

Statutory Issue Paper No. 14

Employers' Accounting for Postretirement Benefits Other Than Pensions

STATUS

Finalized December 6, 1999

Current Authoritative Guidance for Postretirement Benefits Other Than Pensions: SSAP No. 92

This issue paper may not be directly related to the current authoritative statement.

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Type of Issue:

Common Area

SUMMARY OF ISSUE

1. Postretirement benefits include all forms of benefits, other than retirement income, provided by an employer to retirees. Those benefits may be defined in terms of specified benefits that are provided to retirees as the need for those benefits arises, such as certain health care benefits, or they may be defined in terms of monetary amounts that become payable on the occurrence of a specified event, such as life insurance benefits. Current statutory accounting addresses employers' accounting for postretirement benefits other than pensions.
2. GAAP guidance has been established by *FASB Statement No. 106, Employers' Accounting for Postretirement Benefits Other Than Pensions* (FAS 106), and differs from the current statutory guidance. *FASB Statement No. 132, Employers' Disclosures about Pensions and Other Postretirement Benefits* (FAS 132), specifies disclosure requirements for pension and other postretirement benefit plans.
3. The purpose of this issue paper is to establish statutory accounting principles for postretirement benefits other than pensions that are consistent with the Statutory Accounting Principles Statement of Concepts and Statutory Hierarchy (Statement of Concepts).

SUMMARY CONCLUSION

4. Employers' accounting for postretirement benefits other than pensions under statutory accounting shall be consistent with existing statutory guidance in the Accounting Practices and Procedures Manuals for Life and Accident and Health and for Property and Casualty Insurance Companies. The principles contained therein shall apply to postretirement benefits other than pensions for all eligible and vested employees and vested former employees including their beneficiaries and covered dependents, pursuant to the terms of an employer's undertaking to provide those benefits. Any asset resulting from an overfunding of the plan shall be recorded as a nonadmitted asset.

Disclosure

5. The disclosures required by paragraph 5 of FAS 132 shall be included in the notes to the statutory financial statements considering the modification in this issue paper to include only vested employees. Paragraph 5 of FAS 132 is included in the Relevant GAAP Guidance section of this issue paper. The disclosures required by paragraph 5 of FAS 132 shall be made when an employer recognizes a gain or loss related to a settlement or curtailment of a defined benefit plan or when providing termination benefits.

Consolidated/Holding Company Plans

6. The employees of many reporting entities are eligible for certain postretirement benefits other than pensions provided by a parent company or holding company. A reporting entity with employees who are eligible for those benefits and is not directly liable for those related obligations shall recognize an expense equal to its allocation of the benefits earned during the period. A liability shall be established for any such amounts due, but not yet paid. The reporting entity shall disclose in the notes to the financial statements that its employees participate in a plan sponsored by the holding company for which the reporting entity has no legal obligation. The amount of the postretirement benefit expense incurred and the allocation methodology shall also be disclosed in the financial statements. If the reporting entity is directly liable for certain postretirement benefits other than pensions, then the requirements outlined in paragraphs 4 and 5 of this issue paper shall be applied.

DISCUSSION

7. Current statutory accounting and the accounting codified within this issue paper adopt FAS 106, FAS 132 and *Accounting Principles Board Opinion No. 12, Omnibus Opinion-1967*, paragraphs 6 through 8 with the following modifications:

- a. Any asset which results from an excess of the fair value of plan assets over the postretirement benefit obligation shall be recorded as a nonadmitted asset.
- b. Calculation of the postretirement benefit obligation shall exclude non-vested employees. Partially vested employees are included only to the extent of their vested amounts.
- c. The reduced disclosure requirements for nonpublic entities described in paragraph 8 of FAS 132 are rejected. All reporting entities shall follow the disclosure requirements included in paragraph 5 of FAS 132.
- d. Disclosures relating to other comprehensive income in paragraph 5 of FAS 132 shall be made for income on a statutory basis.

8. This issue paper adopts *FASB Emerging Issues Task Force No. 93-3, Plan Assets under FASB Statement No. 106*.

9. The Accounting Practices and Procedures Manuals for Life and Accident and Health and for Property and Casualty Insurance Companies address employers' accounting for postretirement benefits other than pensions and require that the obligation for such benefits be recognized on an accrual basis for current retirees and fully eligible or vested employees. If the fair value of plan assets exceeds the postretirement obligation and a transition asset results, the asset is considered a nonadmitted asset. At transition, the employer may elect to recognize the unfunded postretirement benefit obligation as a charge to statutory surplus in the period of adoption or amortize it as a component of net periodic postretirement benefit cost over a period of up to twenty years.

10. GAAP guidance is established by FAS 106 and differs from the current statutory guidance in that it requires the accrual of expected postretirement benefits for all current and former employees (including retirees, disabled employees, and other former employees who are expected to receive postretirement benefits), their beneficiaries, and covered dependents, pursuant to the terms of an employer's undertaking to provide those benefits. Two options are provided for recognizing the transition obligation. An employer may choose to immediately recognize the transition obligation as the effect of a change in accounting principle, subject to certain limitations. Alternatively, an employer may choose to recognize the transition obligation on a delayed basis over the plan participants' future service periods, with disclosure of the unrecognized amount. However, that delayed recognition cannot result in less rapid recognition than accounting for the transition obligation on a pay-as-you-go basis.

11. The Statement of Concepts states under the recognition concept that “*Liabilities require recognition as they are incurred*” and “*Accounting treatments which tend to defer expense recognition do not generally represent acceptable SAP treatment.*” In addition, the Statement of Concepts states under the concept of conservatism that “*In order to provide a margin of protection for policyholders, the concept of conservatism should be followed when developing estimates as well as establishing accounting principles for statutory reporting.*” Requiring reporting entities to follow the existing statutory guidance relative to accounting for postretirement benefits other than pensions is consistent with the recognition and conservatism concepts in the Statement of Concepts.

Drafting Notes/Comments

- Federal income taxes are addressed in a separate issue paper.
- Holding company obligations are addressed in a separate issue paper.
- Accounting for pensions is addressed in *Issue Paper No. 8—Accounting for Pensions*.
- Accounting for postemployment benefits is addressed in *Issue Paper No. 13—Employers’ Accounting for Postemployment Benefits*.

RELEVANT STATUTORY ACCOUNTING AND GAAP GUIDANCE

Statutory Accounting

12. The following is an excerpt from the Accounting Practices and Procedures Manuals for Life and Accident and Health [Chapter 17] and for Property and Casualty [Chapter 13] Insurance Companies:

Postretirement Benefits Other Than Pensions

Postretirement benefits are all forms of benefits, other than retirement income, provided by an employer to retirees. Those benefits may be defined in terms of specified benefits that are provided to retirees as the need for those benefits arises, such as certain health care benefits, or they may be defined in terms of monetary amounts that become payable on the occurrence of a specified event, such as life insurance benefits.

An employer shall account for its postretirement benefits on an accrual basis. The postretirement benefit obligation for current retirees and fully eligible or vested employees at transition (initial adoption date*) is measured by estimating the actuarial present value of benefits expected to be received at retirement using explicit assumptions. A health care cost trend rate assumption is used in the estimation. A health care cost trend rate is an assumption about the annual rate(s) of change in the cost of health care benefits currently provided by the postretirement benefit plan, due to factors other than changes in the composition of the plan population by age and dependency status, for each year from the measurement date until the end of the period in which benefits are expected to be paid. The health care cost trend rates implicitly consider estimates of health care inflation, changes in health care utilization or status of the plan participants.

* For most companies, the transition or initial adoption date is January 1, 1993. For companies whose plans are outside the United States and for defined benefits of employers with no more than 500 plan participants in the aggregate, the transition or initial adoption is January 1, 1995.

Plan assets, if any, shall be segregated or restricted, and measured at fair value.

At transition, an employer may elect to recognize the unfunded postretirement benefit obligation immediately in statutory surplus or amortize it as a component of net periodic postretirement benefit cost over a period of up to twenty years.

In each period, estimated postretirement benefits for newly eligible or vested employees shall be accrued at eligibility date (“estimated eligibility cost”). Interest cost on the postretirement benefit obligation at the beginning of the period shall be recognized during the period. Actuarial gains

and losses (other than plan asset gains and losses) arising from differences between assumptions and actual experience upon subsequent remeasurement of the obligation may be recognized as a component of the net periodic postretirement benefit cost in the current period or amortized. The net actuarial gain or loss shall be included as a component of the net periodic postretirement benefit cost for a year, if, as of the beginning of the year, that unrecognized net gain or loss exceeds 10 percent of the greater of the postretirement benefit obligation or the fair value of plan assets. That gain or loss, if not recognized immediately, shall be amortized over the average life expectancy of the employer's fully vested and retiree group. The method elected must be consistently applied.

Gains or Losses On Plan Assets:

Plan asset gains and losses are differences between the actual return on plan assets (including changes in the fair values of plan assets) during a period and the expected return on plan assets for that period. Amortization of an unrecognized net asset gain or loss shall be included as a component of net postretirement benefit cost for a year if, as of the beginning of the year, that unrecognized net gain or loss exceeds 10 percent of the greater of the postretirement benefit obligation or the fair value of plan assets. That excess shall be amortized over the average life expectancy of the employer's fully vested and retiree group.

Plan amendments:

Plan amendments may include provisions that increase or reduce benefits to retirees and fully eligible employees. The cost of benefit improvements is the increase in the postretirement benefit obligation as a result of the plan amendment, measured at the date of the amendment. That increase shall be amortized over the average life expectancy of the employer's fully vested and retiree group.

A plan amendment can reduce, rather than increase, the postretirement benefit obligation. A reduction in that obligation shall first reduce any existing unrecognized plan amendment cost, and then, reduce any remaining unrecognized transition obligation. The excess, if any, shall be amortized on the same basis as plan amendments that increase benefits.

Financial Statement Presentation:

The net periodic postretirement benefit cost (i.e., the estimated eligibility cost, interest cost, actuarial gains or losses, and any amortization costs) shall be reflected in the income statement. If an employer elects immediate recognition of the initial transition obligation, it shall be accounted for as a change of accounting method (i.e., the initial transition obligation is recorded as an adjustment to statutory surplus).

Transition Asset:

If the fair value of plan assets exceeds the postretirement obligation and a transition asset results, the asset shall be considered a nonadmitted asset.

Defined Contribution Plans:

A defined contribution postretirement benefit plan is a plan that provides postretirement benefits by establishing an individual account for each participant and has terms that specify how contributions to the individual's account are to be determined rather than the amount of postretirement benefits the individual is to receive. Under a defined contribution plan, postretirement benefits a plan participant will receive are limited to the amount contributed to the plan participant's account, the returns earned on investments of these contributions, and forfeitures of other plan participants' benefits that may be allocated to the plan participant's account.

To the extent that an employer's defined contributions to an individual's account are vested or irrevocable, the net postretirement benefit cost for a period shall be the contribution called for in

that period. If a plan calls for contributions for periods after an individual retires, the estimated costs shall be accrued at retirement date.

Effective Date:

This policy shall be effective for the first quarter financial statements dated March 31, 1993, except that plans outside the United States and for defined benefit plans of employees with no more than 500 plan participants in the aggregate, this policy shall be effective for 1st quarter financial statements dated March 31, 1995.

13. The NAIC Annual Statement Instructions (Annual Statement Instructions) for Life and Accident and Health Insurance Companies contain the following language related to Liabilities, Surplus and Other Funds:

Line 13 - General Expenses Due or Accrued

Include: Expenses not yet incurred but which it is anticipated will be incurred in connection with accident and health claims at the year-end.

Unfunded postretirement benefit obligation.

14. The Annual Statement Instructions also include the following language with respect to Capital and Surplus Account:

Details of Write-ins Aggregated at Line 46 for Gains and Losses in Surplus

Report separately any other changes to Capital and Surplus, not included above, including amounts received for subordinated surplus debentures.

Include: The initial transition obligation for unfunded postretirement benefit obligation if a company elects to immediately recognize such obligation.

(Charges) or credits for extraordinary amounts of taxes (including interest) paid or accrued in prior years.

(Charges) or credits for extraordinary amounts of expenses paid or accrued in prior years.

(See Item 7 on Page d of these instructions.)

15. In addition, the Annual Statement Instructions for Exhibit 5 - General Expenses state:

Line 3.31- Other Employee Welfare

Line 3.32- Other Agent Welfare

Expenses included in this line may be reported on a functional basis.

Include: The net periodic postretirement benefit cost.

Meals to employees. (Companies so desiring may exclude this item from Other Employee Welfare or Other Agent Welfare and include it under Details Aggregated on Line 9.3 for Expenses.)

Contributions to employee associations or clubs.

16. The Annual Statement Instructions also provide guidance on information to be included in the notes to the financial statements:

6. Retirement Plans, Deferred Compensation and Other Postretirement Benefit Plans
Instruction:

c. Postretirement Benefit Plans
Include the following:

A description of the plan(s).

A description of the plan's policy.

The method of determination and the amount of postretirement benefit expense.

The amount of the postretirement benefit obligation for retirees and fully eligible or vested employees and the fair value of the plan assets valued as of the most recent actuarial valuation date.

The amount of the postretirement benefit obligation included on Page 3, Line 13 [Life and Accident and Health] or Lines 2 and 4 [Property and Casualty].

The amount of the postretirement obligation for non vested employees as of the most recent actuarial date.

The discount and health care cost trend rate used in the estimations.

The effect of a one-percentage-point increase in the assumed health care cost trend rates for each future year on (1) the aggregate of the estimated eligibility and interest cost components of net periodic postretirement benefit cost and (2) the postretirement benefit obligation for health care benefits (for purposes of this disclosure, all other assumptions shall be held constant and the effects shall be measured based upon the substantive plan that is the basis of accounting).

Significant matters affecting the year-to-year comparability of the plan information.

An employer who is a member of a multi-employer plan shall disclose a description of the plan(s), the method of determination and the amount of postretirement benefit expense for the employer/member and the unfunded postretirement benefit obligation.

Postretirement Defined Contribution Plans

Include the following:

A description of the plans, including employee groups covered.

The basis for determining contributions.

The nature and effect of significant matters affecting comparability of information for all periods presented.

The amount of cost recognized during the period.

Sample disclosure is also provided.

17. The NAIC Annual Statement Instructions for Property and Casualty Insurance Companies includes the following language with respect to Underwriting and Investment Exhibit - Part 4 - Expenses:

The total management fees and the method(s) used for allocation shall be disclosed in the Notes to Financial Statements. The company shall use the same allocation method(s) on a consistent basis.

Line 9 - Employee Relations and Welfare

Include: The net periodic postretirement benefit cost.

Generally Accepted Accounting Principles

18. The following summary from FAS 106, describes the GAAP methodology and concepts:

Summary

This Statement establishes accounting standards for employers' accounting for postretirement benefits other than pensions (hereinafter referred to as postretirement benefits). Although it applies to all forms of postretirement benefits, this Statement focuses principally on postretirement health care benefits. It will significantly change the prevalent current practice of accounting for postretirement benefits on a pay-as-you-go (cash) basis by requiring accrual, during the years that the employee renders the necessary service, of the expected cost of providing those benefits to an employee and the employee's beneficiaries and covered dependents.

The Board's conclusions in this Statement result from the view that a defined postretirement benefit plan sets forth the terms of an exchange between the employer and the employee. In exchange for the current services provided by the employee, the employer promises to provide, in addition to current wages and other benefits, health and other welfare benefits after the employee retires. It follows from that view that postretirement benefits are not gratuities but are part of an employee's compensation for services rendered. Since payment is deferred, the benefits are a type of deferred compensation. The employer's obligation for that compensation is incurred as employees render the services necessary to earn their postretirement benefits.

The ability to measure the obligation for postretirement health care benefits and the recognition of that obligation have been the subject of controversy. The Board believes that measurement of the obligation and accrual of the cost based on best estimates are superior to implying, by a failure to accrue, that no obligation exists prior to the payment of benefits. The Board believes that failure to recognize an obligation prior to its payment impairs the usefulness and integrity of the employer's financial statements.

The Board's objectives in issuing this Statement are to improve employers' financial reporting for postretirement benefits in the following manner:

- a. To enhance the relevance and representational faithfulness of the employer's reported results of operations by recognizing net periodic postretirement benefit cost as employees render the services necessary to earn their postretirement benefits
- b. To enhance the relevance and representational faithfulness of the employer's statement of financial position by including a measure of the obligation to provide postretirement benefits based on a mutual understanding between the employer and its employees of the terms of the underlying plan
- c. To enhance the ability of users of the employer's financial statements to understand the extent and effects of the employer's undertaking to provide postretirement benefits to its employees by disclosing relevant information about the obligation and cost of the postretirement benefit plan and how those amounts are measured

- d. To improve the understandability and comparability of amounts reported by requiring employers with similar plans to use the same method to measure their accumulated postretirement benefit obligations and the related costs of the postretirement benefits.

Similarity to Pension Accounting

The provisions of this Statement are similar, in many respects, to those in *FASB Statements No. 87, Employers' Accounting for Pensions*, and *No. 88, Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits*. To the extent the promise to provide pension benefits and the promise to provide postretirement benefits are similar, the provisions of this Statement are similar to those prescribed by Statements 87 and 88; different accounting treatment is prescribed only when the Board has concluded that there is a compelling reason for different treatment. Appendix B identifies the major similarities and differences between this Statement and employers' accounting for pensions.

Basic Tenets

This Statement relies on a basic premise of generally accepted accounting principles that accrual accounting provides more relevant and useful information than does cash basis accounting. The importance of information about cash flows or the funding of the postretirement benefit plan is not ignored. Amounts funded or paid are given accounting recognition as uses of cash, but the Board believes that information about cash flows alone is insufficient. Accrual accounting goes beyond cash transactions and attempts to recognize the financial effects of noncash transactions and events as they occur. Recognition and measurement of the accrued obligation to provide postretirement benefits will provide users of financial statements with the opportunity to assess the financial consequences of employers' compensation decisions.

In applying accrual accounting to postretirement benefits, this Statement adopts three fundamental aspects of pension accounting: delayed recognition of certain events, reporting net cost, and offsetting liabilities and related assets.

Delayed recognition means that certain changes in the obligation for postretirement benefits, including those changes arising as a result of a plan initiation or amendment, and certain changes in the value of plan assets set aside to meet that obligation are not recognized as they occur. Rather, those changes are recognized systematically over future periods. All changes in the obligation and plan assets ultimately are recognized unless they are first reduced by other changes. The changes that have been identified and quantified but not yet recognized in the employer's financial statements as components of net periodic postretirement benefit cost and as a liability or asset are disclosed.

Net cost means that the recognized consequences of events and transactions affecting a postretirement benefit plan are reported as a single amount in the employer's financial statements. That single amount includes at least three types of events or transactions that might otherwise be reported separately. Those events or transactions -- exchanging a promise of deferred compensation in the form of postretirement benefits for employee service, the interest cost arising from the passage of time until those benefits are paid, and the returns from the investment of plan assets -- are disclosed separately as components of net periodic postretirement benefit cost.

Offsetting means that plan assets restricted for the payment of postretirement benefits offset the accumulated postretirement benefit obligation in determining amounts recognized in the employer's statement of financial position and that the return on those plan assets offsets postretirement benefit cost in the employer's statement of income. That offsetting is reflected even though the obligation has not been settled, the investment of the plan assets may be largely controlled by the employer, and substantial risks and rewards associated with both the obligation and the plan assets are borne by the employer.

Recognition and Measurement

The Board is sensitive to concerns about the reliability of measurements of the postretirement health care benefit obligation. The Board recognizes that limited historical data about per capita claims costs are available and that actuarial practice in this area is still developing. The Board has taken those factors into consideration in its decisions to delay the effective date for this Statement, to emphasize disclosure, and to permit employers to phase in recognition of the transition obligation in their statements of financial position. However, the Board believes that those factors are insufficient reason not to use accrual accounting for postretirement benefits in financial reporting. With increased experience, the reliability of measures of the obligation and cost should improve.

An objective of this Statement is that the accounting reflect the terms of the exchange transaction that takes place between an employer that provides postretirement benefits and the employees who render services in exchange for those benefits. Generally the extant written plan provides the best evidence of that exchange transaction. However, in some situations, an employer's cost-sharing policy, as evidenced by past practice or by communication of intended changes to a plan's cost-sharing provisions, or a past practice of regular increases in certain monetary benefits may indicate that the substantive plan -- the plan as understood by the parties to the exchange transaction -- differs from the extant written plan. The substantive plan is the basis for the accounting.

This Statement requires that an employer's obligation for postretirement benefits expected to be provided to or for an employee be fully accrued by the date that employee attains full eligibility for all of the benefits expected to be received by that employee, any beneficiaries, and covered dependents (the full eligibility date), even if the employee is expected to render additional service beyond that date. That accounting reflects the fact that at the full eligibility date the employee has provided all of the service necessary to earn the right to receive all of the benefits that employee is expected to receive under the plan.

The beginning of the attribution (accrual) period is the employee's date of hire unless the plan only grants credit for service from a later date, in which case benefits are generally attributed from the beginning of that credited service period. An equal amount of the expected postretirement benefit obligation is attributed to each year of service in the attribution period unless the plan attributes a disproportionate share of the expected benefits to employees' early years of service. The Board concluded that, like accounting for other deferred compensation agreements, accounting for postretirement benefits should reflect the explicit or implicit contract between the employer and its employees.

Single Method

The Board believes that understandability, comparability, and usefulness of financial information are improved by narrowing the use of alternative accounting methods that do not reflect different facts and circumstances. The Board has been unable to identify circumstances that would make it appropriate for different employers to use fundamentally different accounting methods or measurement techniques for similar postretirement benefit plans or for a single employer to use fundamentally different methods or measurement techniques for different plans. As a result, a single method is prescribed for measuring and recognizing an employer's accumulated postretirement benefit obligation.

Amendment to Opinion 12

An employer's practice of providing postretirement benefits to selected employees under individual contracts, with specific terms determined on an individual-by-individual basis, does not constitute a postretirement benefit plan under this Statement. This Statement amends APB Opinion No. 12, Omnibus Opinion--1967, to explicitly require that an employer's obligation under deferred compensation contracts be accrued following the terms of the individual contract over the required service periods to the date the employee is fully eligible for the benefits.

Transition

Unlike the effects of most other accounting changes, a transition obligation for postretirement benefits generally reflects, to a considerable extent, the failure to accrue the accumulated postretirement benefit obligation in earlier periods as it arose rather than the effects of a change from one acceptable accrual method of accounting to another. The Board believes that accounting for transition from one method of accounting to another is a practical matter and that a major objective of that accounting is to minimize the cost and mitigate the disruption to the extent possible without unduly compromising the ability of financial statements to provide useful information.

This Statement measures the transition obligation as the unfunded and unrecognized accumulated postretirement benefit obligation for all plan participants. Two options are provided for recognizing that transition obligation. An employer can choose to immediately recognize the transition obligation as the effect of an accounting change, subject to certain limitations. Alternatively, an employer can choose to recognize the transition obligation in the statement of financial position and statement of income on a delayed basis over the plan participants' future service periods, with disclosure of the unrecognized amount. However, that delayed recognition cannot result in less rapid recognition than accounting for the transition obligation on a pay-as-you-go basis.

Effective Dates

This Statement generally is effective for fiscal years beginning after December 15, 1992, except that the application of this Statement to plans outside the United States and certain small, nonpublic employers is delayed to fiscal years beginning after December 15, 1994. The amendment of Opinion 12 is effective for fiscal years beginning after March 15, 1991.

19. FAS 132 sets forth disclosure requirements:

Disclosures about Pensions and Other Postretirement Benefits

5. An employer that sponsors one or more defined benefit pension plans or one or more defined benefit postretirement plans shall provide the following information:

- a. A reconciliation of beginning and ending balances of the benefit obligation² showing separately, if applicable, the effects during the period attributable to each of the following: service cost, interest cost, contributions by plan participants, actuarial gains and losses, foreign currency exchange rate changes³, benefits paid, plan amendments, business combinations, divestitures, curtailments, settlements, and special termination benefits

² For defined benefit pension plans, the benefit obligation is the projected benefit obligation—the actuarial present value as of a date of all benefits attributed by the pension benefit formula to employee service rendered prior to that date. For defined benefit postretirement plans, the benefit obligation is the accumulated postretirement benefit obligation—the actuarial present value of benefits attributed to employee service rendered to a particular date.

³ The effects of foreign currency exchange rate changes that are to be disclosed are those applicable to plans of a foreign operation whose functional currency is not the reporting currency pursuant to *FASB Statement No. 52, Foreign Currency Translation*.

- b. A reconciliation of beginning and ending balances of the fair value of plan assets showing separately, if applicable, the effects during the period attributable to each of the following: actual return on plan assets, foreign currency exchange rate changes⁴, contributions by the employer, contributions by plan participants, benefits paid, business combinations, divestitures, and settlements

⁴ Refer to footnote 3.

- c. The funded status of the plans, the amounts not recognized in the statement of financial position, and the amounts recognized in the statement of financial position, including:
 - (1) The amount of any unamortized prior service cost
 - (2) The amount of any unrecognized net gain or loss (including asset gains and losses not yet reflected in market-related value)
 - (3) The amount of any remaining unamortized, unrecognized net obligation or net asset existing at the initial date of application of Statement 87 or 106
 - (4) The net pension or other postretirement benefit prepaid assets or accrued liabilities
 - (5) Any intangible asset and the amount of accumulated other comprehensive income recognized pursuant to paragraph 37 of Statement 87, as amended
- d. The amount of net periodic benefit cost recognized, showing separately the service cost component, the interest cost component, the expected return on plan assets for the period, the amortization of the unrecognized transition obligation or transition asset, the amount of recognized gains and losses, the amount of prior service cost recognized, and the amount of gain or loss recognized due to a settlement or curtailment
- e. The amount included within other comprehensive income for the period arising from a change in the additional minimum pension liability recognized pursuant to paragraph 37 of Statement 87, as amended
- f. On a weighted-average basis, the following assumptions used in the accounting for the plans: assumed discount rate, rate of compensation increase (for pay-related plans), and expected long-term rate of return on plan assets
- g. The assumed health care cost trend rate(s) for the next year used to measure the expected cost of benefits covered by the plan (gross eligible charges) and a general description of the direction and pattern of change in the assumed trend rates thereafter, together with the ultimate trend rate(s) and when that rate is expected to be achieved
- h. The effect of a one-percentage-point increase and the effect of a one-percentage-point decrease in the assumed health care cost trend rates on (1) the aggregate of the service and interest cost components of net periodic postretirement health care benefit cost and (2) the accumulated postretirement benefit obligation for health care benefits (For purposes of this disclosure, all other assumptions shall be held constant, and the effects shall be measured based on the substantive plan that is the basis for the accounting.)
- i. If applicable, the amounts and types of securities of the employer and related parties included in plan assets, the approximate amount of future annual benefits of plan participants covered by insurance contracts issued by the employer or related parties, and any significant transactions between the employer or related parties and the plan during the period
- j. If applicable, any alternative amortization method used to amortize prior service amounts or unrecognized net gains and losses pursuant to paragraphs 26 and 33 of Statement 87 or paragraphs 53 and 60 of Statement 106
- k. If applicable, any substantive commitment, such as past practice or a history of regular benefit increases, used as the basis for accounting for the benefit obligation
- l. If applicable, the cost of providing special or contractual termination benefits recognized during the period and a description of the nature of the event
- m. An explanation of any significant change in the benefit obligation or plan assets not otherwise apparent in the other disclosures required by this Statement.

Amounts related to the employer's results of operations shall be disclosed for each period for which an income statement is presented. Amounts related to the employer's statement of financial position shall be disclosed for each balance sheet presented.

Employers with Two or More Plans

- 6. The disclosures required by this Statement may be aggregated for all of an employer's defined benefit pension plans and may be aggregated for all of an employer's defined benefit postretirement plans or may be disaggregated in groups if that is considered to provide the most useful information or is otherwise required by paragraph 7. Disclosures about pension plans with

assets in excess of the accumulated benefit obligation generally may be aggregated with disclosures about pension plans with accumulated benefit obligations in excess of assets. The same aggregation is permitted for postretirement plans. However, if those disclosures are combined, an employer shall disclose the aggregate benefit obligation and aggregate fair value of plan assets for plans with benefit obligations in excess of plan assets. The aggregate pension accumulated benefit obligation and aggregate fair value of plan assets for pension plans with accumulated benefit obligations in excess of plan assets also shall be disclosed. Disclosure of amounts recognized in the statement of financial position shall present prepaid benefit costs and accrued benefit liabilities separately.

7. An employer may combine disclosures about pension or postretirement benefit plans outside the United States with those for U.S. plans unless the benefit obligations of the plans outside the United States are significant relative to the total benefit obligation and those plans use significantly different assumptions.

Reduced Disclosure Requirements for Nonpublic Entities

8. A nonpublic entity⁵ may elect to disclose the following for its pension and other postretirement benefit plans in lieu of the disclosures required by paragraph 5 of this Statement:

⁵ A nonpublic entity is any entity other than one (a) whose debt or equity securities trade in a public market either on a stock exchange (domestic or foreign) or in the over-the-counter market, including securities quoted only locally or regionally, (b) that makes a filing with a regulatory agency in preparation for the sale of any class of debt or equity securities in a public market, or (c) that is controlled by an entity covered by (a) or (b).

- a. The benefit obligation, fair value of plan assets, and funded status of the plan
- b. Employer contributions, participant contributions, and benefits paid
- c. The amounts recognized in the statement of financial position, including the net pension and other postretirement benefit prepaid assets or accrued liabilities and any intangible asset and the amount of accumulated other comprehensive income recognized pursuant to paragraph 37 of Statement 87, as amended
- d. The amount of net periodic benefit cost recognized and the amount included within other comprehensive income arising from a change in the minimum pension liability recognized pursuant to paragraph 37 of Statement 87, as amended
- e. On a weighted-average basis, the following assumptions used in the accounting for the plans: assumed discount rate, rate of compensation increase (for pay-related plans), and expected long-term rate of return on plan assets
- f. The assumed health care cost trend rate(s) for the next year used to measure the expected cost of benefits covered by the plan (gross eligible charges) and a general description of the direction and pattern of change in the assumed trend rates thereafter, together with the ultimate trend rate(s) and when that rate is expected to be achieved
- g. If applicable, the amounts and types of securities of the employer and related parties included in plan assets, the approximate amount of future annual benefits of plan participants covered by insurance contracts issued by the employer or related parties, and any significant transactions between the employer or related parties and the plan during the period
- h. The nature and effect of significant nonroutine events, such as amendments, combinations, divestitures, curtailments, and settlements.

Defined Contribution Plans

9. An employer shall disclose the amount of cost recognized for defined contribution pension or other postretirement benefit plans during the period separately from the amount of cost recognized for defined benefit plans. The disclosures shall include a description of the nature and effect of any significant changes during the period affecting comparability, such as a change in the rate of employer contributions, a business combination, or a divestiture.

Multiemployer Plans

10. An employer shall disclose the amount of contributions to multiemployer plans during the period. An employer may disclose total contributions to multiemployer plans without disaggregating the amounts attributable to pensions and other postretirement benefits. The disclosures shall include a description of the nature and effect of any changes affecting comparability, such as a change in the rate of employer contributions, a business combination, or a divestiture.

11. Paragraph 70 of Statement 87 and paragraph 83 of Statement 106 are carried forward without reconsideration. Paragraphs 70 and 83 read as follows:

In some situations, withdrawal from a multiemployer plan may result in an employer's having an obligation to the plan for a portion of its unfunded benefit obligations. If withdrawal under circumstances that would give rise to an obligation is either probable or reasonably possible, the provisions of FASB Statement No. 5, *Accounting for Contingencies*, shall apply.

In some situations, withdrawal from a multiemployer plan may result in an employer's having an obligation to the plan for a portion of the plan's unfunded accumulated postretirement benefit obligation. If it is either probable or reasonably possible that (a) an employer would withdraw from the plan under circumstances that would give rise to an obligation or (b) an employer's contribution to the fund would be increased during the remainder of the contract period to make up a shortfall in the funds necessary to maintain the negotiated level of benefit coverage (a "maintenance of benefits" clause), the employer shall apply the provisions of *FASB Statement No. 5, Accounting for Contingencies*.

RELEVANT LITERATURE

Statutory Accounting

- Statutory Accounting Principles Statement of Concepts and Statutory Hierarchy
- *Issue Paper No. 3—Accounting Changes*
- *Issue Paper No. 4—Definition of Assets and Nonadmitted Assets*
- *Issue Paper No. 5—Definition of Liabilities, Loss Contingencies and Impairments of Assets*
- Accounting Practices and Procedures Manual for Property and Casualty Insurance Companies, Chapter 13, Other Liabilities
- Accounting Practices and Procedures Manual for Life and Accident and Health Insurance Companies, Chapter 17, Other Liabilities
- NAIC Annual Statement Instructions for Life and Accident and Health Insurance Companies
- NAIC Annual Statement Instructions for Property and Casualty Insurance Companies

Generally Accepted Accounting Principles

- *FASB Statement No. 106, Employers' Accounting for Postretirement Benefits Other Than Pensions*
- *FASB Statement No. 132, Employers' Disclosures about Pensions and Other Postretirement Benefits*
- *FASB Emerging Issues Task Force No. 93-3, Plan Assets under FASB Statement No. 106*
- *Accounting Principles Board Opinion No. 12, Omnibus Opinion—1967, paragraphs 6 through 8*
- *FASB Special Report, A Guide to Implementation of Statement 106 on Employers' Accounting for Postretirement Benefits Other Than Pensions: Questions and Answers*

State Regulations

- No additional guidance obtained from state statutes or regulations.

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