

Early Impressions

FASB's 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



A Targeted Solution to Eliminate Measurement Inconsistency and
Better Reflect Plan Economics

EXECUTIVE SUMMARY

On June 10, 2026, the FASB issued a proposed Accounting Standards Update that would clarify the discount rate used to measure the benefit obligation under **Subtopic 715-30, Compensation—Retirement Benefits—Defined Benefit Plans—Pension, for certain market-return cash balance plans**. The proposal addresses longstanding diversity in practice and aims to better align the accounting with the economic substance of these increasingly prevalent retirement arrangements.

Market-return cash balance plans are defined benefit plans that communicate pension benefits to employees in the form of hypothetical account balances. Unlike traditional cash balance plans with fixed interest crediting rates, these plans use variable interest crediting rates tied to investable market returns—such as the return on plan assets, a subset of plan assets, or a regulated investment company. Participants typically have the option to receive their benefit as either a lump sum or an annuity.

Executive Summary

Background

Summary at a Glance

Scope Applicability

Key Highlights of the Proposed Amendments

Effective Date and Transition

Uniquis Perspective

The Problem: Measurement Inconsistency

Under current practice, entities often project the hypothetical account balance forward using the plan's interest crediting rate but then discount that projected amount back using an unrelated settlement rate (e.g., AA corporate bond yields). This creates a measurement mismatch: the benefit obligation is measured at one rate for projection and a different rate for discounting, producing a result that often diverges materially from the hypothetical account balance and may not faithfully represent the employer's obligation.

The Solution: Use Interest Crediting Rate as Discount Rate

The proposed amendments would require entities to use the assumed interest crediting rate as the discount rate when measuring the benefit obligation for in-scope market-return cash balance plans. This eliminates the projection-discount mismatch and results in a benefit obligation that generally equals the hypothetical account balance, better reflecting the economic reality of the arrangement.

This Early Impressions highlights what would change, why it matters, and the key implementation considerations for CFOs, CAOs, controllers, actuaries, and human resources professionals responsible for defined benefit pension plan accounting and administration.

We hope you find this publication valuable and welcome further discussion.



Sandip Khetan
Co-Founder, Global
Head of Accounting &
Reporting Consulting



Ashish Gupta
Partner, Accounting &
Reporting Consulting



Kapil Bellubi
Partner, Valuations



Amit Bora
Associate Partner,
Valuations



Puneet Chowdhary
Associate Partner,
Accounting & Reporting
Consulting

BACKGROUND

The evolution of cash balance plans

Cash balance plans have grown significantly in prevalence over the past two decades as employers have sought to provide defined benefit pension arrangements that are easier for employees to understand and more portable for an increasingly mobile workforce. Unlike traditional final-average-pay pension formulas, cash balance plans communicate the benefit in terms that resemble a defined contribution account—a hypothetical balance comprising principal credits (employer contributions) and interest credits (a stated return on those contributions).

Market-return cash balance plans represent a further evolution. In these arrangements, the interest crediting rate is not fixed but instead tracks an investable market return. Employees benefit from the actual investment performance of the underlying assets (or a designated benchmark), subject to regulatory requirements such as preservation of capital provisions that ensure participants’ principal credits are protected even in declining markets.

The accounting challenge

ASC 715 does not contain specific guidance addressing market-return cash balance plans. Consequently, entities have applied the general measurement principles in ASC 715-30-35-43, which require that the discount rate reflect the rate at which pension benefits could be effectively settled. In practice, this has led to two divergent approaches:

Approach 1: Settlement Rate	Approach 2: Interest Crediting Rate
Uses AA corporate bond yields or annuity settlement rates	Uses the plan’s assumed interest crediting rate
Result: Benefit obligation often differs materially from hypothetical account balance	Result: Benefit obligation generally approximates hypothetical account balance

This diversity in practice has raised questions about comparability and whether the financial statements faithfully represent the economics of these plans. When a plan is fully funded at its hypothetical account balance and the entity uses a settlement discount rate that differs from the interest crediting rate, the resulting funded status can show a surplus or deficit that does not align with the plan’s design or the participants’ expectations.

Executive Summary

Background

Summary at a Glance

Scope Applicability

Key Highlights of the Proposed Amendments

Effective Date and Transition

Uniquis Perspective

SUMMARY AT A GLANCE

The table below highlights the key dimensions of the proposed standard.

Executive Summary

Background

Summary at a Glance

Scope Applicability

Key Highlights of the Proposed Amendments

Effective Date and Transition

Uniquis Perspective

Objective

- Reduce diversity in practice on the discount rate used to measure benefit obligations for certain market-return cash balance plans
- Better reflect the economics of market-return cash balance plans by aligning the benefit obligation with participants' hypothetical account balances

Scope

- Market-return cash balance plans that:
 - (a) communicate benefits as hypothetical account balances based on principal credits and interest credits tied to an investable market return (return on plan assets, return on subset of plan assets, or return on a regulated investment company), and
 - (b) offer participants a lump-sum payment option

Measurement requirement

- Use the plan's assumed interest crediting rate as the discount rate to measure the benefit obligation. No other changes to the defined benefit pension accounting model in ASC 715-30

Expected accounting outcome

- Benefit obligation generally equals hypothetical account balance (subject to adjustments for preservation of capital, annuity conversion, and other plan features).
- For fully funded plans, funded status approaches zero.
- Net periodic pension cost generally equals principal credits.



Uniquis Point of View — A narrow fix with broad implications

Although the proposed amendments target a specific measurement issue, their impact will extend beyond technical accounting. For entities currently using settlement rates that differ materially from their interest crediting rates, adoption could significantly affect reported funded status, balance sheet volatility, and expense patterns. Early impact assessment is essential.

SCOPE APPLICABILITY

The proposed amendments would apply to **all entities** that have market-return cash balance plans that meet **both** of the following conditions:

Condition 1:

Investable Market Return Linkage

Benefits must be communicated as an account balance comprising principal credits and interest credits based on an investable market return in ANY of these 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 (e.g., mutual fund)

Condition 2:

Lump-Sum Payment Option

Participants must have the option to elect lump-sum payments (in addition to or instead of annuity payments)

Executive Summary

Background

Summary at a Glance

Scope Applicability

Key Highlights of the Proposed Amendments

Effective Date and Transition

Uniquis Perspective



Illustrative Scope Application Examples



Example 1: IN SCOPE — Market-Return Cash Balance Plan

Fact pattern:

Company A sponsors a cash balance plan that credits participants' hypothetical accounts with (a) principal credits equal to 5% of annual compensation, and (b) interest credits equal to the actual return on the plan's investment portfolio.

The plan document specifies that the interest crediting rate will be the annual rate of return on plan assets, subject to a preservation of capital feature that ensures participants' accounts will not decline below their cumulative principal credits. Participants may elect to receive their benefit as either a lump sum equal to their account balance or as an actuarially equivalent annuity.

Analysis:

✓ This plan meets BOTH scope conditions.

- First, benefits are communicated as an account balance comprising principal credits and interest credits based on the return on plan assets (an investable market return).
- Second, participants have the option to elect lump-sum payments.

Therefore, Company A would be required to use the assumed interest crediting rate (the expected return on plan assets) as the discount rate when measuring the benefit obligation.



Example 2: OUT OF SCOPE — Fixed Interest Crediting Rate

Fact pattern:

Company B sponsors a cash balance plan that credits participants' hypothetical accounts with (a) principal credits equal to 6% of annual compensation, and (b) interest credits at a fixed annual rate of 4%. Participants may elect to receive their benefit as either a lump sum or an annuity.

Analysis:

✗ This plan does NOT meet scope condition 1.

Although this plan offers a lump-sum option (meeting condition 2), the interest crediting rate is fixed at 4% rather than tied to an investable market return.

The plan does not meet the first scope condition and therefore would not be subject to the proposed amendments. Company B would continue to apply the existing guidance in ASC 715-30-35-43, using a settlement-based discount rate to measure the benefit obligation.

Executive Summary

Background

Summary at a Glance

Scope Applicability

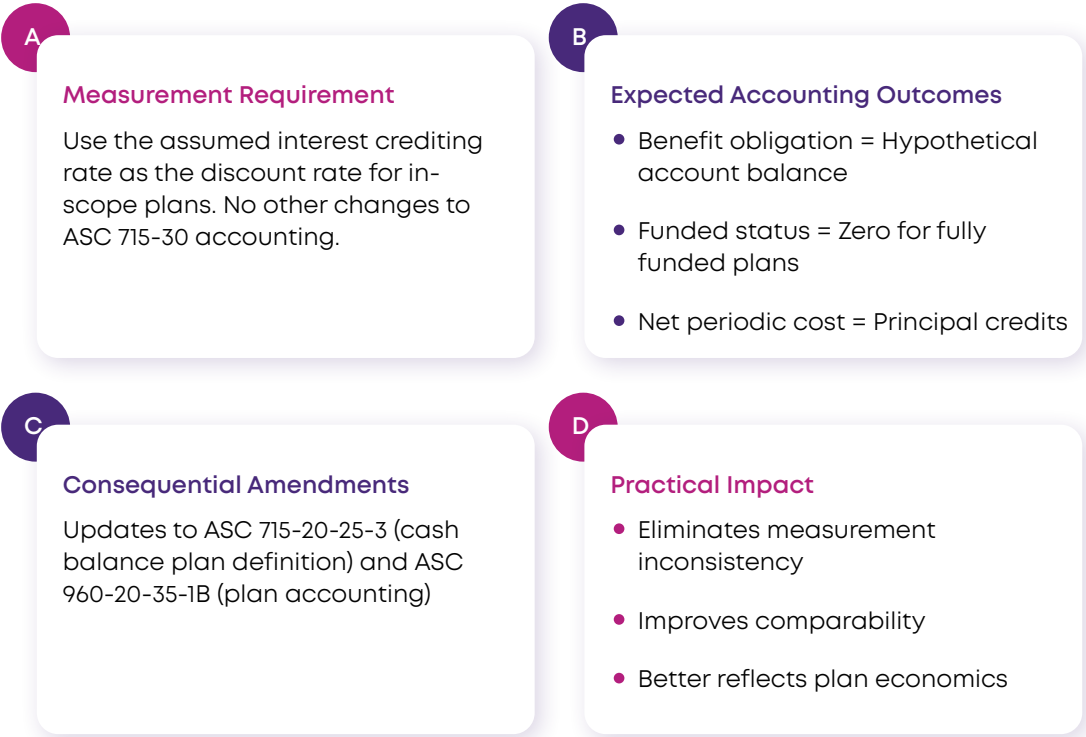
Key Highlights of the Proposed Amendments

Effective Date and Transition

Uniquis Perspective

KEY HIGHLIGHTS OF THE PROPOSED AMENDMENTS

How the Amendments Work—Four Key Dimensions:



Executive Summary

Background

Summary at a Glance

Scope Applicability

Key Highlights of the Proposed Amendments

Effective Date and Transition

Uniquis Perspective

A. Measurement Requirement

The proposed amendments would add paragraph 715-30-35-43A, requiring that entities use the **assumed interest crediting rate as the discount rate** to measure the benefit obligation for in-scope market-return cash balance plans.

Outside of specifying the discount rate, the proposed amendments would not change how entities account for market-return cash balance plans under ASC 715-30. Entities would continue to:

- Calculate service cost, interest cost, and expected return on plan assets using the existing methodology
- Apply actuarial assumptions for mortality, turnover, early retirement, and other factors
- Incorporate the effect of plan-specific features such as preservation of capital provisions and annuity conversion factors
- Recognize gains and losses arising from differences between actual and assumed experience

B. Expected Accounting Outcomes

When an entity uses the assumed interest crediting rate as the discount rate, the benefit obligation would generally equal the plan's hypothetical account balances (subject to actuarial adjustments). For a fully funded plan, the following outcomes would generally result:

Metric	Expected Outcome
Funded Status	Approximately zero (plan assets = benefit obligation = hypothetical account balances)
Net Periodic Pension Cost	Approximately equals principal credits (interest cost offset by expected return on plan assets)
Balance Sheet Volatility	Reduced volatility as discount rate tracks asset returns rather than bond yields

Comprehensive Illustrative Example

Measurement of Benefit Obligation: Proposed vs. Current Approach

Fact pattern:

Company C sponsors a market-return cash balance plan meeting both scope conditions. As of December 31, 2027:

- Participants' hypothetical account balances: \$10,000,000
- Fair value of plan assets: \$10,200,000
- Interest crediting rate = Expected return on plan assets: 6.5%
- AA corporate bond yield (settlement rate): 4.8%
- Projected 2028 principal credits: \$500,000

Analysis:

✓ Approach 1: Interest Crediting Rate Method (Proposed)

Under the proposed amendments, entities would use the interest crediting rate (6.5%) for **BOTH** projection and discounting:

Hypothetical account balances = \$10,000,000

Step 1 — Project forward: Grow at 6.5% (interest crediting rate) to retirement

Step 2 — Discount back: Bring back to present value at 6.5% (SAME RATE)

Result: Because return projecting and discounting at the SAME rate (6.5%), these two effects cancel out. The present value equals the starting amount.

Benefit obligation ≈ \$10,000,000

Consequences of Proposed Approach:

- Benefit obligation (\$10,000,000) EQUALS hypothetical account balance
- Funded status = \$10,200,000 assets - \$10,000,000 obligation = \$200,000
- OVERFUNDED

This accurately reflects economic reality: The plan has \$200,000 more in assets than the amount owed to participants based on their account balances.

✕ Approach 2: Settlement Rate Method (Current Practice)

Under current diverse practice, many entities use the settlement rate (4.8%) to discount:

Hypothetical account balances = \$10,000,000

Step 1 — Project forward: Grow at 6.5% (interest crediting rate) to retirement

Step 2 — Discount back: Bring back to present value at 4.8% (settlement rate)

Result: Because return projecting at a HIGHER rate (6.5%) but discounting at a LOWER rate (4.8%), the present value comes out HIGHER than the starting \$10 million

Benefit obligation ≈ \$10,350,000

Consequences of Settlement Rate Approach:

- Benefit obligation (\$10,350,000) EXCEEDS hypothetical account balance (\$10,000,000) by \$350,000
- Funded status = \$10,200,000 assets - \$10,350,000 obligation = (\$150,000)
- UNDERFUNDED

This creates a paradox: The plan appears underfunded even though it has \$10.2 million in assets to cover \$10 million in participant accounts. The \$150,000 “underfunding” is a measurement artifact, not economic reality.

Key insight:

The proposed amendments eliminate the measurement inconsistency by requiring use of the interest crediting rate, producing a benefit obligation that reflects the plan’s economic design.



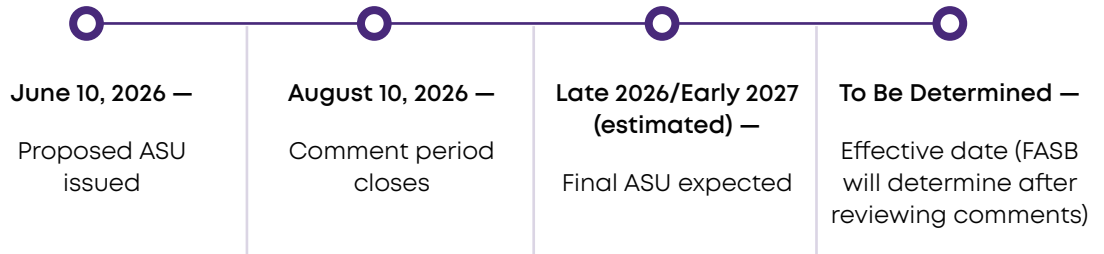
Uniquis Point of View — Implementation will require cross-functional coordination

While the accounting change is mechanically straightforward (simply changing one assumption input), successful implementation will require coordination across finance, HR, actuarial, legal, and investor relations functions. Key activities include:

- Scope assessment with actuaries and legal counsel
- Parallel calculations to quantify financial statement impact
- Audit committee briefing on scope determination and expected impact
- Preparation of investor-facing communications explaining the change
- Assessment of covenant and regulatory filing implications

EFFECTIVE DATE AND TRANSITION

Implementation Timeline:



Executive Summary

Background

Summary at a Glance

Scope Applicability

Key Highlights of the Proposed Amendments

Effective Date and Transition

Uniquis Perspective

Transition Method

Entities would apply the amendments prospectively at their next pension measurement date during the annual reporting period of adoption:

- Change in discount rate recognized as an actuarial gain or loss (consistent with other assumption changes)
- No restatement of prior periods
- Disclosure of the nature of and reason for the change in accounting principle
- Early adoption permitted at any measurement date



Practical Insight - Transition is straightforward but requires advance planning

Prospective transition means no complex retrospective calculations. However, entities should begin planning now:

- Request parallel actuarial calculations before the effective date to understand the impact
- Prepare draft disclosure language and investor communications
- Assess whether the accounting change affects debt covenants or regulatory filings
- Consider whether early adoption is beneficial based on your specific circumstances

UNIQUS PERSPECTIVE

Drawing on our experience advising clients on defined benefit pension accounting across industries, we offer six key takeaways:

Targeted improvement with broad implications

01

While the amendments address a narrow technical issue, their impact extends beyond measurement mechanics. For entities currently using a settlement-rate approach, adoption could materially affect reported funded status (potentially eliminating artificial surpluses or deficits), balance sheet volatility patterns (discount rate will track asset returns rather than bond yields), and expense recognition (net periodic cost will more closely track principal credits with reduced volatility).

Scope determination requires careful analysis

02

Not all market-return cash balance plans will be in scope. Work with actuaries, legal counsel, and accounting advisers to assess whether your plans meet both conditions.

Key questions:

- Does the plan document specify one of the three permitted forms of investable market return?
- Do participants have a lump-sum election option? Does the plan design comply with ERISA and IRS requirements for market-return plans?

Plan for transition communications

03

Although transition is mechanically straightforward, prepare for external communications:

- (a) Investor and analyst briefings on the nature of the change and its effect on funded status and future expense,
- (b) Audit committee presentations on scope assessment and financial impact,
- (c) Assessment of regulatory filing implications for ERISA, PBGC, or SEC submissions.

Actuarial systems should be ready

04

Implementation should be operationally simple—the interest crediting rate is already an input to pension calculations. However, confirm your actuarial systems can use this rate as the discount rate and perform parallel calculations before adoption to validate expected outcomes and identify any system limitations.

Executive Summary

Background

Summary at a Glance

Scope Applicability

Key Highlights of the Proposed Amendments

Effective Date and Transition

Uniquis Perspective

The amendments preserve existing requirements to incorporate plan-specific features (preservation of capital provisions, annuity conversion factors, etc.) as actuarial assumptions. Ensure your actuaries continue to appropriately reflect these features in benefit obligation measurements.

For more information on the proposed Accounting Standards Update, see the [press release](#) on the FASB's website.

Executive Summary

Background

Summary at a Glance

Scope Applicability

Key Highlights of the Proposed Amendments

Effective Date and Transition

Uniquis Perspective

How Uniquis Can Help

Our Accounting & Reporting Consulting and Valuation practice supports CFOs and CAOs with:



Scope assessment and technical analysis



Financial statement impact quantification



Transition planning and implementation support



Coordination with actuaries and auditors

Reach out to your Uniquis contact to discuss how the proposed standard applies to your specific market-return cash balance plans.



About Uniquus Consultech:

Uniquus Consultech is an AI and global tech-enabled consulting company that specializes in Accounting & Reporting Consulting, Governance, Risk & Compliance, Sustainability & Climate Consulting, Tech Consulting, and Valuations. The Company is co-founded by consulting veterans Jamil Khatri and Sandip Khetan and backed by marquee investors such as Nexus Venture Partners, Sorin Investments, and UST.

Uniquus has a global team of 800+ professionals, led by 100+ Partners and Directors, across 13 offices in the USA, the Middle East, and India. The company serves more than 400 clients, including marquee names in each of the markets it operates in.

Uniquus is committed to leveraging technology and an integrated global delivery model to provide best-in-class consulting services to its clients.

About Our Accounting & Reporting Consulting Services:

In today's dynamic business environment, organizations are continuously required to adapt to the dynamic shifts in accounting & reporting standards and regulations. Enhanced management reporting requirements and accelerated reporting timelines necessitate increased automation within the finance function. Special events, such as preparing for an IPO/capital market transaction or fulfilling the reporting requirements arising from an M&A transaction, introduce additional complexities and challenges for the finance function.

As a result, organizations need to transform their finance functions from time to time with a focus on people, processes, and technology. Our Accounting & Reporting Consulting (ARC) practice is designed to partner with the finance function through these challenges. Our teams function as an extension of your finance teams to execute your plans seamlessly.

We bring the necessary technical expertise, skills, technology, and bandwidth, enabling you to navigate your plans in real time without adding additional manpower costs within the organization.

A Team That You Can Trust To Deliver



Jamil Khatri
Co-Founder & CEO



Sandip Khetan
Co-Founder, Global Head
of Accounting & Reporting
Consulting



Arda Kaya
Partner, Accounting &
Reporting Consulting



Ashish Gupta
Partner, Accounting &
Reporting Consulting



Avinash Ramkumar
Partner, Accounting &
Reporting Consulting



Sagar Lakhani
Partner, Accounting &
Reporting Consulting



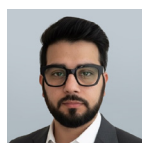
Sharad Chaudhry
Partner, Accounting &
Reporting Consulting



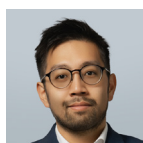
Puneet Chowdhary
Associate Partner,
Accounting & Reporting
Consulting



**Harsimran Singh
Sangha**
Managing Director,
Accounting & Reporting
Consulting



Shival Sehgal
Managing Director,
Accounting &
Reporting Consulting



Shoichi Ohno
Managing Director,
Accounting & Reporting
Consulting



Scan this code to find
more content like this

Visit us at www.uniquus.com

or follow us on

