GASB 47: Accounting for Termination Benefits

GASB 47 provides accounting and reporting guidance for both voluntary and involuntary employee termination benefits. The Statement addresses recognition, measurement, and disclosure requirements. The provisions of this Statement will not be applied to immaterial items.

Voluntary Termination Benefits

Voluntary employee termination benefits are related to an employee choice, such as early retirement. The benefits related to such a voluntary termination are any accompanying incentives. With voluntary termination benefits, institutions will recognize a liability and expense when the offer is accepted and the amount of the benefit can be estimated.

Involuntary Termination Benefits

Involuntary termination benefits are those that related to an institution’s plan of involuntary termination. Such plans at a minimum should identify:

- the number of employees to be terminated,
- the job classifications that will be affected,
- the locations that will be affected,
- when the terminations are expected to occur, and
- the terms and details of termination benefits.

A liability and expense for involuntary termination benefits should be recognized in the period in which the institution becomes obligated to provide benefits to terminated employees. This is usually when the plan of termination has been approved by those with the authority to commit the institution to the plan, the plan has been communicated to the employees, and the amount can be estimated.

If a plan of involuntary termination requires that employees render future service to receive benefits, the institution will recognize a liability and expense for the portion of termination benefits that will be provided after the completion of future services ratably over the employees’ future service period, beginning when the plan otherwise meets the recognition criteria discussed above.

Healthcare-related Termination Benefits

Healthcare-related termination benefits that are provided as the result of a large-scale, age-related program (for example, an early-retirement incentive program that affects a significant portion of employees) should be measured at their discounted present values based on projected total claims costs (or age-adjusted premiums approximating claims costs) for terminated employees less any payments to be made by the terminated
employees. This projection should also factor in trends in healthcare costs for the periods covered by the employer’s commitment to provide healthcare benefits.

Institutions that provide healthcare-related termination benefits that are not part of a large-scale, age-related termination program (such as a reduction in force in which affected employees have an age profile similar to that of the entire workforce) are permitted to measure the cost of termination benefits based on a) projected claims costs for terminated employees or b) the cost of unadjusted premiums. Either option chosen would be net of any payments to be made by the terminated employees and would factor in trends in healthcare costs of the periods covered by the employer’s commitment to provide healthcare benefits.

**Non-Healthcare-Related Termination Benefits**

The cost of non-healthcare-related termination benefits for which the benefit terms establish an obligation to pay specific amounts on fixed or determinable dates should be measured at the discounted present value of expected future benefit payments (including an assumption regarding changes in future cost levels during the periods covered by the employer’s commitment to provide the benefits). If, however, the benefit terms do not establish an obligation to pay specific amounts on fixed or determinable dates, the cost of non-healthcare-related benefits should be calculated as either a) the discounted present value of expected future benefit payments or b) the undiscounted total of estimated future benefit payments at current cost levels.

**Note Disclosures**

The Statement requires disclosure in the notes to the financial statements a description of the termination benefit arrangement(s), the cost of termination benefits (if not identifiable from information displayed on the face of the financial statements), and significant methods and assumptions used to determine termination benefit liabilities.

**Effective Date**

This Statement is effective in two parts. For termination benefits provided through an existing defined benefit OPEB plan, the provisions of this Statement should be implemented simultaneously with the requirements of GASB 45. For all other termination benefits, this Statement is effective beginning FY 2005-06. In the year of implementation, the requirements of this Statement should be applied to any previous commitments of termination benefits that remain unpaid at June 30, 2006. The cumulative effect of applying this Statement should be reported as a restatement of beginning net assets. Financial statements for prior periods are not required to be restated.

**Exception**

GASB 47 provides a general guidance exception when the effects of a termination benefit relate to an institution’s already existing obligations for defined pension or other post
employment benefits. Such benefits should be accounted for and reported under the requirements of GASBs 27 and 45.