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Financial Reporting Considerations Related to Pension and Other Postretirement Benefits

This publication highlights some of the important accounting considerations related to the calculations and disclosures entities provide under U.S. GAAP¹ in connection with their defined benefit pension and other postretirement benefit plans.

Disclosures Related to Defined Benefit Plans

In August 2018, the FASB issued [ASU 2018-14](#),² which amends ASC 715³ to add, remove, and clarify disclosure requirements related to defined benefit pension and other postretirement plans. The ASU's changes related to disclosures are part of the FASB's disclosure framework project, which the Board launched in 2014 to improve the effectiveness of disclosures in notes to financial statements.

ASU 2018-14 adds requirements for an entity to disclose the following:

- The weighted-average interest crediting rates used in the entity's cash balance pension plans and other similar plans.

¹ The views presented in this publication are specific to U.S. GAAP. For entities that use another reporting framework such as IFRS[®] Standards, preparers are encouraged to discuss the accounting implications with their advisers as appropriate.

² FASB Accounting Standards Update (ASU) No. 2018-14, *Disclosure Framework — Changes to the Disclosure Requirements for Defined Benefit Plans*.

³ For titles of *FASB Accounting Standards Codification* (ASC) references, see Deloitte's "[Titles of Topics and Subtopics in the FASB Accounting Standards Codification](#)."

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- A narrative description of the reasons for significant gains and losses affecting the benefit obligation for the period.
- An explanation of any other significant changes in the benefit obligation or plan assets that are not otherwise apparent in the other disclosures required by ASC 715.

Further, ASU 2018-18 removes guidance that currently requires the following disclosures:

- The amounts in accumulated other comprehensive income expected to be recognized as part of net periodic benefit cost over the next year.
- Information about plan assets to be returned to the entity, including amounts and expected timing.
- Transactions resulting from the June 2001 amendments to the Japanese Welfare Pension Insurance Law.
- Information about (1) benefits covered by related-party insurance and annuity contracts and (2) significant transactions between the plan and related parties. (Entities separately need to provide the related-party disclosures required under ASC 850.)
- For nonpublic entities with Level 3 plan assets in the fair value hierarchy measured on a recurring basis, a reconciliation of the opening balances to the closing balances. (However, those entities would still need to disclose transfers of plan assets into and out of Level 3 and any purchases of Level 3 assets by the plan.)
- For public entities, the effects of a one-percentage-point change on the assumed health care costs and the effect of this change in rates on service cost, interest cost, and the benefit obligation for postretirement health care benefits.

The ASU's amendments are effective for public business entities for fiscal years ending after December 15, 2020. For all other entities, the ASU is effective for fiscal years ending after December 15, 2021. Early adoption is permitted; however, all provisions of ASU 2018-14 must be adopted if early adoption is elected. A retrospective transition method is required.

For more information, see Deloitte's August 29, 2018, [Heads Up](#).

Presentation of Net Periodic Benefit Cost

In March 2017, the FASB issued [ASU 2017-07](#),⁴ which amends the requirements in ASC 715 related to the income statement presentation of the components of net periodic benefit cost for an entity's sponsored defined benefit pension and other postretirement plans.

Under current U.S. GAAP, net benefit cost (i.e., defined benefit pension cost and postretirement benefit cost) consists of several components that reflect different aspects of an employer's financial arrangements as well as the cost of benefits earned by employees. These components are aggregated and reported net in the financial statements.

ASU 2017-07 requires entities to (1) disaggregate the current-service-cost component from the other components of net benefit cost (the "other components") and present it with other current compensation costs for related employees in the income statement and (2) present the other components elsewhere in the income statement and outside of income from operations if such a subtotal is presented.

The ASU also requires entities to disclose the income statement lines that contain the other components if those components are not presented on appropriately described separate lines.

⁴ FASB Accounting Standards Update No. 2017-07, *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*.



Connecting the Dots

While ASU 2017-07 does not require entities to further disaggregate the other components, they may do so if they believe that the information would be helpful to financial statement users. However, entities must disclose which financial statement lines contain the disaggregated components.

In addition, only the service-cost component of net benefit cost is eligible for capitalization (e.g., as part of inventory or property, plant, and equipment). This is a change from current practice, under which entities capitalize the aggregate net benefit cost when applicable.

The ASU's amendments are effective for public business entities for interim and annual periods beginning after December 15, 2017. For other entities, the amendments are effective for annual periods beginning after December 15, 2018, and interim periods in the subsequent annual period. Early adoption is permitted.

Entities must use (1) a retrospective transition method to adopt the requirement for separate presentation in the income statement of service costs and other components and (2) a prospective transition method to adopt the requirement to limit the capitalization (e.g., as part of inventory) of benefit costs to the service cost component. Further, entities must disclose the nature of and reason for the change in accounting principle in both the first interim and annual reporting periods in which they adopt the amendments.

The ASU also establishes a practical expedient upon transition that permits entities to use their previously disclosed service cost and other costs from the prior years' pension and other postretirement benefit plan footnotes in the comparative periods as appropriate estimates when retrospectively changing the presentation of these costs in the income statement. Entities that apply the practical expedient need to disclose that they did so.

For more information, see Deloitte's March 14, 2017, [Heads Up](#).

U.K. Pension Benefits — High Court of Justice Ruling on Equalization

On October 26, 2018, the High Court of Justice in the United Kingdom (the "High Court") ruled that Lloyds Bank plc was required to equalize benefits payable to men and women under its U.K. defined benefit pension plans by amending those plans to increase the pension benefits payable to participants that accrued such benefits during the period from 1990 to 1997. The inequalities arose from statutory differences in the retirement ages and rates of accrual of benefits for men and women related to Guaranteed Minimum Pension (GMP) benefits that are included in U.K. defined benefit pension plans. In its ruling, the High Court also provided details on acceptable alternative methods of amending plans to equalize the pension benefits.

All entities in the United Kingdom that offered GMP benefits during this period will need to consider the applicability of the High Court's ruling to their U.K. defined benefit pension plans. While the potential impact of the ruling on any individual pension scheme will vary, current preliminary estimates of the potential impact are between 0 percent and 4 percent of the projected benefit obligation of a pension plan.

A separate *Financial Reporting Alert* will be issued on the accounting implications of the High Court's ruling. Entities with U.K. pension obligations should consult with their legal advisers, actuaries, and independent accountants to discuss the accounting and financial reporting impacts of the ruling.

Discount Rate

Over the past few years, we have provided insights into approaches used to support discount rates for defined benefit plans (e.g., hypothetical bond portfolio, yield curve, index-based discount rate), as well as considerations related to how the discount rates should be applied when an entity measures its benefit obligation. Recently, one of the most discussed emerging issues related to discount rates for defined benefit plans has been the use of a more granular approach to measure components of benefit cost. Considerations related to an entity's discount rate selection method, its use of a yield curve, and its measurement of components of benefit cost are addressed below.

Discount Rate Selection Method

ASC 715-30-35-43 requires the discount rate to reflect rates at which the defined benefit obligation could be effectively settled. In the estimation of those rates, it would be appropriate for an entity to use information about rates implicit in current prices of annuity contracts that could be used to settle the obligation. Alternatively, employers may look to rates of return on high-quality fixed-income investments that are currently available and expected to be available during the benefits' period to maturity.

One acceptable method of deriving the discount rate would be to use a model that reflects rates of zero-coupon, high-quality corporate bonds with maturity dates and amounts that match the timing and amount of the expected future benefit payments. Since there are a limited number of zero-coupon corporate bonds in the market, models are constructed with coupon-paying bonds whose yields are adjusted to approximate results that would have been obtained through the use of the zero-coupon bonds. Constructing a hypothetical portfolio of high-quality instruments with maturities that mirror the benefit obligation is one method that can be used to achieve this objective. Other methods that can be expected to produce results that are not materially different would also be acceptable — for example, use of a yield curve constructed by a third party such as an actuarial firm. The use of indexes may also be acceptable.



Connecting the Dots

In determining the appropriate discount rate, entities should consider the following SEC staff guidance (codified in ASC 715-20-S99-1):

At each measurement date, the SEC staff expects registrants to use discount rates to measure obligations for pension benefits and postretirement benefits other than pensions that reflect the then current level of interest rates. The staff suggests that fixed-income debt securities that receive one of the two highest ratings given by a recognized ratings agency be considered high quality (for example, a fixed-income security that receives a rating of Aa or higher from Moody's Investors Service, Inc.).

Entity's Use of a Yield Curve

To support its discount rate, an entity may elect to use a yield curve constructed by an actuarial firm or other third party. Many yield curves constructed by actuarial firms or other third parties are supported by a white paper or other documentation that discusses how the yield curves are constructed. Management should understand how the yield curve it has used to develop its discount rate was constructed as well as the universe of bonds included in the analysis. If applicable, management should also evaluate and reach conclusions about the reasonableness of the approach the third party applied to adjust the bond universe used to develop the yield curve.

We have been advised by some third parties, particularly those constructing yield curves for non-U.S. markets (e.g., the eurozone and Canada), that because of a lack of sufficient high-quality instruments with longer maturities, they have employed a method in which they adjust yields of bonds that are not rated AA by an estimated credit spread to derive a

yield representative of an AA-quality bond. This bond, as adjusted, is included in the bond universe when the third party constructs its yield curve. Management should understand the adjustments made to such bond yields in the construction of those yield curves and why those adjustments are appropriate.

Recently, we have held discussions with actuarial firms regarding the incorporation of longer-duration bonds (bonds with stated maturities in the range of up to 80–100 years) in the development of the yield curve. There is significant judgment involved in the development of yield curves, particularly when longer-duration bonds are used, since there often are no observable market rates across the full spectrum of maturities. Management should understand and evaluate the reasonableness of how the additional bonds included in the bond universe are evaluated for reliability of pricing by considering parameters such as screening for potential outliers. In addition, management should understand and evaluate the reasonableness of any revisions to the yield curve construction method in such circumstances and conclude that the changes made are appropriate for the plan.

Measurement of Interest Cost Component

Since late 2015, a frequently discussed topic has been the alternatives for applying discount rates under a bond-matching approach (sometimes also referred to as a hypothetical bond portfolio or bond-model approach). In light of the SEC staff's acceptance of the use of a spot rate approach for measuring interest cost by entities that develop their discount rate assumption by using a yield curve approach,⁵ entities and actuaries have explored whether other acceptable methods similar to the spot rate approach could be developed for entities that use a bond-matching approach to measure their defined benefit obligation. Specifically, the alternative approach focuses on measuring the interest cost component of net periodic benefit cost by using individual spot rates derived from an acceptable high-quality corporate bond yield curve and matched with separate cash flows for each future year.

During the spring and early summer of 2016, representatives of the Big Four accounting firms and a large actuarial firm engaged in discussions with the SEC staff regarding the viability of a similar granular approach⁶ to measure interest cost for registrants that use a bond-matching approach to support the discount rate. In an August 2, 2016, meeting, the SEC staff stated that it objected to the approach presented because of the following factors:

- The staff's overall concern is that using such derived spot rates to measure interest cost on the defined benefit obligation could not be demonstrated, at each maturity, to be based on the same rates inherent in the measurement of the defined benefit obligation under the bond-matching approach (i.e., the spot rates inherent in the bond portfolio are not observable). Therefore, the proposed approach would fail to comply with ASC 715-30-35-8, which requires entities to use the same interest rates to measure the defined benefit obligation and interest cost.
- The staff also expressed concern that the derived spot rates in the proposed approach would be inconsistent with the reinvestment-rate assumption used in the cash flow matching process that is part of building the cash flow matched hypothetical bond portfolio used to measure the defined benefit obligation under a bond-matching approach.

⁵ Refer to Deloitte's December 21, 2015, [Financial Reporting Alert](#) for further background on this topic and discussion of the relevant considerations an entity should contemplate in connection with such a change.

⁶ Refer to Deloitte's August 24, 2016, [Financial Reporting Alert](#) for further background on this topic, details of the approach presented, and discussion of the relevant considerations in connection with the proposed approach.



Connecting the Dots

We believe that in the absence of entity-specific changes in facts and circumstances, it could be challenging to justify or support a change from a bond-matching approach to a yield curve approach. Historically, entities have generally made the switch only from a yield curve approach to a bond-matching approach, which suggests that of the two methods, the bond-matching approach results in a better estimate. This historical practice, along with the SEC staff's position⁷ that the acceptability of the spot rate approach would not by itself be a change in facts and circumstances that justifies a change in approach to selecting discount rates, reduces the likelihood that switching from a bond-matching approach to a yield curve approach would be considered a better estimate in accordance with the best-estimate objective of ASC 715. For further background on a change in approach to determining discount rates, see Deloitte's [August 24, 2016](#), and [December 21, 2015](#), *Financial Reporting Alert* newsletters.

Mortality Assumption

Many entities rely on their actuarial firms for advice or recommendations related to demographic assumptions, such as the mortality assumption. Frequently, actuaries recommend published tables that reflect broad-based studies of mortality. Under ASC 715-30 and ASC 715-60, each assumption should represent the "best estimate" for that assumption as of the current measurement date. The mortality tables used and adjustments made (e.g., for longevity improvements) should be appropriate for the employee base covered under the plan.

In 2014, the Retirement Plans Experience Committee of the Society of Actuaries (SOA) released a new set of mortality tables (RP-2014) and a new companion mortality improvement scale (MP-2014). Further, the SOA released updated mortality improvement scales MP-2015, MP-2016, MP-2017, and, most recently, MP-2018, which reflect a continuing decline in the observed longevity improvements since 2006.

Although entities are not required to use SOA mortality tables, the SOA is a leading provider of actuarial research, and its mortality tables and mortality improvement scales are considered by many plan sponsors as a starting point for developing their mortality assumptions.

Accordingly, it is advisable for entities, with the help of their actuaries, to (1) continue monitoring the availability of updates to mortality tables, longevity improvement scales, and related experience studies and (2) consider whether these updates, including IRS final regulations (discussed below), should be reflected in the current-year mortality assumption.

Mortality Tables Used for IRS Tax-Qualified Plans

On October 4, 2017, the IRS issued [final regulations](#)⁸ prescribing mortality tables to be used by most defined benefit pension plans. The purpose of these mortality tables is to determine (1) the minimum funding requirements for a defined benefit plan and (2) the minimum required amount of a lump-sum distribution from such a plan. The regulations became effective on October 5, 2017, and apply to plan years beginning on or after January 1, 2018.

For defined benefit pension plans (particularly IRS tax-qualified plans) that permit settlement of the obligation to an employee through payment of a lump sum at retirement, entities generally compute the payment by using IRS-mandated tables in effect on the date of the lump-sum payment. Similarly, for qualified cash balance plans, if an employee elects to convert the lump-sum benefit amount at retirement to an annuity, the entity uses IRS-mandated

⁷ See the December 9, 2015, [speech](#) delivered by Ashley Wright, then professional accounting fellow in the SEC's Office of the Chief Accountant, at the 2015 AICPA Conference on Current SEC and PCAOB Developments.

⁸ T.D. 9826, *Mortality Tables for Determining Present Value Under Defined Benefit Pension Plans*.

tables to calculate the annuity. In making assumptions about either the amount of future lump-sum benefits expected to be paid or any annuities expected to be paid that are related to a cash balance plan, entities have questioned whether they should base these assumptions on the IRS's practice of annually updating the current tables with an additional year of longevity improvement as well as on the IRS's expected future adoption of new tables that are updated on the basis of the latest available mortality tables published by the SOA.

We believe that there are two acceptable approaches under U.S. GAAP that entities can use to account for the impact of the IRS's expected adoption of revised mortality tables. Under one view that we believe is supportable, entities would reflect their best estimate of the future IRS tables, taking into consideration both the recent IRS regulations and the IRS's history of annual updates to its tables. This approach is consistent with the guidance in ASC 715-30-35-31, which indicates that indirect effects on the amount of a benefit, such as future changes in Social Security benefits or benefit limitations required by existing laws, should be taken into account in the measurement of the defined benefit obligation (although amendments to a law should not be anticipated).

Under an alternative view, entities would not anticipate future updates to the IRS-mandated mortality tables in performing measurements related to lump-sum payments because the IRS's update to its mortality tables is akin to a new law or regulation, which should not be anticipated. This view only pertains to the effects of the IRS's update to its tables to be used in compliance with the regulatory requirements for measuring lump-sum settlements for tax-qualified plans and is not related to an entity's determination of its best estimate of the mortality assumption for those plans.

We believe that both approaches are acceptable under U.S. GAAP and that an entity should be consistent in applying the chosen approach. However, if an entity chooses the alternative approach of not incorporating the effects of new mortality data in its estimates of future lump-sum settlements for an IRS tax-qualified plan and the results of applying the two respective approaches are expected to differ materially, the entity should consider consulting with its independent auditors.

Expected Long-Term Rate of Return

The expected long-term rate of return on plan assets⁹ is a component of an entity's net periodic benefit cost and should represent the average rate of earnings expected over the long term on the funds invested to provide future benefits (existing plan assets and contributions expected during the current year). The long-term rate of return is set as of the beginning of an entity's fiscal year (e.g., January 1, 2017, for a calendar-year-end entity). If the target allocation of plan assets to different investment categories has changed from the prior year or is expected to change during the coming year, an entity should consider discussing with its actuaries and independent auditors whether an adjustment to its assumption about the long-term rate of return is warranted.

Measurement Date of Plan Assets — Employer-Sponsored Pension Plan

In April 2015, as part of its [simplification initiative](#),¹⁰ the FASB issued [ASU 2015-04](#)¹¹ to amend the measurement-date guidance in ASC 715. The ASU contains a practical expedient that would allow an employer whose fiscal year-end does not fall on a calendar month-end (e.g., an entity that has a 52- or 53-week fiscal year) to measure retirement benefit obligations and

⁹ As defined in ASC 715-30, the "expected return on plan assets is determined based on the expected long-term rate of return on plan assets and the market-related value of plan assets."

¹⁰ Launched in June 2014, the FASB's simplification initiative is intended to reduce the cost and complexity of current U.S. GAAP while maintaining or enhancing the usefulness of the related financial statement information. The initiative focuses on narrow-scope projects that involve limited changes to guidance.

¹¹ FASB Accounting Standards Update No. 2015-04, *Practical Expedient for the Measurement Date of an Employer's Defined Benefit Obligation and Plan Assets*.

related plan assets as of the month-end that is closest to the employer's fiscal year-end. The expedient would need to be elected as an accounting policy and be consistently applied to all plans if the entity has more than one plan. Because third-party plan asset custodians often provide information about fair value and classes of assets only as of the month-end, such an accounting policy would relieve the employer from adjusting the asset information to the appropriate fair values as of its fiscal year-end. Further, if the occurrence of a significant event (e.g., curtailment or settlement) during the interim period requires an entity to remeasure its defined plan assets and obligations, the practical expedient would allow the entity to remeasure its defined plan assets and obligations by using the month-end that is closest to the date of the significant event.

ASU 2015-04 should be applied prospectively. For public business entities, the ASU is effective for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. For all other entities, the ASU is effective for financial statements issued for fiscal years beginning after December 15, 2016, and interim periods within fiscal years beginning after December 15, 2017. Early adoption is permitted.

Other Postretirement Benefit Plans — Health Care Cost Trend Rate and Discount Rate

ASC 715-60-20 defines "health care cost trend rate" as an "assumption about the annual rates of change in the cost of health care benefits currently provided by the postretirement benefit plan The health care cost trend rates implicitly consider estimates of health care inflation, changes in health care utilization or delivery patterns, technological advances, and changes in the health status of the plan participants." The health care cost trend rate is used to project the change in the cost of health care over the period for which the plan provides benefits to its participants. Many plans use trend rate assumptions that include (1) a rate for the year after the measurement date that reflects the recent trend of health care cost increases, (2) gradually decreasing trend rates for each of the next several years, and (3) an ultimate trend rate that is used for all remaining years.

Historically, the ultimate health care cost trend rate had been less than the discount rate. With discount rates continuing to be at or near record lows, the discount rate for some plans is below the ultimate health care cost trend rate. Some parties have raised concerns regarding this phenomenon since expectations of long-term inflation rates are assumed to be implicit in both the health care cost trend rate and the discount rate. In such situations, entities should consider all the facts and circumstances of their plan(s) to determine whether the assumptions used (e.g., ultimate health care cost trend rate of 5 percent and a discount rate below that) are reasonable. Entities should also remember that (1) the discount rate reflects spot rates observable in the market as of the plan's measurement date, since it represents the rates at which the defined benefit obligation could be effectively settled on that date (given the rates implicit in current prices of annuity contracts or the rates of return on high-quality fixed-income investments that are currently available and expected to be available during the benefits' period to maturity), and (2) the health care cost trend rate is used to project the change in health care costs over the long term (which, as discussed above, includes the effects of changes other than inflation).

Other Considerations Related to Assumptions

In measuring each plan's defined benefit obligation and recording the net periodic benefit cost, financial statement preparers should understand, evaluate, and reach conclusions about the reasonableness of the underlying assumptions, particularly those that could be affected by continuing financial market volatility. ASC 715-30-35-42 states that "each significant assumption used shall reflect the best estimate solely with respect to that individual assumption."

Entities should comprehensively assess the relevancy and reasonableness of each significant assumption on an ongoing basis (e.g., by considering the impact of significant developments that have occurred in the entity's business). Management should establish processes and internal controls to ensure that the entity appropriately selects each of the assumptions used in accounting for its defined benefit plans. The internal controls should be designed to ensure that the amounts reported in the financial statements properly reflect the underlying assumptions (e.g., discount rate, estimated long-term rate of return, mortality, turnover, health care costs) and that the documentation maintained in the entity's accounting records sufficiently demonstrates management's understanding of and reasons for using certain assumptions and methods (e.g., the method for determining the discount rate). Management should also document the key assumptions used and the reasons why certain assumptions may have changed from the prior reporting period. A leading practice is for management to prepare a memo supporting (1) the basis for each important assumption used and (2) how management determined which assumptions were important.

Recent SEC Staff Views

The SEC staff continues to emphasize the disclosures related to how registrants account for pension and other postretirement benefit plans and how key assumptions and investment strategies affect their financial statements. Further, registrants may be asked how they concluded that assumptions used for their pension and other postretirement benefit accounting are reasonable relative to (1) current market trends and (2) assumptions used by other registrants with similar characteristics.

Disclosures About Critical Accounting Estimates

Recent SEC staff comments have focused on inadequate disclosure of critical accounting policies and estimates related to a registrant's benefit plans. The SEC staff expects registrants to provide robust disclosures of their critical accounting policies and estimates in MD&A instead of duplicating documentation from the accounting policy disclosures in the financial statement footnotes. In addition, the staff has indicated that it may be appropriate for a registrant to disclose:

- Whether a corridor is used to amortize the actuarial gains and losses and, if so, how the corridor is determined and the period for amortization of the actuarial gains and losses in excess of the corridor.
- A sensitivity analysis estimating the effect of a change in assumption regarding the long-term rate of return. This estimate should be based on a reasonable range of likely outcomes.
- How the registrant calculates historical returns to develop its expected rate of return assumption. If use of the arithmetic mean to calculate the historical returns produces results that are materially different from the results produced when the geometric mean is used to perform this calculation, it may be appropriate for the registrant to disclose both calculations.
- The reasons why the expected return has changed or is expected to change in the future.
- The effect of plan asset contributions during the period on profit or loss, when this effect is significant. The SEC staff has indicated that additional plan asset contributions reduce net pension costs even if actual asset returns are negative because the amount included in profit or loss is determined through the use of expected, as opposed to actual, returns. Consequently, such information can provide an understanding of unusual or nonrecurring items or other significant fluctuations so that investors can ascertain the likelihood that past performance is indicative of future performance.

Disclosures About Discount Rate Assumptions

As discussed above, certain entities and their actuaries have started to use alternative approaches for measuring the interest and service cost components of net periodic benefit cost for defined benefit retirement plan obligations under ASC 715. As a result of these alternative approaches, the SEC staff may comment on a registrant's disclosures about the approaches for measurement of interest cost, particularly when a change in approach occurs. In discussions held in September 2015 with representatives of the Big Four accounting firms, the SEC staff stressed that it is important for registrants to comply with the disclosure requirements for changes in accounting estimates under ASC 250 and the discount rate assumption under ASC 715. In addition, the staff highlighted the required MD&A disclosures under SEC Regulation S-K, Item 303,¹² as well as the transparency of required non-GAAP disclosures under Regulation G. In accordance with these guidelines from the SEC staff, entities should consider quantifying and disclosing the impact of a change in approach in the year the change in estimate is recognized. In thinking about the financial statement disclosure requirements related to assumptions under ASC 715 as well as disclosures by registrants regarding critical accounting policies under [Section II.J](#) of the SEC's *Current Accounting and Disclosure Issues in the Division of Corporation Finance* (updated November 30, 2006), entities should consider disclosing a narrative description of how assumptions (e.g., discount rates) were determined along with the approach for how such assumptions have been applied.

Liquidity and Capital Resources

The SEC staff has encouraged registrants to explain the trends and uncertainties related to pension or other postretirement benefit obligations (e.g., a registrant's funding requirements may be affected by changes in the measurement of its plan obligations and assets). A registrant also may want to disclose in both qualitative and quantitative terms what its plan contributions have been in the past and the expected changes to those contributions.

When commenting on other postretirement benefit plans, which are usually funded as the related benefit payments become due, the SEC staff has noted that the footnote disclosures should include the plan's expected future benefit payments for each of the next five years and in the aggregate for the five years thereafter. This information may provide insight into a registrant's expected liquidity requirements, which could then warrant discussion in the liquidity section of MD&A or in the contractual obligations table.

For more information, see Deloitte's [A Roadmap to SEC Comment Letter Considerations, Including Industry Insights](#).

Non-GAAP Measures

In recent years, the SEC renewed its focus on non-GAAP measures resulting from concerns about the increased use and prominence of such measures, the nature of the adjustments, and the increasingly large difference between the amounts reported for GAAP and non-GAAP measures. In response to increasing concerns about the use of non-GAAP measures, the SEC's Division of Corporation Finance updated its [Compliance and Disclosure Interpretations](#) in May 2016, October 2017, and again in April 2018 to provide additional guidance on what it expects from registrants when they use these measures.¹³ Some registrants present non-GAAP measures that adjust for items related to defined benefit pension plans. For example, a registrant may adjust to remove (1) all non-service-related pension expense, (2) all pension expense in excess of cash contributions, or (3) the amortization of actuarial gains and losses. Some registrants that immediately recognize all actuarial gains and losses in earnings present non-GAAP measures that remove the actuarial gain or loss attributable to the change in the fair value of plan assets from a performance measure and include an expected return. The SEC staff has observed that these pension-related adjustments can be confusing

¹² SEC Regulation S-K, Item 303, "Management's Discussion and Analysis of Financial Condition and Results of Operations."

¹³ See Deloitte's [May 23, 2016](#), and [July 19, 2016](#), *Heads Up* newsletters for a discussion of the SEC's focus on non-GAAP measures.

without the appropriate context about the nature of the adjustment. The staff suggested that registrants clearly label such adjustments and avoid the use of confusing or unclear terms in their disclosures.

For more information, see Deloitte's [A Roadmap to Non-GAAP Financial Measures](#).

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