

Statutory Issue Paper No. 133

Accounting for Postretirement Benefits Other Than Pensions, A Replacement of SSAP No. 14

STATUS:

Initially Adopted – December 5, 2008

Adopted to Reflect SSAP No. 92 – December 18, 2012

Original SSAP and Current Authoritative Guidance: SSAP No. 92

Type of Issue:

Common Area

SUMMARY OF ISSUE:

1. In September 2006, the Financial Accounting Standards Board (FASB) issued *FASB Statement No. 158: Accounting for Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106 and 132(R)* (FAS 158). The adoption with modification of FAS 158 requires entities that sponsor one or more single-employer defined benefit plan to:

- a. Recognize the overfunded or underfunded status of a defined benefit postretirement plan (other than a multiemployer plan) as an asset or liability in the statement of financial position.
- b. Aggregate the statuses of all overfunded plans and recognize that amount as a nonadmitted asset in its statement of financial position. It also shall aggregate the statuses of all underfunded plans and recognize that amount as a liability in its statement of financial position.
- c. Recognize as a component of unassigned funds (surplus) the gains and losses and prior service costs or credits that arise during the period but were not recognized as components of net periodic benefit cost of the period pursuant to SSAP No. 89 and SSAP No. 14.
- d. Recognize corresponding adjustments in unassigned funds (surplus) when the gains and losses, prior service costs or credits and transition assets and obligations remaining from the initial application of SSAP No. 89 and SSAP No. 14 are subsequently recognized as components of net periodic benefit cost pursuant to the recognition and amortization provisions of SSAP No. 89 and SSAP No. 14.

2. Current statutory accounting guidance for postretirement plans other than pensions is provided within *SSAP No. 14—Postretirement Benefits Other Than Pensions* (SSAP No. 14). The conclusions reached within this SSAP resulted from adoption with modification of *FASB Statement No. 106—Employers' Accounting for Postretirement Benefits Other Than Pensions* (FAS 106), *FASB Statement No. 132, Employers' Disclosures about Pensions and Other Postretirement Benefits an amendment of FASB Statements No. 87, 88, and 106* (FAS 132) and *FASB Statement No. 132 (R), Employers' Disclosures about Pensions and Other Postretirement Benefits, and amendment of FASB Statements No. 87, 88, and 106* (FAS 132R).

3. The purpose of this issue paper is to update statutory accounting principles for postretirement benefits other than pensions. Consequently, this issue paper adopts FAS 158 with modifications

considered necessary for consistent statutory reporting. The result will be a new SSAP (SSAP No. 92) superseding SSAP No. 14.

SCOPE OF STATEMENT

4. This issue paper applies to all postretirement benefits expected to be provided by an employer to 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. Other postretirement benefits include, but are not limited to, postretirement health care; life insurance provided outside a pension plan to retirees; and other welfare benefits such as tuition assistance, day care, legal services, and housing subsidies provided after retirement. Often those benefits are in the form of a reimbursement to plan participants or direct payment to providers for the cost of specified services as the need for those services arises, but they may also include benefits payable as a lump sum, such as death benefits. Much of the guidance in this Statement focuses on postretirement health care plans. Nevertheless, this issue paper applies equally to all postretirement benefits other than pensions. A postretirement benefit plan may be part of a larger plan or arrangement that provides benefits currently to active employees as well as to retirees. In those circumstances, the promise to provide benefits to present and future retirees under the plan shall be segregated from the promise to provide benefits currently to active employees and shall be accounted for in accordance with the provisions of this Statement. Absent evidence to the contrary, it shall be presumed that an employer that has provided postretirement benefits in the past or is currently promising those benefits to employees will continue to provide those future benefits. This issue paper supersedes the guidance in *SSAP No. 14—Postretirement Plans Other Than Pensions* (SSAP No. 14), nullifies and incorporates the guidance in *Interpretation 99-26: Offsetting Pension Assets and Liabilities* (INT 99-26) and nullifies *INT 01-16: Measurement Date for SSAP No. 8 Actuarial Valuations* (INT 01-16).

SUMMARY CONCLUSION

Defined Postretirement Plans

-

Single-Employer Defined Benefit Pension Plans

-

5. A defined benefit postretirement plan is one that defines the postretirement benefits in terms of (a) monetary amounts or (b) benefit coverage to be provided. In some cases, an employer may limit its obligation through an individual or an aggregate "cap" on the employer's cost or benefit obligation. Plans of that nature are considered to be defined benefit postretirement plans. (Hybrid postretirement plans or 'cash-balance' plans are considered defined benefit plans for purposes of applying this issue paper.) For defined benefit plans, reporting entities shall adopt *FAS 158: Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106 and 132 (R)* (FAS 158) and *FASB Staff Position FAS 136(R)-1, Employers' Disclosures about Postretirement Benefit Plan Assets* (FSP FAS 136(R)-1) with modifications as discussed in paragraph 101.

6. A postretirement benefit is part of the compensation paid to an employee for services rendered. In a defined benefit plan, the employer promises to provide, in addition to current wages and benefits, future benefits during retirement. Generally, the amount of those benefits depends on the benefit formula (which may include factors such as the number of years of service rendered or the employee's compensation before retirement or termination), the longevity of the retiree and any beneficiaries and covered dependents, and the incidence of events requiring benefit payments (for example, illnesses affecting the amount of health care required). In most cases, services are rendered over a number of years before an employee retires and begins to receive benefits or is entitled to receive benefits as a need arises. Even though the services rendered by the employee are complete and the employee has retired, the total amount of benefits the employer has promised and the cost to the employer of the services rendered are not

precisely determinable but can be estimated using the plan's benefit formula and estimates of the effects of relevant future events.

Elements of Accounting for Postretirement Benefits

7. Any method of accounting that recognizes the cost of postretirement benefits over employee service periods (before the payment of benefits to retirees) must deal with two factors that stem from the nature of the arrangement. First, estimates or assumptions must be made about the future events that will determine the amount and timing of the benefit payments. Second, an attribution approach that assigns benefits and the cost of those benefits to individual years of service must be selected.

8. The expected postretirement benefit obligation for an employee is the actuarial present value as of a particular date of the postretirement benefits expected to be paid by the employer's plan to or for the employee, the employee's beneficiaries, and any covered dependents pursuant to the terms of the plan. Measurement of the expected postretirement benefit obligation is based on the expected amount and timing of future benefits, taking into consideration the expected future cost of providing the benefits and the extent to which those costs are shared by the employer, the employee (including consideration of contributions required during the employee's active service period and following retirement, deductibles, coinsurance provisions, and so forth), or others (such as through governmental programs).

9. The accumulated postretirement benefit obligation as of a particular date is the actuarial present value of all future benefits attributed to an employee's service rendered to that date pursuant to paragraphs 32-33 and 44-47, assuming the plan continues in effect and that all assumptions about future events are fulfilled. Prior to the date on which an employee attains full eligibility for the benefits that employee is expected to earn under the terms of the postretirement benefit plan (the full eligibility date), the accumulated postretirement benefit obligation for an employee is a portion of the expected postretirement benefit obligation. On and after the full eligibility date, the accumulated postretirement benefit obligation and the expected postretirement benefit obligation for an employee are the same. Determination of the full eligibility date is affected by plan terms that provide incremental benefits expected to be received by or on behalf of an employee for additional years of service, unless those incremental benefits are trivial. Determination of the full eligibility date is not affected by plan terms that define when benefit payments commence or by an employee's current dependency status.

10. Net periodic postretirement benefit cost comprises several components that reflect different aspects of the employer's financial arrangements. The service cost component of net periodic postretirement benefit cost is the actuarial present value of benefits attributed to services rendered by employees during the period (the portion of the expected postretirement benefit obligation attributed to service in the period). The service cost component is the same for an unfunded plan, a plan with minimal funding, and a well-funded plan. The other components of net periodic postretirement benefit cost are interest cost (interest on the accumulated postretirement benefit obligation, which is a discounted amount), actual return on plan assets¹, amortization of any prior service cost or credit included in unassigned funds (surplus), amortization of the transition obligation or transition asset, and the gain or loss component which includes, to the extent recognized, amortization of the net gain or loss included in unassigned funds (surplus) (refer to paragraph 51).

¹ To address a question on how the expected return on plan assets affects the determination of net periodic benefit cost if the actual return on plan assets for a period is a component of net periodic benefit cost, it is noted that the expected return on plan assets generally will be different from the actual return on plan assets for the year. This issue paper provides for recognition of that difference (a net gain or loss) in unassigned funds (surplus) in the period it arises. The amount recognized in unassigned funds (surplus) is also a component of net periodic benefit cost for the current period. Thus, the amount recognized in unassigned funds (surplus) and the actual return on plan assets, when aggregated, equal the expected return on plan assets. The amount recognized in unassigned funds (surplus) affects future net periodic benefit cost through subsequent amortization, if any, of the net gain or loss. (This footnote reflects guidance included in E12 of FSP FAS 158-1.)

Measurement of Cost and Obligations

Accounting for the Substantive Plan

11. An objective of this issue paper is that the accounting reflects 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, as those terms are understood by both parties to the transaction. Generally, the extant written plan provides the best evidence of the terms 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 shall be the basis for the accounting.

12. Except as provided in paragraph 13, an employer's cost-sharing policy, as evidenced by the following past practice or communication, shall constitute the cost-sharing provisions of the substantive plan if either of the following conditions exist. Otherwise, the extant written plan shall be considered to be the substantive plan.

- a. The employer has a past practice of (1) maintaining a consistent level of cost sharing between the employer and its retirees through changes in deductibles, coinsurance provisions, retiree contributions, or some combination of those changes or (2) consistently increasing or reducing the employer's share of the cost of the covered benefits through changes in retired or active plan participants' contributions toward their retiree health care benefits, deductibles, coinsurance provisions, out-of-pocket limitations, and so forth, in accordance with the employer's established cost-sharing policy.
- b. The employer has the ability, and has communicated to affected plan participants its intent, to institute different cost-sharing provisions at a specified time or when certain conditions exist (for example, when health care cost increases exceed a certain level).

13. An employer's past practice of maintaining a consistent level of cost sharing with its retirees or consistently increasing or reducing its share of the cost of providing the covered benefits shall not constitute provisions of the substantive plan if accompanied by identifiable offsetting changes in other benefits or compensation or if the employer incurred significant costs, such as work stoppages, to effect that cost-sharing policy. Similarly, an employer's communication of its intent to institute cost-sharing provisions that differ from the extant written plan or the past cost-sharing practice shall not constitute provisions of the substantive plan (a) if the plan participants would be unwilling to accept the change without adverse consequences to the employer's operations or (b) if other modifications of the plan, such as the level of benefit coverage, or providing offsetting changes in other benefits, such as pension benefits, would be required to gain plan participants' acceptance of the change to the cost-sharing arrangement.

14. A past practice of regular increases in postretirement benefits defined in terms of monetary amounts may indicate that the employer has a present commitment to make future improvements to the plan and that the plan will provide monetary benefits attributable to prior service that are greater than the monetary benefits defined by the extant written plan. In those situations, the substantive commitment to increase those benefits shall be the basis for the accounting. Changes in the benefits, other than benefits defined in terms of monetary amounts, covered by a postretirement health care plan or by other postretirement benefit plans shall not be anticipated.

15. Contributions expected to be received from active employees toward the cost of their postretirement benefits and from retired plan participants are treated similarly for purposes of measuring an employer's expected postretirement benefit obligation. That obligation is measured as the actuarial present value of the benefits expected to be provided under the plan, reduced by the actuarial present value of contributions expected to be received from the plan participants during their remaining active service and postretirement periods. In determining the amount of the contributions expected to be received from those participants toward the cost of their postretirement benefits, consideration is given to any related substantive plan provisions, such as an employer's past practice of consistently increasing or reducing the contribution rates as described in paragraphs 12-13. An obligation to return contributions received from employees who do not attain eligibility for postretirement benefits and, if applicable, any interest accrued on those contributions shall be recognized as a component of an employer's postretirement benefit obligation.

16. Automatic benefit changes specified by the plan that are expected to occur shall be included in measurements of the expected and accumulated postretirement benefit obligations and the service cost component of net periodic postretirement benefit cost. Also, plan amendments shall be included in the computation of the expected and accumulated postretirement benefit obligations once they have been contractually agreed to, even if some provisions take effect only in future periods. For example, if a plan amendment grants a different benefit level for employees retiring after a future date, that increased or reduced benefit level shall be included in current-period measurements for employees expected to retire after that date.

17. Measuring the net periodic postretirement benefit cost and accumulated postretirement benefit obligation based on best estimates is superior to implying, by a failure to accrue, that no cost or obligation exists prior to the payment of benefits. This issue paper requires the use of explicit assumptions, each of which individually represents the best estimate of a particular future event, to measure the expected postretirement benefit obligation. A portion of that expected postretirement benefit obligation is attributed to each period of an employee's service associated with earning the postretirement benefits, and that amount is accrued as service cost for that period.

18. The service cost component of postretirement benefit cost, any prior service cost, and the accumulated postretirement benefit obligation are measured using actuarial assumptions and present value techniques to calculate the actuarial present value of the expected future benefits attributed to periods of employee service. Each assumption used shall reflect the best estimate solely with respect to that individual assumption. All assumptions shall presume that the plan will continue in effect in the absence of evidence that it will not continue. Principal actuarial assumptions include the time value of money (discount rates); participation rates (for contributory plans); retirement age; factors affecting the amount and timing of future benefit payments, which for postretirement health care benefits consider past and present per capita claims cost by age, health care cost trend rates, Medicare reimbursement rates, and so forth; salary progression (for pay-related plans); and the probability of payment (turnover, dependency status, mortality, and so forth).

19. Assumed discount rates shall reflect the time value of money as of the measurement date in determining the present value of future cash outflows currently expected to be required to satisfy the postretirement benefit obligation. In making that assumption, employers shall look to rates of return on high-quality fixed-income investments currently available whose cash flows match the timing and amount of expected benefit payments. If settlement of the obligation with third-party insurers is possible (for example, the purchase of nonparticipating life insurance contracts to provide death benefits), the interest rates inherent in the amount at which the postretirement benefit obligation could be settled are relevant in determining the assumed discount rates. Assumed discount rates are used in measurements of the expected and accumulated postretirement benefit obligations and the service cost and interest cost components of net periodic postretirement benefit cost.

20. Pursuant to paragraph 19, an employer shall look to rates of return on high-quality fixed-income investments in determining assumed discount rates. The objective of selecting assumed discount rates using that method is to measure the single amount that, if invested at the measurement date in a portfolio of high-quality debt instruments, would provide the necessary future cash flows to pay the postretirement benefits when due. Notionally, that single amount, the accumulated postretirement benefit obligation, would equal the current fair value of a portfolio of high-quality zero coupon bonds whose maturity dates and amounts would be the same as the timing and amount of the expected future benefit payments. Because cash inflows would equal cash outflows in timing and amount, there would be no reinvestment risk in the yields to maturity of the portfolio. However, in other than a zero coupon portfolio, such as a portfolio of long-term debt instruments that pay semiannual interest payments or whose maturities do not extend far enough into the future to meet expected benefit payments, the assumed discount rates (the yield to maturity) need to incorporate expected reinvestment rates available in the future. Those rates shall be extrapolated from the existing yield curve at the measurement date. The determination of the assumed discount rate is separate from the determination of the expected rate of return on plan assets whenever the actual portfolio differs from the hypothetical portfolio described above. Assumed discount rates shall be reevaluated at each measurement date. If the general level of interest rates rises or declines, the assumed discount rates shall change in a similar manner.

21. The expected long-term rate of return on plan assets shall reflect the average rate of earnings expected on the existing assets that qualify as plan assets and contributions to the plan expected to be made during the period. In estimating that rate, appropriate consideration should be given to the returns being earned on the plan assets currently invested and the rates of return expected to be available for reinvestment. If the return on plan assets is taxable to the trust or other fund under the plan, the expected long-term rate of return shall be reduced to reflect the related income taxes expected to be paid under existing law. There is no assumption of an expected long-term rate of return on plan assets for plans that are unfunded or that have no assets that qualify as plan assets pursuant to this issue paper.

22. The service cost component of net periodic postretirement benefit cost and the expected and accumulated postretirement benefit obligations shall reflect future compensation levels to the extent the postretirement benefit formula defines the benefits wholly or partially as a function of future compensation levels. For pay-related plans, assumed compensation levels shall reflect the best estimate of the actual future compensation levels of the individual employees involved, including future changes attributed to general price levels, productivity, seniority, promotion, and other factors. All assumptions shall be consistent to the extent that each reflects expectations about the same future economic conditions, such as future rates of inflation. Measuring service cost and the expected and accumulated postretirement benefit obligations based on estimated future compensation levels entails considering any indirect effects, such as benefit limitations, that would affect benefits provided by the plan.

Assumptions Unique to the Postretirement Health Care Benefits

23. Measurement of an employer's postretirement health care obligation requires the use of several assumptions unique to health care benefits. Most significantly, it includes several assumptions about factors that will affect the amount and timing of future benefit payments for postretirement health care. Those factors include consideration of historical per capita claims cost by age, health care cost trend rates (for plans that provide a benefit in kind), and medical coverage to be paid by governmental authorities and other providers of health care benefits.

24. In principle, an employer's share of the expected future postretirement health care cost for a plan participant is developed by reducing the assumed per capita claims cost at each age at which the plan participant is expected to receive benefits under the plan by (a) the effects of coverage by Medicare and other providers of health care benefits, and (b) the effects of the cost-sharing provisions of the plan (deductibles, copayment provisions, out-of-pocket limitations, caps on the limits of the employer-provided payments, and retiree contributions). The resulting amount represents the assumed net incurred

claims cost at each age at which the plan participant is expected to receive benefits under the plan. If contributions are required to be paid by active plan participants toward their postretirement health care benefits, the actuarial present value of the plan participants' future contributions reduces the actuarial present value of the aggregate assumed net incurred claims costs.

25. The assumed per capita claims cost by age is the annual per capita cost, for periods after the measurement date, of providing the postretirement health care benefits covered by the plan from the earliest age at which an individual could begin to receive benefits under the plan through the remainder of the individual's life or the covered period, if shorter. The assumed per capita claims cost shall be the best estimate of the expected future cost of the benefits covered by the plan. It may be appropriate to consider other factors in addition to age, such as sex and geographical location, in developing the assumed per capita claims cost.

26. Past and present claims data for the plan, such as a historical pattern of gross claims by age (claims curve), should be used in developing the current per capita claims cost to the extent that those data are considered to be indicative of the current cost of providing the benefits covered by the plan. Those current claims data shall be adjusted by the assumed health care cost trend rate. The resulting assumed per capita claims cost by age, together with the plan demographics, determines the amount and timing of expected future gross eligible charges.

27. In the absence of sufficiently reliable plan data about the current cost of the benefits covered by the plan, the current per capita claims cost should be based, entirely or in part, on the claims information of other employers to the extent those costs are indicative of the current cost of providing the benefits covered by the plan. For example, the current per capita claims cost may be based on the claims experience of other employers derived from information in data files developed by insurance companies, actuarial firms, or employee benefits consulting firms. The current per capita claims cost developed on those bases shall be adjusted to best reflect the terms of the employer's plan and the plan demographics. For example, the information should be adjusted, as necessary, for differing demographics, such as the age and sex of plan participants, health care utilization patterns by men and women at various ages, and the expected geographical location of retirees and their dependents, and for significant differences between the nature and types of benefits covered by the employer's plan and those encompassed by the underlying data.

28. The assumption about health care cost trend rates represents the expected annual rates of change in the cost of health care benefits currently provided by the postretirement benefit plan, due to factors other than changes in the demographics of the plan participants, for each year from the measurement date until the end of the period in which benefits are expected to be paid. Past and current health care cost trends shall be used in developing an employer's assumed health care cost trend rates, which implicitly consider estimates of health care inflation, changes in health care utilization or delivery patterns, technological advances, and changes in the health status of plan participants. Differing services, such as hospital care and dental care, may require the use of different health care cost trend rates. It is appropriate for that assumption to reflect changes in health care cost trend rates over time. For example, the health care cost trend rates may be assumed to continue at the present level for the near term, or increase for a period of time, and then grade down over time to an estimated health care cost trend rate ultimately expected to prevail.

29. Certain medical claims may be covered by governmental programs under existing law or by other providers of health care benefits. Benefit coverage by those governmental programs shall be assumed to continue as provided by the present law and by other providers pursuant to their present plans. Presently enacted changes in the law or amendments of the plans of other health care providers that take effect in future periods and that will affect the future level of their benefit coverage shall be considered in current-period measurements for benefits expected to be provided in those future periods. Future changes in laws

concerning medical costs covered by governmental programs and future changes in the plans of other providers shall not be anticipated.

30. In some cases, determining the assumed per capita claims cost by age as described in paragraphs 25-27 may not be practical because credible historical information about the gross per capita cost of covered benefits may not be available or determinable to satisfy the stated measurement approach. However, credible historical information about incurred claims costs may be available. In those cases, an alternative method of developing the assumed per capita claims cost may be used provided the method results in a measure that is the best estimate of the expected future cost of the benefits covered by the plan. For example, the assumed health care cost trend rates may be determined by adjusting the expected change in the employer's share of per capita incurred claims cost by age by a factor that reflects the effects of the plan's cost-sharing provisions. However, an approach that projects net incurred claims costs using unadjusted assumed health care cost trend rates would implicitly assume changes in the plan's cost-sharing provisions at those assumed rates and, therefore, is not acceptable unless the plan's cost-sharing provisions are indexed in that manner or the substantive plan operates in that manner.

31. Assumed discount rates include an inflationary element that reflects the expected general rate of inflation. Assumed compensation levels include consideration of future changes attributable to general price levels. Similarly, assumed health care cost trend rates include an element that reflects expected general rates of inflation for the economy overall and an element that reflects price changes of health care costs in particular. To the extent that those assumptions consider similar inflationary effects, the assumptions about those effects shall be consistent.

Attribution

32. An equal amount of the expected postretirement benefit obligation for an employee generally shall be attributed to each year of service in the attribution period (a benefit/years-of-service approach). However, some plans may have benefit formulas that attribute a disproportionate share of the expected postretirement benefit obligation to employees' early years of service. For that type of plan, the expected postretirement benefit obligation shall be attributed in accordance with the plan's benefit formula.

33. The beginning of the attribution period generally shall be the date of hire. However, if the plan's benefit formula grants credit only for service from a later date and that credited service period is not nominal in relation to employees' total years of service prior to their full eligibility dates, the expected postretirement benefit obligation shall be attributed from the beginning of that credited service period. In all cases, the end of the attribution period shall be the full eligibility date.

Recognition of Liabilities and Assets

34. An employer that sponsors one or more single-employer defined benefit postretirement plans other than pensions shall recognize in its statement of financial position the funded statuses of those plans. The status for each plan shall be measured as the difference between the fair value of plan assets and the accumulated postretirement benefit obligation (considering both vested and nonvested employees) as it is defined in this issue paper.

35. The employer shall aggregate the statuses of all overfunded plans and recognize that amount as a nonadmitted asset in its statement of financial position. It also shall aggregate the statuses of all underfunded plans and recognize that amount as a liability in its statement of financial position. It is not acceptable statutory accounting practice to offset pension or postretirement benefits other than pensions liability generated by one plan against the prepaid assets of another plan.

Recognition of Net Periodic Postretirement Benefit Cost

36. As with other forms of deferred compensation, the cost of providing postretirement benefits shall be attributed to the periods of employee service rendered in exchange for those future benefits pursuant to the terms of the plan. That cost notionally represents the change in the unfunded accumulated postretirement benefit obligation for the period, ignoring employer contributions to the plan, plan settlements, and payments made by the employer directly to retirees. However, changes in that unfunded obligation that arise from experience gains and losses and the effects of changes in assumptions may be recognized as a component of net periodic postretirement benefit cost on a delayed basis. In addition, the effects of a plan initiation or amendment generally are recognized on a delayed basis.

37. The following components shall be included in the net postretirement benefit cost recognized for a period by an employer sponsoring a defined benefit postretirement plan: a) service cost; b) interest cost; c) actual return on plan assets, if any; d) amortization of any prior service cost or credit included in unassigned funds (surplus) to the extent required by paragraphs 42-47; e) gain or loss (including the effects of changes in assumptions) to the extent recognized; and f) amortization of any obligation or asset existing at the date of initial application of this issue paper, hereinafter referred to as the transition obligation or transition asset remaining in unassigned funds (surplus).

Service Cost

38. The service cost component recognized in a period shall be determined as the portion of the expected postretirement benefit obligation attributed to employee service during that period. The measurement of the service cost component requires identification of the substantive plan and the use of assumptions and an attribution method, which are discussed in paragraphs 11-33.

39. The prior service cost for nonvested employees not previously recognized² is not required to be included in net postretirement benefit cost entirely in the year this standard is adopted. Unrecognized prior service cost for nonvested employees shall be amortized as a component of the net postretirement benefit cost by assigning an equal amount to each expected future period of service before vesting occurs for nonvested employees active at the date of the amendment. Unassigned funds (surplus) is adjusted each period as prior service cost is amortized (refer to paragraphs 102-105 for transition guidance related to the recognition of the prior service cost for nonvested employees through unassigned funds (surplus)).

Interest Cost

40. The interest cost component recognized in a period shall be determined as the increase in the accumulated postretirement benefit obligation to recognize the effects of the passage of time. Measuring the accumulated postretirement benefit obligation as a present value requires accrual of an interest cost at rates equal to the assumed discount rates.

Actual Return on Plan Assets

41. For a funded plan, the actual return on plan assets shall be determined based on the fair value of plan assets at the beginning and end of the period, adjusted for contributions and benefit payments. If the fund holding the plan assets is a taxable entity, the actual return on plan assets shall reflect the tax expense or benefit for the period determined in accordance with generally accepted accounting principles. Otherwise, no provision for taxes shall be included in the actual return on plan assets.

² The previous statutory accounting guidance in *SSAP No. 14—Postretirement Benefits Other Than Pensions* excluded nonvested employees from the service cost calculation. This exclusion has been eliminated with the issuance of this SSAP.

Prior Service Cost

42. Plan amendments (including initiation of a plan) may include provisions that attribute the increase or reduction in benefits to employee service rendered in prior periods or only to employee service to be rendered in future periods. For purposes of measuring the accumulated postretirement benefit obligation, the effect of a plan amendment on a plan participant's expected postretirement benefit obligation shall be attributed to each year of service in that plan participant's attribution period, including years of service already rendered by that plan participant, in accordance with the attribution of the expected postretirement benefit obligation to years of service as discussed in paragraphs 32-33. If a plan is initiated that grants benefits solely in exchange for employee service after the date of the plan initiation or a future date, no portion of the expected postretirement benefit obligation is attributed to prior service periods because, in that case, the credited service period for the current employees who are expected to receive benefits under the plan begins at the date of the plan initiation or the future date.

43. Plan amendments that improve benefits are granted with the expectation that the employer will realize economic benefits in future periods. Consequently, except as discussed in paragraph 46, this issue paper does not permit the cost of benefit improvements (that is, prior service cost) to be included in net periodic postretirement benefit cost entirely in the year of the amendment. Rather, paragraph 44 provides for recognition of prior service cost arising from benefit improvements during the remaining years of service to the full eligibility dates of those plan participants active at the date of the plan amendment.

44. A plan amendment that retroactively increases benefits (including benefits that are granted to fully eligible plan participants) increases the accumulated postretirement benefit obligation. The cost of the benefit improvement shall be recognized as a charge to unassigned funds (surplus) at the date of the amendment. Except as specified in the next sentence and in paragraphs 45-46, that prior service cost shall be amortized as a component of net periodic postretirement benefit cost by assigning an equal amount to each remaining year of service to the full eligibility date of each plan participant active at the date of the amendment who was not yet fully eligible for benefits at that date. If all or almost all of a plan's participants are fully eligible for benefits, the prior service cost shall be amortized based on the remaining life expectancy of those plan participants rather than on the remaining years of service to the full eligibility dates of the active plan participants. Unassigned funds (surplus) is adjusted as a result of amortizing prior service cost.

45. To reduce the complexity and detail of the computations required, consistent use of an alternative approach that more rapidly amortizes the prior service cost recognized in unassigned funds (surplus) is permitted. For example, a straight-line amortization of the cost over the average remaining years of service to full eligibility for benefits of the active plan participants is acceptable.

46. In some situations, a history of regular plan amendments and other evidence may indicate that the period during which the employer expects to realize economic benefits from an amendment that grants increased benefits is shorter than the remaining years of service to full eligibility for benefits of the active plan participants. Identification of those situations requires an assessment of the individual circumstances of the particular plan. In those circumstances, the amortization of prior service cost shall be accelerated to reflect the more rapid expiration of the employer's economic benefits and to recognize the cost in the periods benefited.

47. A plan amendment that retroactively reduces, rather than increases, benefits decreases the accumulated postretirement benefit obligation. The reduction in benefits shall be recognized as a corresponding credit (prior service credit) to unassigned funds (surplus) that shall be used first to reduce any remaining prior service cost included in unassigned funds (surplus), then to reduce any transition obligation remaining in unassigned funds (surplus). The excess, if any, shall be amortized as a component of net periodic postretirement benefit cost on the same basis as specified in paragraph 44 for prior service cost. Immediate recognition of the excess is not permitted.

Gains and Losses

48. Gains and losses are changes in the amount of either the accumulated postretirement benefit obligation or plan assets resulting from experience different from that assumed or from changes in assumptions. This issue paper generally does not distinguish between those sources of gains and losses. Gains and losses include amounts that have been realized as well as amounts that are unrealized. Because gains and losses may reflect refinements in estimates as well as real changes in economic values and because some gains in one period may be offset by losses in another or vice versa, this issue paper does not require recognition of gains and losses as components of net postretirement benefit cost in the period in which they arise, except as described in paragraph 53. Gains and losses that are not recognized immediately as a component of net periodic postretirement benefit cost shall be recognized as increases or decreases in unassigned funds (surplus) as they arise.

49. The expected return on plan assets shall be determined based on the expected long-term rate of return on plan assets and the fair value of plan assets.

50. Plan asset gains and losses are differences between the actual return on plan assets during a period and the expected return on plan assets for that period. Plan asset gains and losses include changes reflected in the fair value of plan assets.

51. As a minimum, amortization of a net gain or loss included in unassigned funds (surplus) shall be included as a component of net periodic postretirement benefit cost for a year if, as of the beginning of the year, that net gain or loss exceeds 10 percent of the greater of the accumulated postretirement benefit obligation or the fair value of plan assets. If amortization is required, the minimum amortization shall be that excess divided by the average remaining service period of active plan participants. If all or almost all of a plan's participants are inactive, the average remaining life expectancy of the inactive participants shall be used instead of the average remaining service period.

52. Any systematic method of amortizing gains and losses included in unassigned funds (surplus) may be used in place of the minimum amortization specified in paragraph 51 provided that (a) the minimum amortization is recognized in any period in which it is greater (reduces the net gain or loss balance by more) than the amount that would be recognized under the method used, (b) the method is applied consistently, (c) the method is applied similarly to both gains and losses, and (d) the method used is disclosed. If an enterprise uses a method of consistently recognizing gains and losses immediately, any gain that does not offset a loss previously recognized in income pursuant to this paragraph shall first offset any transition obligation remaining in unassigned funds (surplus); any loss that does not offset a gain previously recognized in income pursuant to this paragraph shall first offset any transition asset remaining in unassigned funds (surplus).

53. In some situations, an employer may forgive a retrospective adjustment of the current or past years' cost-sharing provisions of the plan as they relate to benefit costs already incurred by retirees or may otherwise deviate from the provisions of the substantive plan to increase or decrease the employer's share of the benefit costs incurred in the current or past periods. The effect of a decision to temporarily deviate from the substantive plan shall be immediately recognized as a loss or gain.

54. The gain or loss component of net periodic postretirement benefit cost shall consist of (a) the difference between the actual return on plan assets and the expected return on plan assets, (b) any gain or loss immediately recognized or the amortization of the net gain or loss included in unassigned funds (surplus), and (c) any amount immediately recognized as a gain or loss pursuant to paragraph 53.

Measurement of Plan Assets

55. Plan assets are assets—usually stocks, bonds, and other investments (except certain insurance contracts as noted in paragraph 59)—that have been segregated and restricted (usually in a trust) to be used for postretirement benefits. The amount of plan assets includes amounts contributed by the employer, and by plan participants for a contributory plan, and amounts earned from investing the contributions, less benefits, income taxes, and other expenses incurred. Plan assets ordinarily cannot be withdrawn by the employer except under certain circumstances when a plan has assets in excess of obligations and the employer has taken certain steps to satisfy existing obligations. Securities of the employer held by the plan are includable in plan assets provided they are transferable.

56. Assets not segregated in a trust, or otherwise effectively restricted, so that they cannot be used by the employer for other purposes are not plan assets for purposes of this issue paper, even though the employer may intend that those assets be used to provide postretirement benefits. Those assets shall be accounted for in the same manner as other employer assets of a similar nature and with similar restrictions. Amounts accrued by the employer but not yet paid to the plan are not plan assets for purposes of this issue paper.

57. Plan investments, whether equity or debt securities, real estate, or other, shall be measured at their fair value as of the measurement date.

58. Plan assets used in plan operations (for example, buildings, equipment, furniture and fixtures, and leasehold improvements) shall be measured at cost less accumulated depreciation or amortization for all purposes.

Insurance Contracts

59. For purposes of this issue paper, an insurance contract is defined as a contract in which an insurance company unconditionally undertakes a legal obligation to provide specified benefits to specific individuals in return for a fixed consideration or premium; an insurance contract is irrevocable and involves the transfer of significant risk from the employer (or the plan) to the insurance company. Benefits covered by insurance contracts shall be excluded from the accumulated postretirement benefit obligation. Insurance contracts shall be excluded from plan assets.

60. Some insurance contracts (participating insurance contracts) provide that the purchaser (either the plan or the employer) may participate in the experience of the insurance company. Under those contracts, the insurance company ordinarily pays dividends to the purchaser, the effect of which is to reduce the cost of the plan. If the participating insurance contract causes the employer to remain subject to all or most of the risks and rewards associated with the benefit obligation covered or the assets transferred to the insurance company, that contract is not an insurance contract for purposes of this issue paper, and the purchase of that contract does not constitute a settlement pursuant to paragraphs 82-87.

61. The purchase price of a participating insurance contract ordinarily is higher than the price of an equivalent contract without a participation right. The difference is the cost of the participation right. The cost of the participation right shall be recognized at the date of purchase as a nonadmitted asset. In subsequent periods, the participation right shall be nonadmitted and measured at its fair value if the contract is such that fair value is reasonably estimable. Otherwise the participation right shall be measured at its amortized cost (not in excess of its net realizable value), and the cost shall be amortized systematically over the expected dividend period under the contract.

62. To the extent that insurance contracts are purchased during the period to cover postretirement benefits attributed to service in the current period (such as life insurance benefits), the cost of those benefits shall be the cost of purchasing the coverage under the contracts, except as provided in paragraph

61 for the cost of a participation right. If all the postretirement benefits attributed to service in the current period are covered by nonparticipating insurance contracts purchased during that period, the cost of the contracts determines the service cost component of net postretirement benefit cost for that period. Benefits attributed to current service in excess of benefits provided by nonparticipating insurance contracts purchased during the current period shall be accounted for according to the provisions of this issue paper applicable to plans not involving insurance contracts.

63. Other contracts with insurance companies may not meet the definition of an insurance contract because the insurance company does not unconditionally undertake a legal obligation to provide specified benefits to specified individuals. Those contracts shall be accounted for as investments and measured at fair value. If a contract has a determinable cash surrender value or conversion value, that is presumed to be its fair value. For some contracts, the best available estimate of fair value may be contract value.

Measurement Date

64. The measurements of plan assets and benefit obligations required by this issue paper shall be as of the date of the employer's fiscal year-end statement of financial position. Even though the postretirement benefit measurements are required as of a particular date, all procedures are not required to be performed after that date. As with other financial statement items requiring estimates, much of the information can be prepared as of an earlier date and projected forward to account for subsequent events (for example, employee service).

65. Measurements of net periodic postretirement benefit cost for both interim and annual financial statements generally shall be based on the assumptions at the beginning of the year (assumptions used for the previous year-end measurements of plan assets and obligations) unless more recent measurements of both plan assets and the accumulated postretirement benefit obligation are available. For example, if a significant event occurs, such as a plan amendment, settlement, or curtailment, that ordinarily would call for remeasurement, the assumptions used for those later measurements shall be used to remeasure net periodic postretirement benefit cost from the date of the event to the year-end measurement date. Unless an employer remeasures both its plan assets and benefit obligations during the fiscal year, the funded status it reports in its interim-period statement of financial position shall be the same asset or liability recognized in the previous year-end statement of financial position adjusted for (a) subsequent accruals of net periodic postretirement benefit cost that exclude the amortization of amounts previously recognized in unassigned funds (surplus) (for example, subsequent accruals of service cost, interest cost, and return on plan assets) and (b) contributions to a funded plan, or benefit payments. Upon remeasurement, a reporting entity shall adjust its statement of financial position in a subsequent interim period to reflect the overfunded or underfunded status of the plan consistent with that measurement date.

Disclosures - Single-Employer Defined Postretirement Plans

66. An employer that sponsors one or more other defined benefit postretirement plans shall provide the following information for postretirement benefit plans other than pensions. Amounts related to the employer's results of operations shall be disclosed for each period for which a statement of income is presented. Amounts related to the employer's statement of financial position, shall be disclosed as of the date of each statement of financial position presented.

- a. A reconciliation of beginning and ending balances of the benefit obligation 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 changes, benefits paid, plan amendments, business combinations, divestitures, curtailments, settlements, and special termination benefits.

- 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 changes, contributions by the employer, contributions by plan participants, benefits paid, business combinations, divestitures, and settlements.
- c. The funded status of the plans and the amounts recognized in the statement of financial position, showing separately the assets (nonadmitted) and liabilities recognized.
- d. The objectives of the disclosures about postretirement benefit plan assets are to provide users of financial statements with an understanding of:
 - i. How investment allocation decisions are made, including the factors that are pertinent to an understanding of investment policies and strategies
 - ii. The classes of plan assets
 - iii. The inputs and valuation techniques used to measure the fair value of plan assets
 - iv. The effect of fair value measurements using significant unobservable inputs (Level 3) on changes in plan assets for the period
 - v. Significant concentrations of risk within plan assets.

An employer shall consider those overall objectives in providing the following information about plan assets:

- (a) A narrative description of investment policies and strategies, including target allocation percentages or range of percentages considering the classes of plan assets disclosed pursuant to 66.d.v.(b) below, as of the latest statement of financial position presented (on a weighted-average basis for employers with more than one plan), and other factors that are pertinent to an understanding of those policies and strategies such as investment goals, risk management practices, permitted and prohibited investments including the use of derivatives, diversification, and the relationship between plan assets and benefit obligations. For investment funds disclosed as classes as described in 66.d.v.(b), a description of the significant investment strategies of those funds shall be provided.
- (b) The fair value of each class of plan assets as of each date for which a statement of financial position is presented. Asset classes shall be based on the nature and risks of assets in an employer's plan(s). Examples of classes of assets include, but are not limited to, the following: cash and cash equivalents; equity securities, (segregated by industry type, company size, or investment objective); debt securities, issued by national, state, and local governments; corporate debt securities; asset-backed securities; structured debt; derivatives on a gross basis (segregated by type of underlying risk in the contract, for example, interest rate contracts, foreign exchange contracts, equity contracts, commodity contracts, credit contracts, and other contracts); investment funds (segregated by type of fund); and real estate. Those examples are not meant to be all inclusive. An employer should consider the overall

objectives in paragraph 66.d. in determining whether additional classes of plan assets or further disaggregation of classes should be disclosed.

- (c) A narrative description of the basis used to determine the overall expected long-term rate-of-return-on-assets assumption, such as the general approach used, the extent to which the overall rate-of-return-on-assets assumption was based on historical returns, the extent to which adjustments were made to those historical returns in order to reflect expectations of future returns, and how those adjustments were determined. The description should consider the classes of assets described in 66.d.v.(b) as appropriate.
- (d) Information that enables users of financial statements to assess the inputs and valuation techniques used to develop fair value measurements of plan assets at the reporting date. For fair value measurements using significant unobservable inputs, an employer shall disclose the effect of the measurements on changes in plan assets for the period. To meet those objectives, the employer shall disclose the following information for each class of plan assets disclosed pursuant to 66.d.v.(b) above for each annual period:
 - (1) The level within the fair value hierarchy in which the fair value measurements in their entirety fall,³ segregating fair value measurements using quoted prices in active markets for identical assets or liabilities (Level 1), significant other observable inputs (Level 2), and significant unobservable inputs (Level 3)
 - (2) For fair value measurements of plan assets using significant unobservable inputs (Level 3), a reconciliation of the beginning and ending balances, separately presenting changes during the period attributable to the following:
 - (i) Actual return on plan assets, separately identifying the amount related to assets still held at the reporting date and the amount related to assets sold during the period
 - (ii) Purchases, sales, and settlements, net
 - (iii) Transfers in and/or out of Level 3 (for example, transfers due to changes in the observability of significant inputs)
 - (3) Information about the valuation technique(s) and inputs used to measure fair value and a discussion of changes in valuation techniques and inputs, if any, during the period.
- e. The benefits (as of the date of the latest statement of financial position presented) expected to be paid in each of the next five fiscal years, and in the aggregate for the five

³ In some cases, the inputs used to measure fair value might fall in different levels of the fair value hierarchy. The level in the fair value hierarchy within which the fair value measurement in its entirety falls shall be determined based on the lowest level input that is significant to the fair value measurement in its entirety. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgment, considering factors specific to the asset or liability.

fiscal years thereafter. The expected benefits should be estimated based on the same assumptions used to measure the company's benefit obligation at the end of the year and should include benefits attributable to estimated future employee service.

- f. The employer's best estimate, as soon as it can reasonably be determined, of contributions expected to be paid to the plan during the next fiscal year beginning after the date of the latest statement of financial position presented. Estimated contributions may be presented in the aggregate combining (1) contributions required by funding regulations or laws, (2) discretionary contributions, and (3) noncash contributions.
- g. 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 gain or loss component, the prior service cost or credit component, the transition asset or obligation component, and the gain or loss recognized due to settlements or curtailments.
- h. Separately the net gain or loss and net prior service cost or credit recognized in unassigned funds (surplus) for the period pursuant to paragraphs 44 and 48, and reclassification adjustments of unassigned funds (surplus) for the period, as those amounts, including amortization of the net transition asset or obligation, are recognized as components of net periodic benefit cost.
- i. The amounts in unassigned funds (surplus) that have not yet been recognized as components of net periodic benefit cost, showing separately the net gain or loss, net prior service cost or credit, and net transition asset or obligation.
- j. On a weighted-average basis, the following assumptions used in the accounting for the plans: assumed discount rates, rates of compensation increase (for pay-related plans), and expected long-term rates of return on plan assets specifying, in a tabular format, the assumptions used to determine the benefit obligation and the assumptions used to determine net benefit cost.
- k. 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.
- l. 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 costs 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.)
- m. 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.
- n. If applicable, any alternative method used to amortize prior service amounts or net gains and losses pursuant to paragraphs 45 and 52.

- o. 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.
- p. If applicable, the cost of providing special or contractual termination benefits recognized during the period and a description of the nature of the event.
- q. An explanation of any significant change in the benefit obligation or plan assets not otherwise apparent in the other disclosures required by this issue paper.
- r. The amounts in unassigned funds (surplus) expected to be recognized as components of net periodic benefit cost over the fiscal year that follows the most recent annual statement of financial position presented, showing separately the net gain or loss, net prior service cost or credit, and net transition asset or obligation.
- s. The amount and timing of any plan assets expected to be returned to the employer during the 12-month period, or operating cycle if longer, that follows the most recent annual statement of financial position presented.

Employers with Two or More Plans

67. Postretirement benefits offered by an employer may vary in nature and may be provided to different groups of employees. As discussed in paragraph 68, in some cases an employer may aggregate data from unfunded plans for measurement purposes in lieu of performing separate measurements for each unfunded plan (including plans whose designated assets are not appropriately segregated and restricted and thus have no plan assets as that term is used in this issue paper). Net periodic postretirement benefit cost, the accumulated postretirement benefit obligation, and plan assets shall be determined for each separately measured plan or aggregation of plans by applying the provisions of this issue paper to each such plan or aggregation of plans.

68. The data from all unfunded postretirement health care plans may be aggregated for measurement purposes if (a) those plans provide different benefits to the same group of employees or (b) those plans provide the same benefits to different groups of employees. Data from other unfunded postretirement welfare benefit plans may be aggregated for measurement purposes in similar circumstances, such as when an employer has a variety of welfare benefit plans that provide benefits to the same group of employees. However, a plan that has plan assets (as defined herein) shall not be aggregated with other plans but shall be measured separately.

Disclosures – Employers with Two or More Defined Benefit Plans

69. The disclosures required by this issue paper shall be aggregated for all of an employer's other defined benefit postretirement plans unless disaggregating in groups is considered to provide useful information or is otherwise required by this paragraph and paragraph 70 of this issue paper. Disclosures shall be as of the date of each statement of financial position presented. If aggregate disclosures are presented, an employer shall disclose:

- a. The aggregate benefit obligation and aggregate fair value of plan assets for plans with benefit obligations in excess of plan assets as of the measurement date of each statement of financial position presented.

70. A U.S. reporting entity may combine disclosures about pension plans or other 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.

Interim Financial Disclosures – Defined Benefit Plans

71. The following shall be disclosed within interim financial statements that include a statement of income:

- a. The amount of net periodic benefit cost recognized, for each period for which a statement of income is presented, showing separately the service cost component, the interest cost component, the expected return on plan assets for the period, the gain or loss component, the amount of prior service cost or credit component, the transition asset or obligation component, and the gain or loss recognized due to a settlement or curtailment.
- b. The total amount of the employer's contributions paid, and expected to be paid, during the current fiscal year, if significantly different from amounts previously disclosed pursuant to paragraph 66.f. of this issue paper. Estimated contributions may be presented in the aggregate combining (1) contributions required by funding regulations or laws, (2) discretionary contributions, and (3) noncash contributions.

Multiemployer Plans

72. For purposes of this issue paper, a multiemployer plan is a postretirement benefit plan to which two or more unrelated employers contribute, usually pursuant to one or more collective-bargaining agreements. A characteristic of multiemployer plans is that assets contributed by one participating employer may be used to provide benefits to employees of other participating employers since assets contributed by an employer are not segregated in a separate account or restricted to provide benefits only to employees of that employer.

73. An employer participating in a multiemployer plan shall recognize as net postretirement benefit cost the required contribution for the period, which shall include both cash and the fair value of noncash contributions, and shall recognize as a liability any unpaid contributions required for the period.

74. In some situations, withdrawal from a multiemployer plan may result in an employer 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 *SSAP No. 5—Liabilities, Contingencies, and Impairments of Assets - Revised* (SSAP No. 5R).

Disclosures - Multiemployer Plans

75. An employer shall disclose the amount of contributions to multiemployer plans for each annual period for which a statement of income is presented. An employer may disclose total contributions to multiemployer plans without disaggregating the amounts attributable to pension plans and other postretirement benefit plans. 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.

76. Pursuant to paragraph 74, if withdrawal under circumstances that would give rise to an obligation is either probable or reasonably possible, the provisions and disclosures of SSAP No. 5R, shall apply.

Multiple-Employer Plans

77. Some postretirement benefit plans to which two or more unrelated employers contribute are not multiemployer plans. Rather, those multiple-employer plans are in substance aggregations of single-employer plans, combined to allow participating employers to pool plan assets for investment purposes or to reduce the costs of plan administration. Those plans ordinarily do not involve collective-bargaining agreements. They may also have features that allow participating employers to have different benefit formulas, with the employer's contributions to the plan based on the benefit formula selected by the employer. Those plans shall be considered single-employer plans rather than multiemployer plans for purposes of this issue paper, and each employer's accounting shall be based on its respective interest in the plan.

Postretirement Benefit Plans Outside the United States

78. This issue paper includes no special provisions applicable to postretirement benefit arrangements outside the United States. Those arrangements are subject to the provisions of this issue paper. The applicability of this issue paper to those arrangements is determined by the nature of the obligation and by the terms or conditions that define the amount of benefits to be paid, not by whether or how a plan is funded, whether benefits are payable at intervals or as a single amount, or whether the benefits are required by law or custom or are provided under a plan the employer has elected to sponsor.

Business Combinations

79. When an employer is acquired in a business combination and that employer sponsors a single-employer defined benefit postretirement plan, the assignment of the purchase price to individual assets acquired and liabilities assumed shall include a liability for the accumulated postretirement benefit obligation in excess of the fair value of the plan assets or an asset for the fair value of the plan assets in excess of the accumulated postretirement benefit obligation. The accumulated postretirement benefit obligation assumed shall be measured based on the benefits attributed by the acquired entity to employee service prior to the date the business combination is consummated, adjusted to reflect (a) any changes in assumptions based on the purchaser's assessment of relevant future events (as discussed in paragraphs 11-31) and (b) the terms of the substantive plan (as discussed in paragraphs 11-16) to be provided by the purchaser to the extent they differ from the terms of the acquired entity's substantive plan.

80. If the postretirement benefit plan of the acquired entity is amended as a condition of the business combination (for example, if the change is required by the seller as part of the consummation of the acquisition), the effects of any improvements attributed to services rendered by the participants of the acquired entity's plan prior to the date of the business combination shall be accounted for as part of the accumulated postretirement benefit obligation of the acquired entity. Otherwise, if improvements to the postretirement benefit plan of the acquired entity are not a condition of the business combination, credit granted for prior service shall be recognized as a plan amendment as discussed in paragraphs 42-47. If it is expected that the plan will be terminated or curtailed, the effects of those actions shall be considered in measuring the accumulated postretirement benefit obligation. Otherwise, no future changes to the plan shall be anticipated.

81. As a result of applying the provisions of paragraphs 79-80, any previously existing net gain or loss, prior service cost or credit, or transition obligation or transition asset remaining in unassigned funds (surplus) is eliminated for the acquired employer's plan.

Accounting for Settlement of a Postretirement Benefit Obligation

82. For purposes of this issue paper, a settlement is defined as a transaction that (a) is an irrevocable action, (b) relieves the employer (or the plan) of primary responsibility for a postretirement benefit

obligation, and (c) eliminates significant risks related to the obligation and the assets used to effect the settlement. Examples of transactions that constitute a settlement include making lump-sum cash payments to plan participants in exchange for their rights to receive specified postretirement benefits and purchasing long-term nonparticipating insurance contracts for the accumulated postretirement benefit obligation for some or all of the plan participants.

83. A transaction that does not meet the three criteria of paragraph 82 does not constitute a settlement for purposes of this issue paper. For example, investing in a portfolio of high-quality fixed-income securities with principal and interest payment dates similar to the estimated payment dates of benefits may avoid or minimize certain risks. However, that investment decision does not constitute a settlement because that decision can be reversed, and investing in that portfolio does not relieve the employer (or the plan) of primary responsibility for a postretirement benefit obligation nor does it eliminate significant risks related to that obligation.

84. For purposes of this issue paper, the maximum gain or loss subject to recognition in income when a postretirement benefit obligation is settled is the net gain or loss included in unassigned funds (surplus) defined in paragraphs 48-52 plus any transition asset remaining in unassigned funds (surplus). That maximum gain or loss includes any gain or loss resulting from remeasurements of plan assets and the accumulated postretirement benefit obligation at the time of settlement.

85. If the entire accumulated postretirement benefit obligation is settled and the maximum amount subject to recognition is a gain, the settlement gain shall first reduce any transition obligation remaining in unassigned funds (surplus); any excess gain shall be recognized in income. If the entire accumulated postretirement benefit obligation is settled and the maximum amount subject to recognition is a loss, the maximum settlement loss shall be recognized in income. If only part of the accumulated postretirement benefit obligation is settled, the employer shall recognize in income the excess of the pro rata portion (equal to the percentage reduction in the accumulated postretirement benefit obligation) of the maximum settlement gain over any remaining transition obligation or a pro rata portion of the maximum settlement loss.

86. If the purchase of a participating insurance contract constitutes a settlement, the maximum gain (but not the maximum loss) shall be reduced by the cost of the participation right before determining the amount to be recognized in income.

87. If the cost of all settlements in a year is less than or equal to the sum of the service cost and interest cost components of net postretirement benefit cost for the plan for the year, gain or loss recognition is permitted but not required for those settlements. However, the accounting policy adopted shall be applied consistently from year to year.

Accounting for a Plan Curtailment

88. For purposes of this issue paper, a curtailment is an event that significantly reduces the expected years of future service of active plan participants or eliminates the accrual of defined benefits for some or all of the future services of a significant number of active plan participants. Curtailments include:

- a. Termination of employees' services earlier than expected, which may or may not involve closing a facility or discontinuing a component of an entity.
- b. Termination or suspension of a plan so that employees do not earn additional benefits for future service. In the latter situation, future service may be counted toward eligibility for benefits accumulated based on past service.

89. The prior service cost included in unassigned funds (surplus) associated with the portion of the future years of service that had been expected to be rendered, but as a result of a curtailment are no longer expected to be rendered, is a loss. For purposes of measuring the effect of a curtailment, prior service cost includes the cost of plan amendments and any remaining transition obligation. For example, a curtailment may result from the termination of a significant number of employees who were plan participants at the date of a prior plan amendment. The loss associated with that curtailment is measured as the portion of the remaining prior service cost included in unassigned funds (surplus) related to that (and any prior) plan amendment attributable to the previously expected remaining future years of service of the employees who were terminated and the portion of the remaining transition obligation attributable to the previously expected remaining future years of service of the terminated employees who were plan participants at the date of transition.

90. The accumulated postretirement benefit obligation may be decreased (a gain) or increased (a loss) by a curtailment. That (gain) loss shall reduce any net loss (gain) included in unassigned funds (surplus).

- a. To the extent that such a gain exceeds any net loss included in unassigned funds (surplus) (or the entire gain, if a net gain exists), it is a curtailment gain.
- b. To the extent that such a loss exceeds any net gain included in unassigned funds (surplus) (or the entire loss, if a net loss exists), it is a curtailment loss.

For purposes of applying the provisions of this paragraph, any transition asset remaining in unassigned funds (surplus) shall be treated as a net gain and shall be combined with the unrecognized net gain or loss arising subsequent to transition to this issue paper.

91. If the sum of the effects identified in paragraphs 89-90 is a net loss, it shall be recognized in income when it is probable that a curtailment will occur and the net effect is reasonably estimable. If the sum of those effects is a net gain, it shall be recognized in income when the related employees terminate or the plan suspension or amendment is adopted.

92. A settlement and a curtailment may occur separately or together. If benefits expected to be paid in future periods are eliminated for some plan participants (for example, because a significant portion of the work force is dismissed or a plant is closed) but the plan remains in existence and continues to pay benefits, to invest assets, and to receive contributions, a curtailment has occurred but not a settlement. If an employer purchases nonparticipating insurance contracts for the accumulated postretirement benefit obligation and continues to provide defined benefits for future service, either in the same plan or in a successor plan, a settlement has occurred but not a curtailment. If a plan termination occurs (that is, the obligation is settled and the plan ceases to exist) and the plan is not replaced by a successor defined benefit plan, both a settlement and a curtailment have occurred (whether or not the employees continue to work for the employer).

Measurement of the Effects of Termination Benefits

93. An employer that offers special or contractual termination benefits to employees shall recognize a liability and a loss when the employees accept the offer and the amount can be reasonably estimated. An employer that provides contractual termination benefits shall recognize a liability and a loss when it is probable that employees will be entitled to benefits and the amount can be reasonably estimated. A situation involving special or contractual termination benefits may also result in a curtailment to be accounted for under paragraphs 88-91.

94. The liability and loss recognized for employees who accept an offer of special termination benefits to be provided by a postretirement benefit plan shall be the difference between (a) the accumulated postretirement benefit obligation for those employees, assuming that those employees

(active plan participants) not yet fully eligible for benefits would terminate at their full eligibility date and that fully eligible plan participants would retire immediately, without considering any special termination benefits and (b) the accumulated postretirement benefit obligation as measured in (a) adjusted to reflect the special termination benefits.

Defined Contribution Plans

95. For purposes of this issue paper, a defined contribution postretirement plan is a plan that provides postretirement benefits in return for services rendered, provides 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, the 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 those contributions, and forfeitures of other plan participants' benefits that may be allocated to the plan participant's account.

96. To the extent a plan's defined contributions to an individual's account are to be made for periods in which that individual renders services, 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 or terminates, the estimated cost shall be accrued during the employee's service period.

97. A postretirement benefit plan having characteristics of both a defined benefit plan and a defined contribution plan requires careful analysis. If the substance of the plan is to provide a defined benefit, as may be the case with some "target benefit" plans, the accounting requirements shall be determined in accordance with the provisions of this issue paper applicable to a defined benefit plan and the disclosure requirements within paragraph 66 shall be followed.

Disclosures - Defined Contribution Plans

98. An employer shall disclose the amount of cost recognized for defined contribution postretirement benefit plans for all periods presented 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.

Consolidated/Holding Company Plans

99. 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.

100. The reporting entity shall disclose in 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 utilized by the provider of such benefits shall also be disclosed. If the reporting entity is directly liable for postretirement benefits other than pensions, then the requirements outlined in paragraphs 4-98 and paragraphs 101-110 of this issue paper shall be applied.

Relevant Literature

101. This issue paper adopts with modification paragraphs 1-7 and 16-17 as well as Appendix D – Amendments to Statement 106 and Appendix E – Amendments to Statement 132(R) of *FASB Statement*

No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*, an amendment of FASB Statements No. 87, 88, 106 and 132(R) (FAS 158). Paragraphs 8-10 and D2u providing specific guidance for not-for-profit organizations is rejected. Paragraphs 11-15 regarding the effective dates for FAS 158 is rejected and paragraph 19 providing an alternative method for remeasuring plan assets and benefits obligations as of the fiscal year the measurement date provisions are applied is also rejected. The disclosure included within FAS 132 (R), as amended by FAS 158, pertaining specifically to pensions (paragraph 5.e.) has been rejected for inclusion within this standard. This issue paper adopts the revisions to paragraph 5.d. of FAS 132(R) as amended by *FASB Staff Position FAS 132(R)-1, Employers' Disclosures about Postretirement Benefit Plan Assets* (FSP FAS 132(R)-1) and *ASU 2010-06, Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements* (ASU 2010-06). Other revisions to disclosure requirements as amended by FSP FAS 132(R)-1 relate to nonpublic entities and are rejected. This issue paper adopts by reference *FSP FAS 158-1, Conforming Amendments to the Illustrations in FASB Statements No. 87, No. 88, and No. 106 and to the Related Staff Implementation Guides* (FSP FAS 158-1) to the extent that the examples and related implementation guides comply with the adopted GAAP guidance previously identified within this issue paper, as modified for statutory accounting. The following modifications from the adopted paragraphs of FAS 158 and FAS 106 have been incorporated within this issue paper:

- a. All references to 'other comprehensive income' or 'accumulated other comprehensive income' within FAS 158 have been revised to reflect 'unassigned funds (surplus)'.
- b. Any prepaid asset resulting from the excess of the fair value of plan assets over the accumulated postretirement benefit obligation shall be nonadmitted. Furthermore, any asset recognized from the cost of a 'participation right' of an annuity contract per paragraph 61 shall also be nonadmitted.
- c. Provisions within paragraph 57 and 58 of FAS 106, as amended by FAS 158, permitting a calculated market-related value of plan assets has been eliminated with only the fair value measurement method for plan assets retained.
- d. The reduced disclosure requirements for nonpublic entities described in paragraph 8 of FAS 132(R), as amended by FAS 158, are rejected. All reporting entities shall follow the disclosure requirements within this issue paper which have been adopted from paragraph 5 of FAS 132(R), as amended by FAS 158.
- e. Clarification has been included within this standard to ensure both vested and nonvested employees are included within the recognition of net postretirement benefit cost and in the accumulated postretirement benefit obligation. Although this is consistent with GAAP, this is a change from previous statutory accounting. As nonvested employees were excluded from statutory accounting under SSAP No. 14, guidance has been included to indicate that the unrecognized prior service cost attributed to nonvested individuals is not required to be included in net postretirement benefit cost entirely in the year this standard is adopted. The unrecognized prior service cost for nonvested employees shall be amortized as a component of net postretirement benefit cost by assigning an equal amount to each expected future period of service before vesting occurs for nonvested employees active at the date of the amendment. Unassigned funds (surplus) is then adjusted each period as prior service cost is amortized. (Guidance is included within the transition related to the recognition of the prior service cost for nonvested employees through unassigned funds (surplus).)
- f. Conclusion of *Interpretation 99-26: Offsetting Pension Assets and Liabilities* (INT 99-26) prohibiting the offset of defined benefit liabilities of one plan with prepaid assets of another plan has been incorporated within paragraph 35 of this issue paper.

- g. Provisions within paragraph 44B of FAS 106, as amended by FAS 158, regarding the classification of underfunded liabilities as current or noncurrent liabilities and the classification of assets from overfunded plans as noncurrent assets has been rejected as inconsistent with statutory accounting.
- h. Provisions within paragraph 65 of FAS 106, as amended by FAS 158, defining the fair value of investments have been rejected. Fair value definitions and measurement for investments shall be determined in accordance with statutory accounting guidance.
- i. Provisions within paragraph 72 of FAS 106, as amended by FAS 158, regarding the plan assets measurement date for consolidating subsidiaries or entities utilizing the equity method under APB Opinion No. 18 has been rejected. For statutory accounting, all entities shall follow the measurement date guidance within paragraph 64 of this issue paper.
- j. The disclosure requirement included within paragraph 5.e. of FAS 132(R) has been rejected for this issue paper as it specifically pertains to pensions.
- k. Transition under FAS 158 is different from the requirements of this issue paper. FAS 158 requires publicly traded equity securities to initially apply the requirement to recognize the funded status of a postretirement benefit plan; the gains/losses, prior service costs/credits and transition obligations/assets that have not yet been included in net periodic benefit cost; and the disclosure requirements as of the end of the fiscal year ending after December 15, 2006. Transition guidelines for statutory accounting are defined in paragraphs 102-110.
- l. FAS 158 provided two approaches for an employer to transition to a fiscal year-end measurement date. For purposes of statutory accounting, the second approach permitting reporting entities to use earlier measurements determined for year-end reporting as of the fiscal year immediately preceding the year that the measurement date provisions was rejected. For consistency purposes, all reporting entities shall follow the first approach and remeasure plan assets and benefit obligations as of the beginning of the fiscal year that the measurement date provisions are applied.

Effective Date and Transition

102. Reporting entities are required to disclose the accumulated postretirement benefit obligation and the fair value of plan assets for defined postretirement benefit plans in the first reporting period after the effective date of SSAP No. 92 and in each subsequent reporting period. This disclosure shall specifically note the funded/unfunded status of the postretirement benefit plan. Reporting entities shall also specifically note the surplus impact necessary, at each reporting date, to reflect the full benefit obligation within the financial statements.

103. The SSAP that results from this issue paper is effective for quarterly and annual reporting periods beginning on or after January 1, 2013 (transition date) with early adoption permitted. Any unfunded defined benefit postretirement amounts, as determined when the accumulated benefit obligation exceeds the fair value of plan assets is a liability under SSAP No. 5R and shall be reported in the first quarter statutory financial statements after the transition date with a corresponding entry to unassigned funds (surplus). If the fair value of plan assets exceeds the accumulated benefit obligation, the asset shall be considered a nonadmitted asset. Net periodic benefit cost shall include a component for unrecognized prior service cost for nonvested employees beginning in 2013.

104. Gains or losses, prior service costs or credits (including prior service costs for nonvested participants pursuant to paragraph 39), and remaining transition assets or obligations (collectively referred to as “unrecognized items”) from prior application of SSAP No. 14 that have not yet been included in net periodic benefit cost as of December 31, 2012⁴ shall be recognized as components of the ending balance of unassigned funds (surplus), net of tax, as of January 1, 2013 (provided that alternative transition is not elected per paragraph 105.b.). The offset to unassigned funds (surplus) is reported separately as an “Aggregate Write-In for Other-Than-Invested Assets” or as an “Aggregate Write-In for Other Liabilities”. After recognition, the full unfunded or overfunded status of the plan shall be reflected within the financial statements. Any prepaid asset resulting from an overfunded plan shall be nonadmitted.

105. Due to the potential impact to surplus as a result of immediately applying the accounting guidance in paragraph 104, reporting entities may elect one of the following two methods, on an individual plan basis, to recognize the surplus impact:

- a. Reporting entities may elect to recognize the entire transition surplus impact calculated from applying paragraph 104, on an individual plan basis, as of January 1, 2013.
- b. Alternatively, reporting entities may elect to recognize the entire surplus impact from applying paragraph 104, on an individual plan basis, over a period not to exceed ten (10) years. The surplus impact initially recognized as of January 1, 2013, under this transition option, and subsequently over the transition period, shall be the greater of:
 - i. Ten percent of the calculated surplus impact as of the transition date; and
 - ii. Amortization⁵ of the “unrecognized items” (defined in paragraph 104) into net periodic benefit cost, including any accelerated amortization of these items from curtailments or settlements that occur after the transition date. (If the amortization cannot be determined at transition, at a minimum, the amount amortized for “unrecognized items” during the prior year shall be utilized for this component of the calculation. If the amount recognized for transition (greater of both components in paragraph 105.b.) is subsequently determined to be less than what is amortized for the year (105.b.ii.), the difference between what was recognized for transition, and what is amortized must immediately be recognized as an adjustment to the transition impact to unassigned funds (surplus).)

If the surplus deferral is elected at the transition date, subsequently, starting with the 2014 year-end financial statement, the reporting entity shall annually recognize the remaining surplus impact (collectively referred to as the “transition liability”⁶) on a systematic basis over a period not to exceed

⁴ The intent of the guidance is to recognize the unrecognized amounts as of Dec. 31, 2012, annual statements, even if new actuarial projections (expected postretirement benefit obligations) are calculated as of Jan. 1, 2013. (These projections would be considered in the recognition of the 2013 net periodic benefit cost.)

⁵ Unless otherwise impacted from the provisions within this Statement or in accordance with changes to the benefit plan, the amortization of the unrecognized items into net periodic benefit cost shall continue to follow the existing amortization schedules in effect on the transition date.

⁶ If the surplus deferral from paragraph 105.b. is elected, the deferred liability, although comprised of the previous “unrecognized items” shall be collectively referred to as the “transition liability”. Although reporting entities will need to continue to track the unrecognized items for amortization into net periodic cost (offset through unassigned funds (surplus)), reporting entities shall not allocate the recognized surplus impact from transition to these categories. As noted in paragraph 105.b.ii., the minimum amount of liability recognized under the deferral option must cover the annual amortization of the “unrecognized items” into net periodic benefit cost to prevent a surplus benefit.

nine years. The minimum amount recognized each subsequent year shall be an amount that reflects the conditions within paragraph 105.b. Additionally, reporting entities must recognize any remaining transition liability to the extent that the plan reflects a prepaid benefit cost. (For example, if changes in circumstances have resulted with the plan reflecting an overfunded status, the remaining transition liability must be recognized to the extent that the plan is overfunded.) Furthermore, if circumstances result with a subsequent gain attributed to the plan that will be recognized in earnings, the entity must recognize an additional amount of the remaining transition liability to offset the recognized gain. Reporting entities are permitted to recognize the remaining transition liability, or an amount in excess of the minimum requirement, at any time after the transition date. This transition guidance is specific to the transition surplus impact from initially applying this statement on Jan. 1, 2013. Thus, this transition guidance does not apply to additional liability calculated from subsequent comparison of the fair value of plan assets to the accumulated benefit obligation, or the impact of subsequent plan amendments.

106. Reporting entities electing to apply the transition guidance in paragraph 105.b. must disclose the full transition surplus impact calculated from applying paragraph 104 in the first quarter statutory financial statements after the transition date and each reporting period thereafter. This disclosure shall include the initial “transition liability” calculated under paragraph 104 and the annual amortization amount of the “unrecognized items” into net periodic benefit cost. This disclosure shall include a schedule of the entity’s anticipated recognition of the remaining surplus impact over the transition period.

107. The requirement to measure plan assets and benefit obligations as of the date of the reporting entity’s financial statement year-end is effective per SSAP No. 92 for financial statement years beginning January 1, 2014. (The measurement date change will be initially reflected in the Dec. 31, 2014 financial statements.).

108. In order to transition to a fiscal year-end measurement date, the reporting entity shall remeasure plan assets and benefit obligations as of the beginning of the fiscal year that the measurement date provisions are applied. The reporting entity shall use those new measurements to determine the effects of the measurement date change as of the beginning of the fiscal year that the measurement date provisions are applied.

109. The reporting entity shall measure plan assets and benefit obligations as of the beginning of the fiscal year that the measurement date provisions are applied. This would result with the following:

- a. Net periodic benefit cost for the period between the measurement date that is used for the immediately preceding fiscal year-end and the beginning of the fiscal year that the measurement date provisions are applied, exclusive of any curtailment or settlement gain or loss, shall be recognized, net of tax, as a separate adjustment of the opening balance of unassigned funds (surplus). That is, the pretax amount recognized as an adjustment to unassigned funds (surplus) is the net periodic benefit cost that without a change in measurement date otherwise would have been recognized on a delayed basis during the first interim period for the fiscal year that the measurement date provisions are applied.
- b. Any gain or loss arising from a curtailment or settlement between the measurement date that is used for the immediately preceding fiscal year-end and the beginning of the fiscal year that the measurement date provisions are applied shall be recognized in earnings in that period and not as an adjustment to unassigned funds (surplus). This provision prohibits a reporting entity from early application of the measurement date provisions when the reporting entity has issued financial statements for the prior year without recognition of such a settlement or curtailment.
- c. Other changes in the fair value of plan assets and the benefit obligations (for example, gains or losses) for the period between the measurement date that is used for the

immediately preceding fiscal year-end and the beginning of the fiscal year that the measurement date provisions are applied shall be recognized, net of tax, as a separate adjustment of the opening balance of unassigned funds (surplus) for the fiscal year that the measurement date provisions are applied.

110. Earlier application of the recognition or measurement date provisions is encouraged, however, early applications must be for all of the reporting entity's benefit plans. If early application is elected, the transition date shall reflect the January 1st of the year in which SSAP No. 92 is initially applied. Retrospective application is not permitted.

111. After adoption of this issue paper, the NAIC will release a Statement of Statutory Accounting Principle (SSAP) for comment. The initial draft of the SSAP will contain the adopted Summary Conclusion of this issue paper. Users of the *Accounting Practices and Procedures Manual* should note that issue papers are not represented in the Statutory Hierarchy (see Section IV of the Preamble) and therefore the conclusions reached in this issue paper should not be applied until the corresponding SSAP has been adopted by the Plenary of the NAIC. It is expected that the SSAP will be effective for reporting periods beginning on or after January 1, 2013.

DISCUSSION:

112. The FASB issued FAS 158 to address concerns that existing accounting for postretirement benefit plans failed to communicate the funded status of those plans in a complete and understandable way. The prior standards did not require an employer to report in its statement of financial position the overfunded or underfunded status of a defined benefit postretirement plan. The prior standards also did not require an employer to recognize completely in earnings or other comprehensive income the financial effects of certain events affecting the plan's funded status when those events occurred.

113. Within the prior GAAP standard, an employer was allowed to recognize in its statement of financial position an asset or liability arising from the defined benefit postretirement plan, which almost always differed from the plan's overfunded or underfunded status. Those standards allowed an employer to delay recognition of economic events that affected the costs of providing postretirement benefits—changes in plan assets and benefit obligations—and recognize a liability that was sometimes significantly less than the underfunded status of the plan as well as recognize an asset in its statement of financial position, in some situations, for a plan that was underfunded. Furthermore, information regarding the overfunded or underfunded status of a plan was relegated to the notes to the financial statements. That information was in the form of a reconciliation of the overfunded or underfunded status to amounts recognized in the employer's statement of financial position. By presenting this information only in the notes it was difficult for users of financial statements to assess an employer's financial position and ability to satisfy postretirement benefits.

114. In issuing FAS 158, the FASB concluded that the reporting requirements of other standards did not provide representationally faithful and understandable financial information and might lead to the inefficient allocation of resources in capital markets. The issuance of FAS 158 is the first step of a project to comprehensively reconsider FAS 87, 88, 106, 132(R), and related pronouncements.

115. In accordance with the Statutory Accounting Principles Statement of Concepts, the conservatism concept supports the adoption of FAS 158 to ensure proper liability recognition and in accordance with the responsibility to regulate financial solvency.

116. Modifications to FAS 158 have been established primarily to clarify the components for liability consideration and to ensure consistency within reporting and recognition among reporting entities. Guidance related to not-for-profit entities, transition, and alternative methods for remeasuring plan assets

and benefit obligations for the first year application have been rejected to ensure consistent application for statutory purposes. Revisions incorporated within FAS 158 specifically attributed to FAS 87 and FAS 88 or pensions have not been addressed within this issue paper and will be considered in accordance with revisions to SSAP No. 89. Modifications from FAS 158 incorporated within this issue paper include:

- a. All references to ‘other comprehensive income’ or ‘accumulated other comprehensive income’ within FAS 158 have been revised to reflect ‘unassigned funds (surplus)’. This modification simply alters the guidance within FAS 158 to adhere to the reporting captions for statutory accounting.
- b. Any prepaid asset resulting from the excess of the fair value of plan assets over the accumulated postretirement benefit obligation shall be nonadmitted. Furthermore, any asset recognized from the cost of a “participation right” of an annuity contract per paragraph 61 shall also be nonadmitted. These modifications are consistent with the definition of assets and nonadmitted assets set forth in *SSAP No. 4—Assets and Nonadmitted Assets* as assets recognized from overfunding postretirement plans or participating rights from annuity contracts cannot be readily converted to cash to satisfy policyholder obligations.
- c. Provisions within paragraph 57 and 58 of FAS 106, as amended by FAS 158, permitting a calculated market-related value of plan assets has been eliminated with only the fair value measurement method for plan assets being retained. The calculated market-related value is a process to systematically and rationally recognize changes in fair value over a period of five years. This modification eliminates the potential for inconsistent measurement methods among reporting entities.
- d. The reduced disclosure requirements for nonpublic entities described in paragraph 8 of FAS 132(R), as amended by FAS 158, are rejected. All reporting entities shall follow the disclosure requirements within this issue paper which have been adopted from paragraph 5 of FAS 132(R), as amended by FAS 158.
- e. Clarification has been included within this standard to ensure both vested and nonvested employees are included within the recognition of net postretirement benefit cost and in the accumulated postretirement benefit obligation. Although this is consistent with GAAP, this is a change from previous statutory accounting. As nonvested employees were excluded from statutory accounting under SSAP No. 14, guidance has been included to indicate that the unrecognized prior service cost attributed to nonvested individuals is not required to be included in net postretirement benefit cost entirely in the year this standard is adopted. The unrecognized prior service cost for nonvested employees shall be amortized as a component of net postretirement benefit cost by assigning an equal amount to each expected future period of service before vesting occurs for nonvested employees active at the date of the amendment. Unassigned funds (surplus) is then adjusted each period as prior service cost is amortized.
- f. Conclusion of Interpretation 99-26: *Offsetting Pension Assets and Liabilities* (INT 99-26) prohibiting the offset of defined benefit liabilities of one plan with prepaid assets of another plan has been incorporated within paragraph 35 of this issue paper.
- g. Provisions within paragraph 44B of FAS 106, as amended by FAS 158, regarding the classification of underfunded liabilities as current or noncurrent liabilities and the classification of assets from overfunded plans as noncurrent assets has been rejected as inconsistent with statutory accounting.

- h. Provisions within paragraph 65 of FAS 106, as amended by FAS 158, defining the fair value of investments have been rejected. Fair value definitions and measurement for investments shall be determined in accordance with statutory accounting guidance.
- i. Provisions within paragraph 72 of FAS 106, as amended by FAS 158, regarding the plan assets measurement date for consolidating subsidiaries or entities utilizing the equity method under APB Opinion No. 18 has been rejected. For statutory accounting, all entities shall follow the measurement date guidance within paragraph 64 of this issue paper.
- j. The disclosure requirement included within paragraph 5.e. of FAS 132(R) has been rejected for this issue paper as it specifically pertains to pensions.
- k. Transition under FAS 158 is different from the requirements of this issue paper. FAS 158 requires publicly traded equity securities to initially apply the requirement to recognize the funded status of a postretirement benefit plan, the gains/losses prior service costs/credits and transition obligations/assets that have not yet been included in net periodic benefit cost and the disclosure requirements as of the end of the fiscal year ending after December 15, 2006. Transition guidelines for statutory accounting are defined in paragraphs 102-110.
- l. FAS 158 provided two approaches for an employer to transition to a fiscal year-end measurement date. For purposes of statutory accounting, the second approach permitting reporting entities to use earlier measurements determined for year-end reporting as of the fiscal year immediately preceding the year that the measurement date provisions was rejected. For consistency purposes, all reporting entities shall follow the first approach and remeasure plan assets and benefit obligations as of the beginning of the fiscal year that the measurement date provisions are applied.

WORKING GROUP RESEARCH AND KEY ISSUES CONSIDERED:

117. During the Statutory Accounting Principles (E) Working Group's discussions on this issue paper, the Working Group conducted research and considered key issues to determine the appropriate course of action in response to comments received. Summaries of the key topics discussed, the research conducted, and the Working Group's conclusions has been detailed in the paragraphs below:

118. *Admittance of Prepaid Pension Costs for Overfunded Assets* – During the Spring 2008 Hearing, comments were received that prohibiting admittance of the asset established from overfunded plans would be punitive in comparison to GAAP reporting. A comment was also received proposing an offsetting admission for overfunded plan assets, whereas, an asset from overfunded plans would be admitted to the extent that a separate plan was underfunded. In considering these comments, the Working Group identified that there is a punitive tax that significantly hinders a company's ability to reclaim overfunded defined benefit assets. The 4980 Excise Tax on Reversions is a punitive, non-deductible excise tax imposed on the reversion of excess defined benefit assets to the employer. In 2008, the law imposed a confiscatory 50% tax on a simple reversion of excess assets to the employer. Because the excise tax is not deductible, ordinary income tax also applies on the entire amount of the reversion. Assuming federal and states income taxes total 40%, with the excise tax, a combined 90% tax is levied on the reversion. The Working Group identified that there are exceptions to when the tax is reduced to 20% and if the excess assets of a terminating defined benefit plan are transferred to a qualifying replacement plan, no excise tax would be due on the transferred assets.

119. In considering this research, the Working Group agreed that continued nonadmittance of overfunded plan assets was appropriate as the excise tax would significantly reduce the amount of assets that could be reclaimed by the company and utilized for policyholder claims. This conclusion is consistent with the existing statutory guidance in *SSAP No. 29—Prepaid Expenses*, in which prepaid assets were previously concluded to be nonadmitted assets as they are not readily available to satisfy policyholder obligations. The Working Group did further consider whether admittance of overfunded assets could occur if the company had the ability to transfer the overfunded assets into a qualified replacement plan. However, after identifying that plan assets can only be transferred excise tax-free to a qualified replacement plan if in connection with a qualified plan termination, it was noted that no allowance should be permitted to admit overfunded plan assets for such circumstances or to offset an underfunded plan's liability. (A transfer of overfunded plan assets from an existing plan to a new or different plan would not be excise-tax free as the original plan would not meet the requirements of a qualified plan termination.)

120. *Admission of Deferred Tax Assets from Other Post Employee Benefit (OPEB) Liabilities* – During the Spring 2008 Hearing, comments were received regarding how reporting the full liabilities for pension or OPEB plans would result in a need to consider revisions to *SSAP No. 10—Income Taxes* (SSAP No. 10) as statutory guidance currently limits the amount of deferred tax assets (DTAs) that can be admitted. In considering these comments, the Working Group identified that existing SSAP No. 10 guidance would allow companies to admit additional DTAs if they have a tax-planning strategy. (A DTA is created when pension/OPEB liabilities are accrued in the financial statements, but are only recognized/removed when contributions are made to the plan.)

121. Current statutory accounting guidance in SSAP No. 10 does not make specific allowances for deferred tax assets resulting from postretirement obligations. However, SSAP No. 10 currently allows the admittance of deferred tax assets expected to be realized within one year, if less than 10% of capital and surplus, as well as the consideration of tax-planning strategies in determining admitted DTAs. Pursuant to the guidance within SSAP No. 10, an entity is permitted to admit a DTA in response to a prudent and feasible tax-planning strategy that, if implemented, would result in realization of DTAs within one year of the balance sheet date. The entity is not required to implement the strategy within the 12-month period, but it must have the ability to implement the strategy within such time period. The entity must demonstrate that while it ordinarily might not take such actions, it would do so to prevent an operating loss credit carryforward or other similar item from expiring unused. If the tax-planning strategy criteria is met, an entity may recognize as admitted assets the related DTAs that are realizable as a result of the available tax-planning strategy in accordance with SSAP No. 10. As a result of the options currently available under SSAP No. 10, the Working Group agreed not to further consider revisions to add specific guidance to admit DTAs resulting from pension or OPEB plans. Update 2012⁷: SSAP No. 10 has been superseded by *SSAP No. 101—Income Taxes*. Guidance in SSAP No. 101 is similar to SSAP No. 10 as it also does not make specific allowances for deferred tax assets resulting from postretirement obligations. Although, the DTA admittance calculation has been revised from SSAP No. 10 – allowing greater timeframes for recovery and realization of DTAs, and a higher percentage for a realization threshold – SSAP No. 101 continues with the approach to determine admittance of DTAs in accordance with a three-component admittance calculation. Also, tax planning-strategies are still permitted to be considered in admitting DTAs.

122. *Inclusion of Nonvested Employees in Determining Pension Liability* - During the 2008 Spring Hearing, the Working Group received comments that nonvested employees in a pension or OPEB plan do not have a current claim, and should be excluded from pension and OPEB obligation determinations. In

⁷ Issue papers are considered non-authoritative and provide historical discussion for the development of a SSAP. Issue papers are generally updated after initial adoption of the related of the related SSAP but not typically thereafter. SSAP No. 92 was adopted in March 2012; the Working Group directed staff to update this issue paper to reflect the final decisions in that SSAP.

considering this issue, the Working Group identified that the inclusion of nonvested participants would have a significant impact to surplus for OPEB plans. However, the exclusion of nonvested participants would result in less conservative liability requirements for statutory accounting in comparison to GAAP.

123. Application of this issue paper as a new statutory accounting principle is expected to generate a significant increase to accumulated postretirement benefit obligations as a result of the inclusion of nonvested participants. Unlike pension plans, OPEB plans do not have federal vesting requirements or federal oversight. Generally, vesting in OPEB plans occurs when an employee reaches early retirement age. Consequently, the inclusion of employees under early retirement age results in a very significant increase in the accumulated postretirement benefit obligation. (Nonvested participants were excluded from the accumulated benefit obligation in SSAP No. 14.)

124. The Working Group identified that the Financial Accounting Standards Board (FASB) concluded that accrual accounting is more representationally faithful and more relevant to financial statement users. Furthermore, actuarial assumptions used in determining liabilities already consider that some existing or future retirees will live longer than others and that some individuals will terminate employment before becoming eligible for the benefits. The reasons provided by FASB for including nonvested participants were included within FAS 106 and FAS 158:

- a. Accrual accounting (and not terminal accounting or cash basis accounting) is more representationally faithful and more relevant to financial statement users. The basis of accrual accounting is that the entity recognizes financial effects of transactions and other events and circumstances that have future cash consequences when those events and transactions occur. (For pension and OPEB obligations, the service of the employee is the event that triggers future cash consequences.)
- b. Uncertainty does not change the nature of a promise. Actuarial assumptions consider that some existing or future retirees will live longer than others and that some individuals will terminate employment before becoming eligible for the benefits or die before receiving any benefits. These factors are considered in measuring the probable future sacrifice that will result from the existing promise of benefits to former and current employees.

125. As a result of the above information, and the desire not to have financial statements that are less conservative than GAAP, the Working Group agreed that all employees (vested and nonvested) should be included in the accumulated postretirement plan liability for statutory accounting. Update 2012: During the development of SSAP No. 92, the Working Group heard additional comments regarding the inclusion of non-vested participants from the American Academy of Actuaries. These comments addressed the inclusion of liabilities within statutory financial statements that are not binding and that may be discontinued when insolvency is imminent, and therefore not a solvency obligation. In considering these comments, the Working Group responded that obligations for pension and other postemployment benefits should be reflected in the financial statements, even if the employer has the discretion to unilaterally freeze, reduce or withdraw those benefits. When the employer or reporting entity freezes or reduces the pension or other postemployment benefit, then it would be appropriate to adjust the obligation accordingly.

126. *Transition and Effective Date* – With the adoption of Issue Paper No. 133 in December 2008, the Statutory Accounting Principles (E) Working Group directed NAIC staff to draft SSAP No. 92 with reconsideration of the effective date to 2011 and expanding the proposed transition period from 5 years to 10 years. In discussing the draft SSAP, an effective date of Jan. 1, 2013, was ultimately adopted.

127. The transition guidance originally proposed in Issue Paper No. 133 required companies with a surplus impact of less than 1% from initial application of the standard to recognize the full surplus impact, including a liability that equaled the full unfunded projected benefit obligation. Reporting entities with a

surplus impact of greater than 1% from initial application of the standard would have the option to defer recognition of the full surplus impact for a period not to exceed five years. This guidance required a minimum of 20% to be recognized in subsequent years. In working with interested parties, actuaries, plan administrators, representatives of the AICPA, and members of the Working Group, the transition guidance was revised to include the following elements:

- a. In the first reporting period after transition, reporting entities are required to disclose the obligation and the fair value of plan assets. This disclosure shall specifically note the funded/unfunded status of the plan, and the surplus impact necessary to reflect the full unfunded benefit obligation. Any unfunded defined benefit amounts are considered a liability under SSAP No. 5R and are to be reported in the first quarter financial statements with a corresponding entry to surplus. If the fair value of plan assets exceeds the obligation, the asset is nonadmitted. Items previously recognized from SSAP No. 14 or SSAP No. 89 (gains or losses, prior service costs or credits, and remaining transition items from the original application of those standards) are to be recognized in unassigned funds (surplus). After this recognition, the full unfunded or overfunded status of the plan shall be reflected in the financial statements.
- b. Transition Election: Due to the potential surplus impact, reporting entities may elect one of two methods in initially applying the standards:
 - i. Reporting entities may elect to recognize the entire transition surplus impact calculated, on an individual plan basis, as of January 1, 2013.
 - ii. Alternatively, reporting entities may elect to recognize the entire surplus impact, on an individual plan basis, over a period not to exceed ten (10) years. The surplus impact initially recognized as of January 1, 2013, under this transition option, and subsequently over the transition period, shall be the greater of:
 - (a) Ten percent of the calculated surplus impact as of the transition date; and
 - (b) Amortization⁸ of the “unrecognized items” into net periodic benefit cost, including any accelerated amortization of these items from curtailments or settlements that occur after the transition date. (If the amortization cannot be determined at transition, at a minimum, the amount amortized for “unrecognized items” during the prior year shall be utilized for this component of the calculation. If the amount recognized for transition (greater of both components) is subsequently determined to be less than what is amortized for the year, the difference between what was recognized for transition, and what is amortized must immediately be recognized as an adjustment to the transition impact to unassigned funds (surplus).);

If the surplus deferral is elected at the transition date, subsequently, starting with the 2014 year-end financial statement, the reporting entity shall annually recognize the remaining surplus impact

⁸ Unless otherwise impacted from the provisions within this Statement or in accordance with changes to the benefit plan, the amortization of the unrecognized items into net periodic benefit cost shall continue to follow the existing amortization schedules in effect on the transition date.

(collectively referred to as the “transition liability”⁹) on a systematic basis over a period not to exceed nine years. The minimum amount recognized each subsequent year shall be an amount that reflects the conditions identified above. Additionally, reporting entities must recognize any remaining transition liability to the extent that the plan reflects a prepaid benefit cost. (For example, if changes in circumstances have resulted with the plan reflecting an overfunded status, the remaining transition liability must be recognized to the extent that the plan is overfunded.) Furthermore, if circumstances result with a subsequent gain attributed to the plan that will be recognized in earnings, the entity must recognize an additional amount of the remaining transition liability to offset the recognized gain. Reporting entities are permitted to recognize the remaining transition liability, or an amount in excess of the minimum requirement, at any time after the transition date. This transition guidance is specific to the transition surplus impact from initially applying SSAP No. 92 on Jan. 1, 2013. Thus, this transition guidance does not apply to additional liability calculated from subsequent comparison of the fair value of plan assets to the accumulated benefit obligation, or the impact of subsequent plan amendments.

128. Reporting entities electing to apply the transition guidance must disclose the full transition surplus impact calculated in the first quarter statutory financial statements after the transition date and each reporting period thereafter. This disclosure shall include the initial “transition liability” calculated, the annual amortization amount of the “unrecognized items” into net periodic pension cost, the amount of the unfunded accumulated benefit obligation, and the remaining unrecognized transition impact. This disclosure shall include a schedule of the entity’s anticipated recognition of the remaining surplus impact over the transition period.

129. In establishing the final transition guidance, the following key elements were noted:

- a. All reporting entities are equally allowed to participate in the transition election. However, reporting entities are not required to elect the surplus deferral, and at transition, or at any time subsequent to transition, reporting entities are permitted to recognize the full transition surplus impact.
- b. A 10% minimum surplus recognition threshold provides the potential for a longer transition period (potentially 10 years) to mitigate the surplus impact. However, the transition guidance is not intended to allow reporting entities to improve their surplus position simply by electing to defer recognition of the surplus impact at initial application. Therefore, reporting entities electing the transition option must consider a two-component calculation to determine the minimum surplus impact that must be recognized. This calculation is utilized each time recognition is required for the transition surplus impact to determine the minimum required. Although the guidance allows up to a 10-year transition timeframe, the actual transition timeframe permitted for each reporting entity will depend on the two-component calculation.
- c. The transition guidance is specific that it requires a minimum of 10% of the “surplus impact” to be recognized at each reporting period. This guidance was written to prevent an interpretation that would allow a systematic reduction of nonadmitted prepaid benefit cost over the transition timeframe before recognition of any unfunded liability. (As the prepaid benefit cost is nonadmitted, a reduction of this amount is offset by an equal change to the nonadmitted assets. As such, this action alone results in a zero surplus impact.)

⁹ If the surplus deferral is elected, the deferred liability, although comprised of the previous “unrecognized items” shall be collectively referred to as the “transition liability”. Although reporting entities will need to continue to track the unrecognized items for amortization into net periodic cost (offset through unassigned funds (surplus)), reporting entities shall not allocate the recognized surplus impact from transition to these categories. The minimum amount of liability recognized under the deferral option must cover the annual amortization of the “unrecognized items” into net periodic benefit cost to prevent a surplus benefit.

- d. At initial adoption on Jan. 1, 2013, reporting entities are required to recognize the minimum calculated transition surplus impact. Subsequently, reporting entities are not required to recognize the minimum surplus impact until Dec. 31, 2014. This spread from the initial and first subsequent recognition prevents reporting entities from incurring a surplus impact twice in the same reporting year.
- e. Reporting entities must recognize any remaining transition liability to the extent that a plan reflects a prepaid benefit cost, overfunded plan asset or when a gain is subsequently recognized in earnings. For example, if changes in circumstances have resulted with the plan reflecting an overfunded status, the remaining transition liability must be recognized to the extent that the plan is overfunded. Additionally, if circumstances result with a subsequent gain attributed to the plan that will be recognized in earnings, the entity must recognize an additional amount of the remaining transition liability to offset the recognized gain.
- f. Transition guidance is specific to the transition surplus impact from initially applying the adopted SSAP. The transition guidance does not apply to additional liabilities calculated from subsequent comparison of the fair value of plan assets to the projected benefit obligation or the impact of subsequent plan amendments. (Subsequent plan amendments resulting in a gain would be considered under paragraph 129.e. above.)

130. *Reporting Unfunded Liabilities in the Financial Statements* – During the 2010 Summer National Meeting, the Statutory Accounting Principles (E) Working Group exposed draft SSAPs for pensions and other postretirement benefit benefits. As a result of this exposure, comments were received from interested parties on the reporting of the unfunded benefit obligations and benefits. These comments noted that the proposed SSAPs appear to commingle the accounting for prepaid and accrued pension costs with the adjustments to surplus necessary to reflect the funded status of the plan on the balance sheet date. It was noted that only some of commingled transactions impact the income statement, and commingling the amounts on the balance sheet would create cross-check errors with the associated general expense exhibits.

131. After researching the statutory reporting options, it was concluded that there was no viable option that would result with the use of a single financial statement line that will provide regulators with the unfunded pension obligation on the face of the financial statements in a manner similar to GAAP without significant revisions to existing schedules and cross-checks. As a result of these findings, the Working Group agreed that separate reporting will be necessary in the financial statements for “unpaid expenses” and the “transition liability” for pension and postretirement obligations. This could result in situations when a plan reflects a prepaid benefit (nonadmitted prepaid benefit cost) as well as a liability for pension benefits (unfunded obligations). To address these situations and ensure a liability presentation on the balance sheet for unfunded plans, a contra-asset is utilized as an aggregate write-in for other-than-invested assets to offset the prepaid benefit, resulting in a net zero asset presentation on the balance sheet. In order to address concerns that the reporting may be unclear, disclosures are required to separately show the assets and liabilities recognized.

132. *SSAP Amendments – SSAP No. 92—Accounting for Postretirement Benefits Other Than Pensions* was adopted March 2012. Subsequent to adoption, but before finalization of this issue paper, the following agenda item was proposed to clarify guidance:

- a. Agenda Item 2012-19: Clarification of Measurement Date Change in SSAP No. 92 & SSAP No. 102 and Applicability of INT 03-18 for SSAP No. 102 – This agenda item proposed revisions to clarify the effective date of the measurement date change for plan assets and benefit obligations reflected in paragraph 107 of this issue paper. This

particular aspect is intended to have an effective date subsequent to the effective date of the SSAP. The delayed effective date for the measurement date change is consistent with GAAP. The revisions from agenda item 2012-19 were adopted Nov. 29, 2012.

RELEVANT STATUTORY ACCOUNTING AND GAAP GUIDANCE:

Statutory Accounting

133. Statutory accounting principles currently exist for postretirement benefits in SSAP No. 14. The conclusions reached in SSAP No. 14 resulted from adoption with modification of *FASB Statement No. 106, Employers' Accounting for Postretirement Benefits Other Than Pension (FAS 106)*, *FASB Statement No. 132, Employers' Disclosures about Pensions and Other Postretirement Benefits an amendment of FASB Statements No. 87, 88, and 106 (FAS 132)* with certain modifications and *FASB Statement No. 132 (R), Employers' Disclosures about Pensions and Other Postretirement Benefits, and amendment of FASB Statements No. 87, 88, and 106 (FAS 132R)*.

134. SSAP No. 14 was previously interpreted by the following interpretations:

- a. *INT 99-26: Offsetting Pension Assets and Liabilities (INT 99-26)*
- b. *INT 01-16: Measurement Date for SSAP No. 8 Actuarial Valuations (INT 01-16)*
- c. *INT 04-12: EITF 03-4: Determining the Classification and Benefit Attribution Method for a "Cash Balance" Pension Plan (INT 04-12)* Reference to this interpretation has not been incorporated within this issue paper as the issue specifically pertains to pension plans. This item has been incorporated within *Issue Paper No. 132—Accounting for Pensions, A Replacement of SSAP No. 89*.
- d. *INT 04-17: Impact of Medicare Modernization Act on Postretirement Benefits (INT 04-17)*

135. Upon the establishment of a new statutory accounting principle that adopts FAS 158 with modification and supersedes SSAP No. 87, the following interpretations will be nullified:

- a. *INT 99-26: Offsetting Pension Assets and Liabilities (INT 99-26)*. This interpretation has been incorporated within paragraph 35 of this issue paper.
- b. *INT 01-16: Measurement Date for SSAP No. 8 Actuarial Valuations (INT 01-16)*. The 'measurement date' guidance referencing FAS 87 within this interpretation has been revised in accordance with FAS 158. The measurement date guidance included within paragraphs 106-108 of the issue paper should be followed.
- c. *INT 04-12: EITF 03-4: Determining the Classification and Benefit Attribution Method for a "Cash Balance" Pension Plan (INT 04-12)*. This INT is specific for pension plans. The guidance within this INT has been incorporated into *SSAP No. 102—Accounting for Pensions*.

136. Upon the establishment of a new statutory accounting principle that adopts FAS 158 with modification and supersedes SSAP No. 89, the following interpretations will be modified:

- a. *INT 04-17: Impact of Medicare Modernization Act on Postretirement Benefits* – This interpretation adopts with modification the FASB staff position pertaining to whether prescription drug coverage under the Medicare Prescription Drug, Improvement and Modernization Act of 2003 should impact accumulated postretirement benefit

obligations. Although this interpretation primarily impacts *SSAP No. 14—Postretirement Benefits Other Than Pensions*, this interpretation has been revised to conclude that calculations shall include non-vested employees consistent with the revised SSAP.

4. The working group reached a consensus to adopt the final conclusions reached in FSP FAS 106-2 with the following modifications:
 - a. Postretirement benefits should be accounted for in accordance with SSAP No. 9244.
 - b. Income Taxes should be accounted for in accordance with SSAP No. 101.
 - c. Calculations shall not exclude non-vested employees. ~~Partially invested employees are included only to the extent of their vested amounts.~~
 - d. Any references to *FSP FAS 106-1, Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003* are removed as this guidance was superseded by FSP FAS 106-2.

9. In interim and annual financial statements for the first period in which an employer includes the effects of the subsidy in measuring the net postretirement benefit cost and the first period in which an employer includes the effects of the subsidy in measuring net periodic postretirement benefit cost, it shall disclose the following:
 - a. The reduction in the net postretirement benefit cost for the subsidy related to benefits attributed to former employees.
 - b. The effect of the subsidy on the measurement of net periodic postretirement benefit cost for the current period. That effect includes (1) any amortization of the actuarial experience gain in (a) as a component of the net amortization called for by paragraph 49 of SSAP No. 92, (2) the reduction in current period service cost due to the subsidy, and (3) the resulting reduction in interest cost on the net postretirement benefit cost as a result of the subsidy.
 - c. Any other disclosures required by paragraph 64.q. of SSAP No. 92 which requires disclosure of “An explanation of any significant change in the benefit obligation or plan assets not otherwise apparent in the other disclosures required by this statement.”

10. For purposes of the disclosures required by paragraphs 64.a. of SSAP No. 92, an employer shall disclose gross benefit payments (paid and expected, respectively), including prescription drug benefits, and separately the gross amount of the subsidy receipts (received and expected, respectively).

Generally Accepted Accounting Principles

137. This issue paper adopts with modifications guidance included within FAS 158 and the resulting amended guidance within FAS 87, 88 and 132(R).

138. FAS 158 also references related EITF guidance previously adopted by statutory accounting:

- *EITF 93-3: Plan Assets under FASB Statement No. 106 (EITF 93-3) – This EITF issue is whether trusts established to pay postretirement benefits must be determined to be bankruptcy-proof in order for the assets in the trust to qualify as plan assets under FAS 106. The consensus reached clarified that it is not necessary to determine that a trust is bankruptcy-proof for the assets of the trust to qualify as plan assets under FAS 106.*

However, if the trust explicitly provides that such assets are available to the general creditors of the employer in the event of the employer's bankruptcy, the assets held by that trust would not qualify as plan assets under FAS 106.

139. The following is excerpted from *FASB Statement No. 130, Other Comprehensive Income* (FAS 130):

10. This Statement uses the term comprehensive income to describe the total of all components of comprehensive income, including net income.⁴ This Statement uses the term other comprehensive income to refer to revenues, expenses, gains, and losses that under generally accepted accounting principles are included in comprehensive income but excluded from net income. This Statement does not require that an enterprise use the terms comprehensive income or other comprehensive income in its financial statements, even though those terms are used throughout this Statement.⁵

⁴FAS130, Footnote 4 – This Statement uses the term net income to describe a measure of financial performance resulting from the aggregation of revenues, expenses, gains, and losses that are not items of other comprehensive income as identified in this Statement. A variety of other terms such as net earnings or earnings may be used to describe that measure.

⁵FAS130, Footnote 5 – Paragraph 40 of Concepts Statement 5 states that "just as a variety of terms are used for net income in present practice, the Board anticipates that total nonowner changes in equity, comprehensive loss, and other equivalent terms will be used in future financial statements as names for comprehensive income."

140. See Issue Paper No. 14 for additional GAAP references

RELEVANT LITERATURE:

Statutory Accounting

- *Statutory Accounting Principles Statement of Concepts and Statutory Hierarchy*
- *SSAP No. 14—Employers' Accounting for Postretirement Benefits Other Than Pensions*
- *SSAP No. 10—Income Taxes*
- *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*
- *Issue Paper No. 14—Employers' Accounting for Postretirement Benefits Other Than Pensions*
- *INT 04-12: EITF 03-4: Determining the Classification and Benefit Attribution Method for a "Cash Balance" Pension Plan.*
- *INT 04-17: Impact of Medicare Modernization Act on Postretirement Benefits*
- *INT 01-16: Measurement Date for SSAP No. 8 Actuarial Valuations*
- *INT 99-26: Offsetting Pension Assets and Liabilities*

Generally Accepted Accounting Principles

- *FASB Statement No. 158, Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106 and 132(R)*
- *FASB Statement No. 106, Employers' Accounting for Postretirement Benefits Other Than Pensions*
- *FASB Statement No. 132(R), Employers' Disclosures about Pensions and Other Postretirement Benefits*
- *FASB Emerging Issues Task Force No. 93-3, Plan Assets under FASB Statement No. 106*
- *FASB Statement No. 130, Other Comprehensive Income*

STATE REGULATIONS:

- No additional guidance obtained from state statutes or regulations.

This page intentionally left blank.