

HRS Insight

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New disclosures for multiemployer pension plans will be required this year

The FASB recently issued a final standard significantly revising the disclosure requirements for employers participating in multiemployer pension plans. The new disclosures will be effective for annual periods ending after December 15, 2011 for public entities, with a one year deferral for non-public entities.

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Responding to concerns regarding the poor funding levels of many defined benefit multiemployer pension plans, as well as the lack of information on these plans in financial filings, the Financial Accounting Standards Board (FASB) recently issued a final standard significantly revising the disclosure requirements for participating employers. The new disclosures will be effective for annual periods ending after December 15, 2011 for public entities, with a one year deferral for non-public entities.

Background

A multiemployer plan is a pension or other postretirement benefit plan in which two or more unrelated employers contribute and the assets of the plan are commingled and can be used to provide benefits to employees of any of the participating employers. These plans

are usually, but not always, pursuant to a collective bargaining agreement. Under U.S. GAAP, an employer accounts for its participation in a defined benefit multiemployer plan by recognizing expense in the amount of contributions to the plan when they are required to be made, without any accrual of future contributions or consideration of the funded status of the plan. In addition, if withdrawal from the plan would give rise to a liability and the withdrawal is probable, the liability should be accrued. If withdrawal is reasonably possible, disclosure of the possible withdrawal liability should be made.

As long as the possibility of the employer's withdrawing from the plan is neither probable nor reasonably possible, disclosure has been limited to the actual contribution for the year and a description of the nature and effect of any changes affecting comparability



from prior years. Consequently, financial statement users have been concerned that the potential risks and future cash flow implications associated with participating in the plans have not been transparent in the financial statements.

In September 2010, the FASB issued its exposure draft (ED)¹ on disclosures for employer's participation in a multiemployer defined benefit plan. The proposal was intended to improve the comparability and transparency of financial reporting about an employer's participation in a multiemployer plan. For more information, refer to HRS Insight 10/39, dated 9/21/2010, *Accounting Considerations Regarding Notices of Increased Contributions to Multiemployer Pension and Other Postretirement Benefit Plans and Proposed Disclosures for Employers that Participate in Such Plans*.

New Required Disclosures

Based on a great deal of feedback from financial statement preparers and plan administrators, the FASB decided *not* to require some of the disclosures proposed in its September 2010 exposure draft. These include the estimated withdrawal liability, the total assets and the accumulated benefit obligation of the plan, and the employer's contributions to a plan as a percentage of total contributions.

¹ *Compensation—Retirement Benefits—Multiemployer Plans (Subtopic 715-80): Disclosure about an Employer's Participation in a Multiemployer Plan*

Instead, the FASB focused on three main objectives for the enhanced disclosures -- disclosure of the overall health of the plan, the level of the employer's participation in the plan, and the employer's contributions to the plan -- and will require this information for individually significant plans.

PwC observation: *The standard does not define the term "significant." When determining individually significant plans, employers should consider not only an employer's contribution to a plan but also other factors, such as the severity of the underfunded status of the plan.*

Where information about the plan is available in the public domain (e.g., a Form 5500 is publicly available), employers will disclose the following for each individually significant plan:

- Plan legal name and Employer Identification Number,
- For each statement of financial position presented, the "Zone status" (a color-coded designation based on the funded status of the plan) as defined by the Pension Protection Act of 2006 or, if not available, whether the plan was less than 65 percent funded, between 65 and 80 percent funded, or more than 80 percent funded,
- For each period that an income statement is presented, the employer's contributions made and whether the employer's contributions represent more than 5 percent of total contributions to the plan,
- Expiration dates of collective bargaining agreements, and

- For the most recent annual period presented, whether the plan is subject to a funding improvement plan, whether the employer paid a surcharge to the plan, and a description of any minimum contributions.

PwC observation: *These disclosure requirements are applicable for U.S. and non-U.S. plans, although obtaining and interpreting some of this information for non-U.S. plans may be more challenging. Employers may also face other challenges for U.S. or non-U.S. plans, including obtaining the required information timely. Some information may be unavailable at the financial statement date. In these cases, employers should use the most recent information available (which may, for example, relate to a prior fiscal year), and disclose the year-end to which the information relates.*

Providing this information will allow users of the financial statements to determine which plans may present greater risk, as well as the plans where the employer's participation is more substantial. Users will then have the necessary information to obtain more detailed information on their own from publicly available sources, such as the Form 5500 filing for the multiemployer plan.

Where plan information is not available in the public domain, employers will disclose the nature of the benefits, a qualitative description of the extent to which the employer could be responsible for the obligations of the plan, and other quantitative information about the plan, such as the total plan assets, the actuarial present value of accumulated plan benefits, and

the total contributions received by the plan.

If information is not available, employers should describe what information was not provided, the reason it was omitted, and provide alternative information to meet the overall objectives.

PwC observation: *Many employers may find gathering this information for each individually significant plan to be a challenge, especially in the year of adoption. For employers with a calendar year end, the new disclosures will be required for 2011, and employers should consider beginning to gather required information very soon. Employers will first need to assess which of their multiemployer plans are individually significant. Once this assessment is complete, employers will need to gather the required information for each plan.*

Employers will also have to disclose the total contributions made to all other multiemployer plans that are not individually significant in the aggregate and the total contributions to all plans in the aggregate.

Arrangements subject to these disclosures

The new disclosures will apply to multiemployer plans that provide pension benefits, and will not be applicable for other postretirement benefit plans (such as retiree medical). This was included in the final standard because financial statement users were primarily concerned with the lack of transparency in disclosures for multiemployer pensions, and because it

would be operationally challenging to provide information for other postretirement benefits because those plans often combine benefits for active employees and retirees. However, employers participating in multiemployer plans that provide postretirement benefits other than pensions (such as postretirement medical) will now need to include a description of the nature of the benefits and the types of employees covered by these benefits.

A subsidiary participating in its parent's single employer plan or a non-profit agency participating in its national organization's plan will continue to apply multiemployer accounting, as required under current guidance. However, these entities will not be required to provide the new disclosures. Instead, the FASB decided to maintain the requirement to disclose the amount of contributions to the plan and to include a requirement to disclose the name of the plan.

Next steps

Public entities will be required to adopt these new disclosures in fiscal years ending after December 15, 2011 [meaning that for calendar year companies, adoption will be required this year]. Non-public entities will have a one year deferral; early adoption will be permitted.

PwC observation: *The definition of non-public entity in this ASU includes private subsidiaries of public companies. This differs from the definition used in several other areas of the Codification, which excludes an entity controlled by a public entity.*

The disclosures will be applied retrospectively to all annual periods presented, which will require employers to obtain certain comparative information from previous years.

Although there are fewer required disclosures than originally proposed, there will still be a considerable amount of new information to be obtained. Gathering the required information for each individually significant plan may be a challenge for many companies, especially in the year of adoption. Public companies should consider beginning their assessment of individually significant plans and gathering the required information.

How PwC can help

PwC has considerable expertise in the accounting, tax, actuarial and HR issues related to pension and OPEB plans. We can help employers who are facing a tight FY11 deadline by quickly identifying the information needed to comply with the new disclosure requirements. In addition, PwC can help companies understand and assess their risks with respect to multiemployer plans, as the new disclosures are likely to attract more attention from financial statement users, regulators, and others.

Many employers do not have a good understanding of the multiemployer plans they are exposed to. PwC can work with companies to take a fresh look at each of their multiemployer pension plan arrangements, including

the appropriate strategy for them going forward. For instance, we can help companies understand if and when cash commitments are likely to increase, avoid or anticipate the impact of decisions that may trigger

withdrawal liability, and we can help companies develop their strategy for union negotiations.

For more information, please do not hesitate to contact the authors, or your local PwC professional:

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