
NO. 243-A | JUNE 2005

Governmental Accounting Standards Series

Statement No. 47 of the
Governmental Accounting
Standards Board

Accounting for Termination Benefits



Governmental Accounting Standards Board
of the Financial Accounting Foundation

For additional copies of this Statement and information on applicable prices and discount rates, contact:

Order Department
Governmental Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

Telephone Orders: 1-800-748-0659

Please ask for our Product Code No. GS47.

The GASB website can be accessed at www.gasb.org.

Summary

This Statement establishes accounting standards for termination benefits.

Recognition Requirements

In financial statements prepared on the accrual basis of accounting, employers should recognize a liability and expense for *voluntary* termination benefits (for example, early-retirement incentives) when the offer is accepted and the amount can be estimated. A liability and expense for *involuntary* termination benefits (for example, severance benefits) should be recognized when a plan of termination has been approved by those with the authority to commit the government to the plan, the plan has been communicated to the employees, and the amount can be estimated. For financial reporting purposes, a *plan of involuntary termination* is defined as a plan that (a) identifies, at a minimum, the number of employees to be terminated, the job classifications or functions that will be affected and their locations, and when the terminations are expected to occur and (b) establishes the terms of the termination benefits in sufficient detail to enable employees to determine the type and amount of benefits they will receive if they are involuntarily terminated. If a plan of involuntary termination requires that employees render future service in order to receive benefits, the employer should recognize a liability and expense for the portion of involuntary termination benefits that will be provided after completion of future service ratably over the employees' future service period, beginning when the plan otherwise meets the recognition criteria discussed above.

In financial statements prepared on the modified accrual basis of accounting, liabilities and expenditures for termination benefits should be recognized to the extent the

liabilities are normally expected to be liquidated with expendable available financial resources.

Measurement Requirements

Healthcare-related termination benefits that are provided as the result of a large-scale, age-related program (for example, an early-retirement incentive program that affects a significant portion of employees) should be measured at their discounted present values based on projected total claims costs (or age-adjusted premiums approximating claims costs) for terminated employees, with consideration given to the expected future healthcare cost trend rate. Employers that provide healthcare-related termination benefits that are not part of a large-scale, age-related termination program are permitted, but not required, to measure the cost of termination benefits based on projected claims costs for terminated employees. That is, in this circumstance, the cost of termination benefits may be based on unadjusted premiums.

The cost of non-healthcare-related termination benefits for which the benefit terms establish an obligation to pay specific amounts on fixed or determinable dates should be measured at the discounted present value of expected future benefit payments (including an assumption regarding changes in future cost levels during the periods covered by the employer's commitment to provide the benefits). If, however, the benefit terms do not establish an obligation to pay specific amounts on fixed or determinable dates, the cost of non-healthcare-related benefits should be calculated as *either* (a) the discounted present value of expected future benefit payments *or* (b) the undiscounted total of estimated future benefit payments at current cost levels.

Termination Benefits That Affect an Employer's Defined Benefit Pension or OPEB Obligations

As an exception to the general recognition and measurement requirements discussed above, the effects of a termination benefit on an employer's obligations for defined benefit pension or other postemployment benefits should be accounted for and reported under the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, or Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as applicable.

Disclosure Requirements

This Statement requires employers to disclose a description of the termination benefit arrangement, the cost of the termination benefits (required in the period in which the employer becomes obligated if that information is not otherwise identifiable from information displayed on the face of the financial statements), and significant methods and assumptions used to determine termination benefit liabilities.

Effective Date

The requirements of this Statement are effective in two parts. For termination benefits provided through an existing defined benefit OPEB plan, the provisions of this Statement should be implemented simultaneously with the requirements of Statement 45. For all other termination benefits, this Statement is effective for financial statements for periods beginning after June 15, 2005. Earlier application is encouraged.

In the initial year of implementation, the requirements of this Statement should be applied to any previous commitments of termination benefits that remain unpaid at the effective date of the Statement. The cumulative effect of applying this Statement should be

reported as a restatement of beginning net assets (or equity or fund balance, as appropriate). Financial statements for prior periods are not required to be restated.

How the Changes in This Statement Will Improve Financial Reporting

This Statement supersedes accounting guidance in National Council on Governmental Accounting (NCGA) Interpretation 8, *Certain Pension Matters*, as amended, which addresses one form of voluntary termination benefits—*special termination benefits*, or those offered for a “short period of time.” It improves financial reporting by (a) adopting for *all* voluntary termination benefits recognition requirements similar to those in NCGA Interpretation 8, (b) establishing guidance applicable to involuntary termination benefits that requires governments, in financial statements prepared on the accrual basis of accounting, to account for the effects of termination benefits in the period in which the employer becomes obligated to provide benefits to terminated employees, and (c) elaborating on measurement issues associated with all forms of termination benefits. As a result of governments’ being recognized to account for similar termination benefits in the same manner, application of this Statement will enhance the comparability of financial statements.

| |
|--|
| Unless otherwise specified, pronouncements of the GASB apply to financial reports of all state and local governmental entities, including general purpose governments, public benefit corporations and authorities, public employee retirement systems, utilities, hospitals and other healthcare providers, and colleges and universities. Paragraph 6 discusses the applicability of this Statement. |
|--|

Statement No. 47 of the
Governmental Accounting
Standards Board

Accounting for Termination Benefits

June 2005



Governmental Accounting Standards Board
of the Financial Accounting Foundation
401 Merritt 7, PO Box 5116, Norwalk, Connecticut 06856-5116

Copyright © 2005 by Governmental Accounting Standards Board. All rights reserved. No part of this publication may be reproduced, stored in a retrieval system, or transmitted, in any form or by any means, electronic, mechanical, photocopying, recording, or otherwise, without the prior written permission of the Governmental Accounting Standards Board.

Statement No. 47 of the Governmental Accounting Standards Board

Accounting for Termination Benefits

June 2005

CONTENTS

| | Paragraph Numbers |
|---|----------------------|
| Introduction..... | 1– 2 |
| Standards of Governmental Accounting and Financial Reporting | 3–21 |
| Scope and Applicability of This Statement..... | 3– 7 |
| Measurement and Recognition of Termination Benefits | 8–17 |
| Measurement..... | 9–11 |
| Healthcare-Related Termination Benefits..... | 9 |
| Non-Healthcare-Related Termination Benefits..... | 10–11 |
| Recognition of Termination Benefit Liabilities and Expense in Accrual Basis Financial Statements | 12–15 |
| Recognition of Termination Benefit Liabilities and Expenditures in Modified Accrual Basis Financial Statements | 16 |
| Effects of a Termination Benefit on an Employer’s Defined Benefit Pension or Other Postemployment Benefit Obligations..... | 17 |
| Note Disclosures | 18–21 |
| Effective Date and Transition | 22–23 |
| Appendix A: Background | 24–28 |
| Appendix B: Basis for Conclusions | 29–64 |
| Appendix C: Codification Instructions | 65–67 |

Statement No. 47 of the Governmental Accounting Standards Board
Accounting for Termination Benefits

June 2005

INTRODUCTION

1. Some governments provide benefits intended to hasten an employee's voluntary termination of services, sometimes referred to as *early-retirement incentives*, which may be offered for a short period of time or, in some cases, may be part of a longer-standing offer. Examples of benefits commonly provided as incentives for voluntary terminations include cash payments (one-time or a series), enhancements to defined benefit pension or other postemployment benefit (OPEB) formulas, and healthcare coverage when none otherwise would be provided. In addition, governments sometimes provide benefits to terminated employees as a result of involuntary terminations, such as layoffs. Examples of benefits provided for involuntary terminations include severance pay, continued access to health insurance through the employer's group insurance plan, career counseling, and outplacement services. Other benefits, such as healthcare continuation under the Consolidated Omnibus Budget Reconciliation Act (COBRA), are provided as a result of voluntary and involuntary terminations, in certain circumstances.

2. Prior to this Statement, guidance on governmental employer accounting and reporting for termination benefits was limited to one form of voluntary termination benefits—*special termination benefits*, which were defined as those offered “for a short period of time.” The objective of this Statement is to provide guidance to governmental

employers for measuring, recognizing, and reporting liabilities and expense/expenditures related to *all* termination benefits, including voluntary termination benefits, without limitation as to the period of time during which the benefits are offered, and involuntary termination benefits.

STANDARDS OF GOVERNMENTAL ACCOUNTING AND FINANCIAL REPORTING

Scope and Applicability of This Statement

3. This Statement establishes standards of accounting and financial reporting for termination benefits. As used in this Statement, termination benefits are benefits provided by employers to employees as an inducement to hasten the termination of services or as a result of a voluntary early termination (*voluntary termination benefits*) or as a consequence of the involuntary early termination of services (*involuntary termination benefits*). Termination benefits include early-retirement incentives, severance benefits, and other termination-related benefits. The scope of this Statement does not include unemployment compensation, for which accounting requirements are established in National Council on Governmental Accounting (NCGA) Statement 4, *Accounting and Financial Reporting Principles for Claims and Judgments and Compensated Absences*.

4. Termination benefits, as discussed in paragraph 3, are different in nature from the salaries and benefits, including postemployment benefits, that an employer provides as compensation for employee services. Accordingly, postemployment benefits (pensions and OPEB), which are part of the compensation that employers offer in exchange for services received, are excluded from the scope of this Statement. Accounting requirements for

pensions and OPEB are addressed in Statements No. 27, *Accounting for Pensions by State and Local Governmental Employers*, and No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, respectively.

5. In determining whether the nature of a benefit arrangement is to provide benefits in exchange for the early termination of services (a termination benefit) or to provide benefits in exchange for employee services (a pension benefit or OPEB), professional judgment should be applied considering all relevant factors—including, for example, the employer’s intent, the way in which the employees generally view the benefits, whether the benefit is conditioned on termination of employment prior to the normal retirement age, and the length of time for which the benefits have been made available.

6. The requirements of this Statement apply to the financial statements of all state and local governmental employers that provide termination benefits.

7. This Statement supersedes paragraphs 6, 7, 8b, 12, 17, and 18 of NCGA Interpretation 8, *Certain Pension Matters*, and amends paragraph 5 of NCGA Interpretation 6, *Notes to the Financial Statements Disclosure*; paragraph 8 of GASB Statement No. 1, *Authoritative Status of NCGA Pronouncements and AICPA Industry Audit Guide*; paragraph 2 of GASB Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*; paragraph 2 and footnote 2 of GASB Statement No. 12, *Disclosure of Information on Postemployment Benefits Other Than Pension Benefits by State and Local Governmental Employers*; paragraphs 12 and 44 of GASB Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*; paragraphs 5 and 11 of

GASB Statement No. 26, *Financial Reporting for Postemployment Healthcare Plans Administered by Defined Benefit Pension Plans*; footnotes 2 and 3 and paragraphs 5, 6, and 39 of GASB Statement 27; paragraph 81 of GASB Statement No. 34, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments*; paragraphs 9 and 46 of GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*; paragraphs 8 and 40 of GASB Statement 45; and paragraphs 5, 6, 9, 11, and 14 and footnote 7 of GASB Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*.

Measurement and Recognition of Termination Benefits

8. An employer should account for termination benefits in accordance with the measurement and recognition requirements of paragraphs 9 through 16 of this Statement, as applicable, and should include as part of the cost of termination benefits any fringe benefits related to the termination benefits and any directly resulting changes in the estimated costs of other employee benefits such as compensated absences, if reliably measurable. However, the effects of a termination benefit on an employer’s defined benefit pension or OPEB obligations should be accounted for in accordance with paragraph 17 of this Statement.

Measurement

Healthcare-Related Termination Benefits

9. An employer should measure the cost of healthcare-related termination benefits, including healthcare continuation under COBRA, by calculating the discounted present

value of expected future benefit payments, in accordance with the following requirements, as applicable:

a. Projection of Benefits.

(1) If the event giving rise to healthcare-related termination benefits is a large-scale, age-related program (for example, a voluntary program of incentives for senior employees that results in early termination of employment by a significant portion of employees), the employer should segregate the benefits provided to terminated employees and their beneficiaries from those provided to active employees for measurement purposes and should project the employer's expected future benefit payments based on the projected total claims costs, or age-adjusted premiums approximating claims costs, for terminated employees.¹ (The employer's expected termination benefit payment for each future period for which healthcare-related termination benefits are to be provided is the difference between (a) the projected claims costs, or age-adjusted premiums approximating claims costs, for terminated employees and (b) the payment(s), if any, to be made by the terminated employees.)

(2) If the event giving rise to healthcare-related termination benefits is not a large-scale, age-related program (for example, the termination benefits arise as the result of a reduction in force that affects employees with an age profile similar to that of the entire workforce), the employer should segregate the benefits provided to terminated employees and their beneficiaries from those provided to active employees for measurement purposes and should project the employer's expected future benefit payments for terminated employees.² For this purpose, the use of projected claims costs, or age-adjusted premiums approximating claims costs, is not required. In this circumstance, unadjusted premiums may be used as the basis for the projection of expected future benefit payments. (If unadjusted premiums are used, the employer's expected termination benefit payment for each future period for which healthcare-related termination benefits are to be provided is the difference between (a) the projected termination benefit cost, based on unadjusted premiums, for terminated employees and (b) the payment(s), if any, to be made by the terminated employees.)

b. Healthcare Cost Trend Rate. The projection of expected future benefit payments should include an assumption regarding the healthcare cost trend rate³ for the periods covered by the employer's commitment to provide the benefits.

¹However, if the healthcare-related termination benefit affects the employer's obligation to provide defined benefit postemployment healthcare benefits (OPEB), the effects of the termination benefits on the employer's OPEB obligations should be accounted for as required by paragraph 17, instead of paragraphs 9 through 16, which otherwise would apply.

²See footnote 1.

³The healthcare cost trend rate is the rate of change in per capita health claims costs over time as a result of factors such as medical inflation, utilization of healthcare services, plan design, and technological developments.

- c. Discount Rate. The discount rate should be determined by giving consideration to the estimated yield, over the period of time the benefits are to be provided, on the investments that are expected to be used to finance the payment of benefits,⁴ with consideration given to the nature and mix of current and expected investments.

Non-Healthcare-Related Termination Benefits

10. An employer should measure the cost of termination benefits that are not healthcare related as follows:

- a. If the benefit terms establish an obligation to pay specific amounts on fixed or determinable dates, the cost of non-healthcare-related termination benefits should be calculated as the discounted present value of expected future benefit payments, including an assumption regarding changes in future cost levels during the periods covered by the employer's commitment to provide the benefits.
- b. If the benefit terms do not establish an obligation to pay specific amounts on fixed or determinable dates, the cost of non-healthcare-related benefits should be calculated as either (1) the discounted present value of expected future benefit payments, including an assumption regarding changes in future cost levels during the periods covered by the employer's commitment to provide the benefits, or (2) the undiscounted total of estimated future benefit payments at current cost levels.

11. If expected future payments for termination benefits are discounted, the discount rate should be determined by giving consideration to the estimated yield, over the period of time the benefits are to be provided, on the investments that are expected to be used to finance the payment of benefits,⁵ with consideration given to the nature and mix of current and expected investments.

Recognition of Termination Benefit Liabilities and Expense in Accrual Basis Financial Statements

12. An employer should recognize a liability and expense for *voluntary* termination benefits, in financial statements prepared on the accrual basis of accounting, when the

⁴The estimated yield on investments of the employer that are committed to other uses (for example, investments of interest and sinking funds for repayment of bonded debt) should not be included for this purpose.

⁵See footnote 4.

employees accept the offer and the amounts can be estimated. Measurement of the liability should be updated, and any incremental liability and expense (positive or negative) should be recognized, as of the end of each subsequent reporting period.

13. An employer should recognize a liability and expense for *involuntary* termination benefits, in financial statements prepared on the accrual basis of accounting, when a plan of termination has been approved by those with the authority to commit the employer to the plan, the plan has been communicated to the employees, and the amounts can be estimated. Measurement of the liability should be updated, and any incremental liability and expense (positive or negative) should be recognized, as of the end of each subsequent reporting period.

14. For purposes of this Statement, a plan of involuntary termination is a plan that:

- a. Identifies, at a minimum, the number of employees to be terminated, the job classifications or functions that will be affected and their locations, and when the terminations are expected to occur
- b. Establishes the terms of the termination benefits in sufficient detail to enable employees to determine the type and amount of benefits they will receive if they are involuntarily terminated.

15. Notwithstanding the requirements of paragraph 13, if a plan of involuntary termination requires the employee to render future service in order to receive termination benefits, a liability and expense for the portion of involuntary termination benefits that will be provided only after completion of future service should be recognized ratably over the future service period.⁶ Measurement of the liability should be updated as of the end of

⁶For this purpose, the future service period is considered to begin when a plan of termination has been approved by those with the authority to commit the employer to the plan, the plan has been communicated to the employees, and the amounts can be estimated.

each subsequent reporting period, and any incremental liability and expense (positive or negative) should be recognized ratably over the remaining future service period.

Recognition of Termination Benefit Liabilities and Expenditures in Modified Accrual Basis Financial Statements

16. In governmental fund financial statements, which are prepared on the modified accrual basis of accounting, liabilities and expenditures for termination benefits should be recognized to the extent the liabilities are normally expected to be liquidated with expendable available financial resources, as interpreted in paragraph 14 of Interpretation 6, as amended.

Effects of a Termination Benefit on an Employer's Defined Benefit Pension or Other Postemployment Benefit Obligations

17. The effects of a termination benefit on an employer's defined benefit pension or OPEB obligations (for example, a change in an employer's actuarial accrued liability for pension benefits or postemployment healthcare benefits) should be accounted for and reported in accordance with the requirements of Statement 27 or Statement 45, respectively.

Note Disclosures

18. In the period in which an employer becomes obligated for termination benefits and in any additional period in which employees are required to render future service in order to receive involuntary termination benefits, the employer should disclose in the notes to the financial statements a description of the termination benefit arrangement(s)—for example, information about the type(s) of benefits provided, the number of employees affected, and the period of time over which benefits are expected to be provided.

19. In addition, in the period in which an employer becomes obligated for termination benefits, the cost of termination benefits should be disclosed in the notes to the financial statements if that information is not otherwise identifiable from information displayed on the face of the financial statements. To meet this requirement, an employer that provides termination benefits that affect defined benefit pension or OPEB obligations should disclose in the notes to the financial statements the change in the actuarial accrued liability for the pension or OPEB plan attributable to the termination benefits.

20. In all periods in which termination benefit liabilities are reported, the employer should disclose the significant methods (for example, whether termination benefits are measured at the discounted present value of expected future benefit payments) and assumptions (for example, the discount rate and healthcare cost trend rate, if applicable) used to determine the liabilities.

21. If a termination benefit that otherwise meets the recognition criteria of this standard is not recognized because the expected benefits are not estimable, the employer should disclose that fact.

EFFECTIVE DATE AND TRANSITION

22. For termination benefits that affect an employer's obligations for defined benefit OPEB, the provisions of this Statement should be applied simultaneously with the requirements of Statement 45. For all other termination benefits, including those that affect an employer's obligations for defined benefit pension benefits, this Statement is

effective for financial statements for periods beginning after June 15, 2005. Earlier application of this Statement is encouraged.

23. In the initial year of implementation, the requirements of this Statement should be applied to any previous commitments of termination benefits that remain unpaid at the effective date of the Statement. The cumulative effect of applying this Statement should be reported as a restatement of beginning net assets (or equity or fund balance, as appropriate). Financial statements for prior periods are not required to be restated.

**The provisions of this Statement need not be
applied to immaterial items.**

*This Statement was issued by unanimous vote of the seven members of the
Governmental Accounting Standards Board:*

Robert H. Attmore, *Chairman*
Cynthia B. Green
William W. Holder
Edward J. Mazur
Paul R. Reilly
Richard C. Tracy
James M. Williams

Appendix A

BACKGROUND

24. Prior to this Statement, standards addressing accounting and financial reporting for termination benefits by governmental employers were limited to special termination benefits, or those offered “for a short period of time.” Guidance for special termination benefits originally was provided in NCGA Interpretation 8, *Certain Pension Matters* (1983), which incorporated Financial Accounting Standards Board Statement No. 74, *Accounting for Special Termination Benefits Paid to Employees*, with regard to the manner in which special termination benefits should be measured and recognized in financial statements.

25. Subsequently, GASB Statements No. 27, *Accounting for Pensions by State and Local Governmental Employers* (November 1994), and No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* (June 2004), amended NCGA Interpretation 8 to exclude from its scope special termination benefits offered in the form of a change in postemployment benefits provided through a defined benefit pension or OPEB plan. As a result, changes in defined benefit pensions or OPEB were required to be accounted for and reported by employers under Statement 27 or 45, respectively.

26. In April 2003, the Board added a limited-scope project to its technical agenda that would have addressed accounting for long-term offers intended to hasten an employee’s voluntary termination of employment by building on the guidance for special termination

offers in NCGA Interpretation 8. However, in August 2004, after initial discussions on the project, the Board decided to expand the scope of the project to include *all* termination benefits, including voluntary termination benefits, without regard for the duration of the offer to provide them, and involuntary termination benefits.

27. As a result of that decision, staff conducted research, including a survey of members of several constituent organizations, to identify the types of termination benefits offered by governmental employers. In response to the survey, information was collected about benefits provided by forty governments in twenty-five states. Information about recent early-termination programs provided by six other states and several other local governments was obtained from other sources. Results of staff's research indicated that termination benefits for voluntary terminations most often have taken the form of enhancements to defined benefit pension benefits—for example, additional credit for years of service or age, or an increase in the benefit calculation multiplier—or cash payments at or following termination. Other, less frequently provided forms of voluntary termination benefits include post-termination healthcare coverage and life insurance where none otherwise would be provided and conversion of unused sick leave balances to cash payments when such a conversion otherwise would not be allowed. Research also indicated that in addition to benefits for voluntary terminations, some employers provide benefits for involuntary terminations including cash payouts, severance benefits, continued life and health insurance, career counseling, and job placement assistance. In addition, employers are subject to the requirements of the Consolidated Omnibus Budget Reconciliation Act (COBRA) to provide, in certain circumstances, continuation of group

healthcare benefits to employees or former employees, their spouses, and their dependent children.

28. In December 2004, the Board issued for comment an Exposure Draft of this Statement. The Board received thirty comment letters in response to its proposals in the Exposure Draft. Discussion of comments received resulted in a number of changes and improvements that have been incorporated into this Statement. Significant issues and changes are discussed in the Basis for Conclusions.

Appendix B

BASIS FOR CONCLUSIONS

Introduction

29. This appendix summarizes factors considered significant by Board members in reaching the conclusions in this Statement. It includes discussion of the alternatives considered and the Board's reasons for accepting some and rejecting others. Individual Board members gave greater weight to some factors than to others.

Scope

30. In Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, the Board distinguished conceptually between postemployment benefits other than pensions (*other postemployment benefits*, or *OPEB*), which the Board concluded are compensation for employee services, and termination benefits, which the Board concluded are not compensation but incentives or settlements for early termination of services. Accordingly, the Board agreed in concept that the approach taken for OPEB accounting and reporting generally would not be appropriate for termination benefits that are not provided through existing defined benefit pension and OPEB plans.

31. The initial scope of this project was limited to benefits provided as incentives for voluntary terminations. However, that approach would have left unaddressed accounting and reporting for other benefits provided for voluntary terminations and benefits provided

for involuntary terminations. Therefore, the Board decided to broaden the scope of this project to include all voluntary and involuntary termination benefits because it believes that guidance is needed for all forms of termination benefits in order to achieve consistent, as well as more comparable, reporting by employers for similar benefits.

Termination Benefits vs. Postemployment Benefits

32. In paragraph 25 of the Basis for Conclusions of the Exposure Draft, the Board commented that, in the case of long-standing offers to provide benefits upon termination, there may be a point beyond which, conceptually, an offer of benefits might be viewed not as an incentive to hasten termination but rather as a de facto pension or OPEB plan. (For example, an offer that has been outstanding throughout the service careers of a generation of employees may have come to be viewed as part of the normal retirement provisions provided by the employer.) The Board commented that an offer to provide benefits should be evaluated and professional judgment should be applied to determine whether the substance of the arrangement is to hasten the termination of services (a termination benefit) or to provide compensation for services received (pensions or OPEB).

33. Respondents who commented on the issue generally agreed with the content of the preceding discussion. However, some respondents suggested that the discussion in paragraph 25 of the Exposure Draft be included, instead, in the body of the Statement. The Board concurred with that suggestion. Accordingly, paragraph 5 in the Scope and Applicability section of this Statement states that professional judgment should be applied when determining whether the substance of a particular benefit arrangement is a program of voluntary termination benefits (offered in exchange for early termination of services) or

is a pension benefit or OPEB (part of the total compensation for employee services). In addition, paragraph 5 identifies factors that might be considered in making the determination.

Unemployment Compensation

34. Some respondents also requested clarification of whether the scope of termination benefits to be accounted for in accordance with the requirements of this Statement includes unemployment compensation (currently accounted for in accordance with the requirements of NCGA Statement 4, *Accounting and Financial Reporting Principles for Claims and Judgments and Compensated Absences*). The Board affirmed that unemployment compensation is not a part of the scope of this Statement.

Measurement

Effects of Termination Benefits on Other Employee Benefits

35. This Statement requires that the direct effects of termination benefits on the estimated costs of other employee benefits generally should be included in the cost of termination benefits. However, an exception has been made for the effects of a termination benefit on an employer's obligation for defined benefit postemployment benefits because of the complexity of isolating, on an ongoing basis, the effect of changes due to terminations from those due to other gains and losses affecting actuarial accrued liabilities, expense, and the net pension or OPEB obligation. Paragraph 17 of this Statement carries forward the provisions of NCGA Interpretation 8, *Certain Pension Matters*, as amended by GASB Statements No. 27, *Accounting for Pensions by State and Local Governmental Employers*, and 45, whereby the effects of termination benefits on an employer's

obligation to provide benefits through a defined benefit pension or OPEB plan should be accounted for in accordance with the requirements of Statement 27 or Statement 45, as applicable. In order to provide readers of the financial statements with information about the cost of termination benefits, this Statement requires that an employer that provides benefits in this manner should disclose in the notes to the financial statements the change in the actuarial accrued liability for the pension or OPEB plan attributable to termination benefits for which the employer becomes obligated in that period. For additional discussion of note disclosure requirements, see paragraphs 56 through 62 of this Statement.

Healthcare-Related Termination Benefits

36. For healthcare-related termination benefits that arise as a result of a large-scale, age-related termination program and that are provided separately from a defined benefit OPEB plan, the measurement requirements of this Statement are broadly consistent with *relevant parts* of the parameters of Statement 45 with regard to the benefits to be included and the selection of certain actuarial assumptions in projecting an employer's future payments and calculating the present value of payments. In addition, the Board believes that Statement 45 generally may provide a helpful framework for consideration of application issues not directly addressed by this Statement. However, the Board notes that some of the parameters of Statement 45 related to measurement of postemployment healthcare benefits (OPEB) are *not* relevant to measurement of healthcare-related termination benefits. For example, parameters related to the process of allocating the present value of expected future benefit payments to accounting periods are not relevant to the measurement and recognition requirements of this Statement because employers are required to recognize an

expense for termination benefits in the period in which they become obligated for the benefits, in accordance with paragraphs 12 through 16.

37. *Determination of the termination benefits to be provided.* The Board tentatively concluded in the Exposure Draft that a requirement similar to that of paragraph 13a(1) of Statement 45 to base the projection of benefits on the *substantive plan* is not necessary for accounting for healthcare-related termination benefits. The Board noted that healthcare-related termination benefits generally are provided for a relatively short period of time (usually not extending past age sixty-five), in comparison to postemployment healthcare benefits (OPEB). Moreover, the benefit terms generally would be clearly determinable from the offer that is accepted by the employees (for voluntary terminations) or from the termination plan that has been communicated to employees (for involuntary terminations).

38. Some respondents to the Exposure Draft suggested including the notion of a substantive plan in this Statement, as well. However, the Board reaffirmed its conclusion that the termination benefits to be provided generally should be clearly determinable, without the need for a substantive plan notion, by the time that recognition is required (for example, voluntary termination benefits have been offered and accepted, or the employer has formed and communicated to employees a plan of involuntary termination).

39. *Separate accounting for healthcare-related benefits provided to ongoing active employees and to terminated employees.* The Board included in the Exposure Draft a proposed requirement, similar to that of paragraph 13a(2) of Statement 45, that when healthcare-related termination benefits are provided through a group that also includes active employees, the cost of providing the benefits to terminated employees should be

segregated for accounting purposes. In such a situation, the Board proposed that the projection of an employer's expected future benefit payments for terminated employees should be based on claims costs for the terminated employees, or on age-adjusted premiums approximating claims costs. (The use of age-adjusted premiums might apply, for example, in the measurement of the cost of an early-retirement incentive offer that includes healthcare coverage through continued participation in a group with active employees when blended premium rates are attributed to both active and terminated employees in the group. If claims costs are not used, the blended premium rates would be adjusted to reflect the potentially significant effect of the generally greater age of the terminated employees on their projected per capita claims costs relative to those for the group as a whole. The age-adjusted rates would be used as a surrogate for claims costs.) The Exposure Draft proposed that, an employer's payment each period for terminated employees be measured as the difference between (a) the claims costs, or age-adjusted premiums approximating claims costs, and (b) the amount, if any, contributed by the terminated employees.

40. The proposed approach discussed in the preceding paragraph would have required preparers and auditors to judge whether a departure from the proposed measurement requirements (that is, separate accounting for healthcare-related termination benefits, projecting healthcare-related termination benefits based on age-adjusted premium rates, and discounting expected future benefit payments to calculate their present value) would or would not be material. Respondents who disagreed with the Board's approach cited a number of reasons for their position, most frequently cost-benefit issues.

- *Benefits:* Some respondents questioned the incremental value of the information. They expressed the belief that accounting for the financial effects of the difference between age-adjusted and blended premiums associated with healthcare-related termination benefits is not likely to produce results that will be decision-useful to the government's financial statement readers in circumstances in which the benefits are of a short duration or do not affect many employees. Benefits provided under COBRA continuation were a frequently cited example for several reasons—the duration is relatively short; the number of recipients may be small in relation to the total workforce, particularly when COBRA benefits result from voluntary decisions to terminate employment by individual employees; and the profile of COBRA recipients by age may be similar to the profile of the active employee group, thus eliminating age as the principal factor differentiating claims costs. Some respondents also cited involuntary terminations (such as the closing of a program area, division, or field office, or an across-the-board reduction in force) as other examples of circumstances in which healthcare-related termination benefits would not be expected to be age related.
- *Cost of measurement:* Other respondents expressed concerns that information needed to measure the benefits would not be readily available to the government, or that for governments that do not provide postemployment healthcare benefits (OPEB), the proposed measurement tasks (for example, how to determine age-adjusted premiums or develop a discount rate) or potential sources of information (for example, sources for the healthcare trend rate) would be unfamiliar or problematic. Some respondents expressed concern that in order to obtain or develop the needed information, the use of a third party, such as an actuary, likely would be required at additional cost to the government.

41. In discussing the concerns raised by respondents on this issue, the Board considered whether there are circumstances in which the proposed measurement requirements for healthcare-related termination benefits could be simplified, consistent with the financial reporting objectives of the project and without unduly diminishing the decision-usefulness of the financial reporting of healthcare-related termination benefits. The Board considered that the effects of age, and the importance of applying a measurement approach consistent with that of Statement 45 that takes those effects into account, are more likely to be significant if the employees receiving healthcare-related termination benefits are likely to be older, as a result of the selection criterion involved in their termination, than the employees continuing in active service. Conversely, the effects of age, and the importance

of accounting for those effects, are less likely to be significant if the age profiles of terminated and active employees are similar or only randomly different.

42. The Board concluded that the types of termination programs or events identified in the Exposure Draft are likely to differ significantly in that regard. That is, employer-initiated voluntary early-termination incentive programs generally are likely to be age related (that is, to select senior employees for termination); however, other types of termination programs or events (for example, involuntary reductions in force or individual employee decisions to terminate employment) generally are less likely to be age related. The Board affirmed its conclusion that healthcare-related termination benefits—including COBRA benefits—should be measured in a manner consistent (to the extent applicable) with the approach required for postemployment healthcare benefits in Statement 45, as was proposed in the Exposure Draft, if the effects of implicit rate subsidies to terminated employees and the difference between the healthcare cost trend rate and the discount rate are significant. However, the Board decided to *limit the applicability* of the requirement to project future outflows based on claims costs, or age-adjusted premiums approximating claims costs, for terminated employees to *large-scale, age-related termination programs* (for example, early-termination incentive programs affecting a significant portion of the workforce). Accordingly, this Statement permits but does not require the application of that measurement method to termination benefits arising from programs or events that are not age related (for example, an involuntary termination program) or are not on a large scale (for example, an individual employee-initiated termination decision). In this

circumstance, unadjusted premiums may be used as the basis for the projection of future benefit payments.

43. *Healthcare cost trend rate.* As discussed previously in the OPEB project, increases in the per capita cost of healthcare from year to year may significantly affect employer payments associated with defined benefit healthcare over time if the benefits are defined in kind (that is, by the type of services to be provided rather than by the dollar amount of benefits). Therefore, the Board concluded that an employer should take into consideration the healthcare cost trend rate (discussed in paragraph 13b of Statement 45) when projecting future payments for healthcare-related termination benefits.

44. *Discount rate.* Consistent with the approach taken in paragraph 13c of Statement 45 with regard to the selection of a discount rate for OPEB, this Statement requires that the discount rate for use in calculating the present value of expected future benefit payments for healthcare-related termination benefits should be the estimated investment yield rate on the investments that are expected to be available to pay benefits, over the period of time for which the benefits will be provided, taking into consideration the nature and mix of current and expected investments. The Board anticipates that in most cases termination benefits will not be prefunded; thus, in most cases, the discount rate should be determined based on the expected yield on investments of the employer that are not committed to use for other purposes. For example, the expected yield on interest and sinking fund investments that are restricted to the payment of debt service on bonds is not relevant for purposes of determining the discount rate for termination benefits.

45. Some respondents questioned how the preceding requirement with regard to the determination of the discount rate should be applied if an employer has no investments that are potentially usable to pay termination benefits. If an employer expects to have investments for which there are no commitments preventing their application to paying termination benefits during any part of the time when termination benefits are outstanding, the employer may base the determination of a discount rate on the expected yield on those investments, taking into consideration the employer's investment policy as it affects the expected nature and mix of such investments. The Board concluded that the probability is remote that an employer would have no investments, including cash deposits, that could be used for the purpose of financing termination benefits during any part of the time when the benefits are outstanding.

Non-Healthcare-Related Termination Benefits

46. The Board considered the use of present value techniques, including expected cash flows and traditional present value approaches, as well as current cost approaches, for measurement of non-healthcare-related termination benefits. At the time of this project, the Board's long-term technical agenda included a research project on measurement attributes that was expected to include consideration of issues related to present value. The Board concluded that because that project had not been completed, it would be premature to attempt to develop a framework for measurement issues in this project. Therefore, in the Exposure Draft, the Board proposed a measurement approach for non-healthcare-related termination benefits consistent with the approach taken in paragraphs 22 and 24 of Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, as it relates to measurement of claims liabilities. That is, non-healthcare-

related termination benefits would be required to be measured at the discounted present value of expected future payments if the benefit terms establish an obligation to pay specific amounts on fixed or determinable dates. For non-healthcare-related benefits for which the benefit terms do not establish an obligation to pay specific amounts on fixed or determinable dates (for example, career counseling and outplacement services), discounting would be neither required nor prohibited.

47. Some respondents requested clarification of whether the use of a current cost method would be appropriate in situations where the use of a discounted present value of expected future benefit payments method is not prescribed. In the Exposure Draft, the Board proposed that an employer base the measurement of the cost of non-healthcare-related termination benefits on the amount of expected future benefit payments. For benefits with terms that include specific amounts and fixed or determinable payment dates, it was proposed that the expected future benefit payments be discounted. For benefits with terms that do not include specific amounts and fixed or determinable payment dates, the Exposure Draft would have permitted, but not required, the expected future benefit payments to be discounted. The proposed measurement options were limited to whether or not to discount the expected future benefit payments. After consideration of the issue raised by respondents, the Board concluded that the proposed option not to discount could have potentially overstated measurement results by permitting that expected future benefit payments be calculated at projected future values (that is, taking into consideration assumed cost-level changes) without discounting the future values to present value. Accordingly, the Board revised the proposed measurement options for non-healthcare-

related termination benefits cost proposed in the Exposure Draft. The revised measurement options provided in this Statement are either (a) to *both* include an assumption regarding changes in cost levels during the periods in which the employer would be committed to pay termination benefits *and* discount the expected future benefit payments to present value (as previously proposed) or (b) to include *neither* an assumption about cost level changes *nor* discounting. The latter option is similar to the current cost approach required for the measurement of compensated absences in Statement 16 and will, the Board concluded, further reduce the application cost for employers that use that option.

48. Consistent with the requirements for healthcare-related benefits, this Statement requires that the rate used for purposes of discounting the present value of expected future benefits should consider the estimated yield, over the period of time the benefits are to be provided, on current and expected investments that are expected to be used to pay benefits. (See also the discussion in paragraphs 44 and 45.)

Recognition

49. An employer's obligation to provide benefits for some forms of voluntary terminations arises as a result of a bilateral agreement in which the employer agrees to provide benefits in exchange for which the employee agrees to leave service earlier than he or she otherwise would. As a result, the Board believes that the employer is first obligated to provide benefits to a terminating employee when the incentive offer is accepted. Similarly, for forms of benefits provided for voluntary terminations that are required by law to be offered to terminating employees (for example, COBRA benefits

when significant in total), the Board believes that an employer's obligation arises when the employee accepts the offer of benefits. Therefore, this Statement retains the guidance from NCGA Interpretation 8, as amended, which requires recognition of a liability and expense for special termination benefits when the offer is accepted, and extends it to all voluntary termination benefits.

50. In contrast to voluntary terminations, involuntary terminations result from a unilateral decision by the employer. In such circumstances, once an employer has approved and has communicated to its employees a plan that is sufficiently detailed to identify the positions that will be terminated, when the terminations are expected to occur, and the benefits that will be provided to employees who are terminated, the Board believes that the employer is committed to provide benefits and generally would be unable to revoke the promise of benefits without other compensating action. Therefore, this Statement requires that when a plan meets the criteria in paragraphs 13 and 14, a liability and expense for termination benefits should be recognized, if estimable. The criteria in paragraphs 13 and 14 are similar to criteria established for the private sector that define when a one-time benefit arrangement exists for purposes of recognizing costs resulting from a plan of termination associated with exit or disposal activities, as defined in Financial Accounting Standards Board Statement No. 146, *Accounting for Costs Associated with Exit or Disposal Activities*. However, as adapted for use in this Statement, the criteria of paragraphs 13 and 14 are intended to apply more broadly to involuntary termination benefits, whether or not provided as a result of exit or disposal activities.

51. In the Exposure Draft proposal, the recognition criteria for involuntary termination benefits did not include an explicit requirement that the amounts be estimable. Some Exposure Draft respondents suggested that the Board add such a criterion. In an example discussed by the Board, an employer develops and communicates to employees prior to the end of a financial reporting period a plan of involuntary termination, in which the positions to be eliminated are identified. However, because employment agreements provide that senior employees have “bumping rights,” employees in some positions targeted for elimination may be able to elect transfer to other positions, thereby affecting the ultimate determination (which in this example cannot be made until after the financial report date) of which employees will be terminated. The Board believes, nevertheless, that an employer’s liability and expense for termination benefits generally will be estimable at the recognition points specified in paragraph 12 for voluntary termination benefits and paragraphs 13 through 15 for involuntary termination benefits—and emphasizes that recognition does not need to wait until an employer knows with certainty the specific employees and amounts involved. However, consistent with the recognition requirements for voluntary termination benefits and to address any situations in which an employer is unable to estimate the amount of the termination benefits liability and expense at the recognition point otherwise required for involuntary termination benefits, the Board agreed to clarify that the amounts also should be estimable.

52. In some cases, involuntary termination benefits are provided to employees only upon completion of future service and are intended as an incentive for the employees to remain employed because the employer requires their services until the termination date, perhaps

several months into the future. Although benefits in such circumstances are intended to be compensation for the early termination of services and, therefore, meet the definition of involuntary termination benefits, they also have the characteristic of being earned over the required future service period. The Board believes that application of the general requirement to recognize involuntary termination benefits when the criteria of paragraph 13 first are met to these termination benefits would ignore an essential element of their character—the future service requirement. Therefore, this Statement requires that when involuntary termination benefits are provided to employees only upon completion of future service, a liability and expense for the termination benefits should be recognized ratably over the required service period.

53. The Exposure Draft proposed to allow for consideration of a *minimum notification period* in regard to the recognition of involuntary termination benefits that have a future service requirement. The Exposure Draft provision would have required ratable recognition of liabilities and expenses related to involuntary termination benefits that have a future service requirement *only if* the required future service period exceeded a minimum notification period based on legal or contractual requirements (or sixty days, in the absence of such requirements). Some respondents commented that the requirements of the Exposure Draft were unclear as to the beginning of the period over which benefits with a future service requirement should be recognized—that is, whether recognition should begin at the point at which the recognition requirements otherwise are met or recognition should begin at the conclusion of the minimum notification period. After considering the respondents’ concerns, the Board concluded that the inclusion of the concept of a

minimum notification period added unnecessary complexity to the requirements of the standard. Therefore, the Board eliminated the minimum notification period provision of the Exposure Draft and included in the final Statement a discussion in the Standards section to clarify that the period over which involuntary termination benefits with a future service requirement should be recognized begins when the recognition requirements of paragraph 13 otherwise are met.

54. The Board also considered whether a standard of prorated recognition over a future service period, as discussed in paragraphs 52 and 53, should be applied to voluntary termination arrangements, as well, in situations where the agreement between the employer and a terminating employee includes a specified future date on which termination of employment is to occur. However, the Board affirmed its tentative conclusions, reflected in the Exposure Draft, that the nature of an employer-initiated voluntary termination program is to provide incentives for early termination of employment, and that an employer should recognize expense and a liability at the point an employee has accepted the offer. Although the agreement between the employer and the employee may provide that the termination is to occur at a specified future date, the Board concluded that such a provision should be regarded for accounting purposes as part of the terms defining the provision of benefits, rather than as a future service requirement, or stay incentive.

55. Some respondents to the Exposure Draft also requested explicit guidance regarding whether, or how frequently, measurements of termination benefit liabilities and expense should be updated when payments of benefits extend over multiple financial reporting

periods. To provide clarification, the final Statement includes explicit requirements that measurements be updated annually in periods subsequent to the initial measurement and recognition of liability and expense. The requirements of this Statement are consistent in that respect with the standards for measurement of other long-term liabilities such as compensated absences and landfill closure and postclosure care costs.

Note Disclosures

56. This Statement requires employers that provide termination benefits to disclose in notes to the financial statements (a) a general description of the termination benefit arrangement, (b) information about the cost of termination benefits in the period in which the employer becomes obligated if that information is not otherwise discernible from information on the face of the financial statements, and (c) significant methods and assumptions used to determine termination benefit liabilities and expenses. If, however, a termination benefit that otherwise meets the recognition criteria of this Statement is not recognized because the expected benefits are not estimable, an employer should disclose that fact. These requirements are applicable to all employers that provide termination benefits, including those that measure and recognize the effects of termination benefits on defined benefit pension or OPEB benefits in accordance with the requirements of paragraph 17.

57. As discussed in paragraph 35, the Board provided an exception to the general measurement and recognition requirements of this Statement for the effects of termination benefits on defined benefit postemployment benefits. However, the Board was concerned that this approach would not provide adequate information about the cost of termination

benefits that are provided in this manner. The Board believes that although practical concerns arise over measurement of termination benefits on an *ongoing basis*, in the period in which an employer *initially* becomes obligated for termination benefits, the change in the actuarial accrued liability for pensions or OPEB that is attributable to termination benefits should be readily determinable. An actuarial valuation is required under the provisions of Statement 27 or 45 when significant changes have occurred that affect the results of the previous valuation. The Board believes that the change in benefit terms or actuarial assumptions resulting from provision of a termination benefit program frequently may be sufficient to activate that requirement. If not, the Board believes that the effect can be estimated using methodologies short of a full actuarial valuation. Therefore, an exception to the note disclosure requirements of this Statement was not provided for these employers.

58. Some respondents to the Exposure Draft suggested that the Board provide an exception to the requirement to disclose the change in the actuarial accrued liability for employers in cost-sharing multiple-employer postemployment benefit plans because those plans essentially pool benefit costs. However, the Board believes that unless the same termination benefit is provided by all employers in a cost-sharing plan—an unlikely circumstance—the effect of the termination benefit on the plan’s actuarial accrued liability generally would be separately assessed by the plan and accounted for as pension- or OPEB-related debt(s) of the specific employer(s) providing the benefit to the plan. Therefore, the Board believes that the effect of a termination benefit on an individual cost-sharing employer’s obligations to provide pension benefits or OPEB should be

determinable, and no exception to the disclosure requirement has been provided in the final Statement for cost-sharing employers.

59. Other respondents to the Exposure Draft noted that because the effects of a termination benefit on an employer's obligation for defined benefit pensions or OPEB is required to be accounted for under Statement 27 or Statement 45, as applicable, the amounts that those Statements require to be reported in schedules of required supplementary information (RSI) also should include the effects of termination benefits. Those respondents suggested that the final Statement on termination benefits should discuss the effects on the amounts reported as RSI in accordance with Statement 27 or 45. However, because this Statement does not intend to expand or modify those RSI requirements, the Board concluded that to discuss the requirements of other standards in further detail in the Standards section of this Statement would not be appropriate.

60. Some respondents to the Exposure Draft also suggested that the Board include in the note disclosure requirements of the final Statement a requirement to disclose significant methods and assumptions used in the measurement of termination benefit liabilities and expense. The Board believes that the disclosure of significant methods (for example, whether expected future benefits have been discounted) already is required as a part of the summary of significant accounting policies. In addition, the Board believes that the disclosure of significant assumptions used (for example, the discount rate and the healthcare cost trend rate, if applicable) is a reasonable application of disclosure requirements established by pronouncements preceding this Statement. (See GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and*

Analysis—for State and Local Governments, paragraph 113; NCGA Statement 1, *Governmental Accounting and Financial Reporting Principles*, paragraph 158, as amended; and Accounting Principles Board Opinion No. 22, *Disclosure of Accounting Policies*, paragraph 12.) However, to ensure consistency of practice, the Board has included in this Statement an explicit requirement to disclose methods and assumptions used to determine termination benefit liabilities and expenses.

61. Some respondents suggested that the Board provide an exception to the requirement for disclosure of a description of the termination benefit arrangement(s) in the event that a termination benefit is covered by legal or contractual privacy or nondisclosure provisions. The Board, while sensitive to the concerns expressed by respondents, believes that circumstances that would lead to potential conflicts between the requirements of this Statement and legal provisions relating to privacy and nondisclosure would be relatively uncommon (primarily because such conflicts generally would involve only one or a few employees, yet would have to be material). In addition, the Board concluded that to provide an exception would fundamentally undermine the objective of transparent financial reporting.

62. In addition, to address circumstances in which a termination benefit is not recognized at the point that otherwise would be required because the amount of future benefits is not deemed estimable, the Board included a requirement in this Statement to disclose that fact.

Effective Date and Transition

63. Because the accounting and reporting treatment specified by this Statement for termination benefits that affect an employer's obligation for defined benefit OPEB requires the application of Statement 45, which is not yet effective, the Board agreed that for those termination benefits, the effective date of this Statement should coincide with implementation of Statement 45. For other forms of termination benefits, the requirements of this Statement are effective for periods beginning after June 15, 2005.

64. Some respondents to the Exposure Draft questioned whether the requirements of the proposed Statement should be applied prospectively—that is, only to termination benefits offered and accepted (voluntary) or approved and communicated (involuntary) after the effective date of the proposal. The Board believes that at the effective date of this Statement, all termination benefits should be accounted for in a consistent manner. Therefore, transition guidance has been included in this Statement to require application of the requirements of the Statement to all previous commitments of termination benefits that have not been paid as of the implementation date.

Appendix C

CODIFICATION INSTRUCTIONS

65. As noted in paragraph 22, this Statement is effective in two parts. For employers providing termination benefits that affect their obligations for defined benefit OPEB, the provisions of this Statement should be applied when Statement 45 is implemented. For employers providing other forms of termination benefits, the requirements of this Statement are effective for periods beginning after June 15, 2005. Accordingly, these *Codification* instructions are produced in two parts. The instructions contained in paragraph 66 are applicable prior to implementation of Statement 45. Paragraph 67 contains additional *Codification* instructions that should be applied when Statement 45 has been implemented.

66. The sections that follow update the June 30, 2004, *Codification of Governmental Accounting and Financial Reporting Standards* for the effects of this Statement. Only the paragraph number of the Statement is listed if the paragraph will be cited in full in the *Codification*.

* * *

REPORTING LIABILITIES

SECTION 1500

See also: [Revise as follows: Change title of Section T25 to “Termination Benefits.”]

.106 [Delete *special* in the last sentence.] [GASBI 6, ¶9, as amended by GASBS 47, ¶3]

.108 [Delete *special* in the second bullet.] [GASBI 6, ¶11, as amended by GASBS 47, ¶3]

* * *

BASIS OF ACCOUNTING

SECTION 1600

See also: [Revise as follows: Change title of Section T25 to “Termination Benefits.”]

.118 [Delete *special* in the last sentence.] [GASBI 6, ¶9, as amended by GASBS 47, ¶3]

.122 [Delete *special* in the first sentence.] [GASBI 6, ¶14, as amended by GASBS 47, ¶16]

.124 [Delete *special* in the third and fourth sentences of footnote 11.] [GASBI 6, fn7, as amended by GASBS 47, ¶3 and ¶12–14]

* * *

NOTES TO FINANCIAL STATEMENTS

SECTION 2300

.107 [Add new subparagraph ff as follows:] Termination benefits. (See Section T25, “Termination Benefits,” paragraphs .111 and .112.)

* * *

CLAIMS AND JUDGMENTS

SECTION C50

.102 [Replace the second and third sentences with the following:] However, the scope of this section *excludes* termination benefits, which should be accounted for in accordance with the requirements of Section T25, “Termination Benefits,” and all postemployment benefits that governmental employers expect to provide to current and future retirees, their beneficiaries, and their dependents in accordance with the employer’s agreement to

provide those future benefits. Pension benefits are addressed in Section P20, “Pension Activities—Employer Reporting,” and other postemployment benefits currently are the subject of a separate GASB standard that will be effective in the future. [GASBS 10, ¶2, as amended by GASBS 47, ¶3]

* * *

PENSION ACTIVITIES—EMPLOYER REPORTING

SECTION P20

Sources: [Add the following:] GASB Statement 47

See also: [Revise as follows: Change title of Section T25 to “Termination Benefits.”]

.103 [Revise the second sentence as follows and renumber subsequent footnotes:] As used in this section, the term *pension benefits* includes retirement income and all other benefits provided through a defined benefit pension plan, *except postemployment healthcare benefits and termination benefits*.² [GASBS 27, ¶6, as amended by GASBS 47, ¶3]

²Termination benefits generally are addressed in Section T25. However, the effects of a termination benefit on an employer’s defined benefit pension obligations should be accounted for in accordance with this section, as specified by paragraph .113 of Section T25. In addition, Section T25 includes disclosure requirements applicable to all termination benefits, regardless of the manner in which they are provided. [GASBS 47, ¶3 and ¶8]

.103 [Revise current footnotes 2 and 3 as follows:]

³All pension benefits should be accounted for in accordance with this section. [GASBS 27, fn2, as amended by GASBS 47, ¶3]

⁴To address accounting for other postemployment benefits, the GASB has issued a separate standard that will be effective in the future. Pending the effective date of that standard, employers should provide the disclosures required by Section P50, paragraph .105. The term *other postemployment benefits* does not include termination benefits, which are addressed in Section T25. [GASBS 27, fn3, as amended by GASBS 47, ¶3]

.542 [Revise as follows:] **Other postemployment benefits.** Postemployment benefits other than pension benefits; other postemployment benefits include postemployment

healthcare benefits, regardless of the type of plan that provides them, and all postemployment benefits provided through a plan that does not provide retirement income. Other postemployment benefits do not include benefits defined as termination benefits. [GASBS 27, ¶39, as amended by GASBS 47, ¶3]

.547 [Revise as follows:] **Pension benefits.** Retirement income and all other benefits, including disability benefits, death benefits, life insurance, and other ancillary benefits, except healthcare benefits and termination benefits, that are provided through a defined benefit pension plan to plan members and beneficiaries after termination of employment or after retirement. Postemployment healthcare benefits are considered other postemployment benefits, whether they are provided through a defined benefit pension plan or another type of plan. [GASBS 27, ¶39, as amended by GASBS 47, ¶3]

* * *

**POSTEMPLOYMENT BENEFITS OTHER THAN
PENSION BENEFITS—EMPLOYER REPORTING**

SECTION P50

See also: [Revise as follows: Change title of Section T25 to “Termination Benefits.”]

.102 [Revise last sentence as follows:] This section does not apply to pension benefits, as defined above, nor does it apply to termination benefits.² [GASBS 12, ¶2, as amended by GASBS 47, ¶3]

.102 [Revise second sentence of footnote 2 as follows:]

²Guidance on accounting for termination benefits is included in Section T25. [GASBS 12, fn2, as amended by GASBS 47, ¶3]

* * *

[Replace entire section, including section heading, as follows:]

TERMINATION BENEFITS

SECTION T25

Sources: [Add the following:] GASB Statement 47

See also: Section P20, “Pension Activities—Employer Reporting”
Section P50, “Postemployment Benefits Other Than Pension Benefits—
Employer Reporting”

Scope of This Section

.101–.103 [GASBS 47, ¶3–¶5] [Change *Statement* to *section* and change cross-references.]

Measurement and Recognition of Termination Benefits

.104 An employer should account for termination benefits in accordance with the measurement and recognition requirements of paragraphs .105 through .112 of this section, as applicable, and should include as part of the cost of termination benefits any fringe benefits related to termination benefits and any directly resulting changes in the estimated costs of other employee benefits such as compensated absences, if reliably measurable. However, the effects of a termination benefit on an employer’s defined benefit pension obligations should be accounted for in accordance with paragraph .113 of this section. [GASBS 47, ¶8]

.105–.112 [GASBS 47, ¶9–¶16, including headings and footnotes.] [Change *Statement* to *section*, and change cross-references.]

.113 [GASBS 47, ¶17, including heading and footnotes.] [Omit references to OPEB and to Statement 45. Change remaining cross-reference.]

.114–.117 [GASBS 47, ¶18–¶21, including heading.] [Omit references to OPEB.]

* * *

PENSION PLANS—DEFINED BENEFIT

SECTION Pe5

.104 [Revise second sentence as follows:] As used in this section, the term *pension benefits* includes retirement income and all other types of benefits provided through a defined benefit pension plan, *except postemployment healthcare benefits and termination benefits*.³ [GASBS 25, ¶12, as amended by GASBS 47, ¶3]

.542 [Revise as follows:] **Other postemployment benefits.** Postemployment benefits other than pension benefits; other postemployment benefits include postemployment healthcare benefits, regardless of the type of plan that provides them, and all postemployment benefits provided through a plan that does not provide retirement income. Other postemployment benefits do not include benefits defined as termination benefits. [GASBS 27, ¶39, as amended by GASBS 47, ¶3] [GASBS 25, ¶44, as amended by GASBS 47, ¶3; GASBS 26, ¶11, as amended by GASBS 47, ¶3]

.546 [Revise as follows:] **Pension benefits.** Retirement income and all other benefits, including disability benefits, death benefits, life insurance, and other ancillary benefits, except healthcare benefits and termination benefits, that are provided through a defined benefit pension plan to plan members and beneficiaries after termination of employment or after retirement. Postemployment healthcare benefits are considered other postemployment benefits, whether they are provided through a defined benefit pension

plan or another type of plan. [GASBS 25, ¶44, as amended by GASBS 47, ¶3; GASBS 26, ¶11, as amended by GASBS 47, ¶3]

* * *

POSTEMPLOYMENT HEALTHCARE PLANS ADMINISTERED BY DEFINED BENEFIT PENSION PLANS **SECTION Po50**

.103 [Revise second sentence as follows:] For financial reporting, retirement income and all other benefits provided through a defined benefit pension plan are considered **pension benefits**, except postemployment healthcare benefits and termination benefits. [GASBS 26, ¶5, as amended by GASBS 47, ¶3]

* * *

67. The instructions contained in this paragraph are applicable in periods when Statement 45 is implemented and are in addition to the changes indicated in paragraph 66, which contains Codification instructions that should be applied prior to the effective date of Statement 45. Unless otherwise indicated, the sections that follow update the Codification instructions in paragraph 209 of Statement 45 for the effects of this Statement.

* * *

CLAIMS AND JUDGMENTS **SECTION C50**

.102 [Revise first two sentences as follows:] Paragraphs .109 through .148 of this section also apply to losses resulting when an entity agrees to provide accident and health, dental,

and other medical benefits to its employees and their dependents and beneficiaries, based on covered events that have already occurred. The scope of this section *excludes* termination benefits, which are addressed in Section T25, “Termination Benefits,” and all postemployment benefits, which should be accounted for in accordance with the requirements of Section P20, “Pension Activities—Employer Reporting,” or Section P50, “Postemployment Benefits Other Than Pension Benefits—Employer Reporting,” as appropriate. [Delete third sentence.] [GASBS 10, ¶2, as amended by GASBS 45, ¶4–¶9, and GASBS 47, ¶3]

* * *

PENSION ACTIVITIES—EMPLOYER REPORTING

SECTION P20

Sources: [Add the following:] GASB Statement 47

.103 [Revise footnote 3 as follows:]

³The term *other postemployment benefits* does not include termination benefits such as early-retirement incentive programs and other termination-related benefits, regardless of who administers them. Termination benefits generally are addressed in Section T25. [GASBS 27, fn3, as amended by GASBS 47, ¶3; GASBS 45, ¶8, as amended by GASBS 47, ¶3]

.552 [Revise current paragraph .542 as follows:] **Other postemployment benefits.**

Postemployment benefits other than pension benefits. Other postemployment benefits (OPEB) include postemployment healthcare benefits, regardless of the type of plan that provides them, and all postemployment benefits provided separately from a pension plan. Other postemployment benefits do not include benefits defined as termination benefits. [GASBS 27, ¶39, as amended by GASBS 45, ¶40, and GASBS 47, ¶3]

[Do not insert new paragraph .573 as indicated in paragraph 209 of Statement 45. Revise numbering of subsequent paragraphs.]

.578 [Revise paragraph .579 in paragraph 209 of Statement 45 as follows:] **Termination benefits.** Inducements offered by employers to employees to hasten the termination of services, or payments made in consequence of the early termination of services. Termination benefits include early-retirement incentives, severance benefits, and other termination-related benefits. [GASBS 45, ¶40, as amended by GASBS 47, ¶3]

* * *

**POSTEMPLOYMENT BENEFITS OTHER THAN
PENSION BENEFITS—EMPLOYER REPORTING**

SECTION P50

.105 [Revise as follows:] Inducements offered by employers to employees to hasten the *termination of services*, or payments made in consequence of the early termination of services (collectively referred to as *termination benefits*), are different in nature from compensation for services. Accordingly, termination benefits, including early-retirement incentive programs and other termination-related benefits, are distinguished from OPEB and are excluded from the scope of this section, regardless of who provides or administers them. However, the effects of a termination benefit on an employer's defined benefit OPEB obligations should be accounted for in accordance with this section, as specified by paragraph .113 of Section T25. [GASBS 45, ¶8, as amended by GASBS 47, ¶3 and ¶8]

* * *

TERMINATION BENEFITS

SECTION T25

[Do not make the revisions to Section T25 that are identified in paragraph 209 of Statement 45. Revise the section as follows:]

Sources: [Add the following:] GASB Statement 47

.104 [Revise last sentence as follows:] However, the effects of a termination benefit on an employer's defined benefit pension or other postemployment benefit obligations should be accounted for in accordance with paragraph .113 of this section. [GASBS 47, ¶8]

.113 [Revise as follows:] The effects of a termination benefit on an employer's defined benefit pension or other postemployment benefit obligations (for example, a change in an employer's actuarial accrued liability for pension benefits or postemployment healthcare benefits) should be accounted for and reported in accordance with the requirements of Section P20 or P50, respectively. [GASBS 47, ¶17]

.115 [Revise as follows:] In the period in which an employer becomes obligated for termination benefits, the cost of termination benefits should be disclosed in the notes to the financial statements if that information is not otherwise identifiable from information displayed on the face of the financial statements. To meet this requirement, an employer that provides termination benefits that affect defined benefit pension or OPEB obligations should disclose in the notes to the financial statements the change in the actuarial accrued liability for the pension or OPEB plan attributable to the termination benefits. [GASBS 47, ¶19]

* * *

[*Note:* The changes in this section update the Codification instructions in paragraph 187 of Statement 43.]

PENSION PLANS—DEFINED BENEFIT

SECTION Pe5

.546 [Revise current paragraph .542 as follows:] **Other postemployment benefits.** Postemployment benefits other than pension benefits. Other postemployment benefits (OPEB) include postemployment healthcare benefits, regardless of the type of plan that provides them, and all postemployment benefits provided separately from a pension plan. Other postemployment benefits do not include benefits defined as termination benefits. [GASBS 25, ¶44, as amended by GASBS 43, ¶46, and GASBS 47, ¶3]

[Do not insert new paragraph .566 as indicated in paragraph 187 of Statement 43. Revise numbering of subsequent paragraphs.]

.570 [Revise paragraph .571 in paragraph 187 of Statement 43 as follows:] **Termination benefits.** Inducements offered by employers to employees to hasten the termination of services, or payments made in consequence of the early termination of services. Termination benefits include early-retirement incentives, severance benefits, and other termination-related benefits. [GASBS 43, ¶46, as amended by GASBS 47, ¶3]

* * *

[*Note*: The changes in this section update the *Codification* instructions in paragraph 187 of Statement 43.]

**POSTEMPLOYMENT BENEFIT PLANS OTHER
THAN PENSION PLANS**

SECTION P050

.106 [Revise as follows:] OPEB arises from an exchange of salaries and benefits for employee services, and it is part of the compensation that employers offer for services received. In contrast, *termination benefits* are inducements offered by employers to employees to hasten the *termination of services*, or payments made in consequence of the early termination of services. Because they are different in nature from OPEB, termination benefits, including early-retirement incentive programs and other termination-related benefits, are generally excluded from the scope of this section, regardless of who provides or administers them. However, the effects of a termination benefit on an employer's defined benefit OPEB obligations should be accounted for in accordance with this section and Section P20. [GASBS 43, ¶9, as amended by GASBS 47, ¶3 and ¶8]

* * *