Proskauer

FASB Proposal Regarding Multiemployer Plans

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The purpose of this alert is to advise employers that they may soon be required to disclose in footnotes to their financial statements new quantitative and qualitative information regarding their participation in multiemployer defined benefit pension plans. Although this new requirement is only in proposed form and further developments are expected prior to finalization, the proposal will likely be of interest to collective bargaining parties (and multiemployer plans).

Background

Under U.S. Generally Accepted Accounting Principles (GAAP), employers are typically required to provide extensive disclosure regarding their participation in single employer defined benefit plans (as well as health plans providing retiree coverage). In addition to footnote disclosure, the balance sheet and income statements must record certain information such as the unfunded liability and the cost of benefits earned, respectively.

In contrast, there is now only limited disclosure required of employers contributing to multiemployer defined benefit pension plans. Currently, absent some non-routine event (e.g., withdrawal from a plan), an employer's financial statement footnotes must only set forth the fact of participation and list the amount of contributions made in the particular year. In addition, the balance sheet must only record liability for contributions earned but unpaid and the income statement must only include contributions paid or accrued during the year.

Current Development

On April 14, 2010, the Financial Accounting Standards Board (FASB), which has authority to modify GAAP, had a public meeting at which it tentatively decided to require employers contributing to multiemployer defined benefit pension plans to disclose in their notes to their financial statements further quantitative and qualitative information about their participation in such plans. While the scope of this disclosure has not yet been decided, it could include information related to the funding of the plan, the plan's "zone" status under the Pension Protection Act of 2006 and the employer's potential withdrawal liability (whether or not withdrawal is contemplated). While footnote disclosure will be required by the new standard, it appears that no new information will be required to be recorded in the financial statements themselves.

The next step in this process is for the FASB to issue an exposure draft that will outline its proposal, including the specific disclosures, in greater detail. This would be followed by a 60-day comment period, after which a final decision would be made. The FASB appears to be expediting this project, as it has indicated that the disclosure requirements would be effective for fiscal years ending after December 15, 2010. There is a delay for nonpublic companies, which will instead have to comply with the first annual period beginning after December 15, 2010.

We will alert you as to upcoming developments in this process.

Related Professionals

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