

To the Point

FASB – proposed guidance

FASB proposes discount rate guidance for certain market-return cash balance plans

The proposal would better align the accounting with the economic characteristics of market-return cash balance plans.

What you need to know

- ▶ The FASB proposed amendments that would require entities to use the assumed interest crediting rate as the discount rate when measuring the benefit obligation for certain market-return cash balance plans under ASC 715-30.
- ▶ The guidance would apply if (1) the market-return cash balance plan communicates the benefits as an account balance comprising principal credits and interest credits based on certain investable market returns and (2) the plan allows participants to receive lump-sum payments.
- ▶ Entities would apply the guidance prospectively at their next pension measurement date. Early adoption would be permitted.
- ▶ Comments are due by 10 August 2026.

Overview

The Financial Accounting Standards Board (FASB or Board) **proposed**¹ amendments to Accounting Standards Codification (ASC) 715-30, *Compensation – Retirement Benefits – Defined Benefit Plans – Pension*, that would require entities to use the assumed interest crediting rate as the discount rate when measuring the benefit obligation for certain market-return cash balance plans.

A market-return cash balance plan is a type of variable interest crediting rate cash balance plan. Interest credits are based on an investable market return, such as the actual return on plan assets. 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).

Under the current guidance, cash balance plans are treated as defined benefit plans.² Entities are required to measure the benefit obligation using a discount rate that reflects the rates at which pension benefits could be effectively settled. When estimating those rates, entities typically look to rates of return on high-quality fixed-income investments. However, applying this defined benefit accounting model to a market-return cash balance plan generally results in a benefit obligation that exceeds the plan's accumulated hypothetical account balances.

The proposal is intended to address diversity in practice and better align the accounting with the economic characteristics of these plans.

Key considerations

The proposed amendments, based on a recommendation by the Emerging Issues Task Force, would apply to market-return cash balance plans that meet both of the following conditions:

- ▶ Pension benefits are communicated to employees in the form of an account balance that comprises principal credits and interest credits based on an investable market return in any of the following forms:
 - ▶ The return on plan assets
 - ▶ The return on a subset of plan assets that approximates the associated cash balance liabilities
 - ▶ The return on a regulated investment company
- ▶ Participants have the option to elect lump-sum payments.

For market-return cash balance plans that are in the scope of the proposal, entities would be required to use the assumed interest crediting rate as the discount rate when measuring the benefit obligation. As a result, the benefit obligation of a market-return cash balance plan generally would equal its accumulated hypothetical account balances.

The Board said the proposal would not otherwise change how market-return cash balance plans should be accounted for under the current guidance in ASC 715-30. Instead, it would specify the discount rate to be used.

The proposal also would require plans meeting the scoping criteria to use the assumed interest crediting rate as the discount rate when determining the actuarial present value of accumulated plan benefits under ASC 960-20, *Plan Accounting – Defined Benefit Pension Plans – Accumulated Plan Benefits*. These amendments are intended to align plan sponsor accounting under ASC 715-30 with plan accounting under ASC 960-20 for market-return cash balance plans in the scope of the proposed guidance.

Effective date and transition

Entities would be required to apply the guidance prospectively at their next pension measurement date as determined under the guidance in ASC 715-30. This could be at an interim date (e.g., a measurement date triggered by the occurrence of a significant event that requires remeasurement) or at an entity's next annual remeasurement. Early adoption would be permitted.

The FASB will determine the effective date after it considers stakeholder feedback on the proposal.

How we see it

The proposed amendments maintain 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 certain market-return cash balance plans. The proposal would address the current diversity in practice and reduce or eliminate the mismatch between the economics and the accounting for these plans.

Endnotes:

- ¹ Proposed Accounting Standards Update, *Compensation – Retirement Benefits – Defined Benefit Plans – Pension (Subtopic 715-30) – Discount Rate Used to Measure the Benefit Obligation for Certain Market-Return Cash Balance Plans*.
- ² ASC 715-20, *Compensation – Retirement Benefits – Defined Benefit Plans – General*, specifies that cash balance plans are defined benefit plans.

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