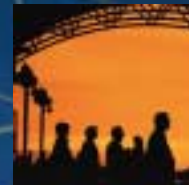
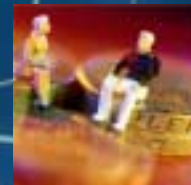


# Accounting Standards for Employee Benefits around the World

**USA / FAS 87**



[WWW.WATSONWYATT.COM](http://WWW.WATSONWYATT.COM)



# Balance Sheet (Disclosure - FAS 87)

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- Projected Benefit Obligation
- +
- Market Value of Assets
- =
- Funded Status
- +
- Unrecognized Amounts:
  - (Gain)/Loss
  - Prior Service Cost (amendments)
  - Transition (Asset)/Obligation
- =
- (Accrued)/Prepaid Benefit Cost





# Income Statement (Expense - FAS 87)

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- Service Cost
- +
- Interest Cost
- +
- Expected Return on Assets
- +
- Amortization: (Gain)/Loss  
Prior Service Cost  
Transition (Asset)/Obligation
- =
- Net Periodic Benefit Cost





# Key Assumptions/Methods (FAS 87)

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- Cost Method
  - Projected Unit Credit (required)
- Asset Method
  - Fair Market
  - Smoothing (up to 5 years)
- Discount Rate
  - Reviewed Annually
  - Settlement Rates
  - High Quality Fixed Income Investments





# Key Assumptions/Methods (FAS 87)

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- Return on Asset Assumption
  - Asset Allocation
  - Long Term Investment Strategy
- Amortization Methodology
  - Straight Line Method
  - Average Future Working Lifetime
  - 10% Corridor (or faster)
- Measurement Date
  - Within 3 Months of Fiscal Year End





# Special Accounting (FAS 88)

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- Curtailment
  - Significant Reduction in Future Service
  - Accelerated Recognition of Unrecognized Amounts
- Termination Benefits
  - Enhanced Benefits upon Termination
  - Immediate Expense Recognition
- Settlement
  - Lump Sums/Annuity Purchases ( $>$  SC+IC threshold)
  - Accelerated Recognition of Certain Unrec. Amounts





# Other Accounting (FAS 87)

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- Acquisitions
  - Purchase Accounting
  - Funded Status = (Accrued)/Prepaid Cost
- Additional Minimum Liability (AML)
  - Unfunded Accrued Benefit Obligation
  - Potential Impact on Balance Sheet
- Other Comprehensive Income
  - Charge to Equity
  - AML - Intangible Asset

