SUMMARY OF MAJOR CHANGES TO
DoD 7000.14-R, VOLUME 13, CHAPTER 11
"ACCOUNTING FOR DEFINED BENEFIT PENSION AND OTHER POSTRETIREMENT PLANS"

All changes are denoted by blue font

Substantive revisions are denoted by a ★ preceding the section, paragraph, table, or figure that includes the revision

Hyperlinks are denoted by *underlined, bold, italic, blue font*

PARAGRAPH	EXPLANATION OF CHANGE/REVISION	PURPOSE
All	This chapter was added to provide guidance on implementing the Financial Accounting Standards Board Statement (FAS) No. 158 for accounting for pension and other postretirement plans.	Add
1101	Provides the purpose and scope of the policies in the chapter.	Add
1102	Provides the terms and definitions that relate to the new accounting requirement.	Add
1103	Provides an explanation and examples of several areas of the balance sheet affected.	Add
1104	Provides an explanation of affects on the income statement.	Add
1105	Provides information on disclosures for the financial statements.	Add

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CHAPTER 11

ACCOUNTING FOR DEFINED BENEFIT PENSION AND OTHER POSTRETIREMENT PLANS

1101 OVERVIEW

★ 110101. Purpose. This chapter describes the requirements for accounting for defined benefit pension and other postretirement plans for single-employer plans. This chapter does not pertain to Military Department plans that are considered multi-employer. The annual reporting of Pension Plan assets and liabilities shall be in conformance with ***Financial Accounting Standards Board Statement (FAS) No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans"***. FAS No. 158 addresses the concern that employers' existing accounting standards for defined benefit pension and postretirement plans fail to produce complete and understandable financial statements. In June 2009, all authoritative issuances of the Financial Accounting Standard Board were codified, to include Financial Accounting Statements (FAS), Interpretations (FIN), Technical Bulletins (FTB), and Staff Positions (FSP). Additionally, many other standard letters, including Accounting Principles Board (APB) Opinions, Accounting Interpretations (AIN), American Institute of Certified Public Accountant (AICPA), and Emerging Issues Task Force (EITF), were sources for the standards. FAS No. 158 cross references to the Codification Topics 715 and 958 and Subtopics 20, 30 and 60.

110102. Scope. The policies in this chapter apply to Department of Defense Nonappropriated Fund Instrumentalities (NAFIs) and their supporting Accounting Offices and to joint-Service NAFI exchanges. This chapter provides a review of the standards contained within FAS No. 158. Each NAFI and the Certified Public Accounting (CPA) firm responsible for providing financial services should consider several exceptions and variables prior to implementation.

1102 DEFINITIONS

★ The new standards improve existing reporting for defined benefit pension and postretirement plans by requiring an employer to recognize certain financial activity occurring in the plans in their financial statements. This activity includes the overfunded or underfunded status of defined benefit pension and postretirement plans in the balance sheet. The actuarial gains and losses, prior service costs, transition obligations, and credits that arise during the period will continue to be recognized through the income statement with several variations. In addition, it will improve the understanding of the types of plans for the financial statement reader. Several terms that the NAFIs and Military Departments should be aware of relating to FAS No. 158 follow:

A. Funded Status. The difference between the pension liability (projected benefit obligation) and the plan assets at fair value.

B. Measurement Date. The date of the employer's fiscal year-end statement of financial position. The plan assets and projected benefit obligations must be measured as of this date. (Under the old rules this could be up to three months earlier.)

C. Net Periodic Pension Cost. The annual expense incurred by the employer because of its pension plan. The net periodic pension cost is composed of the service costs, interest costs, expected return on assets, amortization of prior service costs, transition obligations, and gains or losses.

D. Pension Provider. The organization that administers a Military Department's pension plan.

E. Plan Assets (PA). The amount a pension plan could reasonably expect to receive for a current sale of assets held for pension benefits.

F. Projected Benefit Obligation (PBO). The actuarial present value, as of a specified date, of all employees' vested and non-vested pension benefits that have been attributed by the pension benefit formula to services performed by employees.

G. Statement of Financial Position. The statement of financial position is another term for the balance sheet. The term "balance sheet" will be used.

1103 BALANCE SHEET CLASSIFICATIONS

★ The Military Departments should calculate the funded status of a benefit plan. The funded status should be determined as of the year-end statement date (measurement date) and is defined as the difference between the PBO and PA. Depending on the differences between the PBO and PA, several areas of the balance sheet could be affected. The following examples are provided.

A. PA greater than PBO. An overfunded plan exists when the PA is greater than the PBO, and the difference would be classified as a non-current asset in the balance sheet.

B. PA less than PBO. An underfunded plan exists when the PA is less than the PBO, and the difference would be classified as a liability (current or long term) in the balance sheet. The classification of the liability as a current or long term liability will be determined and provided by the Pension Provider.

C. Adjustments. Once the funded status of a benefit plan is determined, adjustments may need to be made to existing pension balances in the balance sheet. These adjustments will be posted as an offset to the equity account in the balance sheet and can be either an addition or reduction to the equity section. These temporary adjustments are treated in the equity section of the balance sheet in the same manner as the "unrealized gains/losses on investments," pursuant to ***FAS No. 115***. In addition, these temporary adjustments are not calculated in the net worth determination. The final result of these entries will result in the funded status equaling either a non-current asset or a liability based on the difference of the PA and PBO. The provisions of ***FAS No. 158*** eliminate the accounting for the potential additional minimum liability, which resulted under the old requirement.

★1104 INCOME STATEMENT CLASSIFICATIONS. The net periodic pension cost is the annual expense incurred by the employer because of its pension plan. Under ***FAS No. 158***, the pension expense will continue to be recognized as a component of the income statement similar to the previous reporting process. While the expense (debit) is recognized through the income statement, the second part of the entry (credit) results in adjustments to the balance sheet accounts, which have been expanded to include the adjustment to the equity account. The net of the service cost, interest cost, and expected return on plan assets will continue to be an adjustment as a component of either the non-current asset or the liability, whichever component the NAFI is reflecting in its financial statements due to the new funded status. The amounts of the net gain or loss, net prior service costs or credits, and net transition asset or obligation will be offset against the equity account.

★1105 DISCLOSURES. The CPA firm or external auditors receive annual valuation reports from outside actuaries to prepare the financial statement disclosures. At a minimum, the CPA firm will provide additional information about certain effects on net periodic benefit cost, and the amount and timing of any plan assets expected to be returned to the Military Departments and NAFIs. In addition, amounts recorded as adjustments to the equity section of the balance sheet will result in an adjustment to the income statement. The actuaries should provide this information to the CPA firm for inclusion in the audited financial statements.