Pensions

Employers provide benefits to employees after they retire for services provided during employment

• There is accounting for the employer who sponsors and funds plan
• There is accounting for the pension fund that receives contributions, administers assets, makes benefit payments
  o This is a separate entity

Types of plans

• Contributory plans have employees bearing a part of the cost
• Non-contributory plans have the employer bearing the full cost
• Qualified pension plans (government) have provisions
  o Employer can deduct contributions
  o Earnings on assets are tax-free
• Defined Contribution Plan
  o Employer contributes to pension trust based on a formula:
    ▪ Factors include age, length of service, employer’s profits, levels of compensation
  o Employee collects from the trust based on:
    ▪ Amounts contributed, income accumulated, treatment of forfeitures caused by early termination
  o Benefit of gain or risk of loss is carried by employee
  o The employer’s contribution is the current pension expense
  o Disclosures must be made for:
    ▪ Plan description, employee groups covered, basis for determining contributions, and matters affecting comparability
  o In a defined contribution trust, beneficiaries are employees

• Defined benefit plan
  o Defines benefits based on:
    ▪ Years of service and compensation levels near retirement
  o Must determine contribution needed today to meet future benefits
  o Benefits are based on uncertain variables
    ▪ Actuaries assign probabilities based on assumptions
      • Mortality rates, employee turnover, interest and earnings rates, early retirement frequency, future salaries
    ▪ Actuaries figure:
      • Pension obligation
      • Cost of servicing plan
      • Cost of amendments
  o In a defined benefit trust, beneficiary is the employer
    ▪ Substance belongs to the employer