

ing aspects of pension plans, took the position that beginning January 1, 1967, pension costs should be accounted for on an accrual basis.⁵ The costs are to be computed in accordance with one of the generally acceptable actuarial cost methods (described in Appendix A of Opinion No. 8), using reasonable actuarial assumptions and reflecting the other conclusions of the Opinion.⁶ The Opinion stated that the annual provision for pension cost should not be less than the total of normal cost and an amount equivalent to interest on any unfunded prior service cost, plus, if necessary, an additional sum calculated in such manner as to insure the full accrual over a 20-year period of the costs associated with vested benefits.⁷ The annual provision for pension cost should not be greater than the total of (1) normal cost, (2) 10 percent of the initial past service cost (until fully amortized), (3) 10 percent of the amounts of any increase in prior service cost arising out of an amendment of the plan (until fully amortized), and (4) interest equivalents on the difference between pension charges and amounts funded.⁸ As intimated by item (4) above, the appropriate pension charges are to be made whether or not corresponding payments are made to the funding agency (bank or insurance company). If contributions to the plan are less than the amounts charged to expense, whether attributable to normal cost or prior service costs, the difference is to be shown on the liability side of the balance sheet and described in a manner to make clear that it does not constitute a legal obligation. An excess of contributions over expense charges are to be reflected on the asset side as a deferred charge.

The employer's income tax deductions are still based on his contributions to the pension plan rather than expense charges *per se*.

The new accounting rules apply to all types of pension plans—defined contribution as well as defined benefit plans and unfunded as well as funded plans. It is especially significant that future pension cost accruals under an unfunded plan must be reflected in the employer's balance sheet, which may induce the employer to adopt the practice of funding his pension obligations. The accountants' recommendation that unfunded pension charges under any type of plan be reflected in the balance sheet is likely to cause all employers to fund at a rate at least equal to that at which the pension costs accrue. It may, of course, lead to the practice of computing cost accruals at the lowest acceptable level, thus inhibiting funding. In any event, it should be recognized that in the typical case the employer's legal liability, if the plan should terminate, is limited to the amounts already contributed, even though the balance sheet may show an excess of expense charges over funding payments.

HAZARDS TO BENEFIT FULFILLMENT

The primary source of security for *accrued* pension benefits is a fund of assets, including life insurance and annuity contracts, irrevocably placed beyond the control of the employer and committed

⁵ See Opinion No. 8, *Accounting for the Cost of Pension Plans*, pars. 16, 17, and 18. This Opinion supersedes Accounting Research Bulletin No. 43, ch. 13, sec. A, *Compensation: Pension Plans—Annuity Costs Based on Past Services* and Accounting Research Bulletin No. 47, *Accounting for Costs of Pension Plans*.

⁶ *Ibid.*, par. 24.

⁷ *Ibid.*, par. 17. However, the additional sum need not exceed the amount that would be necessary to amortize the initial past service liability over a 40-year period.

⁸ *Ibid.*, par. 17.