AMERICAN ACADEMY of ACTUARIES

Hillary Salo
Chair, Emerging Issues Task Force
Financial Accounting Standards Board
801 Main Avenue
P.O. Box 5116
Norwalk, CT 06856-5116

RE: Application of ASC Topic 715 to Market-Return Cash Balance Plans

Dear Chair Salo:

On behalf of the Retirement Practice Council's Pension Committee (Committee) of the American Academy of Actuaries[1], we offer the following comments on the Financial Accounting Standards Board (FASB) Emerging Issues Task Force's (EITF) current agenda project: Application of Topic 715 to Market-Return Cash Balance Plans (MRCB plans).

The appropriate accounting treatment for cash balance plans under U.S. Generally Accepted Accounting Principles (GAAP) has not been formally addressed by FASB since 2003, when EITF Issue No. 03-4 clarified the cost attribution method to be used for cash balance plans with fixed interest crediting rates. In recent years, many companies have considered cash balance designs utilizing market-based returns rather than fixed interest crediting rates. As noted in the agenda request, EITF received feedback identifying uncertainty around the applicable accounting as an impediment that publicly traded companies face when considering market-return plan designs.

The Committee agrees with the points raised in the agenda request, as well as the potential interpretations provided. As we consider recommendations regarding the appropriate accounting treatment, the Committee believes that View B or View C, as described in the request, would be the most appropriate. This perspective is consistent with the recent Conference of Consulting Actuaries (CCA) white paper from February 2024.[2]

We believe that Views B and C are most consistent with the underlying economics of MRCB plans, producing a measure of liabilities that is consistent with the cost of maintaining or settling the related benefit obligation. As a result, they provide the most useful information for financial statements. This reflects the underlying economics of MRCB plans, producing a measure of liabilities that is consistent with the cost of maintaining or settling the related obligation. This view is also consistent, from an economic perspective, with the measurement of benefit obligations for more traditional defined benefit plans under Accounting Standards Codification Topic 715 (ASC 715). View A, in contrast, does not reflect the underlying economics of these plan designs and would produce a measure of the benefit obligation that is inconsistent with the principles underlying ASC 715. As noted in the agenda request, the

[1] The American Academy of Actuaries is a 20,000-member professional association whose mission is to serve the public and the U.S. actuarial profession. For 60 years, the Academy has assisted public policymakers on all levels by providing leadership, objective expertise, and actuarial advice on risk and financial security issues. The Academy also sets qualification, practice, and professionalism standards for actuaries in the United States.
[2] Financial Accounting Treatment of Market-Return Cash Balance Plans; Conference of Consulting Actuaries; February 2024.

economics of MRCB plans are fundamentally different than those of the more "traditional" cash balance plan designs that existed in 2003, when the EITF last provided guidance on cash balance plans.

Further, Actuarial Standard of Practice No. 4 (ASOP No. 4), *Measuring Pension Obligations and Determining Pension Plan Costs or Contributions*, incorporates the concept of a Low-Default-Risk Obligation Measure (LDROM), which is generally consistent with the benefit obligation under ASC 715. We further believe that View B would be most consistent with the concept of the LDROM as defined in ASOP No. 4, for the reasons laid out in the CCA white paper.

While View C would properly capture the economics of a MRCB plan that is expected to distribute benefits to all participants in the near-term, in an amount equal to the current account balance, some MRCB plans contain features such as limits on the annual rate of return credited to participant accounts. In this latter situation, if the plan is expected to distribute benefits over a more extended period, the cost of effectively settling the benefit obligation could be less than the current account balance. Thus, View C could result in an overstatement or understatement of the benefit obligation in certain situations, unless the rules permit sufficient flexibility to reflect an actuarial estimate of the cost or savings associated with these features.

It is important to note that these perspectives on Views B and C relate specifically to MRCB plans and would not carry over to more traditional cash balance plan designs, which are currently valued using View A. View C, for example, reflects the current value of participant account balances, which would not be appropriate for a cash balance plan that credits an interest rate that is not closely related to asset returns. These plans behave more like traditional defined benefit plans, in that the rate of growth in assets and liabilities can differ substantially. For example, if a cash balance plan credits interest at a fixed rate of 5% and the prevailing corporate bond rates used to discount projected benefits are 3%, the value of the benefit promise would be higher than the current account balance. This is consistent with what an insurance company might charge to accept the transfer of such an obligation. Conversely, the value of the benefit promise would be less than the current account balance when prevailing corporate bond rates are higher than the interest crediting rate. Setting the benefit obligation equal to the current account balance would be less appropriate in the context of this more traditional cash balance design.

The Committee appreciates the opportunity to offer this feedback on the current agenda project. If you have any questions or would like to discuss these comments further, please contact Janae Nelson, the Academy's policy project manager, retirement (nelson@actuary.org).

Sincerely,

Grace Lattyak, MAAA, EA, FCA, FSA
Chairperson, Pension Committee