



Financial Accounting Standards Board

*Pension
Plan
Rules
Liability*

Board Meeting Handout

**Improving Disclosures about an Employer's Participation in a
Multiemployer Plan**

Wednesday, April 14, 2010

PURPOSE OF THIS MEETING

1. The purpose of this meeting is for the Board to deliberate the staff's proposed improvements to disclosures about an employer's participation in a multiemployer plan.

BACKGROUND

2. In March 2010, the FASB chairman announced the addition of a project to improve an employer's disclosure of its participation in a multiemployer plan. Several constituents had raised concerns about the lack of information given the current requirements. Additionally, several users have published reports highlighting concerns about the potential for increases in contributions as a result of plans being underfunded.
3. A multiemployer plan is established under the Labor Management Relations Act of 1947 (the Taft-Hartley Act). A trust fund is created and an employer's contributions are negotiated. A multiemployer plan enables its participants to earn benefit credits from service provided to more than one employer. Thus, multiemployer plans are typically found in industries characterized by employees that tend to move from employer to employer.

The staff prepares Board meeting handouts to facilitate the audience's understanding of the issues to be addressed at the Board meeting. This material is presented for discussion purposes only; it is not intended to reflect the views of the FASB or its staff. Official positions of the FASB are determined only after extensive due process and deliberations.

4. According to information compiled from forms filed by employers with the Internal Revenue Service, multiemployer plans covered 22 percent of the 42 million workers with defined benefit pension plans in 2006.¹ Additionally, the aggregate amount of unfunded obligations associated with multiemployer plans is significant. The Pensions Benefit Guaranty Corporation's Pension Insurance Data Book for 2008 reports that in 2006, the underfunded balance was about \$200 billion.
5. In the United States, there is a Department of Labor annual reporting requirement on plans to file the Employee Retirement Insurance and Security Act Form 5500, Annual Return/Report of Employee Benefit Plan. Additionally, the Pension Protection Act of 2006 requires plan administrators to report certain plan information to contributing employers, beneficiaries, the Pension Benefit Guaranty Corporation, the Department of Labor, employee representatives (unions), and bargaining parties.
6. Plan administrators must file Form 5500 by the middle of the tenth calendar month after the plan year-end (after a one-time extension of 2.5 months has been requested by filing Form 5558). This makes the information reported on Form 5500 out of date by the time the report is filed, especially assets and obligations reported as of the beginning of the year.

CURRENT IFRS AND FASB ACCOUNTING REQUIREMENTS

7. Subtopic 715-80 of the *FASB Accounting Standards Codification*TM on retirement benefits and multiemployer plans provides guidance on the accounting for multiemployer plans. Section 715-80-35 on subsequent measurement of multiemployer plans requires that an employer recognize as net pension cost the required contribution for the period and a liability for any unpaid contributions. Additionally, an employer also should consider the provisions in Topic 450 on contingencies if an obligation due to withdrawal from a plan is either probable or reasonably possible. Paragraph 715-80-50-1 requires an employer to disclose the

¹ Private Pension Plan Bulletin: Abstract of 2006 Form 5500 Annual Reports (U.S. Department of Labor, Washington DC: Government Printing Office, December 2008).

amount of contributions to multiemployer plans. The disclosure should include a description of the nature and effect of any changes affecting comparability, such as a business combination. This project addresses ongoing disclosures by a participating employer in defined benefit multiemployer pension and other postretirement benefit plans.

8. The IASB's project on postemployment benefits will amend IAS 19, *Employee Benefits*, to change the disclosures on multiemployer plans. Currently, IAS 19 allows an entity to classify a defined benefit multiemployer plan as either a defined benefit or a defined contribution plan. An entity may classify a multiemployer plan as a defined contribution plan only if sufficient information is not available to use defined benefit accounting. This will not change under the proposed amendments to IAS 19.

Proposed Disclosure Requirements

9. The following section illustrates the proposed disclosure requirements that the staff recommends for the Board's consideration compared to the proposed disclosure requirements in the IASB's postemployment benefits project. The staff has underlined the differences and included an explanation of those differences in the staff's analysis.
10. This staff's proposal would require an employer to disclose both qualitative and quantitative information about its participation in a multiemployer plan. The staff also proposes the following:

An employer participating in a multiemployer plan should disclose information separately for pensions and other postretirement benefits. Quantitative information should be provided for each annual period for which a statement of income or balance sheet is presented. The reporting entity should disaggregate disclosures for plans or groups of plans with different terms, conditions and characteristics. The basis for disaggregation should be disclosed.

IASB Proposed Disclosures	FASB Staff Recommendation
A description of the funding arrangements, including the method used to determine the participant's rate of contributions and any minimum funding requirements	A description of the <u>contractual</u> arrangements, including <u>for each year covered by the current agreement, the agreed rate of contributions, and any minimum contributions required by the agreement</u>
The extent to which the entity can be liable to the plan for other participants' obligations under the terms and conditions of the multiemployer plan	<u>A narrative description of the entity's exposure to significant risks arising from its participation in the plan, for example the extent to which the entity can be liable to the plan for other participating employers' obligations under the terms and conditions of the plan, the entity's inability to influence the plan's investment decisions and consequences the entity might face if it ceased contributing to the plan</u>
The total number of, and employer's proportion of the number of active members, retired members, and former members entitled to benefits, if possible	<u>Employee groups covered (including quantitative information about those employee groups)</u>
Details of any agreed deficit or surplus allocation on wind-up or the amount that is required to be paid on withdrawal	<u>Details of any agreed deficit or surplus allocation on wind-up and, if applicable and available, the amount that is required to be paid on withdrawal as of the most recent date available. For plans where the amount required to be paid on withdrawal is applicable, but not available, an entity shall provide information about the magnitude of those plans (such as the percentage of multiemployer plan contributions to such plans, or percentage of participants covered by such plans)</u>
Information about any surplus or deficit in the plan that may affect the amount of future contributions, including the basis used to determine that surplus or deficit and the implications, if any, for the entity	<u>Expected future trends in contributions, if known, including the extent to which a surplus or deficit in the plan may affect future contributions</u>

IASB Proposed Disclosures	FASB Staff Recommendation
The expected contributions to the plan for the next five reporting periods	The expected contributions to the plan for the next period
N/A (IASB has no explicit requirement that contributions be disclosed because they are recognized in the financial statements)	Total contributions paid to the plan
N/A	A narrative description, including the expected effect, of any funding improvement plan or a rehabilitation plan. For plans in regulatory warning zones (for example, "critical" or "endangered" status as defined by the Pension Protection Act of 2006) the warning status and possible remedies being considered by the plan, if known
The fact that the plan is a defined benefit plan	N/A (U.S. GAAP prohibits the alternative to account for a multiemployer plan as a defined benefit plan)
The reason why sufficient information is not available to enable the entity to account for the plan as a defined benefit plan	N/A (U.S. GAAP prohibits the alternative to account for a multiemployer plan as a defined benefit plan)

Analysis

11. The staff believes the proposed disclosures present several benefits in addition to providing relevant information about an employer's participation in a multiemployer plan. The combination of qualitative and quantitative information will help users assess the risks an entity faces by participating in a multiemployer plan. Preparers will not face undue costs to comply with this proposal. Most of the information in the proposal is either readily available through the agreements with the plan administrators or can be requested from the plan administrator facilitated by the Pension Protection Act of 2006.
12. The staff's proposed disclosures are very similar to the IASB's current proposed disclosures. However, the IASB's proposed disclosures may change in the course of redeliberations in the fourth quarter of 2010, after comments on the Exposure Draft, *Postemployment Benefits (Including Pensions)*, are considered. The Board

may want to be aware of the timing of the IASB's proposal and consider the status of their redeliberations as the FASB's project progresses.

13. There are differences between the staff's proposed disclosure and the IASB's proposed multiemployer plan disclosures.
 - a. The staff recommends requiring an entity to describe significant risks arising from its participation in a multiemployer plan. In addition to the extent to which the entity can be liable to the plan for other participating employers' obligations, the staff believes other relevant risks, such as the entity's inability to influence the plan's investment decisions and consequences the entity might face if it ceased contributing to the plan, should be disclosed.
 - b. Due to time constraints, the staff recommends modifying the IASB's proposed requirement related to the information about the employees covered by the plan to requiring information about the employer's own employee groups.
 - c. The staff recommends modifying the IASB's proposed requirement to clarify that the amount to be paid upon withdrawal must be provided if applicable and available.
 - d. The staff recommends modifying the IASB's proposed requirement not to require an entity to predict how a plan surplus and deficit will affect the amount of future contributions. Based on the design and operation of U.S. plans, the staff believes that this would be difficult to prepare and audit, and could be viewed as damaging in future negotiations.
 - e. The staff believes that disclosing expected contributions for the next five years would be difficult to implement. The entity would have to make estimates of the contribution rates and labor volume in periods beyond the normal budgeting cycle. Such estimates may be difficult to determine and audit, especially if they extend beyond the expiration date of the current contract. The staff believes disclosing expected contributions to the plan for the next period would not face the same operational challenges. The contribution rate for the next period should be known at the time the financial statements are prepared, and the entity would be able to use information from its annual budget for the disclosure.

- f. Finally, the staff recommends requiring disclosure of the details on any funding improvement plan adopted. The staff believes this qualitative incremental disclosure would inform the user about the nature of the current commitment and potential level of uncertainty of future cash flows.
14. The staff considered requiring disclosure of the plan's assets and liabilities, and the employer's share of that surplus or deficit. Respondents during the staff's outreach stated that an employer's share of the plan deficit or surplus is subject to inconsistent interpretation, and the staff believes this could result in disclosures that are not comparable. Disclosing information on the plan's surplus or deficit may not faithfully represent the reporting entity's future obligations to the plan. The staff believes that disclosing the withdrawal liability and any details of a funding improvement plan would be more objectively determined and provide the user with relevant information to determine how a reporting entity's participation in a multiemployer plan affects its future cash flow.
15. The staff anticipates that some constituents may raise implementation concerns about disclosing some of the information in this proposal. Respondents to the staff's outreach stated that there would be challenges in applying some disclosure requirements, such as for plans for which an employer's participation is not significant and postretirement plans other than pensions for which regulatory provisions related to withdrawal do not apply. The staff considered these concerns in drafting the recommended disclosure requirements. The recommended disclosure requirements only require information that is available to the reporting entity, regardless of whether the reporting entity is a significant participating employer. The staff also drafted the requirements to primarily focus on factual information, rather than requiring predictions of the resolution of future uncertainties.

16. The staff recommends that the provisions be applied prospectively. The staff believes that not all of the information to apply the provisions retrospectively would be available and believes the costs of applying the provisions retrospectively would not be justified by the benefits.
17. The staff intends to prepare a proposed Accounting Standards Update that could be issued around the end of May, at the same time as the projects on going concern, financial statement presentation, and discontinued operations. Because of the limited scope of the project and its applicability to a limited group of constituents, the staff recommends a comment period of 60 days. This proposed timing would allow the Board to begin redeliberations in August, at the same time as the projects on the statement of comprehensive income and accounting for financial instruments. This timeline could enable a final Update to be issued in September or October for prospective application in 2010.

Questions for the Board

Q1. Does the Board agree with the staff's recommendation on the disclosure requirements? If not, what changes does the Board require?

Q2. Does the Board agree with the staff's recommendation for a 60-day comment period on the forthcoming Exposure Draft on the disclosure of an employer's participation in a multiemployer plan? If not, what comment period does the Board prefer?

Q3. Does the Board agree with the staff's recommendation to make these disclosure requirements effective prospectively?

Q4. Does the Board agree with the staff's recommendation to indicate in the Exposure Draft the staff's inclination to make the disclosure requirements effective for this year-end?

Q5. Does the Board grant permission for the staff to begin drafting an Exposure Draft on the disclosure of an employer's participation in a multiemployer plan?