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## NEWS RELEASE 09/29/06

SEARCH

### FASB Improves Employers' Accounting For Defined Benefit Pension and Other Postretirement Plans

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**Norwalk, CT, September 29, 2006**—The FASB today issued a standard that will require employers to fully recognize the obligations associated with single-employer defined benefit pension, retiree healthcare and other postretirement plans in their financial statements. The standard will make it easier for investors, employees, retirees and others to understand and assess an employer's financial position and its ability to fulfill the obligations under its benefit plans.

Under past accounting standards, the funded status of an employer's postretirement benefit plan (i.e., the difference between the plan assets and obligations) was not always completely reported in the balance sheet. Employers reported an asset or liability that almost always differed from the plan's funded status because previous accounting standards allowed employers to delay recognition of certain changes in plan assets and obligations that affected the costs of providing such benefits. Past standards only required an employer to disclose the complete funded status of its plans in the notes to the financial statements.

Specifically, the new standard, [Statement of Financial Accounting Standards No. 158, Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans](#) (an amendment of FASB Statements No. 87, 88, 106, and 132R), requires an employer to:

- (a) Recognize in its statement of financial position an asset for a plan's overfunded status or a liability for a plan's underfunded status
- (b) Measure a plan's assets and its obligations that determine its funded status as of the end of the employer's fiscal year (with limited exceptions)
- (c) Recognize changes in the funded status of a defined benefit postretirement plan in the year in which the changes occur. Those changes will be reported in comprehensive income of a business entity and in changes in net assets of a not-for-profit organization.

The new standard was developed in direct response to concerns expressed by many FASB constituents that past standards of accounting for postretirement benefit plans needed to be revisited to improve the transparency and usefulness of the information reported about them. Among the Board's constituents calling for change were many members of the investment community, the Financial

Accounting Standards Advisory Council, the User Advisory Council, the SEC staff and others.

"Previous standards covering these benefits went a long way toward improving financial reporting. However, the Board at that time acknowledged that future changes would be needed, and now our constituents share this view," said George Batavick, FASB member. "Accordingly, today's standard represents a significant improvement in financial reporting as it provides employees, retirees, investors and other financial statement users with access to more complete information. This information will help users make more informed assessments about a company's financial position and its ability to carry out the benefit promises made through these plans."

Statement No. 158 applies to plan sponsors that are public and private companies and nongovernmental not-for-profit organizations. The requirement to recognize the funded status of a benefit plan and the disclosure requirements are effective as of the end of the fiscal year ending after December 15, 2006, for entities with publicly traded equity securities, and at the end of the fiscal year ending after June 15, 2007, for all other entities. The requirement to measure plan assets and benefit obligations as of the date of the employer's fiscal year-end statement of financial position is effective for fiscal years ending after December 15, 2008.

The issuance of Statement No. 158 completes the first phase of the Board's comprehensive project to improve the accounting and reporting for defined benefit pension and other postretirement plans. A second, broader phase of this project will comprehensively address remaining issues. The Board expects to collaborate with the International Accounting Standards Board on that phase.

### **About the Financial Accounting Standards Board**

Since 1973, the Financial Accounting Standards Board has been the designated organization in the private sector for establishing standards of financial accounting and reporting. Those standards govern the preparation of financial reports and are officially recognized as authoritative by the Securities and Exchange Commission and the American Institute of Certified Public Accountants. Such standards are essential to the efficient functioning of the economy because investors, creditors, auditors, and others rely on credible, transparent, and comparable financial information. For more information about the FASB, visit our website at [www.fasb.org](http://www.fasb.org).