statement of financial position.

37. Some respondents to the Exposure Draft, including preparers, disagreed with the Board's decision to permit aggregation of disclosures about plans with different characteristics. They stated that users of financial statements could draw incorrect conclusions about an employer's funding policies or that employers would be able to offset underfunded plans with well-funded plans. The Board decided that permitting the aggregation of disclosures about multiple plans will simplify disclosure and will conform disclosures about pensions to those about other postretirement plans while continuing to provide users with sufficient information about the employer's plans. The Board also noted that, while aggregation of disclosures about plans is permitted by this Statement, an employer may disclose additional disaggregated information if the employer believes doing so provides more meaningful information.

Foreign Plans

38. Statement 87 specified that disclosures about plans outside the United States should not be combined with those about U.S. plans unless those plans use similar assumptions. Statement 106 required separate presentation for foreign plans if the benefit obligations are significant relative to the total benefit obligation for all plans. The Board decided to harmonize those disclosures with this Statement. Accordingly, the Board decided that disclosures about U.S. plans may be combined with those about foreign plans unless the benefit obligations of the foreign plans are significant relative to the employer's total benefit obligation and those plans use significantly different assumptions.

39. Some respondents to the Exposure Draft noted that some foreign plans typically are not funded because there are no tax advantages to funding plans in those jurisdictions. Those respondents suggested that the benefit obligation related to foreign plans be disclosed separately because combining disclosures about foreign and U.S. plans might be misleading. The Board believes that the requirements of paragraph 6 of this Statement will adequately inform users about the presence of underfunded plans. The Board also decided that whether aggregation of disclosures about underfunded plans was appropriate should not depend on whether the plans are located within the United States or abroad.

Assumed Health Care Cost Trend Rates

40. Statement 106 requires disclosure of the assumed health care cost trend rate for the next year used to measure the expected cost of benefits covered by the plan (gross eligible charges) and a general description of the direction and pattern of change in assumed trend rates thereafter, together with the ultimate trend rate and when that rate was expected to be achieved. All other requirements for disclosure of plan assumptions in Statements 87 and 106 call for disclosure of weighted-average rates. The Exposure Draft that led to Statement 106 proposed disclosure of a weighted average of the assumed health care cost trend rates, but in its deliberations the Board decided that a weighted-average rate can mask differences in an employer's assumptions about year-by-year health care cost trend rates. In the Exposure Draft that led to this Statement, the Board reconsidered the disclosure requirement for assumed health care cost trend rates and decided that disclosure of a weighted-average rate would provide for better comparability among entities and with other assumptions that are disclosed on a weighted-average basis.

41. Some respondents to the Exposure Draft stated that the cost of calculating that disclosure could be significant and argued that the increased cost was not justified in the circumstances. Others reiterated the comments made prior to the issuance of Statement 106 about the potential for the use of a weighted-average rate to mask differences in year-by-year health care cost assumptions. Although some Board members continue to believe that disclosure of the weighted-average rate is more effective, the Board ultimately decided that the disclosures about health care cost trend rate assumptions in Statement 106 provide satisfactory information and that disclosure of a weighted-average measure should not be required, primarily because of respondents' assertions about the incremental cost to provide that information.

The Effects of a One-Percentage-Point Change in the Assumed Health Care Cost Trend Rates

42. Statement 106 requires disclosure of the effects of a one-percentage-point increase in the assumed health care cost trend rates for each future year on (a) the aggregate of the service and interest cost components of net periodic postretirement health care benefit cost and (b) the accumulated postretirement benefit obligation for health care benefits. The Board decided to retain the sensitivity analysis disclosure in Statement 106 and, in addition, to require disclosure of the effects of a one-percentage-point decrease in the assumed health care cost trend rates on (a) the aggregate of the service and interest cost components of net periodic postretirement

health care benefit cost and (b) the accumulated postretirement benefit obligation for health care benefits. Most respondents to the Exposure Draft commented on that additional disclosure requirement. The majority stated that the effects of a one-percentage-point decrease should not be required, and many respondents opposed any sensitivity information.

43. Some Board members questioned the usefulness of a disclosure that focuses on the effects of a change in a single assumption underlying the calculation of the benefit obligation. They noted that calculating the accumulated postretirement benefit obligation requires numerous assumptions and estimates. Changes in certain of those assumptions and estimates may have a much more significant effect on the employer's obligation than changes in the assumed heath care cost trend rates. Moreover, those Board members noted that many assumptions and estimates underlie an entity's financial statements and that one should not focus on the change in a single factor to the exclusion of others that may be equally or more important. Those Board members advocated eliminating the sensitivity analysis as described in the Exposure Draft in favor of examining outside of this project the broader issue of disclosures about risks and uncertainties.

44. Those Board members also noted that the disclosure of a one-percentage-point increase required by Statement 106 was included in that Statement because, at the time, ". . . users [were] considerably less familiar with postretirement health care measurements than with pension measurements and with the subjectivity of the health care cost trend rate and the significant effect that assumption may have on measurement of the postretirement health care obligation" (paragraph 355). Those Board members believe that users are now sufficiently familiar with the effects of changes in health care trend rates on the postretirement health care obligation and, therefore, this disclosure is no longer useful. Accordingly, they expressed strong reservations about retaining it in this Statement.

45. However, a majority of the Board concluded that disclosure of the effects of a one-percentage-point increase and a one-percentage-point decrease in the assumed health care cost trend rate provides useful information to users of financial statements. As previously stated in Statement 106, requiring ". . . sensitivity information will assist users in assessing the comparability of information reported by different employers as well as the extent to which future changes in assumptions or actual experience different from that assumed may affect the measurement of the obligation and cost. In addition, the sensitivity information may assist users in understanding the relative significance of an employer's cost-sharing policy as encompassed by the employer's substantive plan" (paragraph 354). The Board concluded that those considerations remain relevant today. It noted that sensitivity disclosures are consistent with the recommendations of the AICPA Special Committee for improved disclosure about the uncertainty inherent in the measurement of certain assets and liabilities. Some Board members also noted that the effects of a one-percentage-point change in a plan's assumed health care cost trend rate would be difficult to assess because the way in which health care cost assumptions interact with caps, cost-sharing provisions, and other factors in the plan precludes reasonable estimates of the effects of those changes. The effects of changes in other assumptions, such as

the weighted-average discount rate, can be more easily approximated.

46. The Board decided to retain the requirement to disclose the effects of both an increase and a decrease in the assumed health care cost trend rates because the effects of an increase and a decrease are not necessarily symmetrical for a plan due to the way in which health care cost assumptions interact with caps or other cost-sharing provisions and for other reasons. In addition, because the growth in the rate of health care costs has decreased for many plans since the issuance of Statement 106, disclosure of the effects of a decrease in the assumed health care cost trend rates may provide more relevant information than the effects of an increase.

Related Party Transactions

47. Both Statement 87 and Statement 106 required disclosure of the amounts and types of securities of the employer and related parties included in plan assets and the approximate amount of future annual benefits of plan participants covered by insurance contracts issued by the employer or related parties. The Board decided to retain those disclosure requirements in this Statement. The Board also decided to require added disclosures about any significant transactions between the plan and the employer during the period, including noncash transactions, because of the relevance of information about related party transactions, as described in the basis for conclusions to FASB Statement No. 57, *Related Party Disclosures.*

Other Disclosures Considered

Concentrations of Market Risk

48. The Board considered whether an employer should disclose concentrations of market risk in plan assets. FASB Statement No. 124, *Accounting for Certain Investments Held by Not-for-Profit Organizations,* requires disclosure of the nature of and carrying amount for each individual investment or group of investments that represents a significant concentration of market risk. The Board concluded that disclosures needed about plan assets differ from those about investments held by not-for-profit organizations because trustees of benefit plans are usually constrained to follow policies for the sole benefit of the plan beneficiaries, whereas fund managers of not-for-profit organizations may be constrained only by donor restrictions. Also, provisions of the Employee Retirement Income Security Act generally require that plan trustees diversify plan investments. Consequently, the usefulness of that disclosure requirement for U.S. plans could be limited.

49. Several respondents to the Exposure Draft asked that the Board also consider requiring disclosure of the composition of plan assets as a means of enabling users to assess concentrations of risk in the plan's portfolio. The Board noted that disclosure of the type of information about plan assets that would be required to enable the user to identify and assess concentrations of risk would be extensive, in certain circumstances requiring disclosure about individual securities. The Board decided that requiring extensive disclosures about the composition of plan assets in

the employer's financial statements would add significant complexity to the disclosure and was generally inconsistent with its objective of promoting more effective disclosure.

Components of the Benefit Obligation

50. Statements 87 and 106 required disclosure of several components of the benefit obligation. Statement 87 required disclosure of the accumulated pension benefit obligation and the vested pension benefit obligation. Statement 106 required disclosure of the portions of the plan obligation attributable to retirees, other fully eligible plan participants, and other active plan participants.

51. Disclosure of the accumulated pension benefit obligation and vested pension benefit obligation was considered relevant when Statement 87 was issued because there was less agreement at that time as to the best measure of the pension benefit obligation. Some respondents to the Exposure Draft that led to Statement 87 would have limited the recognized liability to the vested pension benefit obligation. In the deliberations preceding the issuance of Statement 87, the Board considered a minimum liability based on the vested pension benefit obligation but concluded that the time at which benefits vest should not be the primary point for recognition of either cost or liabilities. The disclosure requirements of Statement 106 for the portion attributable to retirees, other fully eligible plan participants, and other active plan participants are proxies for disclosure of the vested and nonvested benefit obligation for other postretirement benefit obligations.

52. The Board decided to eliminate the requirement to disclose (a) accumulated pension benefit obligations for plans with assets that exceed that amount, (b) vested pension benefit obligations, and (c) the portions of other postretirement benefit plan obligations attributable to retirees, other fully eligible plan participants, and other active plan participants. None of those amounts are used to forecast pension or other postretirement benefit costs or obligations, and, therefore, those amounts have limited relevance to users of financial statements. The Board decided to retain disclosure of the accumulated pension benefit obligation for plans with accumulated pension benefit obligations in excess of plan assets because that component is used to determine the minimum liability and may be relevant to users of financial statements.

General Descriptive Information

53. Both Statement 87 and Statement 106 required disclosure of general descriptive information about the employer's benefit plans, including employee groups covered, type of benefit formula, funding policy, types of assets held, and significant nonbenefit liabilities, if any. This Statement does not require that disclosure because the Board believes it provides only limited useful information to users of financial statements due to the general nature of the information provided, particularly after aggregating information about multiple plans with different characteristics. In lieu of that disclosure, this Statement requires disclosure of significant events occurring during the period that are otherwise not apparent in the disclosures, as that information is more relevant to users of financial statements. Several respondents to the

Exposure Draft stated that the description of the plan required by Statements 87 and 106 can provide useful information about the plan. The Board therefore encourages an employer to provide a description of its plans if such a description would provide meaningful information, such as when the employer sponsors only a single plan.

Materiality

54. The Board considered whether this Statement should include a materiality threshold for requiring certain disclosures about pension and other postretirement benefit plans. Materiality and relevance are both defined in terms of what influences or makes a difference to a decision maker. The Board's position is that "no general standards of materiality could be formulated to take into account all the considerations that enter into an experienced human judgment," but that quantitative materiality criteria may be given by the Board in specific standards, as appropriate (FASB Concepts Statement No. 2, *Qualitative Characteristics of Accounting Information,* paragraph 131).

55. The Board considered implementing materiality thresholds for pension and other postretirement benefit disclosures, including thresholds based on the gross obligations for plan benefits and the employer's assets, equity, revenues, or net income. Each measure had disadvantages. Because a materiality threshold should take into account the information most likely to influence or make a difference to a decision maker, net income appeared to be the most relevant element for publicly traded companies. Some analysts use information about current benefit costs and the funded status of the plan to assess the quality of current earnings and the employer's financial condition. They also use that information to prepare their forecasts of future earnings, measuring the impact on net income as precisely as possible. The Board concluded that a precise threshold in terms of net income was not practicable because of the natural volatility of net income and the resulting difficulty in making materiality judgments with a relatively simple materiality rule. Therefore, this Statement does not include a materiality threshold. However, that does not imply that the provisions of this Statement must be applied to immaterial items. Some entities may determine that some or all pension or other postretirement benefit disclosures are not material after evaluation of all the relevant facts and circumstances.

Nonpublic Entities

56. The *Report of the Committee on Generally Accepted Accounting Principles for Smaller and/or Closely Held Businesses,* issued by the AICPA in August 1976, observed that some disclosures merely provide additional or analytical data and may not be appropriate for all entities. The Committee also observed, however, that analytical data may be appropriate in certain circumstances for certain types of entities.

57. Before issuing the Exposure Draft, the Board had asked certain users of financial statements of nonpublic entities to comment on the usefulness of current and proposed disclosure requirements. Those users observed that they did not require the same level of precision in assessing benefit costs and net income when analyzing the financial statements of nonpublic

entities but that they did rely on information about the benefit obligations, assets, and cash flows. Based on the input of those users, the Board concluded that a reduced disclosure set would be appropriate for nonpublic entities. The Board determined that a nonpublic entity should, at a minimum, provide the same information about the benefit obligations, plan assets, recognized assets or liabilities, cash flows, benefit costs, actuarial assumptions, and related party transactions as required for a public entity.

58. The Exposure Draft would have required that a nonpublic entity disclose all of the information in paragraph 5 if total unrecognized pension and other postretirement benefit amounts exceeded 5 percent of equity (or unrestricted net assets). Many respondents objected to that provision out of concern that it might be viewed as the establishment of a materiality standard that could be applied in other circumstances. The Board decided not to require that disclosure but, rather, to provide for reduced disclosures for all nonpublic entities. The Board concluded that introducing a specific threshold was therefore unnecessary.

59. However, because nonpublic entities are not required to provide a reconciliation of the benefit obligation or the fair value of plan assets under the provisions of this Statement, the Board decided to require disclosure of information about the effects of significant nonroutine events during the period, such as amendments, combinations, divestitures, curtailments, and settlements, whenever those events occur. The Board believes that that disclosure is necessary for users of financial statements to understand the effects of those changes that otherwise might not be apparent. Even though this Statement permits reduced disclosures for nonpublic entities, the Board concluded that the incremental information required by paragraph 5 improves understanding and, therefore, encourages those entities to disclose that information.

Effective Date and Transition

60. This Statement is effective for fiscal years beginning after December 15, 1997. Earlier application is encouraged. The Board decided that the disclosures required by this Statement should be provided for earlier periods presented for comparative purposes, unless that information is not readily available. The Board believes that application of this Statement should not impose a hardship on most preparers of financial statements because the systems necessary to provide most, if not all, of the required disclosures are already in place. For that reason, disclosure of comparable prior-year information should not be difficult for most entities.

Appendix B: ILLUSTRATIONS

61. This appendix provides examples that illustrate a parallel format for presenting pension and other postretirement benefit disclosures in a single note to the financial statements. The items presented in these examples have been included for illustrative purposes. However, items may be combined if individually immaterial. The illustrations in this appendix supersede

Illustration 6 in Statement 87 and Illustration 7 in Statement 106.

Illustration 1—Disclosures about Pension and Other Postretirement Benefit Plans

62. The following illustrates the 20X2 financial statement disclosures for an employer (Company A) with multiple defined benefit pension and other postretirement benefit plans. There is no additional minimum pension liability required to be recognized. During 20X2, the employer had an acquisition and made amendments to the plans.

	Pension Benefits		Other Benefits	
	20X2	20X1	20X2	20X1
Change in benefit obligation				
Benefit obligation at beginning of year	$1,266	$1,200	$ 738	$ 700
Service cost	76	72	36	32
Interest cost	114	108	65	63
Plan participants' contributions			20	13
Amendments	120		75	
Actuarial gain	(25)		(24)	
Acquisition	900		600	
Benefits paid	(125)	(114)	(90)	(70)
Benefit obligation at end of year	2,326	1,266	1,420	738
Change in plan assets				
Fair value of plan assets at beginning of year	$1,068	880	206	87
Actual return on plan assets	29	188	(3)	24
Acquisition	1,000	1,000	25	
Employer contribution	75	114	171	152
Plan participants' contributions			20	13
Benefits paid	(125)	(114)	(90)	(70)
Fair value of plan assets at end of year	2,047	1,068	329	206
Funded status	(279)	(198)	(1,091)	(532)
Unrecognized net actuarial loss	83	38	59	60
Unrecognized prior service cost	260	160	585	540
Prepaid (accrued) benefit cost	$ 64	$ 0	$ (447)	$ 68

	Pension Benefits		Other Benefits	
	20X2	20X1	20X2	20X1
Weighted-average assumptions as of December 31				
Discount rate	9.25%	9.00%	9.00%	9.00%
Expected return on plan assets	10.00	10.00	10.00	10.00
Rate compensation increase	5.00	5.00		

For measurement purposes, a 10 percent annual rate of increase in the per capita cost of covered health care benefits was assumed for 20X3. The rate was assumed to decrease gradually to 4 percent for 20X9 and remain at that level thereafter.

	Pension Benefits		Other Benefits	
	20X2	20X1	20X2	20X1
Components of net periodic benefit cost				
Service cost	$ 76	$ 72	$ 36	$ 32
Interest cost	114	108	65	63
Expected return on plan assets	(107)	(88)	(21)	(9)
Amortization of prior service cost	20	20	30	30
Recognized net actuarial loss	8	2	1	1
Net periodic benefit cost	$ 111	$ 114	$111	$117

Company A acquired FV Industries on December 31, 20X2, including its pension and postretirement benefit plans. The company's plans were amended on December 31, 20X2, to establish parity with the benefits provided by FV Industries.

The company has multiple nonpension postretirement benefit plans. The health care plans are contributory, with participants' contributions adjusted annually; the life insurance plans are noncontributory. The accounting for the health care plans anticipates future cost-sharing changes to the written plan that are consistent with the company's expressed intent to increase retiree contributions each year by 50 percent of the excess of the expected general inflation rate over 6 percent. On December 31, 20X2, the company amended its postretirement health care plans to provide long-term care coverage.

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one-percentage-point change in assumed health care cost trend rates would have the following effects:

	1-Percentage-Point Increase	1-Percentage-Point Decrease
Effect on total of service and interest cost components	$ 22	$ (20)
Effect on postretirement benefit obligation	173	(156)

Illustration 2—Disclosures for an Employer That Recognizes a Minimum Liability

63. The following illustrates the 20X2 financial statement disclosures if an employer (Company B) has multiple benefit plans including one pension plan for which the employer must recognize an additional minimum liability in accordance with the provisions of paragraph 36 of Statement 87. As of December 31, 20X2, the assumptions are as follows:

- The accrued pension benefit cost for the underfunded plan is $89.
- The minimum liability is $153; thus, the additional minimum liability is $64. The additional minimum liability was $53 in the prior year.
- The total unrecognized transition obligation for the underfunded plan is $50.
- The entry to record the change in the additional minimum liability for the period is:

Other comprehensive income	14	
Intangible asset		3
Accrued pension benefit cost		11

	Pension Benefits		Other Benefits	
	20X2	**20X1**	**20X2**	**20X1**
Change in benefit obligation				
Benefit obligation at beginning of year	$1,266	$1,200	$ 738	$ 700
Service cost	76	72	36	32
Interest cost	114	108	65	63
Plan participants' contributions			20	13
Amendments	(20)			
Actuarial gain	(25)		(24)	
Benefits paid	(125)	(114)	(90)	(70)
Benefit obligation at end of year	1,286	1,266	745	738
Change in plan assets				
Fair value of plan assets at beginning of year	$1,156	968	206	87
Actual return on plan assets	29	188	(3)	24
Employer contribution	139	114	171	152
Plan participants' contributions			20	13
Benefits paid	(125)	(114)	(90)	(70)
Fair value of plan assets at end of year	1,199	1,156	304	206
Funded status	(87)	(110)	(441)	(532)
Unrecognized actuarial loss	83	38	59	60
Unrecognized prior service cost	170	225	510	540
Net amount recognized	$ 166	$ 153	$ 128	$ 68
Amounts recognized in the statement of financial position consist of:				
Prepaid benefit cost	$ 255	$ 227	$ 128	$ 68
Accrued benefit liability	(153)	(127)		
Intangible asset	50	53		
Accumulated other comprehensive income	14			
Net amount recognized	$ 64	$ 0	$ (447)	$ 68

	Pension Benefits		Other Benefits	
	20X2	20X1	20X2	20X1
Weighted-average assumptions as of December 31				
Discount rate	9.25%	9.00%	9.00%	9.00%
Expected return on plan assets	10.00	10.00	10.00	10.00
Rate of compensation increase	5.00	5.00		

For measurement purposes, a 10 percent annual rate of increase in the per capita cost of covered health care benefits was assumed for 20X3. The rate was assumed to decrease gradually to 4 percent for 20X9 and remain at that level thereafter.

	Pension Benefits		Other Benefits	
	20X2	20X1	20X2	20X1
Components of net periodic benefit cost				
Service cost	$ 76	$ 72	$ 36	$ 32
Interest cost	114	108	65	63
Expected return on plan assets	(116)	(97)	(21)	(9)
Amortization of prior service cost	35	35	30	30
Recognized actuarial loss	17	11	1	1
Net periodic benefit cost	$ 126	$ 129	$ 111	$ 117

The projected benefit obligation, accumulated benefit obligation, and fair value of plan assets for the pension plan with accumulated benefit obligations in excess of plan assets were $263, $237, and $84, respectively, as of December 31, 20X2, and $247, $222, and $95, respectively, as of December 31, 20X1.

Company B has multiple nonpension postretirement benefit plans. The health care plan is contributory with participants' contributions adjusted annually; the life insurance plan is noncontributory. The accounting for the health care plan anticipates future cost-sharing changes to the written plan that are consistent with the company's expressed intent to increase retiree contributions each year by 50 percent of the excess of the expected general inflation rate over 6 percent. On December 31, 20X2, the company amended its postretirement health care plan to provide long-term-care coverage and amended its pension plan to change the benefit formula.

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plan. A one-percentage-point change in assumed health care cost trend rates would have the following effects:

	1-Percentage-Point Increase	1-Percentage-Point Decrease
Effect on total of service and interest cost components	$11	$(10)
Effect on postretirement benefit obligation	89	(80)

Illustration 3—Alternative Disclosure for a Nonpublic Entity

64. The following illustrates the 20X2 financial statement disclosures that could be provided by Company A if it were a nonpublic entity.

	Pension Benefits		Other Benefits	
	20X2	20X1	20X2	20X1
Benefit obligation at December 31	$2,326	$1,266	$ 1,420	$ 738
Fair value of plan assets at December 31	2 ,047	1,068	329	206
Funded status	$ (279)	$ (198)	$(1,091)	$(532)
Prepaid (accrued) benefit cost recognized in the statement of financial position	$ 64	$ 0	$ (447)	$ 68

	Pension Benefits		Other Benefits	
	20X2	20X1	20X2	20X1
Weighted-average assumptions as of December 31				
Discount rate	9.25%	9.00%	9.00%	9.00%
Expected return on plan assets	10.00	10.00	10.00	10.00
Rate of compensation increase	5.00	5.00		

For measurement purposes, a 10 percent annual rate of increase in the per capita cost of covered health care benefits was assumed for 20X3. The rate was assumed to decrease gradually to 4 percent for 20X9 and remain at that level thereafter.

	Pension Benefits		Other Benefits	
	20X2	20X1	20X2	20X1
Benefit cost	$111	$114	$111	$117
Employer contribution	75	114	171	152
Plan participants' contributions			20	13
Benefits paid	125	114	90	70

The company acquired FV Industries on December 31, 20X2, increasing the pension benefit obligation by $900 and pension plan assets by $1,000 and increasing the other postretirement benefit obligation by $600 and related plan assets by $25. Amendments during the year to the company's plans increased the pension benefit obligation by $120 and the other postretirement benefit obligation by $75.

Footnotes

FAS132, Footnote 1—Existing requirements related to withdrawal from multiemployer plans contained in paragraph 70 of Statement 87 and paragraph 83 of Statement 106 are carried forward unchanged and included in paragraph 11 of this Statement.

FAS132, Footnote 2—For defined benefit pension plans, the benefit obligation is the projected benefit obligation—the actuarial present value as of a date of all benefits attributed by the pension benefit formula to employee service rendered prior to that date. For defined benefit postretirement plans, the benefit obligation is the accumulated postretirement benefit obligation—the actuarial present value of benefits attributed to employee service rendered to a particular date.

FAS132, Footnote 3—The effects of foreign currency exchange rate changes that are to be disclosed are those applicable to plans of a foreign operation whose functional currency is not the reporting currency pursuant to FASB Statement No. 52, *Foreign Currency Translation.*

FAS132, Footnote 4—Refer to footnote 3.

FAS132, Footnote 5—A nonpublic entity is any entity other than one (a) whose debt or equity securities trade in a public market either on a stock exchange (domestic or foreign) or in the over-the-counter market, including securities quoted only locally or regionally, (b) that makes a filing with a regulatory agency in preparation for the sale of any class of debt or equity securities in a public market, or (c) that is controlled by an entity covered by (a) or (b).

FAS132, Appendix A, Footnote 6—Refer to APB Opinion No. 10, *Omnibus Opinion—1966,* paragraph 7.