

## Section 3700, *Pension Obligations*

### .01 Effect of New Mortality Tables on Nongovernmental Employee Benefit Plans (EBPs) and Nongovernmental Entities That Sponsor EBPs



*Inquiry*—Nongovernmental EBPs and nongovernmental entities that sponsor EBPs (sponsoring entities) incorporate assumptions about participants’ mortality in the calculation of the benefit liability for financial reporting purposes. Professional associations of actuaries occasionally publish updated mortality tables and mortality improvement projection scales (collectively referred to as *mortality tables* for purposes of this Technical Question and Answer) to reflect changes in mortality conditions based on recent historical trends and data. Established actuarial companies also may develop mortality tables based on other information and assumptions. For financial reporting purposes, how and when should nongovernmental EBPs and nongovernmental sponsoring entities consider these updated mortality tables if their financial statements have not yet been issued at the time the updated mortality tables are published?

*Reply*—Nongovernmental EBPs and nongovernmental sponsoring entities should consider the specific requirements of generally accepted accounting principles (GAAP), which require the use of a mortality assumption that reflects the best estimate of the plan’s future experience for purposes of estimating the plan’s obligation<sup>1</sup> as of the current measurement date (that is, the date at which the obligation is presented in the financial statements). In making this estimate, GAAP requires that all available information through the date the financial statements are available to be issued should be evaluated to determine if the information provides additional evidence about conditions that existed at the balance sheet date.

FASB *Accounting Standards Codification* (ASC) 855-10-55-1 specifies that information that becomes available after the balance sheet date (but before the financial statements are available to be issued)

<sup>1</sup> Obligations that use a mortality assumption include, but are not limited to, defined benefit obligations under pension and other postretirement plans, and certain postemployment and deferred compensation arrangements. In accordance with paragraphs 18 and 21 of FASB *Accounting Standards Codification* (ASC) 715-30-35 and FASB ASC 960-20-35-4, changes in actuarial assumptions result in gains and losses that are recognized as they arise, and the comparative obligation amounts that have been previously reported would not be adjusted for issuance of updated mortality tables.

may be indicative of conditions existing at the balance sheet date when that information is a culmination of conditions that existed over a long period of time. Updated mortality tables are based on historical trends and data that go back many years; therefore, the existence of updated mortality conditions is not predicated upon the date that the updated mortality tables are published. Management of a nongovernmental EBP or a nongovernmental sponsoring entity should understand and evaluate the reasonableness of the mortality assumption chosen, even when assisted by an actuary acting as a management's specialist, and document its evaluation and the basis for selecting the mortality tables it decided to use for its current financial reporting period. A management's specialist is defined in paragraph .05 of AU-C section 500, *Audit Evidence* (AICPA, *Professional Standards*), as an individual or organization possessing expertise in a field other than accounting or auditing, whose work in that field is used by the entity to assist the entity in preparing the financial statements.

Many defined benefit pension plans present plan obligations as of the beginning of the plan year, as allowed under FASB ASC 960-205-45-1. Although this presentation is before the balance sheet date, it represents a measurement of an amount that is presented in the financial statements that should reflect management's best estimate of the plan's mortality and other assumptions. The assumptions used to estimate the plan's obligation should be evaluated based on all available information through the date the financial statements are available to be issued, including determining whether updated mortality conditions existed as of the date the obligation is presented in the financial statements (that is, the beginning of the year).

Auditors are required to evaluate the competence, capabilities, and objectivity of a management's specialist; obtain an understanding of the work of that specialist; and evaluate the appropriateness of that specialist's work as audit evidence for the relevant assertion. Considerations may include evaluating the relevance and reasonableness of significant assumptions and methods used by that specialist. Refer to paragraphs .08 and .A35–.A49 of AU-C section 500 and the "Using the Work of a Specialist" section in chapter 2, "Planning and General Auditing Considerations," of the AICPA Audit and Accounting Guide *Employee Benefit Plans*, for further guidance. In addition, the auditor is responsible for evaluating subsequent events under AU-C section 560, *Subsequent Events and Subsequently Discovered Facts* (AICPA, *Professional Standards*). That section requires the auditor to obtain sufficient appropriate audit evidence about whether events occurring between the date of the financial statements and the date of the auditor's report that require adjustment of, or disclosure in, the financial statements are appropriately reflected in those financial statements in accordance with the applicable financial reporting framework.

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