

March 2004

New FAS 132: Pension Plans to Focus on Investment Policies

In December 2003, the Financial Accounting Standards Board (FASB) issued revised Statement No. 132 (FAS 132), governing employers' disclosures about pensions and other post-retirement benefits. FAS 132 generally does not change the measurement or recognition standards for how employers account for pension and other post-retirement benefits under FASB Statement Nos. 87 and 106. However, FAS 132 will require additional disclosures about the plan assets available to finance benefit payments and the employer's funding obligations.

The new accounting rules affect both defined benefit pension plans and other post-retirement obligations, such as retiree health plans or retiree life insurance. The new rules are generally effective for public companies for fiscal years ending after December 15, 2003, with interim disclosures required for quarters beginning after that date. For non-public entities and all foreign plans, the rules are effective for fiscal years ending after June 15, 2004, with interim disclosures required for quarters beginning after that date.

Investment and Asset Disclosures

Among the new disclosure requirements, FAS 132 will require the following additional information about plan assets:

- ◆ Data on the allocation of assets and percentages by value and by major category, including equity securities, debt securities, real estate and all other assets as of the applicable measurement date. Mutual funds are considered equity securities. Disclosure of additional asset categories and information about specific assets is encouraged if it is expected to be useful in

understanding the risks associated with each category and the overall expected long-term rate of return on assets.

- ◆ A narrative description of investment policies and strategies, including target asset allocation percentages, if used, or ranges for each major category of plan asset, and other factors pertinent to an understanding of the plan's investment policies or strategies, such as investment goals, risk management practices, permitted and prohibited investments, and the relationship between plan assets and benefit obligations. Rebalancings and asset immunization strategies are also pertinent.
- ◆ A narrative description of, and the basis used to determine, the overall expected long-term investment return assumptions. Specific disclosure of the expected long-term rate of return by individual asset category, as proposed in the FASB exposure draft, is not required. Instead, a description of the significant considerations used by the plan to determine long-term investment return assumptions is required. Such considerations may include "the general approach used, the extent to which the long-term rate of return is based on historical returns, and the extent to which adjustments were made to those historical returns in order to reflect expectations of future returns, and how those adjustments were determined."

Written plan investment policies will be the source for much of this information and should be consistent with these disclosures.

Expected Benefits and Contributions Disclosure

Following the general disclosure effective dates, the employer's contributions expected to be made to the plan(s) during the next fiscal year must also be disclosed. This is reported on the employer's fiscal year basis and may include contributions applicable to more than one plan year for pension plans. For unfunded arrangements, such as retiree welfare benefits, contributions and benefit payments are essentially the same.

Quarterly interim reports will be required to report on employer contributions actually made in the fiscal year and updated estimates for the full fiscal year if the amount has significantly changed from prior disclosures.

On a delayed basis, beginning for fiscal years after June 15, 2004, FAS 132 will require disclosure of the plan benefits expected to be paid in each of the next five fiscal years, and in the aggregate for the five fiscal years thereafter. Expected benefits are to be estimated based on the same assumptions used to measure the company's benefit obligations and should include benefits attributable to future service. The disclosure is based on the employer's fiscal year, if different from the plan year.

Being Prepared

Employers who maintain defined benefit pension plans or retiree health or life insurance plans should consult with their auditors and advisors to be ready to meet these new accounting standards. In addition, while it is prudent for plan fiduciaries to periodically review a plan's investment policies, it is particularly important to do this for defined benefit and other post-retirement benefit plans, to assure that they are appropriate in light of the new disclosure requirements. Seyfarth Shaw can assist plan fiduciaries in this review.

If you have questions about pension plan investment policies and FAS 132 compliance for pension plans and other post-retirement group health and life plans, please contact the Seyfarth Shaw Employee Benefits Group attorney with whom you work or any employee benefits attorney listed on the website at www.seyfarth.com.

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