

# Statutory Issue Paper No. 11

## Compensated Absences

### STATUS

Finalized March 16, 1998

### Original SSAP and Current Authoritative Guidance: SSAP No. 11

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

### Type of Issue:

Common Area

### SUMMARY OF ISSUE

1. Current statutory guidance does not specifically address the accounting for compensated absences (i.e., vested vacation benefits, vested sick pay benefits, and holidays) in either the Accounting Practices and Procedures manuals for Life and Accident and Health or for the Property and Casualty Insurance Companies. The purpose of this issue paper is to establish statutory accounting principles for compensated absences that are consistent with the Statutory Accounting Principles Statement of Concepts and Statutory Hierarchy (Statement of Concepts).

### SUMMARY CONCLUSION

2. A reporting entity shall accrue a liability for employees' compensation for future absences if all of the following conditions are met:

- a. The reporting entity's obligation relating to employees' rights to receive compensation for future absences is attributable to employees' services already rendered,
- b. The obligation relates to rights that vest<sup>1</sup> or accumulate<sup>2</sup>,

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<sup>1</sup> In this issue paper, vested rights are those for which the reporting entity has an obligation to make payment even if an employee terminates; thus, they are not contingent on an employee's future service.

<sup>2</sup> For purposes of this issue paper, accumulate means that earned but unused rights to compensated absences may be carried forward to one or more periods subsequent to that in which they are earned, even though there may be a limit to the amount that can be carried forward.

- c. Payment of the compensation is probable, and
- d. The amount can be reasonably estimated.

3. In the unlikely situation in which a reporting entity does not accrue a liability in accordance with paragraph 2 only because the amount cannot be reasonably estimated (i.e., condition d. is not met), that fact and the reasons therefore shall be disclosed in a note to the financial statements. An employer is not required to accrue a liability for nonvesting accumulating rights for compensated absences as the right to receive these benefits is contingent upon future events and continued employment.

4. A reporting entity shall accrue a liability for employees' compensated absences or, for services reimbursable under service agreements with an affiliate, if all of the above conditions are met.

5. Accounting changes adopted to conform to the provisions of this issue paper shall be accounted for in accordance with *Issue Paper No. 3—Accounting Changes*. In the year the principle is adopted, recognition of the liability for compensated absences at the time of adoption that has not previously been recorded shall be recognized through a direct charge to surplus.

The company may wish to set up a liability for the salary for accrued but unused vacation hours since vacation hours can legitimately be viewed as “earned” at the end of the work periods for which they are granted.

