

1. Title

Accounting for Termination Benefits

2. Policy

Sec. 1 Purpose. The purpose of this accounting Policy is to address the accounting and financial reporting requirements for termination benefits for voluntary and involuntary termination benefits.

Sec. 2 Policy Statement. A liability and expense for voluntary termination benefits (for example, early-retirement incentives) should be recognized when the offer is accepted and the amount can be estimated. A liability and expense for involuntary terminations benefits (for example, severance benefits) should be recognized when a plan of termination has been approved by those with the authority to commit The University of Texas System to the plan, the plan has been communicated to the employees, and the amounts can be estimated.

Sec. 3 Overview.

3.1 Termination Benefits. U. T. System may provide a number of termination benefits to employees both in connection with voluntary and involuntary terminations. Termination benefits are different in nature from salaries and benefits, including pension and annuitant health benefits, that the U. T. System provides to employees in exchange for their services. They may include early-retirement incentives, severance benefits, and other termination-related benefits. The definition excludes unemployment compensation.

3.2 Requirements. Under Governmental Accounting Standards Board (GASB) Statement No. 47, U. T. System is required to:

(a) be able to identify voluntary and involuntary, health care and non-health care related, termination benefits expense and liabilities from all other salaries and benefits expense and liabilities;

(b) record a liability and expense for termination benefits under voluntary terminations (for example, early-retirement incentives) when the offer is accepted;

(c) record a liability and expense for termination benefits under involuntary terminations when a plan of termination has been approved by those with the authority to commit the U. T.

System to the plan, and that plan has been communicated to the employees;

- (d) disclose a description of the termination benefit arrangement and the cost of the termination benefits for the year the liability and expense are recognized; and
- (e) disclose the change in actuarial accrued liability that is attributable to the termination benefits for the Other Postemployment Benefit Plan (OPEB), if any.

3.3 GASB Statement No. 47:

- (a) generally prescribes new reporting requirements, rather than amending previous guidance, although there was previous guidance in National Council on Governmental Accounting Interpretation 8 for “special termination benefits,” defined as those “offered for a short period of time;” and
- (b) became effective beginning FY 2005 – 2006. Depending on materiality, the cumulative effect of applying this statement should be reported as a restatement of beginning net assets for the liability at August 31, 2005, associated with termination plans or benefits that were in effect as of August 31, 2005.

3.4 Applicability of GASB Statement No. 47. In general, the provisions of Statement 47 will not apply to typical, normal, and routine voluntary and involuntary terminations and the resulting benefit arrangements between individual employees and the University.

Sec. 4 Guidelines for Determining if an Institution has a Reportable Event. The institutions should inform the U. T. System Office of the Controller if there are non-routine voluntary or involuntary termination arrangements on the campus that involve a substantial number of individual employees, or group of employees, meeting the criteria for liability recognition. Situations involving individual employees will probably not result in significant amounts.

- 4.1 Voluntary Termination Benefits. Voluntary termination benefits are those provided to employees as (a) an inducement to hasten the termination of services, or (b) as a result of a voluntary early termination plan. These include early-retirement incentives. As stated in GASB Statement No. 47, paragraph 49, an employer’s obligation to provide benefits for some forms of

voluntary terminations arises as a result of a bilateral agreement in which the employer agrees to provide benefits in exchange for which the employee agrees to leave service earlier than he or she otherwise would.

(a) When does the liability associated with voluntary terminations become recognized?

i. For voluntary termination benefits, a liability and expense is recognized when both of the following have been completed:

A. the employee(s) accepts the offer, and

B. the amount of the liability can be estimated.

(b) What types of benefits upon voluntary termination do apply under GASB Statement No. 47? In general, the applicable benefits discussed in GASB Statement No. 47 are those over and above the normal benefits provided upon termination that are effectively an inducement for the employees to terminate their services. For example, they may include:

i. Career Counseling or Job Placement Services. Managers and senior professionals may be assisted with outplacement services and career counseling, at the discretion of the department. If a terminated employee receives career counseling or job placement services paid by the University, it would qualify as a termination benefit, as defined in GASB Statement No. 47, for which a liability and expense should be recognized.

ii. Cash Payouts at or Following Termination. If a terminated employee receives cash payouts associated with an inducement to voluntarily terminate, either a lump-sum or over a period of time, including payments made in lieu of notice, the cash payouts would qualify as a termination benefit, as defined in GASB Statement No. 47, for which a liability and expense should be recognized. These payments must be distinguished from payments that may be made for employee services already provided, such as accrued vacation, etc.

(c) Other Examples of Voluntary Termination Benefits.

- i. Other examples would include expanded health care coverage beyond the normal benefits provided when the cost of the expanded coverage is paid by the University and Consolidated Omnibus Budget Reconciliation Act (COBRA) benefits paid by the University. These do not apply to the U. T. System as it is against U. T. System policy to provide expanded health care coverage once an employee is no longer an active employee eligible to be a member of Teacher Retirement System of Texas (TRS). See the Employee Eligibility and Enrollment policy at: http://www.utsystem.edu/benefits/policies/210_Employees.pdf.
 - ii. It is also against U. T. System policy to pay COBRA benefits for a terminated employee. See the Consolidated Omnibus Budget Reconciliation Act policy at: http://www.utsystem.edu/benefits/policies/250_Cobra.pdf.
 - iii. See Exhibit 1 for the flowchart to determine reportable Voluntary Termination Benefits.
- 4.2 Involuntary Termination Benefits. Involuntary termination benefits are those provided as a consequence of the involuntary termination of services. As stated in GASB Statement No. 47, Paragraph 50, in contrast to voluntary terminations, involuntary terminations result from a unilateral decision by the employer.
- (a) When does the liability associated with involuntary terminations become recognized?
- i. For involuntary termination benefits, a liability and expense is recognized when all of the following have been completed:
 - A. A plan of termination has been approved by those with the authority to commit the University to the plan (see [INT132](#), *Reduction in Force Policy*); and
 - B. That plan has been communicated to the employees; and

- C. The amounts can be estimated (see Financial Accounting Standards Board (FASB) Statement No. 5, *Accounting for Contingencies*).
 - ii. A “plan” of involuntary termination is one that:
 - A. identifies, at a minimum, the number of employees to be terminated, the job classifications or functions that will be affected and their locations, and the dates that terminations are expected to occur; and
 - B. establishes the terms of the termination benefits in sufficient detail to enable employees to determine the type and amount of benefits they will receive if they are involuntarily terminated.
 - iii. However, if a plan of involuntary termination requires the employee to render future service in order to receive termination benefits, the University must recognize a liability and expense for the portion of involuntary termination benefits that will be provided after completion of the future service ratably over the future service period, beginning when the plan otherwise meets the recognition criteria discussed above.
- (b) What types of benefits upon involuntary termination do apply under GASB Statement No. 47 and how should they be evaluated?
- i. **Severance Pay.** If a terminated employee receives severance benefits, it would qualify as a termination benefit, as defined in GASB Statement No. 47, for which a liability and expense should be recognized.
 - ii. **Cash Payouts at or Following Termination.** If a terminated employee receives cash payouts associated with an inducement to terminate, either a lump-sum or over a period of time, including payments made in lieu of notice, they would qualify as a termination benefit, as defined in GASB Statement No. 47, for which a liability and expense should be recognized. These payments must be distinguished from payments that may be made for employee services already provided, such as accrued vacation, etc.

- iii. Career Counseling or Job Placement Services.
Managers and senior professionals may be assisted with outplacement services and career counseling, at the discretion of the department. If a terminated employee receives career counseling or job placement services paid by the University, it would qualify as a termination benefit, as defined in GASB Statement No. 47, for which a liability and expense should be recognized.

(c) Other examples of involuntary termination benefits:

- i. Other examples would include expanded health care coverage beyond the normal benefits provided, and the cost of the expanded coverage is paid by the University and COBRA benefits paid by the University. These do not apply to the U. T. System as it is against U. T. System policy to provide expanded health care coverage once an employee is no longer an active employee eligible to be a member of TRS. See the Employee Eligibility and Enrollment policy at: http://www.utsystem.edu/benefits/policies/210_Employee_s.pdf. It is also against U. T. System policy to pay COBRA benefits for a terminated employee. See the Consolidated Omnibus Budget Reconciliation Act policy at: http://www.utsystem.edu/benefits/policies/250_Cobra.pdf.
- ii. See Exhibit 2 for the flowchart to determine reportable Involuntary Termination Benefits.

4.3 Recording the Liability. The University will measure and report the cost of termination-related benefits by calculating the value of expected future benefit payments, in accordance with the following requirements:

- (a) Healthcare Related Termination Benefits. If the U. T. System had healthcare related termination benefits and liabilities that qualified under the definitions contained in this document, they would have to be segregated between those associated with voluntary terminations and those associated with involuntary terminations. These do not apply to the U. T. System as it is against U. T. System policy to provide expanded health care coverage once an employee is no longer an active employee eligible to be a member of TRS. See the Employee Eligibility and Enrollment policy at:

http://www.utsystem.edu/benefits/policies/210_Employees.pdf.

(b) Non-Healthcare Related Termination Benefits. All non-healthcare related termination benefits that qualify under the definitions contained in this document must be segregated between those associated with voluntary terminations and those associated with involuntary terminations. In addition, at year-end the outstanding liability associated with all non-healthcare related termination benefits that qualify under the definitions contained in this document must be recorded and segregated between those associated with voluntary terminations and those associated with involuntary terminations.

- i. If the University has agreed to pay specific amounts on fixed or determinable dates for non-healthcare related benefits in the future, the amounts recorded will be discounted (if the payments extend beyond one year and include an assumption regarding any changes in future benefit payments) using the U. T. System's Short Term Fund (Dreyfus) rate in effect at the end of the year for purposes of recording the liability and expense.
- ii. If the University has agreed to pay non-healthcare related benefits in the future, for which the amount or timing of benefit payments is not fixed or determinable, the amounts must be estimated and discounted (if the payments extend beyond one year and include an assumption regarding any changes in future benefit payments) using the U. T. System's Short Term Fund (Dreyfus) rate in effect at the end of the year for purposes of recording the liability and expense. If the amounts cannot be estimated, there is no liability or expense recognized, although disclosure of these circumstances is required.

(c) Accounting and Reporting.

- i. If a university has a reportable event, they will need to do the following:
 - A. record a liability and expense for termination benefits under voluntary terminations (for example, early retirement incentives) when the offer is accepted; and

- B. record a liability and expense for termination benefits under involuntary terminations when a plan of termination has been approved by those with the authority to commit the U. T. System to the plan, and that plan has been communicated to the employees; and
 - C. establish a mechanism to collect these amounts for disclosure purposes.
- ii. If the benefits are paid out in excess of one year, the amounts should be classified as noncurrent on the balance sheet.
- 4.4 Disclosures. The U. T. System must disclose the following in the notes to financial statements:
- (a) a description of the termination benefit arrangements (for example, information about the types of benefits provided, the number of employees affected, the period of time over which the benefits are expected to be provided, etc.); and
 - (b) the cost of termination benefits in the period that it becomes obligated. The methods and assumptions used to determine the liabilities must also be disclosed (for example, the discount rate).

3. Definitions

Involuntary Termination Benefits - those provided as a consequence of the involuntary termination of services. In contrast to voluntary terminations, involuntary terminations result from a unilateral decision by the employer.

A "Plan" of Involuntary Termination - a plan that

- identifies, at a minimum, the number of employees to be terminated, the job classifications or functions that will be affected and their locations, and the dates that terminations are expected to occur; and
- establishes the terms of the termination benefits in sufficient detail to enable employees to determine the type and amount of benefits they will receive if they are involuntarily terminated.

Voluntary Termination Benefits - those provided to employees as (a) an inducement to hasten the termination of services, or (b) as a result of a voluntary early termination plan. These include early-retirement incentives.

4. Relevant Federal and State Statutes, Policies, and Standards

GASB Statement No. 47, [Accounting for Termination Benefits](#), issued in June 2005

FASB Statement No. 5, Accounting for Contingencies

5. Relevant System Policies, Procedures, and Forms

[INT132, Reduction in Force](#)

[Exhibit 1: Voluntary Termination Benefits Fiscal Year-End Considerations](#)

[Exhibit 2: Involuntary Termination Benefits Fiscal Year-End Considerations](#)

Employee Eligibility and Enrollment Policy

Cobra Policy

6. System Administration Office(s) Responsible for Policy

Office of the Controller

7. Dates Approved or Amended

June 26, 2006

May 18, 2011

October 23, 2012