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Employee Benefit Plans With Master Trust Investments – Financial Statement Changes

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On the Subject

[Financial Institutions & Banking]
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The Financial Accounting Standards Board (FASB) adopted changes to the required financial statement disclosures of employee benefit plans with investments in master trusts. The changes will standardize the content and presentation of information reported in plans' financial statements.

In Depth

Many employee benefit plans hold investments in master trusts. As described by FASB, a master trust for employee benefit plans has an institutional trustee and holds assets of more than one plan sponsored by a single employer or by a group of employers under common control.

FASB issued Accounting Standards Update 2017-06 to provide additional guidance on disclosure of an employee benefit plan's interest in a master trust. The changes are aimed particularly at defined contribution plans, which generally have divided interests (rather than percentage interests) in master trusts. The guidance is effective for fiscal years beginning after December 15, 2018, and applies retrospectively to each period for which financial statements are presented.

The FASB guidance addresses several significant items:

1. A typical defined contribution plan's interest in a master trust and a change in that interest must be presented as separate line items in the statement of net assets available for benefits and the statement of changes in net assets available for benefits.
2. A typical defined contribution plan must disclose the fair value of each general type of investment of a master trust, as well as the dollar amount of the plan's interest in each type of investment.
3. A plan must disclose the master trust's other assets and liabilities, as well as the dollar amount of the plan's interest in those other assets and liabilities.
4. Notes to financial statements must disclose the net appreciation or depreciation in the fair market value of master trust assets.
5. Notes to financial statements must disclose the basis used to allocate net income and total investment income.
6. Health and welfare plans with Section 401(h) accounts are no longer required to provide investment disclosures.

These changes should make financial statements more consistent and understandable, particularly for defined contribution plans.

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