FASB expands disclosures for multiemployer plans

ASU 2011-09 is effective with 2011 financial statements for public companies

Summary

The FASB recently issued Accounting Standards Update (ASU) 2011-09, Disclosures about an Employer’s Participation in a Multiemployer Plan, to require expanded disclosures for entities participating in multiemployer plans. The enhanced disclosures are designed to assist financial statement users in assessing the potential impact of an entity’s participation in multiemployer plans on future cash flows. The ASU does not change the accounting or financial reporting for an employer’s participation in a multiemployer plan.

Multiemployer plans are typically used in industries where employees move between different participating employers and are subject to a collective bargaining arrangement. The assets of the plan are commingled and can be used to provide benefits to employees of other participating employers. Participating employers record an expense for contributions paid or due to the plan in each reporting period, similar to the accounting for a defined contribution plan. However, multiemployer defined contribution plans are excluded from the scope of this amended guidance.

Multiemployer plans are also common in not-for-profit organizations that have local operations that participate in a plan administered by a national organization. The plan is accounted for as a single employer plan in the consolidated financial statements. The additional disclosure requirements in ASU 2011-09 do not apply to those plans, however, or to subsidiary-only financial statements when a similar arrangement exists within a consolidated group. Instead, each local chapter or subsidiary would disclose the name of the plan in which it participates and the amount of contributions made in each period for which a statement of income or statement of activities is presented.

The amended guidance is effective for annual reporting periods ending after December 15, 2011 (that is, as of December 31, 2011 for calendar-year entities) for public entities and for annual reporting periods ending after December 15, 2012 (that is, as of December 31, 2012 for calendar-year entities) for nonpublic entities. The amended guidance must be applied retrospectively. Early adoption is permitted.

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A. Overview

The FASB recently issued Accounting Standards Update (ASU) 2011-09, Disclosures about an Employer’s Participation in a Multiemployer Plan, which amends FASB Accounting Standards Codification® (ASC) 715-80, Compensation – Retirement Benefits: Multiemployer Plans, by requiring expanded disclosures for entities participating in multiemployer plans. The enhanced disclosures are designed to assist financial statement users in assessing the potential future cash flow implications of the entity’s participation in multiemployer plans. The ASU does not change the accounting for an employer’s participation in a multiemployer plan.

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The final ASU does not include several disclosures that were originally proposed in the Exposure Draft, as follows:

- Employer’s withdrawal liability or an estimate of the employer’s obligations with respect to the underfunded status of the plan, when withdrawal liability is neither probable nor reasonably possible
- Employer’s expected contributions for the next annual period
- Trends in contributions

The final ASU also scaled back the extent of disclosure proposed for health and welfare benefit plans.

B. Expanded disclosure requirements for multiemployer pension plans

Under the new guidance, employers participating in multiemployer pension plans must provide a narrative description of the general nature of the plan and of the employer’s participation in the plan, to explain how the risks of participation in multiemployer pension plans differ from the risks of participation in single employer plans.

In addition, the following disclosures are required for each individually significant plan, in tabular format when feasible:

- The plan’s legal name, employer identification number, and plan number (if available)
For each statement of financial position presented, the most recent certified “zone status” as defined by the Pension Protection Act of 2006, the date of the plan’s year-end to which the zone status relates, and whether the plan used any extended amortization provisions that affect the calculation of the zone status. If the zone status is unavailable, then the employer must disclose whether the plan is

- Less than 65 percent funded
- Between 65 percent and 80 percent funded
- Greater than 80 percent funded

The expiration date(s) of collective bargaining agreements requiring contributions to the plan or, if more than one agreement, the range of the expiration dates of those agreements and a qualitative description that identifies the significant agreements within that range and information on their significance and when they expire.

For each statement of income presented, the amount of employer contributions and whether these contributions represent more than 5 percent of total contributions to the plan, based on the most recent Form 5500 annual report(s) available, and the period covered by that report(s).

As of the end of the most recent statement of income presented:

- Whether any funding improvement or rehabilitation plans have been implemented or are pending
- Whether the employer paid a surcharge to the plan
- A description of future minimum contributions required in future periods by collective bargaining agreements, statutory obligations, or other agreements

In addition, an employer is required to disclose a description of the nature and effect of any significant changes impacting the comparability of total employer contributions between periods. Examples include a business combination or divestiture, a change in the employer contribution rate, and a change in the number of employees covered by the plan.

For plans that are not individually significant, an entity must disclose

- Total contributions made to plans that are not individually significant
- Total contributions made to all plans

For plans without publically available information comparable to the information included on Form 5500, the following additional disclosures are required:

- A description of the nature of plan benefits
- A qualitative description of the employer’s potential responsibility for obligations of the plan, including benefits earned by employees while employed at another employer
- As of the most recent date available, other quantitative information that would assist financial statement users in understanding the plan, including plan assets, the actuarial value of the accumulated plan benefits, and total contributions received by the plan

The ASU provides some relief in situations where certain quantitative information required by the ASU is not available without undue cost (primarily foreign plans). If the quantitative information is not available without undue cost, the employer should

- Describe what information is omitted and explain the reason why
Disclose qualitative information as of the most recent date available that would help financial statement users understand the quantitative information that is otherwise required.

An example of these disclosures is provided in ASC 715-80-55-6 through 55-8. Additionally, disclosures should include the source of the plan-level information. For example, in the sample disclosure provided in ASC 715-80-55-8, the entity indicates that the “zone status is based on information that Entity A received from the plan and is certified by the plan’s actuary.”

C. Disclosures for multiemployer benefit plans other than pensions

Under the final ASU, employers will continue to disclose the amount of contributions to a multiemployer plan other than a pension for each reporting period presented. In addition, the employer must disclose a description of the nature and effect of any changes affecting comparability from period to period, such as a change in the rate of employer contributions, a business combination or divestiture, a change in the contractual employer contribution rate, or a change in the number of employees covered.

The ASU also requires entities to describe the nature of the benefits and the types of employees covered by these benefits, such as medical benefits provided to active employees and retirees.

D. Planning considerations

Because ASU 2011-09 is effective for 2011 for calendar-year public companies, financial statement preparers do not have much time to prepare these disclosures. For some entities, most of the information required to prepare the enhanced disclosures may reside outside the accounting department. As a result, preparers should determine who within their entity is responsible for receiving and retaining the necessary plan-level information and begin gathering the data necessary for preparing the disclosures sooner rather than later. If an entity participates in foreign multiemployer plans, the lead time necessary for gathering data could be even greater.

E. Determining whether a plan is significant

Since a majority of the enhanced disclosures apply only to individually significant plans, it is important to determine which plans are “significant.” Under the amended guidance, the amount of an employer's contribution to a plan is not the only factor to consider when determining which multiemployer plans are significant. Employers should consider other factors, including, but not limited to, the degree of underfunding of a plan and any relevant available information about other employers that participate in the plan.

F. Effective date and transition

The amended guidance is effective for annual reporting periods ending after December 15, 2011 (that is, December 31, 2011 for calendar-year entities) for public entities and for annual reporting periods ending after December 15, 2012 (that is, December 31, 2012 for calendar-year entities) for nonpublic entities. The amended guidance must be applied retrospectively. Early adoption is permitted.
relevant facts and circumstances, including the pertinent authoritative literature, need to be considered to arrive at conclusions that comply with matters addressed in this bulletin.

For additional information on topics covered in this bulletin, contact your Grant Thornton LLP adviser.