Memo No.	**Issue Summary No. 2***
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Issue Name	**Application of Topic 715 to market-return cash balance plans**
Issue Stage	**Initial Deliberations**

Overview

1. On January 30, 2025, the Emerging Issues Task Force (EITF or Task Force) received an agenda request from EY relating to the application of Topic 715, Compensation—Retirement Benefits, to market-return cash balance plans. The EITF added this issue to its agenda at its April 2025 agenda committee meeting.
2. At the September 9, 2025, EITF meeting, EITF members will discuss this issue and will be asked to vote on whether they recommend that the FASB (Board) add a project to its technical agenda and address the issue using the EITF's recommended approach.
3. This Issue Summary is organized as follows:
    a) Issue Background
    b) Alternatives
    c) Applicability and Disclosures
    d) Transition and Early Adoption
    e) FASB Staff Analysis
    f) Next Steps
    g) Appendix A: Practitioner Guidance

* **The alternative views presented in this Issue Summary are for purposes of discussion by the EITF. No individual views are to be presumed to be acceptable or unacceptable applications of Generally Accepted Accounting Principles. Additionally, the proposed amendments to the Codification included in this Issue Summary are provided for context and discussion purposes only. Amendments to the Codification are made only after extensive due process and deliberations by the Financial Accounting Standards Board.**

Questions

Alternatives

1. Which alternative does the EITF support?
   a. Alternative A: **The benefit obligation recognized should reflect the promised benefits expected to be paid to settle the plan upon retirement.** Under this alternative, the benefit obligation for a market-return cash balance plan is measured under the existing defined benefit accounting model in Subtopic 715-30 by setting the discount rate equal to the assumed interest crediting rate.
      i. Alternative A1: Under this variation of Alternative A, for any plan in which *the promised benefits are defined based on the expected returns on investable assets*, the benefit obligation is measured under the existing defined benefit accounting model in Subtopic 715-30 by setting the discount rate equal to such asset returns.
   b. Alternative B: **The benefit obligation recognized should reflect the promised benefits that would be paid to settle the plan on the measurement date.** Under this alternative, the benefit obligation would be excluded from the existing measurement guidance in Subtopic 715-30. Instead, the benefit obligation is measured equal to the total hypothetical account balances of the plan as of the measurement date.

Applicability and Disclosures

2. Does the EITF agree that:
   a. The recommended approach should apply to all entities?
   b. Entities should be required to apply the recommended approach?
   c. Additional disclosures should not be required?

Transition and Early Adoption

3. Does the EITF agree that transition to the amendments discussed should be applied either retrospectively or prospectively and that early adoption should be permitted?

Issue Background

Overview

4. Traditional defined benefit pension plans[1] were designed to facilitate retirement for career employees. An employee's compensation would eventually exceed their value to a company, and

[1] A pension plan that defines an amount of pension benefit to be provided, usually as a function of one or more factors such as age, years of service, or compensation. (Master Glossary)

a pension effected a timely transition to retirement. By design, benefits earned closer to retirement were more valuable and the pension was most effective for an employee who worked their entire career at one company.

5. Earning pension benefits across different companies provides significantly less retirement income than earning a pension benefit at a single company. For example, an employee receiving benefits in a final pay pension plan who works three separate jobs for 10 years each would earn significantly less in pension benefits as an employee with the same pension working a single job for 30 years.

6. Over time, employees became more mobile (that is, working for multiple companies over the course of their careers), resulting in the emergence of defined contribution plans[2] and cash balance plans[3] starting in the 1980s. These types of plans provide benefits on the basis of the current value of the account balance, rather than a future value. As a result, such plans provide more transparency and are perceived to be of greater value to a mobile workforce.

Traditional defined benefit plans

7. A defined benefit plan specifies the amount of postretirement benefit that an employer will provide to plan participants. The specified amount is often a function of one or more factors, such as the participant's age, compensation level, or years of service. Pension benefits usually take the form of monthly amounts that are payable after a plan participant retires and for the remainder of the participant's or a beneficiary's life. The benefits may be paid as annuities or lump-sum cash distributions payable after retirement or an earlier termination of employment.

8. The accounting for defined benefit pension plans is provided for in Subtopic 715-30, which requires an employer to measure the projected benefit obligation (referred to as the benefit obligation throughout) and plan assets at year-end (or upon occurrence of a significant event). The benefit obligation represents the actuarial present value of all future pension benefits earned by employees so far. The benefit obligation is calculated using actuarial methods, estimates about the timing and amount of benefit payments, and assumptions, such as discount rates, mortality, turnover, and future compensation level.

9. The plan assets, which are held in a separate trust and used to fund the future benefit payments, are measured at fair value in accordance with Topic 820, Fair Value Measurement. The Employee Retirement Income Security Act of 1974 (ERISA)[4] and the Internal Revenue Code (IRC) establish

[2] A plan that provides postretirement benefits in return for services rendered, provides an individual account for each plan participant, and specifies how contributions to the individual's account are to be determined rather than specifies the amount of benefits the individual is to receive. Under a defined contribution postretirement plan, the benefits a plan participant will receive depend solely on the amount contributed to the plan participant's account, the returns earned on investments of those contributions, and the forfeitures of other plan participants' benefits that may be allocated to that plan participant's account. (Master Glossary)
[3] A cash balance plan communicates to employees a pension benefit in the form of a current account balance that is based on principal credits and future interest credits based on those principal credits. (Paragraph 715-20-25-2)
[4] ERISA is a US federal tax and labor law established in 1974 that sets minimum standards for most voluntarily established retirement and health plans in private industry to provide protection for individuals in these plans.

minimum and tax-deductible maximum funding requirements for tax-qualified defined benefit plans. As a result, the amounts funded for a defined benefit plan are independent of benefits paid in any given year or the expense recognized.

10. For financial reporting purposes, employers are required to offset or net benefit obligations and plan assets on a plan-by-plan-basis. This net balance is referred to as the funded status and is the balance that is presented on the balance sheet (if an employer has multiple defined benefit pension plans, it can aggregate the funded statuses for purposes of presentation).

11. The defined benefit accounting model is a deferral model. The effects of remeasuring the benefit obligation and plan assets (referred to as actuarial gains and losses) at each year end generally are first recognized in other comprehensive income and amortized into expense over the participants' average remaining service period. Net periodic pension cost is recognized in the income statement and primarily reflects service cost (that is, the actuarial present value of benefits earned in the current period), interest cost (that is, the increase in the benefit obligation due to the passage of time), the expected return on plan assets, the amortization of actuarial gains and losses, and the amortization of prior service cost (which arises from amendments to the plan).

Defined contribution plans

12. In defined contribution plans, the employer's promise is to make defined amounts of contributions to an individual participant's account prior to retirement, and the participant bears all the actuarial risk (for example, investment risk, mortality risk) relating to that account once the contribution is made. The individual participant accounts are legally owned by the participant. The amount of benefits a participant will receive is based on the amount contributed to the participant's account, investment returns, and forfeitures of unvested benefits allocated to plan participants.

13. The accounting for defined contribution plans is provided for in Subtopic 715-70 and is simpler to apply than the accounting for defined benefit plans. The net periodic pension cost for a defined contribution plan is the contribution called for in that period. A liability would be recognized only when contributions are due but unpaid at the date of the financial statements. That is, each year an employer recognizes compensation expense for contributions paid and no liability is recognized related to participant accounts.

Traditional cash balance plans

14. In a traditional cash balance plan, an employer establishes and tracks a hypothetical account balance for each individual plan participant (that is, employee). The current value of the account (referred to throughout this issue summary as the "hypothetical account balance") increases over time on the basis of principal credits and interest credits that the participant earns by remaining

employed and providing services to the employer. The principal credits and interest credits are defined by the plan.

15. Principal credits can be fixed (for example, 5% of pay) or variable (for example, 3% of pay until age 40, 4% until age 50, and 5% thereafter). Interest credits can be fixed (for example, 4% of the hypothetical account balance) or variable (for example, an imputed return based on the 30-year U.S. Treasury rate).

16. A cash balance plan has similarities with both defined benefit pension plans and defined contribution pension plans, as detailed in the following table:

Feature	Traditional Defined Benefit Plan	Cash Balance Plan	Traditional Defined Contribution Plan
Who it benefits most	Career/older employees	Generally, all ages/stages are similarly affected, but some backloading is permitted.	
Defined as	Annuity	Account balances	
Basis for accumulated benefits	Salary and/or years of service	Principal and interest credits	Contributions
Minimum vesting requirements	Five-year "cliff" or graded three to seven years	Three-year "cliff"	Three-year "cliff" or graded two to six years
Funding requirements/flexibility	Must fund between the IRS minimum required and the maximum deductible		Must fund contributions
Non-vested forfeitures	Not required to pre-fund		Fund now; allocate later
Investment responsibility	Plan sponsor		Participant
Annuity option	Must provide		Does not typically provide
Lump sum option	May provide		Default

17. Topic 715 provides accounting models for defined benefit plans and defined contribution plans. While cash balance plans are similar to defined contribution plans (for example, benefits are defined as account balances and composed of contributions and interest or investment returns), cash balance plans are codified in Topic 715[5] as defined benefit plans and therefore apply the defined benefit accounting model. A cash balance plan is a defined benefit plan because (a) it provides a defined benefit, (b) the individual account is not yet owned by the plan participant, and (c) the employer bears the investment risks and rewards and the mortality risk if the employee elects to receive benefits in the form of an annuity.

18. Tax-qualified pension plans are subject to regulation under the IRC and ERISA. Over the years, further regulations (for example, the Pension Protection Act of 2006, the SECURE 2.0 Act of 2022, related IRS regulations) established and refined the rules related to cash balance plans (for example, the appropriate interest crediting rates that could be used). As regulatory guidance was

[5] A cash balance plan is a defined benefit plan. (Paragraph 715-20-25-1)

issued to clarify the requirements of cash balance plans, the number of these plans increased, because companies could reliably implement provisions that complied with the law.

19. Cash balance plan provisions must comply with many requirements based on governmental regulations. Among them, the following may be significant relative to accounting considerations:

    a) **Preservation of capital:** The hypothetical account balance is required to be at least equal to the sum of the earned principal credits upon retirement. Under the current defined benefit accounting model, actuarial assumptions used to measure the obligation consider whether, upon retirement, a participant's account balance will be less than the sum of their earned principal credits. The actuary measures the participant's obligation by reference to the amount expected to be paid upon retirement.

    b) **Optional annuity:** Cash balance plans are required to provide the option for participants to elect an annuity form of payment (instead of a lump sum payment). Under the current defined benefit accounting model, actuarial assumptions used to measure the obligation consider whether, upon retirement, a participant will elect an annuity or a lump sum payment (for cash balance plans, most participants elect lump sum payments). For participants who are assumed to elect an annuity, the actuary would measure the obligation by reference to the cost of the annuity based on the plan's provisions for converting the cash balance to an annuity.

20. Cash balance plans are funded consistently with other defined benefit pension plans under ERISA. At a minimum, companies fund the annual service cost for all plan participants, as well as any funding shortfall amortized over a 15-year period, less any surplus funding. The employer's contributions to a cash balance plan trust may be unrelated to the principal credits made to participants' hypothetical accounts. In other words, the value of plan assets held by a traditional cash balance plan trust is unrelated to the value of the accumulated hypothetical account balances of plan participants.

Market-return cash balance plans

21. A market-return cash balance plan is an emerging type of variable interest crediting rate cash balance plan. Interest credits are based on an investable market return, such as the return on plan assets, the return on a subset of plan assets that approximates the associated cash balance liabilities, or the return on a regulated investment company (for example, a mutual fund or exchange-traded fund). In a typical market-return cash balance plan, the promised benefit to the participant at retirement (or termination) is the account balance, comprising principal credits and the investment returns on those credits. In this regard, a market-return cash balance plan is economically similar to a 401(k) plan (that is, a defined contribution plan).

22. However, the advantages of a market-return cash balance plan over a 401(k) plan include an efficient life annuity option, professionally managed investment strategies for plan assets, downfall risk mitigated by the preservation of capital feature, higher contribution limits (particularly for older participants), increased funding flexibility, and the ability to take advantage of accumulated legacy plan surplus assets.

23. In practice, companies with market-return cash balance plans typically fund the hypothetical account balance (that is, principal credits), and the market returns will cover any funding minimums. As a result, these plans are generally expected to be fully funded based on the way they are designed to operate. That is, a market-return cash balance plan is designed such that an employer need only contribute principal credits to the trust. These contributions are invested in the assets in which the interest credits are derived (for example, invested in an S&P 500 fund if the interest credits are based on actual S&P 500 returns). The contributions will grow (or shrink) depending on the market and, theoretically, an employer will not need to fund additional amounts when participants retire. Employers are, therefore, incentivized to fund principal credits so that the plan functions as designed.

Issue

24. Topic 715 provides limited guidance on the accounting for cash balance plans. The guidance states that a cash balance plan is a defined benefit plan and, for a fixed interest crediting rate cash balance plan, the traditional unit credit method is the appropriate cost attribution approach. Entities apply the general measurement and recognition guidance for defined benefit pension plans to cash balance plans.

25. Under Subtopic 715-30, the measurement of a defined benefit pension plan obligation is based on the actuarial present value of benefits attributed to service provided. While there is no guidance on how to attribute the cost of a cash balance plan with a variable interest crediting rate, in practice the traditional unit credit method is used for market-return cash balance plans. The traditional unit credit method attributes cost based on the participant's actual history of compensation to date, which means future principal credits are not assumed. However, future interest credits are assumed, using a best estimate of the variable interest crediting rate until the participant retires. Projected benefit payments are discounted at the rate at which the benefits could be effectively settled.

26. Paragraph 715-30-35-43 requires that in estimating the discount rate, an entity should look to either (a) available information about rates implicit in current prices of annuity contracts that could be used to effect settlement of the obligation or (b) rates of return on high-quality fixed-income investments currently available and expected to be available during the period to maturity of the pension benefits.

27. As a result of applying the defined benefit accounting model in Subtopic 715-30 to market-return cash balance plans, the benefit obligation generally is greater than the accumulated hypothetical account balances of the plan. This accounting result does not reflect the economics of the arrangement, which is economically similar to a defined contribution plan, and has dissuaded entities from implementing market-return cash balance plans. The alternatives discussed in this paper would require an entity to measure the benefit obligation of a market-return cash balance plan in such a way that it would better approximate the accumulated hypothetical account balances of the plan, achieving defined contribution-like accounting.

28. The scope of the issue is limited to market-return cash balance plans as defined in Alternatives A and B or plans in which the promised benefits are defined based on the expected returns on investable assets as detailed in Alternative A1. The scope of the issue excludes traditional cash balance plans, traditional defined benefit plans, and defined contribution plans.

Alternatives

Alternative A — When measuring the benefit obligation for a market-return cash balance plan under the existing defined benefit accounting model in Subtopic 715-30, it would be appropriate to set the discount rate equal to the assumed interest crediting rate.

29. Under Alternative A, a market-return cash balance plan continues to be measured under the existing accounting model for defined benefit pension plans; however, the guidance is amended to clarify that for these plans it would be appropriate to set the discount rate equal to the assumed interest crediting rate.[6] Under Alternative A, the proposed amendments relate only to market-return cash balance plans as defined.

30. The objective of the amendments under Alternative A is to report a benefit obligation that reflects the promised benefits ***expected to be paid upon retirement***. In a market-return cash balance plan, the promised benefit to the participant at retirement (or termination) is the account balance, comprising earned principal credits (that is, contributions to the pension trust) and the investment returns on those credits. Therefore, the hypothetical account balances reflect the amounts the employer would need to pay to effectively settle the plan. As a result of setting the discount rate equal to the assumed interest crediting rate, the benefit obligation of a market-return cash balance plan, as measured under the defined benefit accounting model, approximates the accumulated hypothetical account balances of the plan at any point in time.

31. Paragraph 715-30-35-42 requires an explicit approach to assumptions, in which each significant assumption reflects the best estimate solely with respect to that individual assumption. As

[6] For a plan that defines the interest credit based on the plan assets' returns, the entity could use the expected long-term rate of return on plan assets as the assumed interest crediting rate. This is because the interest crediting rate is based on investable market returns that vary each year and therefore an entity needs to make an assumption about projected market returns for the duration of the plan.

proposed, Alternative A allows employers to estimate a discount rate that is equal to the assumed interest crediting rate, if appropriate (that is, if the employer could effectively settle its obligation by purchasing the underlying investments in an amount equal to the benefits accrued). However, each year the discount rate should be reevaluated to determine whether it reflects the best estimate of the current effective settlement rate as detailed in paragraph 715-30-35-42.

32. Paragraph 715-30-35-29 requires the use of estimates or assumptions concerning future events that will determine the expected amount and timing of the benefit payments. Accordingly, actuarial adjustments may be necessary to incorporate other features of the market-return cash balance plan but do not otherwise affect the rates at which such benefits could be effectively settled.

33. An example of when actuarial adjustments may be necessary is the preservation of capital feature, which guarantees that a participant's benefits will be at least equal to the sum of the earned principal credits upon retirement. An entity would need to make an assumption for each participant about whether the preservation of capital feature would be triggered at the participant's expected retirement date. If a participant is expected to have a hypothetical account balance below the sum of his or her earned principal credits on the date he or she is expected to retire, the expected amount of benefits would be adjusted (that is, increased) to equal the sum of the earned principal credits. That is, an entity would include any shortfalls from the preservation of capital feature *expected at a participant's retirement* in the measurement of the benefit obligation. Conversely, if a participant is not expected to trigger the preservation of capital feature at retirement, the entity would not adjust the expected amount of benefit payments.

34. Another example of when actuarial adjustments may be necessary is when the benefit is payable in an alternate form of payment such as a life annuity. An entity would need to make an assumption for each participant regarding whether he or she will elect an annuity or a lump-sum payment. If a participant is expected to elect an annuity, the difference in actuarial present value of such forms of payment should be considered. Conversely, if a participant is expected to elect a lump-sum payment, no adjustment would be required (that is, the projected hypothetical account balance is equal to the lump-sum amount that would be paid at retirement).

35. These examples illustrate that the current defined benefit accounting model requires entities to make estimates and assumptions about the benefits that will be paid. The proposed amendments would not change this requirement.

36. Proponents of Alternative A believe that the assumed interest crediting rate should be used to discount the projected benefit payments because it represents the rate at which benefits could be effectively settled. That is because a market-return cash balance plan is designed so that the account balance moves in tandem with the market value of the investment(s) underlying the interest

crediting rate. Therefore, an entity could effectively settle an obligation by purchasing the underlying investment(s) in an amount equal to the account balances.[7]

37. Proponents of Alternative A believe that it better reflects the economics of the arrangement. In measuring the benefit obligation by setting the discount rate equal to the assumed interest crediting rate, the benefit obligation will often approximate the accumulated hypothetical account balances. As market-return cash balance plans are designed to pass on market returns to participants alongside principal credits, the accumulated hypothetical account balances reflect the benefits promised to and earned by participants on the measurement date.

38. Opponents of Alternative A do not agree with establishing a narrow set of measurement guidance for market-return cash balance plans. They consider that the pension framework was designed to require reporting of a liability of future costs associated with benefit payments regardless of how the employer determines to finance or fund the plan.

39. Under Alternative A, the following amendment is suggested (added text is underlined)[8]:

> **715-30-35-43A** For a **market-return cash balance plan**, an employer could effectively settle its obligation by purchasing the underlying investments in an amount equal to the benefits accrued. In those cases, estimating a discount rate that is equal to the assumed interest crediting rate is appropriate. Each year the discount rates shall be reevaluated to determine whether they reflect the best estimate of the current effective settlement rates.

40. Under Alternative A, the following amendment to the Codification would be necessary (added text is underlined):

> **Market-return cash balance plan (Master Glossary)** A specific type of cash balance plan in which:
>
> a. Pension benefits are communicated to employees in the form of a current account balance that is based on principal credits and interest credits based on an investable market return including any of the following:
>
> 1. The return on plan assets
> 2. The return on a subset of plan assets that approximates the associated cash balance liabilities
> 3. The return on a regulated investment company (for example, a mutual fund or exchange-traded fund)
>
> b. Participants have the option to elect lump-sum payments.

The "return on a subset of plan assets that approximates the associated cash balance liabilities" item above refers to plans with both legacy (that is, a frozen traditional defined benefit plan) and ongoing (that is, a market-return cash balance plan) benefit obligations.

[7] For plans that provide interest credits based on a portfolio that differs from the plan's assets, such obligations could nevertheless be effectively settled using a hypothetical portfolio that mirrors the investments on which such interest credits are based. Moreover, a plan need not be funded to show that a plan sponsor or insurer could effectively settle the obligation with assets that match the plan's interest crediting provision.

[8] This draft language (and all draft language in this Issue Summary) is provided for discussion purposes only and is subject to change through the drafting process.

Alternative A1 — When measuring the benefit obligation for a plan that promises benefits based on the expected returns on investable assets under the existing defined benefit accounting model in Subtopic 715-30, the discount rate used would be set equal to the rate of expected asset returns.

41. Alternative A1 is a variation of Alternative A that achieves the same measurement objective and outcome as described in Alternative A (that is, setting the discount rate equal to the expected returns on investable assets as defined or specified under the plan), but would expand its scope beyond market-return cash balance plans to include other defined benefit plans that promise benefits on the basis of the returns on investable assets.

42. Under Alternative A1, the following amendment is suggested (added text is underlined):

> **715-30-35-43A** When the promised benefits are defined based on the expected returns on investable assets, an employer could effectively settle its obligation by purchasing the underlying investments in an amount equal to the benefits accrued. In those cases, estimating a discount rate that is equal to such asset returns is appropriate. Each year the discount rates shall be reevaluated to determine whether they reflect the best estimate of the current effective settlement rates.

43. Examples of plans other than market-return cash balance plans that may also be in scope under this alternative include (a) variable annuity plans and (b) certain foreign plans that are accounted for as a defined contribution plan under IFRS but meet the definition of, and are accounted for as, a defined benefit plan under GAAP (referred to as a foreign collective defined contribution plan). In a variable annuity plan, the benefits participants receive can vary on the basis of the investment returns of the plan's assets. In a foreign collective defined contribution plan, contributions across employers are pooled and invested in a collective fund and the amount of benefits participants receive depends on how well the invested assets perform. In that regard, entities with those types of plans would apply the amendments proposed in paragraph 715-30-35-43A.

44. Proponents of Alternative A1 believe that a principles-based approach to achieving the objectives discussed in the preceding paragraphs provides more flexibility in addressing current and future variations in plan designs.

45. Opponents of Alternative A1 are concerned about unintended consequences of broadening the scope of the project by permitting plans other than market-return cash balance plans (such as variable annuity plans or foreign collective defined contribution plans discussed in paragraph 43) to apply the proposed amendments. They believe that the scope of this issue should be limited only to market-return cash balance plans as defined in the proposed Master Glossary definition.

Impact of Alternative A and Alternative A1 on the financial reporting for in-scope benefit plans

46. Under Alternative A and Alternative A1, the existing defined benefit accounting model would be applied to the in-scope benefit plan in determining the funded status (the difference between the benefit obligation and the fair value of plan assets) and net periodic pension cost.

47. Absent any required actuarial adjustments as detailed in paragraph 32 and assuming the employer implements the plan as designed (that is, funds the principal credits when earned, invests the assets according to the interest crediting basis), applying Alternative A and Alternative A1 results in a funded status of zero and net periodic pension cost equal to the principal credits, which is similar to the accounting for a defined contribution plan.

48. If the plan's principal credits are fully funded, the interest crediting rate is tied to the return on plan assets, and there is no effect from actuarial assumptions (such as the preservation of capital and the annuity option), then the funded status is zero because both the benefit obligation and the fair value of the plan assets are equal to the accumulated hypothetical account balances. The benefit obligation is measured under the defined benefit accounting model and, as a result of the proposed amendments that set the discount rate equal to the assumed interest crediting rate, approximates the accumulated hypothetical account balances. If the employer funds the principal credits and invests them in the way the interest credit is derived, the fair value of plan assets approximates the accumulated hypothetical account balances.

49. The net periodic pension cost will equal the principal credits. This cost will comprise service cost (that is, earned principal credits) and interest cost (that is, the beginning-of-year projected benefit obligation multiplied by the discount rate) offset by the expected return on plan assets (that is, the beginning-of-year fair value of plan assets multiplied by the expected long-term rate of return on plan assets). As the discount rate is set to the assumed interest crediting rate and the assumed interest crediting rate and the expected long-term rate of return on plan assets will be the same percentage, the interest cost and return on plan assets will offset each other, resulting in the net periodic interest cost equaling the principal credits.

Alternative B — The benefit obligation for a market-return cash balance plan is measured equal to the total hypothetical account balances of the plan as of the measurement date.

50. Under Alternative B, a market-return cash balance plan's obligation is measured equal to the total hypothetical account balances of the plan as of the measurement date. An entity recognizes the change in the benefit obligation[9] at the measurement date as follows:

    (a) Principal credits are recognized as service cost for the period

    (b) Interest credits are recognized as an actuarial gain or loss for the period

    (c) Other changes (for example, funding deficit due to the trigger of the preservation of capital feature, incremental costs due to an annuity being elected) are recognized as an actuarial gain or loss for the period

[9] The change in the benefit obligation and the change in the fair value of plan assets excludes benefit payments. Benefit payments are made from plan assets and therefore reduce both plan assets and the benefit obligation. They do not affect the funded status or other amounts reported (for example, other comprehensive income, net periodic pension cost).

An entity also recognizes an actuarial gain or loss for the period for the change in the fair value of plan assets less any contributions, which would generally offset the actuarial gains or losses recognized in (b) and (c) above. An entity would apply other aspects of the defined benefit accounting model to determine the funded status of the plan (the difference between the benefit obligation and the fair value of plan assets).

51. The objective of the amendments under Alternative B is to report a benefit obligation that reflects the promised benefits ***that would be paid at the measurement date***. In a market-return cash balance plan, the promised benefit to the participant as of the measurement date is the account balance, comprising principal credits (that is, contributions to the pension trust) and the investment returns on those contributions. Therefore, the hypothetical account balances reflect the amounts the employer would need to pay to effectively settle the plan.

52. This suggested alternative falls outside of the existing model to measure defined benefit plans. As a result, Alternative B would not require the use of actuarial estimates or assumptions concerning future events that may impact the actual amount or timing of benefit payments.

53. At each measurement date, an entity measures the benefit obligation assuming the hypothetical account balances are paid to participants at that date. For example, an entity would need to evaluate whether the preservation of capital feature is triggered for any participants at the measurement date (not at the participant's expected retirement date like under Alternative A or Alternative A1). If a participant's hypothetical account balance is less than the sum of their earned principal credits at the measurement date, an entity would include any shortfall from the preservation of capital feature in the measurement of the benefit obligation. Similarly, if an entity assumes that a participant will elect an annuity, it would include the difference in the actuarial present value of the forms of payment in the measurement of the benefit obligation.

54. Proponents of Alternative B analogize to the guidance in paragraphs 715-30-35-40 through 35-41 that permits an entity to measure the obligation of a defined benefit pension plan based on the vested benefits that participants are entitled to if they were to terminate immediately.[10] While the guidance states that it would be applicable to foreign plans, US retirement plan regulations and designs have evolved since it was first issued. Therefore, the guidance in paragraphs 715-30-35-40 through 35-41 may have broader applicability to U.S. retirement plans today.

55. Proponents of Alternative B believe that it better reflects the economics of the arrangement. In setting the benefit obligation equal to the hypothetical account balance, the accounting reflects that there is no obligation owed to participants incremental to the account balance. As market-return cash balance plans are designed to pass on market returns to participants alongside principal

[10] Under ERISA, cash balance plan participants vest in their benefits after three years and are entitled to their hypothetical account balance upon termination.

credits, the account balance reflects the benefits promised to and earned by participants as of the measurement date.

56. Opponents of Alternative B acknowledge that while the total hypothetical account balance as of any given measurement date reflects the amount that would be due to participants if they were to retire that day, the amount does not reflect what the company will ultimately be required to pay to each participant. In certain cases, the benefit obligation measured under Alternative B could be overstated. For example, the preservation of capital feature could be triggered at the measurement date (that is, a participant's hypothetical account balance is less than the sum of their earned principal credits) but the participant is expected to retire in 10 years when positive market activity overcomes the preservation of capital feature. That is, at retirement, the participant's hypothetical account balance is expected to exceed the sum of his or her earned principal credits. In this case, an entity would report a higher benefit obligation under Alternative B compared to Alternative A or Alternative A1.

57. Furthermore, opponents of Alternative B believe that it provides an exception to the current defined benefit accounting model for market-return cash balance plans (unlike Alternative A, which provides incremental guidance on how market-return cash balance plans can apply the existing defined benefit accounting model). Opponents believe that Alternative B could raise questions about inconsistencies in the accounting for defined benefit pension plans if entities analogize to the proposed amendments outlined below.

58. Furthermore, opponents of Alternative B believe that it does not provide clarity regarding certain features of market-return cash balance plans that require actuarial assumptions, such as annuity options and the presence of legacy formula benefits within the plan.

59. Under Alternative B, the following amendment is suggested (added text is underlined):

> **715-30-35-43A** For **market-return cash balance plans**, the projected benefit obligation shall be measured equal to the total hypothetical account balances of the plan at each measurement date. The change in the projected benefit obligation attributable to principal credits shall be recognized as the service cost component of net periodic pension cost. All other changes in the projected benefit obligation (for example, interest credits), net of benefits paid, shall be included as gains or losses that are recognized immediately as a component of net periodic pension expense. All changes in the fair value of plan assets, net of benefits paid, shall be included as gains or losses that are recognized immediately as a component of net periodic pension expense.

60. Under Alternative B, the following amendment to the Codification would be necessary (added text is underlined):

> **Market-return cash balance plan (Master Glossary)** A specific type of cash balance plan in which:

a. Pension benefits are communicated to employees in the form of a current account balance that is based on principal credits and interest credits based on an investable market return including any of the following:

    1. The return on plan assets
    2. The return on a subset of plan assets that approximates the associated cash balance liabilities
    3. The return on a regulated investment company (for example, a mutual fund or exchange-traded fund)

b. Participants have the option to elect lump-sum payments.

Impact of Alternative B on the financial reporting for market-return cash balance plans

61. Absent any required adjustments as detailed in paragraph 53 and assuming the employer implements the plan as designed (that is, funds the principal credits when earned, invests the assets according to the interest crediting basis), applying Alternative B results in a funded status of zero and net periodic pension cost equal to the principal credits, which is similar to the accounting for a defined contribution plan.

62. The funded status is zero because both the benefit obligation and the fair value of the plan assets are equal to the accumulated hypothetical account balances. The benefit obligation is measured equal to the accumulated hypothetical account balances. Because the employer is incentivized to fund the principal credits and invest them in the way the interest credit is derived, the fair value of plan assets approximates the accumulated hypothetical account balances.

63. The net periodic pension cost will equal the principal credits. This cost will be comprised of service cost (that is, earned principal credits) and actuarial losses (that is, interest cost calculated as the beginning-of-year projected benefit obligation multiplied by the discount rate) offset by actuarial gains (that is, the actual gain on plan assets). The actuarial gains and losses are expected to offset, resulting in the net periodic interest cost equaling the principal credits.

Illustrative Examples of Alternatives Considered

64. An employer implements a market-return cash balance plan that provides annual principal credits of 1% of participants' pay and interest credits based on the actual returns on the plan's assets. Principal credits and interest credits are credited to participants' hypothetical account balances at the end of year. Additionally, the plan is fully funded because principal credits are contributed by the employer to the pension trust to purchase plan assets at the end of the year. Assume the following:

	Year 1	Year 2
Annual principal credits	$1,000	$1,000
Actual return on plan assets	-	$309
End-of-year hypothetical account balances	$1,000	$2,309
End-of-year fair value of plan assets	$1,000	$2,309

65. Under Alternative A and Alternative A1, the market-return cash balance plan's obligation is measured under the existing defined benefit accounting model. The employer's actuary calculates the benefit obligation using a discount rate equal to the assumed interest crediting rate. The employer estimates both the assumed interest crediting rate and the expected long-term rate of return on plan assets to be 7% for all years.

66. At the end of Year 1, the benefit obligation is $1,000. The components of net periodic pension cost are calculated as follows: service cost $1,000, interest cost $0, expected return $0 and amortization of gains/losses $0. There is no interest cost, expected return, or amortization of gains/losses because the plan is new in Year 1 and has not accrued an obligation until the end of that year. The fair value of plan assets is $1,000. As such, the funded status is zero. The following entry would be recorded in Year 1:

Account	Debit	Credit
Service cost	$1,000	
Cash		$1,000

67. At the end of Year 2, the benefit obligation is $2,309. The components of net periodic pension cost are calculated as follows: service cost $1,000, interest cost $70,[11] expected return ($70)[12] and amortization of gains/losses $0.[13] The fair value of plan assets is also $2,309. As such, the funded status as of the end of Year 2 is zero. The following entry would be recorded in Year 2:

Account	Debit	Credit
Service cost	$1,000	
Interest cost	$70	
Expected return		$70
Cash		$1,000

[11] Calculated as the beginning-of-year projected benefit obligation x discount rate ($1,000 x 7%)
[12] Calculated as the beginning-of-year fair value of plan assets x expected long-term rate of return on plan assets ($1,000 x 7%). For this example, the market-related value of plan assets is the fair value.
[13] There are no net gains and losses to amortize. Liability losses of $1,309 offset asset gains of $1,309.

68. Under Alternative B, the market-return cash balance plan's obligation is measured equal to the total hypothetical account balances of the plan as of the measurement date.

69. At the end of Year 1, the hypothetical account balances equal $1,000 and therefore the employer measures the benefit obligation as $1,000. The fair value of plan assets is $1,000. The $1,000 principal credits are recognized as service cost for the period. Interest credits in Year 1 are zero. The following entry would be recorded in Year 1:

Account	Debit	Credit
Service cost	$1,000	
Cash		$1,000

Because the benefit obligation and the fair value of plan assets are both equal to $1,000, the funded status is zero.

70. At the end of Year 2, the hypothetical account balances equal $2,309 and therefore the employer measures the benefit obligation as $2,309. The fair value of plan assets is $2,309. The $1,000 principal credits are recognized as service cost for the period. Interest credits are $309 and the change in the fair value of plan assets (less contributions) is $309, which are both recognized as actuarial gains and losses. The following entry would be recorded in Year 2:

Account	Debit	Credit
Service cost	$1,000	
Actuarial loss (interest credits)	$309	
Actuarial gain (gain on plan assets)		$309
Cash		$1,000

Because the benefit obligation and the fair value of plan assets are both equal to $2,309, the funded status is zero.

Recommendation

71. The recommended solution is Alternative A.

72. Proponents of the recommended solution believe that this is the preferred solution because it maintains the existing defined benefit pension plan accounting model while clarifying that the discount rate should be set equal to the assumed interest crediting rate for market-return cash balance plans.

73. Proponents of Alternative A believe that this is the most straightforward approach because it would avoid certain complexities that exist in Alternative A1 (for example, broader scope implications) and

in Alternative B (for example, requiring incremental amendments to clarify the treatment of gains and losses and net periodic pension cost).

74. Alternative A meets the objective of the project and is clear and concise for entities implementing the guidance.

Applicability and Disclosures

75. The Lead EITF Member recommends that the approach should be applied to all entities because market-return cash balance plans are provided by both public business entities and other entities.

76. The Lead EITF Member recommends that entities should be required to apply (as opposed to being able to elect to apply) the recommended approach. Providing an election or policy choice would reduce the comparability of information provided to investors on these types of plans.

77. The Lead EITF member does not think additional disclosures are required under the recommended approach because existing pension disclosures provide sufficient information. However, the Lead EITF Member is open to feedback from the EITF and the Board about whether (and if so which) additional disclosures should be required under the recommended approach.

Transition and Early Adoption

78. Entities with established market-related cash balance plans can apply the guidance on either a retrospective or a prospective basis, regardless of the Alternative selected by the EITF.

79. When applying the amendments retrospectively, entities would measure the benefit obligation as required by the amended guidance as of the beginning of the earliest period presented.

80. When applying the amendments prospectively, entities would measure the benefit obligation as required by the amended guidance at the next measurement date.

81. Allowing early adoption is recommended any time after the issuance of the final Accounting Standards Update.

FASB Staff Analysis

82. The measurement of cash balance plans has been researched by the staff and discussed by the Board multiple times in the last 20 years. The FASB staff provided the EITF with a summary of Previous Standard-Setting Activities on Market-Return Cash Balance Plans for its agenda committee meeting in April 2025.

83. The Board’s ultimate decision to discontinue projects on the accounting for cash balance plans was reached on the basis of the uncertainty regarding the pervasiveness of these types of plans, concerns about wide-scope standard setting, and cost considerations for more narrow-scope improvements.

Next Steps

84. If an EITF recommendation is reached for the FASB to add a project to its technical agenda, the FASB staff will prepare an agenda decision memo for the Board to discuss at a public meeting. The agenda decision memo will include the materials discussed by the EITF, a summary of EITF discussions, the basis for the EITF's recommendation, and an analysis of the FASB's agenda criteria. The Board will discuss the issue at a public Board meeting and determine whether to add a project to the FASB technical agenda.

Appendix A: Practitioner Guidance

A1. This appendix provides the relevant examples of practitioner guidance on the application of Topic 715 to market-return cash balance plans.

A2. EY, PwC, and KPMG have issued interpretive guidance on cash balance plans as outlined below.

A3. Section 10.3.3 of EY's *Postretirement Benefits Financial Reporting Development* (June 2025) states the following:

10.3.3 Cash balance plans

[...] A cash balance plan is a defined benefit plan that uses a hypothetical cash balance account, comprising principal and interest, to determine future pension benefits. The formula is based on a pay-crediting rate (because it usually is a percentage of salary) and an interest-crediting rate. While the definition of a cash balance plan, noted above, indicates that the interest-crediting rate is fixed, some cash balance plans have variable interest-crediting rates. A cash balance plan establishes hypothetical allocations to an individual account (the "cash balance") for each plan participant.

A cash balance plan is a defined benefit plan because (1) it provides a defined benefit, (2) the individual account is not yet owned by the plan participant and (3) the employer bears the investment risks and rewards and the mortality risk if the employee elects to receive benefits in the form of an annuity.

Benefits under a cash balance plan are often paid in a lump sum rather than a life annuity. If a vested participant switches careers or retires, the lump-sum payment based on the hypothetical cash balance usually can be rolled over into a self-directed individual retirement account (or another qualified plan) and continues to grow on a tax-deferred basis.

10.3.3.1 Determining the accrued benefit after conversion to a cash balance plan

From an accounting perspective, converting a traditional defined benefit pension plan into a cash balance plan generally constitutes a negative plan amendment (see section 8.4.1 for further details).

At the time of conversion, the employer should preserve the accrued benefit as of the date of conversion. The accrued benefit comprises the traditional defined benefit accumulated through the date of conversion and the cash balance beginning as of the date of conversion.

A4. Subsequent increases to the accrued benefit balance post-conversion

The participant's account accumulates annual pay credits based on a percentage of annual compensation. The pay credit may be level for all age groups or it may be graduated (i.e., lower for younger age groups and higher for older age groups). In addition, the participant's account is credited with interest periodically. Each year, the participant earns that year's pay credit and interest on accumulated balances (i.e., accumulated pay credits and prior interest credits).

Illustration 10-3: Cash balance plan accrued benefit

A cash balance plan participant's account has the following inputs:

- Salary: $75,000
- Hypothetical opening account balance at the beginning of Year 1: $3,000
- Annual pay credit: 5% of salary
- Fixed annual interest credit: 6%

Assume that, pursuant to the plan's terms, the fixed annual interest credit is applied to each participant's account on the last day of the fiscal year.

To determine the opening account balance in Year 2, the participant's hypothetical opening account balance in Year 1 of $3,000 is subsequently "credited" with a pay credit equal to 5% of salary or $3,750 ($75,000 x 5%) and an interest credit of 6% or $180 ($3,000 x 6%), resulting in a second-year opening account balance of $6,930 ($3,000 + $3,750 + $180 = $6,930). Subsequent credits to the account balance would be determined in a similar manner.

Although the example above uses a fixed annual interest credit, some cash balance plans use a variable interest rate for the interest credits and may be linked to an index, such as the rate applicable to one-year US Treasury bills.

10.3.3.3 Cash balance plan attribution

[…] ASC 715-30-55-127A includes an example in which principal credits are based on a fixed percentage of salary for each year of service, and interest credits are based on a fixed percentage of the accumulated cash balance (i.e., accumulated prior salary credits and interest credits). This example specifies that the expense should be attributed using the traditional unit credit method (i.e., no projection is necessary for future salary increases because the benefit formula is not salary dependent). The Codification only discusses a fixed interest crediting rate. However, we believe that it is neither required nor appropriate to use the projected unit credit method for purposes of measuring the benefit obligation of plans with a variable interest crediting rate. In this case, the PBO will be equal to the ABO (see section 5.2.1).

However, an employer may use the total hypothetical account balance as the basis for recognizing a cash balance plan's obligation if the total hypothetical account balance exceeds the PBO. This approach is similar to the guidance included in ASC 715-30-35-40 through 35-41 that is applied when the actuarial present value of benefits to which an employee is entitled if the employee terminates immediately exceeds the actuarial present value of benefits to which the employee is entitled at the expected date of separation based on service to date.

If benefits under the plan are attributed disproportionately to later years of service, the guidance in ASC 715-30-55-127A would not apply and the guidance in ASC 715-30-35-38 related to plans with a backloaded formula should be considered (see section 5.3.1.1.4).

A5. Section 1.6.2 of PwC's *Pensions and Employee Benefits Guide* (June 2024) states the following:

1.6.2 Cash balance plans

Arrangements referred to as "hybrid plans," "cash balance plans," "guaranteed individual account plans," or "lump-sum pension plans" typically have the following characteristics:

- Benefits are intended to be paid primarily in lump-sum form, although annuity equivalents of the lump-sum account balance may be paid instead.
- Employer contributions to "separate accounts" and account balances are communicated periodically to employees. However, separate investment accounts are not actually maintained; the "separate accounts" are maintained on paper only, and are "credited" periodically with investment earnings.
- Actual plan earnings below the guaranteed rate of return are required to be made up by the employer; earnings in excess of the guaranteed rate, in effect, serve to reduce the employer's cost.

Legally, and in substance, these types of arrangements are defined benefit plans and should be accounted for as such. While the account-balance-reporting feature may be somewhat similar to a defined contribution plan, like any defined benefit plan, a cash balance plan must be funded on an actuarial basis in accordance with ERISA. The employer, not the employees, bears the investment risks and rewards. Similarly, and as with any other defined benefit plan, ASC 715 requires the accounting to be based on the attribution of benefits earned in each service period under the terms of the plan. With that in mind, the "guaranteed income credit" reported in the "separate accounts" may not be particularly relevant for accounting purposes[…]

As noted in ASC 715-20-25-1, a cash balance plan is a defined benefit plan and, therefore, is subject to the guidance in ASC 715-30. The determination of the appropriate benefit attribution approach for a cash balance plan depends on an evaluation of the specific features of those benefit arrangements.

ASC 715-30-55-127A includes an example of a cash balance plan that is not pay-related. In this example, the use of the projected unit credit method is not appropriate for purposes of measuring the benefit obligation and the annual cost of benefits earned. Instead, an entity that has that specific type of plan would apply a traditional unit credit method to determine costs and obligations for that plan. The principal difference between the projected unit credit method and the traditional unit credit

method is that future salary increases are not assumed in the traditional unit credit method. See PEB 2.5.1 for discussion of the projected unit credit method.

Because this guidance applies only to the narrowly defined plan described in ASC 715-30-55-127A, entities should not necessarily apply that measurement and attribution guidance to other cash balance plans that have features that are different from the identified cash balance plan in the example. The accounting used should reflect the substantive plan based on its specific facts and circumstances.

Although many cash balance plans provide a minimum interest crediting rate, in many cases by reference to a US government obligation (e.g., treasuries), that interest crediting rate is part of the benefit promise and is not relevant for determining the present value (i.e., discounting) of the benefit obligation. Thus, the discount rate guidance in ASC 715-30-35-44 for "traditional" defined benefit plans equally applies to cash balance plans.

A6. Section 5.4 of KPMG's *Employee Benefits Handbook* (October 2024) states the following:

5.4 Cash balance plans

[…] A cash balance plan is an account-based DB plan. These arrangements may also be referred to as hybrid plans because they combine features of DC and DB plans. Cash balance plans are account-based (like DC plans) but they are accounted for as DB plans. [715-20-25-1 – 25-3]

Question 5.4.10 What is a cash balance plan?

Interpretive response: In a typical cash balance plan, each employee has a separate hypothetical account that is credited with the following.

- **Pay (principal) credits.** This annual crediting rate is generally expressed as a percentage of the employee's salary.
- **Future interest credits.** This defined non-contingent interest-crediting rate is generally expressed as a variable rate index or a fixed interest crediting percentage – e.g. 30-year US Treasury rate, market-based index or fund. [715-30-55-127A]

Even though each employee has a separate hypothetical account, the entity bears the investment risks and rewards because the interest credits are non-contingent. Employees may not be subject to market losses (because the entity commits to an interest-crediting structure) and can convert their account balance to an annuity or receive a lump-sum payment on retirement. [715-20-25-1]

The following table summarizes key features outlined in Subtopic 715-20 for cash balance plans to illustrate why they are accounted for as DB plans and not DC plans.

Cash balance plan features	Is it a characteristic of a	
	DB plan?	DC plan?
The entity commits to provide a stated rate of interest (whether fixed or tied to a specified index). [715-20-25-3]	Yes. The entity commits to a defined benefit by defining a stated rate of interest due on retirement. Like a DB plan, the entity has the investment risks and rewards if actual earnings do not meet this guaranteed interest-credit rate.	No
The entity funds amounts that accumulate toward a benefit due to each participant on distribution under the plan's terms. [715-20-25-3]	Yes. Like in a DB plan, the entity's obligation goes beyond its obligation to contribute to the plan.	No
Individual account balances refer to a hypothetical account and depend on a promised interest-crediting rate. [715-20-25-3]	Yes. A DB plan under Topic 715 is any plan in its scope that is not a DC plan.	No. Although cash balance plans are account-based like DC plans, they differ because in a DC plan each benefit is based solely on the assets invested and the return on those assets. Also, separate accounts are maintained on paper only and are not actually separate investment accounts for each participant.
Accounting based on an attribution of benefits over a service period	Yes	No

While cash balance or other hybrid plans are generally accounted for as DB plans, entities consider their individual facts and circumstances to determine whether a cash balance or other hybrid plan is a DC or DB plan under Subtopic 715-70. [715-20-25-1 – 25-4]

Question 5.4.20 How are benefits attributed to a cash balance plan?

Interpretive response: To determine the attribution approach for a cash balance (or similar hybrid) plan that is a DB plan, the entity determines whether the benefit provided is pay-related or non-pay-related. [715-20-25-4]

- **Pay-related DB plans.** Such plans are affected by future pay increases. The benefit obligation and periodic benefit costs of these plans are measured using the projected unit credit method. This method measures the benefit obligation based on service earned to date but considers future expected salary increases. [715-20-25-4]
- **Non-pay-related DB plans.** Such plans are not affected by future pay increases. The benefit obligation and periodic benefit costs of these plans are measured using the traditional unit credit method, which considers only the current hypothetical contribution and the present value of future interest credits related to that contribution. [715-30-55-127A]

Under both of these actuarial methods, an employee's service earns additional units of future benefit. The accrued liability is measured as the present value of the units of benefits. See Examples 8.6.20 and 8.6.30 for an illustration of the application of the projected unit credit method and the traditional unit credit method, respectively.

Question 5.4.30 Can an entity change from the projected unit credit method to the traditional unit credit method to measure a cash balance plan?

Interpretive response: In general, entities do not change their method for measuring their cash balance plans, because the approach is determined based on whether the cash balance plan is a pay-related or non-pay-related plan (see Question 5.4.20). However, any change in method for measurement related to a DB plan is a change in accounting principle that must be evaluated in accordance with Topic 250 (accounting changes). See section 3.3.20 of KPMG Handbook, Accounting changes and error corrections.

Question 5.4.40 Is the discount rate used to measure the benefit obligation of a cash balance plan consistent with the interest-crediting rate?

Interpretive response: Plans may specify a variable interest-crediting rate tied to market conditions. This may not be relevant to calculate the assumed discount rate used to measure the benefit obligation of a DB cash balance plan. If the variable interest-crediting rate were used, the resulting periodic cost would often match the cost as if that plan had been accounted for as a DC plan. The discount rate is the rate at which the benefit obligation can be effectively settled. We

believe entities should use an assumed discount rate consistent with the subsequent measurement guidance for DB pension plans regardless of the rate used for crediting purposes (i.e. the interest-crediting rate). The assumed discount rate should be based on the interest rate inherent in high-quality fixed-income investments (e.g. bonds). The bonds should have maturities similar to the estimated benefit payments to best reflect the inherent interest rates at which the pension benefits could be effectively settled. Section 8.3 discusses discount rates. [715-30-35-43 – 35-46]

Question 5.4.50 How is the ABO for a cash balance plan measured?

[…] **Interpretive response:** The ABO as of a date is the actuarial present value of benefits attributed by the pension benefit formula to employee service rendered before that date.

In general, when applying the attribution approach described in Subtopic 715-30, the PBO will always equal or exceed the ABO because the PBO considers future salary increases (for pay-related plans). The ABO does not reflect future salary increases and therefore is measured using the traditional unit credit method. Section 8.6 discusses attribution methods under Topic 715. [715-30-35-1A – 35-2, 715-30-35-36 – 35-38]

For cash balance plans, the ABO serves as a minimum for the PBO when a projected unit credit method is used to calculate the PBO. This minimum approach applies when calculating each participant's ABO and PBO. [715-30-35-2, 715-30-35-36 – 35-38]

Because a cash balance plan may be considered analogous to certain plans under the guidance for pension arrangements outside the US, actuaries might take different approaches to measuring the ABO for a cash balance plan. In general, different approaches might include computing the ABO: [715-30-55-67]

- as being equal to the cash balance account at the measurement date;
- by projecting the cash balance account into the future using an assumed interest-crediting rate only (no future pay-related or fixed-dollar crediting rate) and discounting the projected cash balance accounts (or related annuity benefits) back to the measurement date;
- as the greater of (1) or (2); or
- using the same techniques as those used for the PBO without using
- assumed future compensation increases when determining projected future pay credits.

General guidance about measuring the ABO is discussed in section 6.4, and Question 5.4.20 discusses measuring the obligation for a cash balance plan.

Question 5.4.60 How does an entity account for suspending benefits for a subsidiary's participants when they will be added to the parent's cash balance pension plan?

Background: Assume a subsidiary is the sponsor of a single-employer DB pension plan in which all participants' benefits will be frozen at current levels. The subsidiary's plan will continue to exist to pay accrued benefits to existing retirees and to pay benefits to vested employees when they retire. All active employees will become participants in the parent's cash balance plan and will accrue benefits for future services. The benefits provided under the parent's cash balance plan are less than the benefits provided under the subsidiary's DB plan.

Interpretive response: The entity accounts for the events differently at the consolidated and subsidiary levels.

At the consolidated level, this transaction is accounted for as a negative plan amendment (see chapter 9) because the parent's cash balance plan is viewed as a successor plan to the subsidiary's plan in which reduced benefits are to be provided to employees for future services. There is no settlement of the subsidiary's plan nor is there any reduction in the expected years of future service to the consolidated entity.

At the subsidiary level, this transaction is accounted for as a curtailment (see chapter 9) because the parent's cash balance plan is viewed as a multiemployer plan (see chapter 10) in the subsidiary's separate financial statements under Topic 715.

In addition, this transaction is viewed as being analogous to when a company terminates its single-employer plan and joins a multiemployer plan, but the multiemployer plan is not considered a successor plan. A multiemployer plan is not viewed as a successor plan to a single-employer plan, because the nature of an employer's promise is different in a multiemployer plan. [715-80-55-4].