



Financial Accounting Standards Board

Disclosures about an Employer's Participation in a Multiemployer Plan

Last updated September 23, 2010



Disclaimer and about FASB

- *The views expressed in this presentation are **my own** and do not represent positions of the Financial Accounting Standards Board. Official positions of the FASB are established only after extensive deliberation and **due process**.*
- *We may disagree, but please respect our process*



Agenda

- **Current Guidance**
- **Contingencies Exposure Draft**
- **Multiemployer Project**
- **Objective**
- **FASB Exposure Draft issued September 1**
- **Next Steps**
- **IASB Project on Defined Benefit Plans**
- **Q&A**



What is the current guidance for recognition?

- **Codification™ Subtopic 715-80** requires recognition of **contributions** to multiemployer plans as part of net pension cost
- **Liability** recognized to the extent of **unpaid contributions** required for the period



What is the current guidance for disclosure?

- **Subtopic 715-80 (previously FAS 87, FAS 106 and FAS 132) requires disclosure of contributions**

An employer shall disclose the **amount of contributions** to multiemployer plans for each annual period for which a statement of income is presented. An employer may disclose total contributions to multiemployer plans **without disaggregating** the amounts attributable to **pension plans** and **other postretirement benefit** plans. 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.



What is current guidance on withdrawal liabilities?

- Subtopic 715-80 requires consideration of Topic 450, *Contingencies*, if it is either **probable** or **reasonably possible** that an employer would **withdraw** from a plan, or contributions would increase during the remainder of a contract period to make up any shortfall in order to maintain the **agreed-upon level of benefits**
 - **Accrual/Recognition** of withdrawal liability in financial statements if **probable**
 - **Note disclosure** if **reasonably possible**



How is disclosure about multiemployer plans impacted by the FASB contingencies project?

- In July, 2010, FASB issued Proposed Accounting Standards Update—*Contingencies (Topic 450): Disclosure of Certain Loss Contingencies*, which included the following proposals:
 - Retain existing “**probable**” criterion for accruing a loss
 - Tabular schedule of a public company’s period-to-period changes in accruals
 - Enhanced “over-the-life-cycle” disclosures about certain loss contingencies
 - Disclosure of information about “remote” **asserted** contingencies if potential impact is severe



What has been the feedback on the contingencies project?

- Comment period ended September 20, 2010. Over **270 comment letter** received.
- A number of those comment letters specifically commented on disclosure of **withdrawal liability**
- What was the Boards **intent** with regard to "**asserted**" **remote** loss contingencies as it relates to multiemployer withdrawal liability?
- Staff analysis of comment letters is ongoing. Board redeliberations expected in Q4 2010.



Why the project to enhance disclosure about multiemployer plans?

- Concern on transparency in financial statements
 - *Food Retailing, November 2009 (Sector View, Barclays Capital):* “[Multiemployer pensions] are the **least understood obligations** of unionized grocery chains.”
- Concern about health of multiemployer plans
 - *Growing Multiemployer Pension Funding Shortfall is an Increasing Credit Concern, September 2009 (Moody’s):* “We examined 126 plans that include some of some of largest MEPP plans in the country. We estimate that these plans **are collectively underfunded by upwards of \$165 billion.**” (44% of their liabilities)



Why the project to enhance disclosure about multiemployer plans?

- Other financial statement users have expressed similar concerns
- Trend in accounting standards to identify and put on balance sheet off balance sheet items (lease project, FAS 166, 167, etc.).



NCCMP 2009 Survey of Funded Status

- Investment returns in excess of actuarial assumptions
 - Weren't banked as "rainy day funds" (Tax limits below)
 - Over time, increased benefits
- Tax code limitations
 - **Negative tax consequences** of overfunding a plan, including non-deductibility of contributions and excise tax on "excess" contributions



Financial crisis reduced funding levels

- Survey of the Funded Status of Multiemployer Defined Benefit Plans, April 2010 (NCCMP): “At the beginning of 2008, the average plan...was **approximately 90% funded on a PPA basis**, while by the beginning of 2009 this figure declined to **approximately 77%.**”
- Food Retailing, November 2009 (Sector View, Barclays Capital): “Our research indicates that it would take [a] **multi-year series of extraordinary high returns**—something like 20% annually for four years—to meaningfully help the current [funding] problems.”



Multiemployer plan project timeline

- FASB chairman announced **new project** at March 17, 2010 FASB meeting
- **Deliberated** at FASB meeting in April 2010
- **Exposure Draft** issued September 1, 2010
- Comment period ends **November 1, 2010**



What are the objectives?

- Enhance disclosure requirements
- Increase transparency
- Allow financial statement users to better assess risks an entity faces by participating in a multiemployer plan



What was staff criteria for disclosures recommended to the Board?

- Meet project **objectives**
- Disclose both **quantitative** and **qualitative** information
- **Cost benefit consideration**: require information that is available or derived from:
 - Contractual agreement between plan and employer
 - Employers have right to request under Pension Protection Act of 2006 or other laws
- **Allow** that information may be **dated** or for non-US plans not available.



Exposure Draft -When

- **Prospective** application
- For public companies, effective for fiscal years ending after **December 15, 2010**
- For nonpublic entities, effective for fiscal years beginning on or after December 15, 2010, *i.e., one year deferral*



Exposure Draft – How to Disclose

- **Separate** disclosure for multiemployer pension plans and postretirement benefit plans
- Separate disclosure for “**funded**” and “**unfunded**” plans
- Narrative information on plans is disaggregated for plans or groups of plans with **significantly different risk characteristics** or contractual commitments



Exposure Draft – How to Disclose

- Quantitative information provided separately for **individually material plans**
 - If immaterial plans are material when aggregated, describe a range that spans the aggregated population
- Quantitative information shall be provided for each **annual period** for which a statement of income or statement of financial position is presented



Exposure Draft – What to Disclose

- **Number** of plans in which employer participates
- **Names** of individually material plans
- Narrative descriptions of:
 - Exposure to significant **risks and uncertainties** from participating in plan(s)
 - How participants' **benefits** are determined
 - Whether employer is **represented** on board(s) of plan(s)
 - **Consequences** of ceasing contributions
 - Expected effects of **funding improvement/rehabilitation** plans
- Any changes during the period which may affect **comparability**



Exposure Draft – What to Disclose

- **Total assets** and the **accumulated benefit obligation** of the plan(s)
- Employer's contributions **as percentage** of total plan contributions
- Description of the **contractual arrangements**:
 - Term
 - Basis for determining contributions
 - Minimum contributions
- Percentage of employer's **employees** covered



Exposure Draft – What to Disclose

- Quantitative information about the employer's participation:
 - Employer's employee participants as a **percentage** of total participants
 - Active employee participants compared to retired participants
- **Contribution** in current period
- **Expected contributions** for next annual period
- **Known trends** in contributions
- **Withdrawal liability**



What are the next steps?

- Comment period ends **November 1, 2010**
- After end of comment period, the Board will redeliberate and issue a final standard as soon as practicable
- For more information visit FASB website **www.fasb.org**



IASB Project on Defined Benefit Plans

- **Proposed amendments to IAS 19, *Defined Benefit Plans* issued in April 2010**
- **Proposed requirements for a defined benefit multiemployer plan accounted for as a defined contribution multiemployer plan, consist of, among others, the following:**
 - **Description of the funding arrangement**
 - **Details of any agreed deficit or surplus allocation on wind-up OR the amount required to be paid on withdrawal**
 - **Total number of, and the entity's proportion of, the number of active members, retired members, and former members entitled to benefits, if available**



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Q & A