

Issue Paper No. 3—Accounting Changes

Consolidated/Holding Company Plans

DISCUSSION

FASB Statement No. 112 Employers' Accounting for Postemployment Benefits: an amendment of FASB Statements No. 5 and 43
FASB Statement No. 88 Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits
Issue Paper No. 3—Accounting Changes.

“Liabilities require recognition as they are incurred”
“Accounting treatments which tend to defer expense recognition do not generally represent acceptable SAP treatment”
“In order to provide a margin of protection for policyholders, the concept of conservatism should be followed when developing estimates as well as establishing accounting principles for statutory reporting”

that postemployment benefits are generally not as significant as pension or other postretirement benefits. The Board concluded that a provision for delayed recognition was not needed to mitigate the financial statement impact of immediately recognizing the transition amount when this Statement is adopted. That provision would have added unnecessary complexity to the application of this Statement, reduced financial statement comparability, and been inconsistent with Statements 5 and 43, which do not provide for delayed recognition at transition.

Drafting Notes/Comments

Issue Paper No. 8—Accounting for Pensions

Issue Paper No. 11—Compensated

Absences

Issue Paper No. 14—

Employers' Accounting for Postretirement Benefits Other Than Pensions.

RELEVANT STATUTORY ACCOUNTING AND GAAP GUIDANCE

Statutory Accounting

Other Liabilities

Liabilities for Benefits for Employees and Agents

A company may be required or desire to establish a liability for certain benefits to employees and agents which are not provided for in other accounts. Examples include:

1. It may be desirable to hold the liability or a nonqualified pension plan in this category in order to assist the tax department in adjusting their tax deductions.
2. 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.

Generally Accepted Accounting Principles

FASB Statement No. 43, Accounting for Compensated Absences

FASB Statement No. 5 Accounting for Contingencies

OTHER SOURCES OF INFORMATION

Other

Liabilities

Liabilities for Benefits for Employees and Agents

A company must establish a liability for certain benefits to employees and agents which are not provided for in other accounts. Examples include deferred compensation and nonqualified benefit plans for employees and agents.

General

Expenses and Taxes, Licenses and Fees

Employee Termination Benefits

For a variety of reasons, companies pay compensation to employees at termination. Such benefits include disability benefits, death benefits, severance payments, unemployment benefits, etc. These benefits are paid after an employee terminates but are typically based on service previously rendered.

The cost of such post-employment benefits must be spread over the working lives of those expected to receive the benefit. These benefits include all benefits paid to or for former or inactive employees (including their beneficiaries and/or dependents) after employment.

Such compensation must be accrued during an employee's working life if:

- a. the benefit to be paid is earned for service previously rendered;
- b. the right to those benefits accumulates, vests or;
- c. the payment of the benefits is probable; and
- d. the amount can be reasonably estimated.

Non-Claim Operating Expenses

Salaries, and Employee Relations and Welfare (Including Post Employment Retirement and Other Benefits)

Salaries and payroll related expenses are usually the second largest expense for most insurance companies. SAP requires that salaries and related expenses be accounted for under the accrual basis of accounting (i.e., expense recorded when incurred and not when paid). Pensions and other post retirement benefit plans for which there is no promulgated SAP should be accounted for in accordance with GAAP as promulgated by the Financial Accounting Standards Board (FASB). (The preceding may need revision based on final outcome of the FASB 106 Task Force.)

Employee compensation and post retirement benefits include, among other things, the following:

1. Salaries and wages
2. Pension plans.
3. Post retirement benefits other than pensions.
4. Compensated absences.
5. Stock purchase and option plans.
6. Other deferred compensation

Other Deferred Compensation

The accounting for other deferred compensation arrangements, which do not constitute pension plans is governed by APB Opinion No. 12, "Omnibus Opinion." APB 12 provides that deferred compensation contracts should be accounted separately for each employee on the accrual basis.

State Regulations

Other Sources of Information

and Taxes

Claim Operating Expenses

General Expenses

Non-

Other Liabilities