

FASB Disclosures Regarding an Employer's Participation in a Multiemployer Pension Plan

©2011 Lindquist LLP

Presented by:
Barry T. Omahen, CPA
Partner
Lindquist LLP

October 18, 2011

Overview

- History
- Why was it issued?
- Who is affected? Who is not?
- Background—things changed
- Final standard
- Sample disclosures
- Game plan

History

Issued draft	September 1, 2010
Closed comment period	November 1, 2010
Approved revised standard	July 27, 2011
Published final update	September 21, 2011

Accounting Standards Update No. 2011-09—Compensation—Retirement Benefits—Multiemployer Plans
(Subtopic 715-80): Disclosures about an Employer's Participation in a Multiemployer Plan
<http://www.fasb.org/cs/ContentServer?site=FASB&c=Page&pagename=FASB%2FPages%2FSectionPage&cid=1176156316498>

Why Was it Issued?

- Historically, limited information has been required about participation in multiemployer plans from the *employer* side
- Financial statement users wanted information to help them assess the potential future cash flow implications of an employer

Why Was it Issued? (Cont'd)

- The new disclosures provide additional information about the:
 - Plans in which an employer participates
 - Level of the employer's participation
 - Financial health of significant plans
- They also enable statement users to seek additional information that is available outside of the employer's financial statements (e.g., funded status of plan from Form 5500)

Who is Affected? Who is Not?

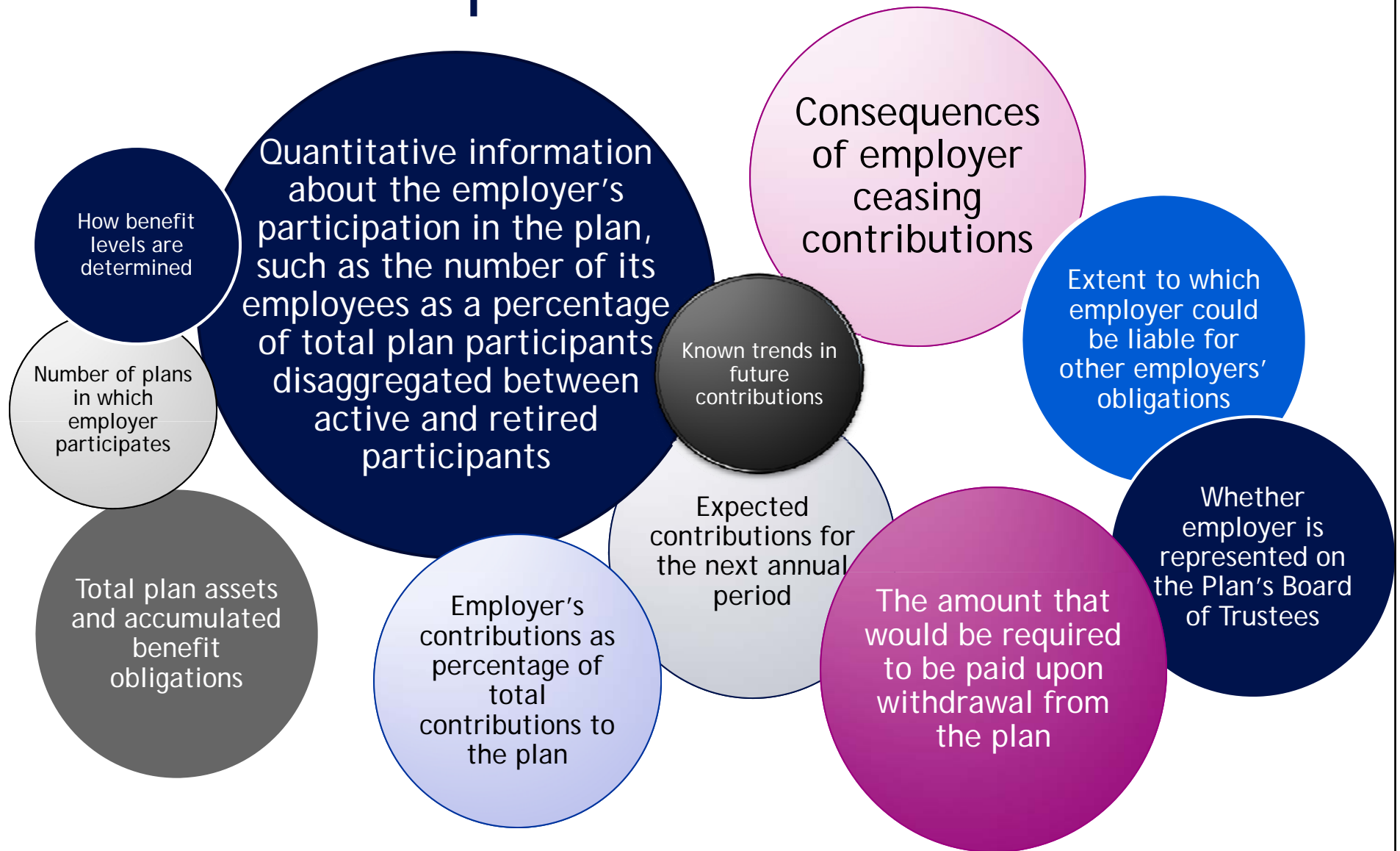
- The update applies to nongovernmental entities that participate in multiemployer:
 - Pension plans (DB)
 - Plans other than pensions that provide postretirement benefits
- It does not apply to multiple-employer or single-employer plans

Background -

IT COULD HAVE BEEN WORSE!

Things Changed -

As First Proposed ...



The #1 Burning Question:

- What about withdrawal liability?
 - They backed off!
 - Current standards remain in place
 - “Probable” or “reasonably possible”

Let's look at the final standard

Disclosures are Required (Individually) for “Significant” Plans

- What are “significant” plans?
 - FASB didn’t define
 - Requires analysis of quantitative and qualitative factors

How Do You Identify Significant Plans?

Quantitative

Do the employer's contributions account for >5% of Plan contributions?

Are these the only 1-2 plans that the employer participates in?

Are the majority of an employer's employees in a particular plan?

Qualitative

Does the Plan have a severe funding deficiency?

Is the Plan facing termination?

What Needs to be Disclosed?

- Legal name of Plan
- EIN and Plan number
- PPA certified zone status (green, yellow, red)
 - Date of Plan year-end to which status relates
 - Whether Plan has utilized any extended amortization provisions that affect calculation of zone status
 - If zone status not available, company must disclose whether plan was:
 - Less than 65% funded, 65-80% funded, or at least 80% funded

What Needs to be Disclosed? (Cont'd)

- CBA information
 - Expiration date
 - Or, if applicable, range of dates and:
 - Description identifying significant CBAs, and
 - Other information to help users understand *significance* of CBAs, such as:
 - Portion of employees covered by agreement
 - Portion of contributions required by each agreement
 - Multiple agreements with the same plan

What Needs to be Disclosed? (Cont'd)

- Contributions for all years presented
- 5% or greater contributor to the plan **as indicated on most recently available Form 5500** (must specify year-end date of plan to which Form 5500 relates)

What Needs to be Disclosed? (Cont'd)

- At the **end** of the most recent annual period presented:
 - Whether funding improvement or rehabilitation plan is pending or implemented
 - Whether employer paid a surcharge to plan
 - Description of minimum contributions required for future periods

For All Plans

- Sum of employer's contributions made to all plans that are not individually significant
- Total contributions to all plans

Presented in a Chart in the Footnotes

Pension Fund	EIN / Pension Plan Number	PPA Zone Status		Funding Improvement / Rehabilitation Plan Status Pending / Implemented	Contributions of Company A		Surcharge Imposed	Expiration Date of Collective Bargaining Agreement
		20X0	20X9		20X0	20X9		
ABC Pension Plan (a)	99-xxxxxxx	Red	Yellow	Implemented	\$ 1,883,000	\$ 2,309,000	Yes	12/31/20x3
Pension Plan of Local 123 of Northern California (b)	94-xxxxxxx	Green	Yellow	N/A	3,342,000	3,609,000	No	12/31/20x2 to 12/31/20x3
Certain Industry Pension Trust Fund	95-xxxxxxx	Yellow	Yellow	Implemented	5,798,000	6,435,000	No	12/31/20x2
Local 4321 Pension Plan (c)	88-xxxxxxx	Red	Green	Implemented	1,349,000	1,134,000	No	12/31/20x5
Locals 123 and 789 of Certain Industry Pension Trust Fund (d)	81-xxxxxxx / 001	Green	Red	N/A	1,224,000	1,046,000	No	12/31/20x4
Plans for which plan financial information is not publicly available outside Company A's financial statements								
QRS Fund (e)	N/A	N/A	N/A	N/A	418,000	482,000	N/A	12/31/20x3
XYZ Fund (f)	N/A	N/A	N/A	N/A	1,872,000	1,764,000	N/A	12/31/20x4
Other funds					<u>147,000</u>	<u>160,000</u>		
Total contributions:					<u>\$ 16,033,000</u>	<u>\$ 16,939,000</u>		

Also see tab 3 of the binder

Presented in a Chart in the Footnotes

- (a) ABC Pension Plan implemented a rehabilitation plan during 20X0. The Plan adopted changes to its benefit structure and imposed an annual increase of 3% in the contribution rate previously required under the existing CBA. This surcharge will remain in effect through 20X3.
- (b) Company A is party to two significant collective bargaining agreements that require contributions to Pension Plan of Local 123 of Northern California. Agreements 1 and 2 expire on 12/31/20x2 and 12/31/20x3, respectively. Of the two, Agreement 1 is more significant because 70 percent of Company A's employee participants in Pension Plan of Local 123 of Northern California are covered by that agreement. Agreement 2 is significant also because its participants are involved in multiple projects that Company A is scheduled to start in 20x4.
- (c) Local 4321 Pension Plan implemented a rehabilitation plan during 20X0. The Plan has adopted changes to its benefit structure. The changes do not include any surcharges or minimum contribution requirements.
- (d) Locals 123 and 789 of Certain Industry Pension Trust Fund utilized the special 30-year amortization rules provided by Public Law 111-192, Section 211, to amortize its losses from 2008. The plan recertified its status after using the amortization provisions of that law.
- (e) Plan information for QRS Fund is not publicly available. QRS Fund provides fixed, monthly retirement payments on the basis of the credits earned by the participating employees. To the extent that the plan is underfunded, the future contributions to the plan may increase and may be used to fund retirement benefits for employees related to other employers who have ceased operations. Company A could be assessed a withdrawal liability in the event that it decides to cease participating in the plan. QRS Fund's financial statements for the years ended June 30, 20x0 and 20x9, indicated total assets of \$62,000,000 and \$51,000,000, respectively; total actuarial present value of accumulated plan benefits of \$120,000,000 and \$110,000,000, respectively; and total contributions for all participating employers of \$9,000,000 and \$8,000,000, respectively. The plan's financial statements for the plan years ended June 30, 20x0 and 20x9 indicate that the plan was less than 65 percent funded in both years.
- (f) Plan information for XYZ Fund is not publicly available. XYZ Fund provides fixed retirement payments on the basis of the credits earned by the participating employees. However, in the event that the plan is underfunded, the monthly benefit amount can be reduced by the trustees of the plan. Company A is not responsible for the underfunded status of the plan because XYZ Fund operates in a jurisdiction that does not require withdrawing employers to pay a withdrawal liability or other penalty. Company A is unable to provide additional quantitative information on the plan because Company A is unable to obtain that information without undue cost and effort. The collective bargaining agreement of XYZ Fund requires contributions on the basis of hours worked. The agreement also has a minimum funding contribution of \$1,000,000 each year.

Other Required Disclosures

- Narrative description of both the:
 - General nature of the multiemployer plans that provide pension benefits, and
 - Employer's participation in the plans that would indicate how the risks of participating in these plans are different from single-employer plans

Other Required Disclosures (Cont'd)

- Description of nature and effect of any changes affecting comparability for each period presented:
 - Business combination or divestiture
 - Change in contractual employer contribution rate
 - Change in the number of employees covered by the plan each year

What if Disclosure Information is Not Available? (e.g., Foreign Plans)?

- Description of the nature of the plan of benefits
- Qualitative description of the extent to which the employer could be responsible for the obligations of the plan, including benefits earned by employees during employment with another employer
- Other quantitative information, if available, such as total plan assets, actuarial present value of accumulated plan benefits, and total contributions received by plan
- If this information cannot be obtained without “undue cost and effort,” employer must:
 - Describe what has been omitted and why
 - Provide qualitative information to help users understand the financial information that otherwise is required to be disclosed about the plan

Where Do You Find this Information?

- Form 5500 Annual Reports posted online at:
<http://www.efast.dol.gov/portal/app/disseminate?execution=e1s1>
- See tabs 2 and 5 of the binder
 - Information sources
 - Sample Form 5500

Where to Find This Information

Disclosures Regarding an Employer's Participation in a Multiemployer Defined Benefit Pension Plan	
Information Sources	
* Required Disclosure	Source(s)
Narrative description of nature of multiemployer plans that provide pension benefits and of the employer's participation in the plans that would indicate how the risks differ from single-employer plans	See sample footnote
<i>For significant plans</i>	
A Legal name of Plan(s)	Form 5500, Part II, 1a
B EIN	Form 5500, Part II, 2b
C Plan number	Form 5500, Part II, 1b
D PPA zone status	Form 5500, Schedule MB, 4a Code E means Endangered Status (Yellow) Code S means Seriously Endangered Status (Yellow) Code C means Critical Status (Red) Code N means Not in Endangered or Critical Status (Green)
E Whether Plan has utilized any extended amortization provisions that affect the calculation of the zone status	Form 5500, Schedule MB, 8c and 8d(4)
Expiration date(s) of CBAs; qualitative information about significance of CBAs	Employer records
Employer's contributions to significant plans for all years presented	Employer records
F Whether employer is 5% or greater contributor to the plan	Form 5500, Schedule R, Part V, 13a-13d
D Funding Improvement / Rehabilitation Status Pending / Implemented	First check Form 5500, Schedule MB, 4a for zone status In the year a plan is certified to be in endangered or seriously endangered status, a funding improvement plan is required to be attached to Form 5500 Schedule R filing. In the year a plan is certified to be in critical status, a rehabilitation plan is required to be attached to Form 5500 Schedule R filing. In subsequent years, an update to the funding improvement/rehabilitation plan must be provided. <i>Tip: Use search function in PDF to locate the funding improvement or rehabilitation plan.</i>
Whether employer paid a surcharge to the Plan	Funding improvement/rehabilitation plan (if applicable) or employer records
Description of any minimum contributions required for future periods by the CBAs, statutory obligations or other contractual obligations, if applicable	Employer records, CBAs
Description of nature and effect of any changes affecting comparability for each period presented	Employer records
Additional information when Plan-level information <u>is not publicly available</u> (e.g., <u>foreign plans</u>) Description of the plan of benefits Description of the extent to which the employer could be responsible for obligations of the plan, including benefits earned by employees during employment with another employer Quantitative information, such as total plan assets, actuarial present value of accumulated plan benefits and total contributions received by the plan	Contact Plan/Plan administrator directly
Total contributions to all plans that are not individually significant	Employer records
Total contributions made to all plans	Employer records

* Letters highlight areas on sample Form 5500 (included in tab 5 of the binder)

Sample Disclosure

Refer to tab 3 of the binder

And It's Not Just Pensions!

- Under this update, an employer must also disclose the amount of contributions to multiemployer plans that provide *postretirement benefits other than pensions*

And It's Not Just Pensions (Cont'd)

- Description of nature and effect of any changes that affect comparability of total employer contributions from period to period, such as a:
 - Business combination or divestiture
 - Change in contractual employer contribution rate
 - Change in the number of employees covered by the plan each year

And It's Not Just Pensions (Cont'd)

- The disclosures must also include a description of the nature of the benefits and types of employees covered by these benefits (such as medical benefits provided to active employees and retirees).
- Refer to “Sample Disclosure 2” in tab 4 of your binder

Effective Date

- For **public** entities: fiscal years ending after December 15, 2011
- For **private** entities: fiscal years ending after December 15, 2012

Game Plan - Public Entities

- Act immediately!
 - Identify all multiemployer defined benefit plans you participate in
 - Obtain Forms 5500 for these plans for all periods you will present in your financial statements
 - Identify “significant” plans
 - 5% contributor?
 - Funding improvement / rehabilitation plan?
 - Surcharges /minimum contributions?
 - Evaluate comparability for periods presented
 - Identify known changes going forward
 - Start the chart!

Game Plan - Private Entities

- You have some time, but it is best to get a plan in place
- Same steps as discussed on previous slide for public entities

Game Plan - Trustees and Third-Party Administrators

- Consider proactively distributing required information to participating employers
- Let's look at tab 5 of the binder

Distribution Ideas

- Monthly transmittal report
- Hard-copy packet via U.S. Mail
- E-mail
- TPA website
- Trust website



Questions?



Resources

- To request a presentation at a meeting of your employer association or industry group, or to request additional copies of presentation materials, contact:

Stephanie Kretschmer

(925) 277-9100

skretschmer@lindquistcpa.com

- Materials will also be posted on our website:
www.lindquistcpa.com

Contact

Barry Omahen, CPA

Partner

Lindquist LLP

5000 Executive Parkway

Suite 400

San Ramon, California 94583

(925) 277-9100

bomahen@lindquistcpa.com