Setting Up Retirement Benefit Trust

While some employers are dissolving their retirement benefit trusts, the increase in pension plan shortfall caused by the drop in global stock market seems to be encouraging other employers to newly set up the trusts (Kikkoman at the news release on March 2, 2008, Hitachi on March 27, 2008 etc.). This article addresses some accounting treatments when setting up the retirement benefit trust.

1. Setting up the Retirement Benefit Trust

The assets that can be contributed to the retirement benefit trust are limited to the unfunded retirement benefit obligations, which is the gap between PBO and Plan Assets. The notes of the Accounting Standards for Retirement Benefits spells out that when several retirement benefit plans are in place (such as retirement allowance scheme and defined benefit plan) and if the plan assets in one plan exceeds the benefit liabilities of the said plan, the excess shall not be deducted from the benefit liabilities of the other plan. Therefore the unfunded retirement benefit obligations must be calculated in each plan and the retirement benefit trust also needs be set up according to each plan.

2. Accounting Treatment at Trust Set-up

The market fair value of the assets contributed by the employer is treated as a decrease in retirement benefit accruals, the book value of the assets as a decrease in the employer's assets, and the gap between the market value and the book value to be treated as profit/loss resulted from the set up of the retirement benefit trust.

3. Examples of the Accounting Treatments

(1) Assumptions

As of March 31, 2008 prior to the set up of retirement benefit trust:

PBO：10,500

Plan Assets：5,200

Unrecognized transition obligation: 100 (amount to be recognized in amortization expense)

Unrecognized actuarial gain/loss: 544 (amount to be recognized in amortization expense)

Unrecognized PSL: 0

Retirement Benefit Accruals：4,656

Fair Market Value of Securities to be contributed to the Retirement Benefit Trust: 1,200 (book value: 1,000)

	3/31/2008 (before the Trust Set-up)	At the Trust Set Up	3/31/2008 after the Trust Set-up)
PBO	(10,500)		(10,500)
Plan Assets	5,200	1,200*	5,200
Retirement Benefit Trust			1,200
Unfunded benefit obligations	(5,300)		(4,100)
Unrecognized Transition Obligation	100		100
Unrecognized Actuarial Gain/Losses	544		544
Unrecognized PSL	0		0
Prepaid Pension Cost (Retirement Benefit Accruals)	(4,656)	1,200	(3,456)

(2) Treatment at the Set-up

①Fair Market Value of the Trust 1,200 will be the decrease in the retirement benefit accruals while Book Value of 1,000 will be a profit from Trust set up.

Debit	Credit	
Retirement Benefit Accruals: 1,200 /	Securities:	1,000
	Profit from Trust Set-up: 200	

4. Advantages / Disadvantages of Retirement Benefit Trust

(1) Advantages

①Fill or reduce the underfunding

②Decreases in assets and liabilities will improve the business indicators.

(E.g. ROA = Net Profit / Total Assets, Equity Ratio = Total Owner's Equity / Total Assets)

(2) Disadvantage

The deviation in the fair market value of assets creates actuarial gains/losses and may consequently increase the retirement benefits costs.

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