FAIR VALUE HIERARCHY: CLASSIFYING YOUR PLAN’S ASSETS INTO LEVELS

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ASU 820, Fair Value Measurements and Disclosures, defines fair value, creates a fair value hierarchy and provides fair value disclosure requirements. Accounting rules define fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This guidance affects all Employee Benefit Plans, and requires that Plan assets be classified into a fair value hierarchy. Classification can be complex if not provided directly by the Plan’s investment Custodian. The following is a description of the levels and common examples of Plan assets included in each level.

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<th>LEVEL</th>
<th>DEFINITION</th>
<th>TYPICAL EXAMPLES OF ASSETS FOUND IN EMPLOYEE BENEFIT PLANS</th>
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| One   | Inputs (assumptions which are used to value the investment), are directly observable quoted prices in active markets for identical assets that the Plan has the ability to access | • Shares of mutual funds  
• Shares of registered investment companies |
| Two   | Inputs are indirectly observable, such as quoted prices for similar assets, or inputs that can be corroborated by observable market data | • Pooled separate accounts (PSA)  
• Common collective funds (CCT) |
| Three | Unobservable inputs that are supported by little or no market activity and that have fair value subject to significant judgment or estimation. | • Guaranteed investment accounts  
• Cash surrender value of life insurance contracts |

While the above chart provides general guidance, it is not absolute and a Plan’s investments must be carefully evaluated. For example, if the underlying investments of a PSA or a CCT are level 3 assets, the PSA or CCT is probably a level 3.

Plans are well served to carefully evaluate and document their conclusions regarding leveling investments.

The information contained herein is not necessarily all inclusive, does not constitute legal or any other advice, and should not be relied upon without first consulting with appropriate qualified professionals for your plan’s individual facts and circumstances.