

**EITF ABSTRACTS****Issue No. 05-5**

**Title:** Accounting for Early Retirement or Postemployment Programs with Specific Features (Such As Terms Specified in Altersteilzeit Early Retirement Arrangements)

**Date Discussed:** June 15–16, 2005

**References:** FASB Statement No. 43, *Accounting for Compensated Absences*  
 FASB Statement No. 87, *Employers' Accounting for Pensions*  
 FASB Statement No. 88, *Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits*  
 FASB Statement No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions*  
 FASB Statement No. 112, *Employers' Accounting for Postemployment Benefits*  
 FASB Statement No. 154, *Accounting Changes and Error Corrections*  
 FASB Staff Position FAS106-2, "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003"  
 APB Opinion No. 12, *Omnibus Opinion—1967*

**ISSUE**

1. The Altersteilzeit (ATZ) arrangement is an early retirement program in Germany designed to create an incentive for employees, within a certain age group, to transition from (full or part-time) employment into retirement before their legal retirement age. The program was created by legislation in 1996 and through subsequent extensions is now scheduled to expire in 2009. Employers taking advantage of this legislation must sign a contract under the legal framework outlined in the legislation with the workers' council/unions or with the individual employees (employees not within a workers' council/union) to qualify for subsidies from the government. The German government provides a subsidy (reimbursement) to an employer for the bonuses paid to the employee

and the additional contributions paid into the German government pension scheme under an ATZ arrangement for a maximum of six years. To receive this subsidy, an employer must meet certain criteria (typically, an employer must hire replacement employees from currently registered unemployed persons or former trainees).

2. This Issue addresses specific features in ATZ arrangements. Any consensus reached in this Issue may apply to other types of benefit arrangements with the same or similar terms.

3. Typical features of an ATZ arrangement include the following:

- To enroll in an ATZ arrangement, an employee must sign an ATZ contract with the employer. The employee can sign the ATZ contract before being eligible to begin working under the ATZ arrangement. An employee may begin working under the ATZ arrangement only upon attaining the age such that upon completion of the ATZ period,<sup>1</sup> he/she will be eligible for the normal government retirement benefits (typically 63 years old for men and 62 years old for women).
- An employer is required to allow participation in the ATZ arrangement without restriction until participation reaches 5 percent of the total work force. After 5 percent participation is achieved, an employer has, at its discretion, the right to determine whether employees are accepted into the ATZ arrangement.<sup>2</sup>
- In most cases, an employee is required to work for a minimum period of time with any employer before being eligible for the ATZ arrangement; prior employment with the present employer is not necessary.
- The arrangement typically offers two alternative arrangements for participating employees:
  - Type I: participant works 50 percent of the normal full-time schedule for each year of the entire ATZ period and receives 50 percent of his/her salary each year.
  - Type II: participant works full-time for half of the ATZ period (the "active period"), and then does not work for the remaining half (the "inactive period").

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<sup>1</sup>ATZ period consists of the period from when the employee begins to work under the ATZ arrangement until the employee is no longer under a legal work arrangement with the employer (terminated from the company). This period is generally one to six years, depending on the specific ATZ arrangement and the age of the participant.

<sup>2</sup>However, in some situations, a lower "mandatory participation" cap is agreed to between an employer and the workers' council.

period"), and receives 50 percent of his/her salary each year during the entire ATZ period.

- Under both alternatives, participants receive an annual bonus, which varies by employer, but will generally equal 10–15 percent of their most recent regular pay before the start of the ATZ period; thus, the regular combined paid compensation will normally equal about 60–65 percent of the participant's most recent regular pay prior to the start of the ATZ period. The employer also will make additional contributions into the German government pension scheme for participants (to compensate for the fact that the employee has not been working at his/her previous level during the ATZ period) during the entire ATZ period.<sup>3</sup>
- Employees must provide service to the employer for the required portion of the ATZ period (the active period) to receive the full bonus. If a participant dies, voluntarily leaves the company, or is otherwise terminated before fulfilling the service period requirement, the ATZ contract will be unwound and the total compensation received by the participant will be adjusted to the amount that the participant would have received if he/she had not participated in the ATZ arrangement (salary is contractually set at the amount the employee earned just before the ATZ period). For example, if an employee enters into a four-year Type II ATZ arrangement and leaves the company after one year, the employee will receive (for the one year worked) all of his/her pre-ATZ period annual salary and will not receive any ATZ bonus.
- During the inactive period under the Type II ATZ arrangement, participants are legally under a work contract with the employer (considered employees); however, an employee is not permitted to return to active work. Otherwise, the employer would lose any government subsidy.
- Under the Type I arrangement, the employer can claim the subsidy for a replacement worker hired during the entire ATZ period. Under the Type II arrangement, an employer could only claim the subsidy for a replacement worker hired during the inactive ATZ period. Therefore, under the Type II arrangement, the reimbursement each year during the inactive period would be equivalent to two years of (1) bonus payments and (2) additional contributions made into the German government pension scheme.

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<sup>3</sup>Contributions into the German government pension scheme (as well as length of service) determine the amount of pension benefits the employee will receive from that scheme. Therefore, by making additional contributions into the German government pension scheme during the entire ATZ period, the pension benefits paid to the employees will be higher than they would have been had the contributions been based solely on the employees' active service during the ATZ period.

4. The issues are:

Issue 1— How to account for the bonus feature and additional contributions into the German government pension scheme under a Type II ATZ arrangement

Issue 2— How to account for the government subsidy under Type I and Type II ATZ arrangements.

### **EITF DISCUSSION**

5. The FASB staff observed that the salary components of Type I and Type II ATZ arrangements (excluding the bonus and additional contributions into the German government pension scheme) should be recognized over the period from the point at which the ATZ period begins until the end of the active service period. Additionally, the portion of the salary that is deferred under a Type II arrangement should be discounted if payment is expected to be deferred for a period longer than one year. The Task Force agreed with these FASB staff observations.

6. On Issue 1, the Task Force reached a consensus that the bonus feature and the additional contributions into the German government pension scheme (collectively, the additional compensation) under a Type II ATZ arrangement should be accounted for as a postemployment benefit under Statement 112. An entity should recognize the additional compensation over the period from the point at which the employee signs the ATZ contract until the end of the active service period.

7. The Task Force reached a consensus on Issue 2 that the employer should recognize the government subsidy when it meets the necessary criteria and is entitled to the subsidy.

### **Transition**

8. The consensus in this Issue should be applied to fiscal years beginning after December 15, 2005, and reported as a change in accounting estimate effected by a change in accounting principle as described in paragraph 19 of Statement 154. A company should provide the disclosures required by paragraph 22 of Statement 154.

### **Board Ratification**

9. At its June 29, 2005 meeting, the Board ratified the consensus reached by the Task Force in this Issue.

### **STATUS**

10. No further EITF discussion is planned.

Suggested Index Entries for Issue No. 05-5, “Early Retirement or Postemployment Programs with Specific Features (Such As Terms Specified in Altersteilzeit Early Retirement Arrangements)”

POSTEMPLOYMENT BENEFITS

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