

FASB Issues Proposed Changes to Presentation of Benefit Cost and Disclosures in Financial Statements

The Financial Accounting Standards Board has proposed two Accounting Standards Updates that would affect pension and postretirement benefit accounting. The first would change the presentation of the benefit cost, and would allow only the service cost component to be eligible for capitalization. The second change would both add new and remove some current footnote disclosures.

Background

The Financial Accounting Standards Board (FASB) has been working for several years on a project to improve the effectiveness of the disclosures included in the notes to financial statements. It hopes to make changes to the disclosure requirements in the Accounting Standards Codification so that information important to the users of financial 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 released a Proposed Accounting Standards Update (ASU), putting forth changes to those disclosure requirements.

Additionally, in response to comments it had received from users of financial statements about inconsistencies and lack of clarity in how an entity reports the net benefit cost for its postretirement benefit plans in its income statement, in June 2015, FASB added a project to its technical agenda to address these concerns. It has issued a second proposed ASU for changes in the requirements designed to simplify and improve the reporting of that net benefit cost.



Proposed Changes to Disclosures

In [Changes to the Disclosure Requirements for Defined Benefit Plans](#), the following items would be added to the disclosure requirements for defined benefit plans including pension and other postretirement benefit plans:

- The nature of the benefits provided, the employee groups covered and a description of the type of plan formula
- The assumed weighted-average interest crediting rate used in the measurements for cash balance plans and other plans with a promised interest crediting rate
- Disclosures from ASC 820, Fair Value Measurements and Disclosure, for assets measured at net asset value using a practical expedient
- A narrative description of the reasons for significant gains and losses affecting the benefit obligation or plan assets
- Separate disclosures for U.S. plans and plans outside of the U.S.

Requirements for disclosure that would be removed include:

- The amount of the pension accumulated benefit obligation (ABO)
- The aggregate pension ABO and aggregate fair value of plan assets for pension plans with ABO in excess of plan assets
- The amount and timing of plan assets expected to be returned to the entity
- Related party 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
- The amounts in accumulated other comprehensive income expected to be recognized as net benefit cost in the next fiscal year
- Certain disclosures related to Japanese Welfare Pension Insurance Law

FASB also proposes to require non-public entities to disclose, as is now required for public entities, the effects of a 1% change in the assumed health cost trend rate on the (1) sum of service cost and interest cost, and (2) benefit obligation for postretirement health care benefits. Also, such companies would no longer be required to provide a reconciliation of the opening and closing balances of Level 3 assets held by the plan, but would now be required to disclose transfers into and out of Level 3 asset classes and the amount of purchases of Level 3 assets during the year.

Proposed Changes in Presentation of Net Benefit Cost

In [Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost](#), FASB proposed the following changes in the reporting of net periodic benefit cost:

- Service cost would be presented in the same line item or items on the income statement as other employee compensation cost, and the remaining components of net benefit cost would be presented in a separate line item or items outside operating items, if applicable
- Only service cost would be eligible to be capitalized into a balance sheet asset

Next Steps

The FASB will consider comments submitted by April 25, 2016. The proposed amendments to disclosures would be applied retrospectively to all periods, except for the qualitative disclosures for plan assets measured at net asset value, which would be required beginning with the most recent period presented in the initial period after the changes are adopted. The amendments to presentation of the benefit cost would also be applied retrospectively. Changes to the capitalization of the service cost in assets would apply prospectively.

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