Statement of Financial Accounting Standards No. 36

Note: This Statement has been completely superseded

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FAS36 Summary

Disclosure of Pension Information

(an amendment of APB Opinion No. 8)

May 1980

Financial Accounting Standards Board
of the Financial Accounting Foundation
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FAS 36 Summary

There is a need for comparability in disclosures about the financial status of pension plans made in employers' financial statements. Accordingly, this Statement requires revised disclosures about defined benefit pension plans in employers' financial statements. The revised disclosures include the actuarial present value of accumulated plan benefits and the pension plan assets available for those benefits, both as determined in accordance with FASB Statement No. 35, *Accounting and Reporting by Defined Benefit Pension Plans*. Employers having plans for which accumulated benefit information is not available will (1) continue to make the disclosures with respect to vested benefits called for by APB Opinion No. 8, *Accounting for the Cost of Pension Plans*, and (2) disclose the reasons why the information required by this Statement is not provided.

INTRODUCTION AND BACKGROUND INFORMATION

1. In March 1980, the FASB issued Statement No. 35, *Accounting and Reporting by Defined Benefit Pension Plans*, which focuses on accounting and reporting by pension plans. A Discussion Memorandum for a project on accounting by employers for pensions is presently being prepared. It will address the issues relating to employers' accounting for pension and other retirement benefits.

2. As an interim measure, pending completion of the latter project, the Board has decided that the lack of comparable disclosures in employers' financial statements about the financial status of their pension plans requires an amendment of existing disclosure standards. Many publicly held companies presently disclose in their financial statements the amount of unfunded past service costs, which the Securities and Exchange Commission requires to be disclosed in Form 10-K. The amount of past service costs can vary considerably or be nonexistent depending on the actuarial cost method selected, without any differences in other facts or circumstances. For

that reason, the Board believes that disclosure of unfunded past service cost is not as useful as other information for evaluating the impact of pension plans on employers. Also, APB Opinion No. 8, *Accounting for the Cost of Pension Plans*, does not specify the basis that should be used for valuing pension plan assets in determining the amount of unfunded vested benefits that Opinion requires to be disclosed. Various valuation methods exist in practice. The Board believes that pension disclosures in financial statements would be more useful if employers with defined benefit pension plans disclosed the actuarial present value of accumulated plan benefits and net assets available for those benefits, as determined in accordance with Statement 35.

3. As a part of its ongoing effort to develop a conceptual framework for financial accounting and reporting, the Board has on its agenda a project that addresses the definitions of liabilities as well as assets and equity interests. At present, the accounting nature of employees' accumulated plan benefits has not been determined. That issue will be addressed, from the employer's perspective, in the project on accounting by employers for pensions. In the meantime, the Board has concluded that summary information of the financial status of the employer's pension plans should be provided to an employer's existing and potential creditors and investors. The Board has also concluded that the information developed for disclosure by the pension plan was a logical basis for the employer's disclosures because of its relevance and because little or no additional cost would be involved.

4. This Statement does not alter the definitions of a defined benefit pension plan and a defined contribution plan contained in Appendix B of Opinion 8. Also, this Statement does not change the requirements of paragraph 39 of Opinion 8; that paragraph requires some defined contribution plans to comply with the requirements applicable to defined benefit plans when careful analysis indicates that the substance of the plan is to provide defined benefits.

5. An Exposure Draft of a proposed Statement, *Disclosure of Pension and Other Post-Retirement Benefit Information*, was issued on July 12, 1979. The Board received 228 letters of comment in response to the Exposure Draft. Certain of the comments received and the Board's consideration of them are discussed in Appendix B, "Summary of Consideration of Comments on Exposure Draft."

6. The Board has concluded that it can reach an informed decision on the basis of existing data without a public hearing and that the effective date and transition specified in paragraph 11 are advisable in the circumstances.

STANDARDS OF FINANCIAL ACCOUNTING AND REPORTING

7. The Board believes that pension plans are of sufficient importance to an understanding of financial position and results of operations that the disclosures set forth in this paragraph and paragraph 8 shall be made in financial statements or the notes thereto:

a. A statement that pension plans exist, identifying or describing the employee groups covered,
b. A statement of the company's accounting and funding policies,
c. The provision for pension cost for the period,
d. Nature and effect of significant matters affecting comparability for all periods presented, such as changes in accounting methods (actuarial cost method, amortization of past and prior service cost, treatment of actuarial gains and losses, etc.), changes in circumstances (actuarial assumptions, etc.), or adoption or amendment of a plan.

8. For its defined benefit pension plans, an employer shall disclose for each complete set of financial statements the following data determined in accordance with Statement 35 as of the most recent benefit information date [1] for which the data are available:

a. The actuarial present value of vested accumulated plan benefits,
b. The actuarial present value of nonvested accumulated plan benefits,
c. The plans' net assets available for benefits,[2]
d. The assumed rates of return used in determining the actuarial present values of vested and nonvested accumulated plan benefits,
e. The date as of which the benefit information was determined.

The data may be reported in total for all plans, separately for each plan, or in such subaggregations as are considered most useful.[3] For plans for which the above data are not available,[4] the employer shall continue to comply with the disclosure requirements originally contained in Opinion 8, namely, the excess, if any, of the actuarially computed value of vested benefits over the total of the pension fund and any balance sheet pension accruals, less any pension prepayments or deferred charges. The reasons why the information required by (a) through (e) above is not provided for those plans shall be disclosed.

9. In some cases, the relative position and undertakings of an employer associated with a multiemployer plan that, pursuant to paragraph 39 of Opinion 8, is considered to be a defined benefit plan may not be determinable. If that situation exists and the circumstances are disclosed, the requirements of paragraph 8 are waived with regard to that plan.

Amendment to APB Opinion No. 8

10. This Statement supersedes paragraph 46 of Opinion 8. The example following item 5 of paragraph 46 of Opinion 8 is replaced by the example that appears in Appendix A. The requirements of paragraph 46 of Opinion 8 have been carried forward without change except as to item 4 of that paragraph, which is changed by paragraphs 8 and 9 of this Statement.

Effective Date and Transition

11. This Statement shall be effective for annual financial statements for fiscal years beginning after December 15, 1979 and for a complete set of financial statements for interim periods within those fiscal years issued after June 30, 1980. Earlier application is encouraged. The disclosures required by this Statement need not be included in financial statements for periods beginning before the effective date of this Statement that are being presented for comparative purposes with financial statements for periods after the effective date, but if included, that information shall be presented in conformity with the provisions of this Statement.

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

This Statement was adopted by the affirmative votes of six members of the Financial Accounting Standards Board. Mr. Morgan dissented.

Mr. Morgan dissents to this Statement because: (a) he does not believe the need is urgent, (b) he sees no conceptual or pragmatic reason to require that sponsors and plans have symmetrical reporting, and (c) he believes that until the Board's project on accounting by employers for pensions is completed, the Board should not attempt to change rules concerning disclosure of pension plan information because such changes may become only temporary changes contributing more to misunderstanding than to improved understanding by the users of such information.

Members of the Financial Accounting Standards Board:

Appendix A: EXAMPLE OF PENSION PLAN DISCLOSURE

12. The company and its subsidiaries have several pension plans covering substantially all of their employees, including certain employees in foreign countries. The total pension expense for 19X1 and 19X2 was $XXX and $XXX respectively, which includes, as to certain defined benefit plans, amortization of past service cost over XX years. The company makes annual

contributions to the plans equal to the amounts accrued for pension expense. A change during 19X2 in the actuarial cost method used in computing pension cost had the effect of reducing net income for the year by approximately $XXX. A comparison of accumulated plan benefits and plan net assets for the company's domestic defined benefit plans is presented below:

	January 1,	
	19X1	**19X2**
Actuarial present value of accumulated plan benefits:		
Vested	$XXX	$XXX
Nonvested	XXX	XXX
	$XXX	$XXX
Net assets available for benefits	$XXX	$XXX

The weighted average assumed rate of return used in determining the actuarial present value of accumulated plan benefits was X percent for both 19X1 and 19X2. The company's foreign pension plans are not required to report to certain governmental agencies pursuant to ERISA and do not otherwise determine the actuarial value of accumulated benefits or net assets available for benefits as calculated and disclosed above. For those plans, the actuarially computed value of vested benefits as of December 31, 19X1 and December 31, 19X2 exceeded the total of those plans' pension funds and balance sheet accruals less pension prepayments and deferred charges by approximately $XXX and $XXX respectively.

Appendix B: SUMMARY OF CONSIDERATION OF COMMENTS ON EXPOSURE DRAFT

13. Some respondents questioned whether an amendment to Opinion 8 should be issued at this time because the project on accounting by employers for pensions is on the agenda and will include a comprehensive examination of employer accounting for pension and other retirement benefits. Other respondents supported issuance of the Statement because present requirements do not provide comparable and meaningful pension disclosures. The Board agrees with the latter arguments and believes the improved comparability among employers' financial statements about the financial status of their pension plans warrants proceeding with the issuance of this Statement.

14. The Exposure Draft would have required a description of all significant actuarial assumptions used to determine the actuarial present value of accumulated plan benefits. Some respondents stated that the highly technical and complex nature of actuarial assumptions would require extensive disclosures to provide adequate information for the user. Others stated that meaningful disclosure of actuarial assumptions would be further complicated for companies with multiple pension plans. Some respondents proposed the disclosure of actuarial assumptions be limited to the assumed rate(s) of investment return as that was considered the most significant

assumption. Although the Board recognizes there may be additional significant assumptions, it agreed with the latter respondents and limited disclosure of actuarial assumptions to the assumed rate(s) of return.

15. The Exposure Draft would have required disclosing a description of other retirement benefits, a description of accounting policies followed with respect to those benefits, and the cost of those benefits included in determining net income for the period. Some respondents objected to such disclosures because they felt that the costs of other retirement benefits were not material when compared to similar costs for active employees. Some respondents stated that because specific accounting standards for such benefits have not been established, disclosure requirements should be postponed pending development of such standards. Other respondents indicated that the only significant disclosure regarding other retirement benefits would be the difference between the amount charged to expense and the amount that would be required using a generally accepted method of accounting for other retirement benefits. Because there is no authoritative generally accepted method of accounting for other retirement benefits, disclosure of that information would be premature at this time. The Board agreed with the comments of those respondents and, because accounting for other retirement benefits is included within the scope of the project on accounting by employers for pensions, the Board deleted that proposed disclosure requirement.

16. Some respondents indicated that the Exposure Draft's statement that the proposed disclosures would cause little or no additional cost to the employer was not valid in certain cases. For example, because certain plans (e.g., foreign plans) are not required to report information to certain governmental agencies pursuant to ERISA, employers sponsoring those plans would have to determine the information in paragraph 8 solely for purposes of complying with this Statement. Similarly, plans having fewer than 100 participants that report under ERISA are not required to report accumulated benefit information to those agencies unless that information is calculated. The Board was persuaded by the arguments of those respondents and concluded that the appropriate criterion for requiring the new disclosures required by this Statement should be the availability of the information. If that information is not available, then employers are required to continue to comply with the disclosure requirements originally contained in paragraph 46(4) of Opinion 8. The Board believes this approach provides improved disclosure in those circumstances where the information is available and will involve little additional cost. It will also not diminish the present disclosure by those employers with plans for which the information is not available.

17. The Exposure Draft required that employers with more than one defined benefit pension plan group those plans as to (a) those with accumulated plan benefits exceeding assets and (b) those having assets exceeding accumulated plan benefits. A number of respondents objected to that requirement because they felt that separate disclosure of "overfunded" and "underfunded" pension plans would be confusing and direct the reader's attention away from the relevance of the combined amounts to the employer's future pension commitments. Other respondents stated that users do not gain significantly meaningful information from such a division. The Board

considered the comments of those respondents and agreed to permit, instead of require, such presentation.

Footnotes

FAS36, Footnote 1--The benefit information date is the date as of which the actuarial present value of accumulated plan benefits is determined. In comparative financial statements, data disclosed for earlier periods shall be the data available when the earlier financial statements were originally issued.

FAS36, Footnote 2--For purposes of this Statement, an employer's accrued pension liability, as of the benefit information date, shall be added to the plan's net assets to the extent that it exceeds contributions receivable from the employer included in the plan's net assets available for benefits.

FAS36, Footnote 3--There may be circumstances in which significant unfunded amounts of an individual plan are offset by the aggregation of assets in excess of accumulated benefits in other plans. Separate disclosure of such unfunded amounts may be desirable if a significant number of participants in such an unfunded plan are employed by a subsidiary or division that is unprofitable or experiencing a continuous decline in business.

FAS36, Footnote 4--Plans for which the information may not be available are expected to be only those plans that do not report such information with certain governmental agencies pursuant to the Employee Retirement Income Security Act of 1974 (ERISA).