

**FASB Statement No. 132 (revised 2003),  
*Employers' Disclosures about Pensions and Other Postretirement Benefits***

**FREQUENTLY ASKED QUESTIONS**

**UPDATED JANUARY 9, 2004**

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*This document was prepared to respond to questions about the December 2003 FASB Statement No. 132 (revised 2003), Employers' Disclosures about Pensions and Other Postretirement Benefits. A copy of the Statement can be downloaded from the FASB's website at [www.fasb.org](http://www.fasb.org). This material is presented for discussion purposes only. Official positions of the FASB are determined only after extensive due process and deliberations.*

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## SUMMARY

In December 2003, the FASB issued Statement 132 (revised 2003), *Employers' Disclosures about Pensions and Other Postretirement Benefits*. The provisions of that Statement do not change the measurement and recognition provisions of FASB Statements No. 87, *Employers' Accounting for Pensions*, No. 88, *Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits*, and No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions*. Statement 132(R) replaces FASB Statement No. 132, *Employers' Disclosures about Pensions and Other Postretirement Benefits*, and adds the following disclosures:

### Annual Financial Statements

1. The following information would be disclosed about plan assets:
  - a. The percentage of total plan assets for each major category of plan assets, including equity securities, debt securities, real estate, and all other assets. Disclosure of additional, narrower asset categories and additional information about specific assets within a category is encouraged if that information is expected to be useful in understanding the investment risks or expected long-term rate of return on assets.
  - b. A description of investment strategies and policies employed, including target asset allocations, if used, and other pertinent factors, such as investment goals, risk management practices, allowable and prohibited investment types, including the use of derivatives, diversification, and the relationship between plan assets and benefit obligations.
  - c. A description of the basis used to determine the overall expected long-term rate-of-return-on-assets assumption, such as the general approach used, the extent to which the overall rate-of-return assumption was based on historical returns and the extent to which adjustments were made to those historical returns, and how those adjustments were determined.
2. The following information would be disclosed about benefit obligations:
  - a. The defined benefit pension accumulated benefit obligation.
  - b. Expected future benefit payments for each of next 5 years and for years 6–10 in the aggregate. Estimated benefit payments should use the same assumptions used to measure the benefit obligation and should include estimated future employee service.
  - c. The employer's best estimate, as soon as it can reasonably be determined, of aggregate expected contributions for the next fiscal year.
3. Key assumptions, including assumed discount rates, expected long-term rates of return on assets, and rates of compensation increase (for pay-related plans), disclosed in a tabular format, separately

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identifying the assumptions used to measure benefit obligations as of the plan's measurement date and those used to measure net benefit costs or income for the period.

4. The measurement date(s) used to determine pensions and other postretirement benefit measurements that make up at least the majority of plan assets and benefit obligations.

**Interim Period Disclosures**

The following information would be disclosed for interim periods:

1. The individual elements of net periodic benefit costs, such as service cost, interest cost, expected return on assets, amortization of prior service costs, etc.
2. The employer's contribution paid, or expected to be paid during the current fiscal year, if significantly different from amounts previously disclosed.

**Effective Dates and Transition**

<b>Effective Date (years ending after/quarters beginning after)</b>		
<b>Disclosure</b>	<b>Domestic Plans</b>	<b>Foreign Plans / Nonpublic Entities</b>
<b>Plan Assets</b>		
Actual allocation of assets by category	December 15, 2003	June 15, 2004
Investment strategy, including target asset allocations	December 15, 2003	June 15, 2004
Basis used to determine the ROA assumption	December 15, 2003	June 15, 2004
<b>Obligations</b>		
Accumulated benefit obligation	December 15, 2003	June 15, 2004
Estimated future benefit payments	June 15, 2004	June 15, 2004
Estimated contributions	December 15, 2003	June 15, 2004
<b>Other</b>		
Measurement date(s)	December 15, 2003	June 15, 2004
Assumptions	December 15, 2003	December 15, 2003
<b>Interim period disclosures</b>		
Components of net periodic benefit cost	Interim periods beginning after December 15, 2003	Interim periods beginning after December 15, 2003 (not required for nonpublic entities)

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Estimated contributions	Interim periods beginning after December 15, 2003, following compliance with paragraph 5g	Interim periods beginning after December 15, 2003, following compliance with paragraph 5g (for public entities) or 8f (for nonpublic entities)
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Until Statement 132(R) is fully adopted, entities that provide a description of investment strategies, the basis for determining the expected long-term rate of return on assets assumption, and the accumulated benefit obligation (ABO), only for domestic plans, also must provide separate information about domestic plans for the following existing disclosures:

- a. Total fair value of plan assets
- b. Expected long-term rate of return on assets.

**GENERAL**

**Q1. Why did the Board add a pension project to its agenda?**

The Board wanted to address perceived deficiencies in disclosures about defined benefit pension plans. These perceived deficiencies were expressed verbally and in writing by users of financial statements, principally investment analysts, and in the financial press. Financial statement users' concerns were heightened by declines in equity markets and lower interest rates, which significantly reduced the financial health of defined benefit pension and other postretirement benefit plans.

Among the concerns raised was that delayed recognition methods permitted by Statement 87 often result in financial outcomes that do not represent economic reality. Financial statements of entities complying with Statement 87 sometimes recognize an expected return on plan investments even while incurring actual market losses. Users of financial statements commented extensively on the lack of transparency of pension accounting and said that they needed more information about pension plan assets, obligations, cash flows, and net benefit cost.

The Board decided that the additional disclosures could improve information about market and interest rate risk and cash flows, and adopted a short-term project focused on pension disclosures. Because of the similarities between pensions and other defined benefit postretirement plans, the Board decided that any new pension disclosures also would be applied to other postretirement benefits. The Board decided not to address measurement and recognition at this time.

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**Q2. Why did the Board limit the scope of the project to disclosure?**

The Board initially considered three alternative approaches to this project: (a) reconsider the guidance related to recognition and measurement of defined benefit pension plans, (b) reconsider the guidance related to recognition and measurement of defined benefit pension plans, other postretirement benefit plans, and other deferred compensation arrangements, and (c) provide additional financial statement disclosures to increase transparency of defined benefit pension and other postretirement benefit plans. The Board decided to pursue a project addressing disclosure because it was the most timely way in which to address the concerns of financial statement users. Another factor in the Board's decision was the action being taken internationally related to pensions. The International Accounting Standards Board (IASB), at the time that the Board was making its agenda decision, had been working on an amendment to its employee benefits accounting standard that would eliminate delayed recognition for investment returns and actuarial gains and losses. The Board decided that it would be best not to begin a broader-scope project while the IASB was in the midst of their project, reasoning that the FASB could later consider recognition and measurement for defined benefit postretirement plans, while also considering the final decisions of the IASB.

**Q3. How did the Board solicit and consider the views of interested parties before a final Statement was issued?**

The issuance of an Exposure Draft for public comment is a significant part of the process of obtaining input and views on a proposed Statement. For this Exposure Draft, the FASB provided a 45-day comment period. Each comment letter received was read and analyzed by the Board and FASB staff to identify issues or alternatives that might influence the Board's decisions on the Statement.

After analyzing input received in comment letters, the Board redeliberated some of the decisions of concern to commentators. Through this process, the Board decided to modify some of its previous tentative decisions and incorporate suggested changes into the final Statement. The Board voted on this final Statement only after it was satisfied that all reasonable alternatives had been adequately considered.

**Q4. Did the Board seek input from its constituents during development of Statement 132(R)? What was the nature of that input?**

Yes. The Board received input from a variety of sources, solicited and unsolicited, prior to, and throughout the process of developing the Exposure Draft and final Statement.

Input was received from the User Advisory Council, a resource group comprised of investment analysts who assisted in identifying the issues to be considered and in suggesting alternative solutions. In addition, input

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was received from a project-specific resource group established to provide input on specific issues related to the project. These resources represented the broad population of the FASB's constituents, including preparers, users, auditors, and actuaries, and were selected based on the diversity of their views and their knowledge of and experience with defined benefit pension plans. In addition to these resources, information from the financial press and financial analysts' reports also was considered.

The Board also received input from the Financial Accounting Standards Advisory Council (FASAC) during its quarterly public meetings. FASAC is made up of 33 members who are broadly representative of the FASB's constituents. Finally, 97 comment letters were received from constituents on the Exposure Draft issued in September 2003.

**Q5. What were the benefit and cost factors considered by the Board?**

Users of financial statements suggested that numerous disclosures be added during the course of this project. The Board considered the significance of the need for each suggested disclosure, as compared to other alternatives. This assessment of the perceived benefits of each disclosure was considered in relation to the costs of providing it. The costs that were considered included time and effort of preparers, who must compile and validate the required information, as well as amounts paid to actuaries and auditors to develop, aggregate, and audit the information. The Board believes that most, if not all, of the information should be available through the plan sponsor's investment management records, internal processes, and actuarial valuations. Costs to modify systems and reports are expected to be modest in relation to the benefits to be derived by financial statement users.

**Q6. Does the Statement change disclosures about defined contribution and multiemployer plans?**

No. Although financial statement users did not request additional information about defined contribution and multiemployer plans, the Board considered a number of additional disclosures that would improve the transparency of obligations relating to multiemployer plans but ultimately decided that the costs of providing such additional information outweighed the benefits.

**Q7. May the required information be disclosed in a different format than as presented in the illustrations?**

Generally, yes. The illustrations are included in the Statement to assist financial statement preparers in complying with the Statement. The illustrations supplement the written requirements contained in the standards section of the Statement. While financial statement preparers have discretion as to how information is

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presented, the illustrations have been presented in a way that the Board considers to be logical and orderly. The Board expects that the tabular presentation of key assumptions would resemble those presented in the illustrations.

**Q8. Should disclosures required “as of the date of the statement of financial position” be as of the balance sheet date or as of the measurement date?**

Disclosures related to the statement of financial position generally should be as of the measurement date, which may be the date of the financial statements or as of a date not more than three months prior to that date, in accordance with the provisions of Statements 87 and 106. Disclosures of estimated future benefit payments and contributions to fund the plans should coincide with the plan sponsor’s fiscal years.

**ANNUAL DISCLOSURES**

**Q9. How should the determination be made regarding in which asset category a particular investment should be included?**

The terms *equity securities* and *debt securities*, as used in the Statement, are defined by FASB Statement No. 115, *Accounting for Certain Investments in Debt and Equity Securities*. Plan assets that do not fit these definitions and that are not considered *real estate* are to be included in the *other asset* category.

**Q10. What criteria should be considered in deciding to provide additional asset categories beyond the minimum categories required by the Statement?**

The minimum categories required by this Statement were deemed sufficient by the Board to improve financial statement users’ understanding of investment risk and the expected rate of return on assets assumption, while, at the same time, not being overly detailed or burdensome to preparers. Financial statement preparers are encouraged to provide additional categories if useful in understanding investment risk or the expected rate of return on assets assumption. The judgment about whether additional categories would be provided can only be made after consideration of all relevant facts and circumstances. Strict criteria are not prescribed by the FASB. Among the criteria that should be considered are concentrations of investments with associated risks that are different from the broader category, for example, foreign exchange, commodity, or derivative instruments. In addition, narrower asset categories may be appropriate if use of broader asset categories does not provide a clear picture of the underlying investments (for example, the expected long-term rate of return on a combination of government and high yield bonds, when averaged together, may lead financial statement users to believe that investments are in a portfolio of high quality corporate bonds). If it appears that combining assets with different risks would mislead financial statement users, separate presentations should be considered.

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**Q11. What type of information about investment strategies and policies does the Board expect from plan sponsors?**

The Board has not identified the specific information about investment strategies and policies because it recognizes the diversity that exists in different plans' investment strategies. A plan sponsor is expected to describe considerations that are the most significant to its investment decisions. This information may include investment objectives (for example, optimizing returns, stable earnings, relationships between plan assets and benefit obligations, stable contributions, etc.), the basis for the allocation of assets, frequency of rebalancing, and limitations or latitude to invest in foreign markets and derivatives, and risk management practices. The Board decided that the description of investment strategies should include the target asset allocation percentages, or range of percentages, unless the plan sponsor does not use target allocations to manage its portfolio of assets.

**Q12. What is meant by “on a weighted-average basis” in the context of disclosures of the target asset allocation?**

The Board recognizes that many disclosures are the result of an aggregation of multiple plans. The intent of the terminology “on a weighted-average basis” is that the disclosed information be derived in a way that reflects the relative size of each individual plan. For example, a plan representing 60 percent of all plans would influence disclosed amounts for the expected long-term rate of return on assets and target allocation to a greater degree than all other plans, and reporting on a weighted-average basis takes the significance of each individual plan into account.

**Q13. Why is the accumulated benefit obligation, whose disclosure was eliminated by Statement 132, now seen as necessary information?**

Statement 132 eliminated the requirement to disclose the accumulated benefit obligation because it is not used to forecast pension costs or obligations and, therefore, was considered to be of limited relevance. In addition, disclosure of the accumulated benefit obligation was not considered to be as relevant as it was when Statement 87 was issued, when there was less agreement as to the best measure of the pension obligation.

With the recent decline in equity markets and interest rates, many plan sponsors have had to recognize an additional minimum liability, based on the accumulated benefit obligation, pursuant to the provisions of Statement 87. Inclusion of the accumulated benefit obligation in the annual disclosures will provide an indication of the likelihood of future recognition of an additional minimum liability.

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**Q14. Should estimated future benefit payments be calculated on an open- or closed-group basis?**

Consistent with all other measurements pursuant to Statements 87 and 106, projections of benefit payments should be calculated on a closed-group basis (include only current employees).

**INTERIM PERIOD DISCLOSURES**

**Q15. What factors should be considered in assessing whether to update annual disclosures of expected contributions?**

The Statement does not identify or limit the factors to be considered in deciding whether to update previous disclosures of estimated contributions to fund benefit plans. The Statement does require disclosure of estimated contributions as soon as they are reasonably estimable. This standard of disclosure is intended to require disclosure before estimates become virtually certain. The requirement focuses only on significant changes in those estimated contributions rather than the factors that led to those changes. Nevertheless, factors to be considered in deciding whether to update previous disclosures might include, among others, refinements and finalization of funding computations and changes in discretionary contributions due to changes in business and economic conditions.

**Q16. Must accounting and actuarial valuations be updated on an interim basis?**

No. The Statement does not change the measurement and recognition requirements of Statements 87, 88, and 106.

**EFFECTIVE DATES AND TRANSITION**

**Q17. What constitutes a foreign plan, for purposes of applying the effective date of this Statement?**

A foreign plan, for the purposes of applying Statement 132(R), is one that is outside the country of a company's domicile. For example, in applying Statement 132(R), a German company may delay disclosure of plans outside of Germany. The same meaning of domestic and foreign plans applies to paragraph 7 of Statement 132(R), which addresses whether foreign and domestic plans should be combined or presented separately.

**Q18. Can you clarify the effective date for interim-period disclosure of updated expected contributions?**

**The disclosure is intended to update previous annual disclosures, but is the interim disclosure update ever to be required effective before the annual disclosure becomes effective?**

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No. Estimated contribution disclosures are effective in the first quarter following compliance with paragraph 5g (for public entities) or 8f (for nonpublic entities).

**Q19. What is meant in the effective date and transition provisions regarding disaggregation of domestic and foreign plans' information for employers that do not presently disaggregate this information?**

Until all the provisions of the Statement have been adopted, certain information is required to be provided only for domestic plans. The Board noted that usefulness would be diminished by the disclosure of certain new information only for domestic plans while other disclosures sometimes are presented on a combined basis for domestic and foreign plans. As a result, the Board decided to require disaggregation of certain information during the transition period. Disaggregation would be required if the following information is presented only for domestic plans:

1. Actual allocation of plan assets
2. Description of investment strategies
3. Description of the basis used to determine the overall expected rate-of-return-on-assets assumption
4. Accumulated benefit obligation.

In this situation, the reporting entity would be required to provide the domestic amounts separately from foreign amounts relating to the total fair value of plan assets and the expected long-term rate of return on assets.

**Q20. Must prior periods presented for comparability be restated?**

Yes. For certain information identified in the effective date provisions of the Statement, prior periods presented for comparability should be restated. However, if it is not practical to obtain the prior period information, the notes should disclose all information that is available and describe the information that has been excluded.