Statutory Issue Paper No. 132

Accounting for Pensions, A Replacement of SSAP No. 89

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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).

3. The purpose of this issue paper is to update statutory accounting principles for pensions, including both defined benefit plans and defined contribution plans. Consequently, this issue paper adopts FAS 158 with modifications considered necessary for consistent statutory reporting. The result will be a new SSAP (SSAP No. 102) superseding SSAP No. 89.

SCOPE OF STATEMENT

4. This issue paper establishes financial accounting and reporting standards for an insurer that offers pension benefits to its employees. Ordinarily, such benefits are periodic pension payments to retired employees or their survivors, but they may also include benefits payable as a single lump sum and other types of benefits, such as death benefits provided through a pension plan. (This issue paper does not apply to life insurance benefits provided outside a pension plan or postretirement health and welfare benefits.) Arrangements to provide pension benefits may take a variety of forms and may be financed in different ways. This issue paper applies to any arrangement that is similar in substance to a pension plan regardless of form or financing. This issue paper applies to a written plan and to a plan whose existence may be implied from a well-defined, although perhaps unwritten, practice of paying postretirement benefits. This issue paper supersedes the guidance in *SSAP No. 89—Accounting for Pensions, A Replacement of SSAP No. 8* (SSAP No. 89), nullifies and incorporates the guidance in *Interpretation 99-26: Offsetting Pension Assets and Liabilities* (INT 99-26), and *INT 04-12: Determining the Classification and Benefit Attribution Method for a Cash Balance Pension Plan* (INT 04-12), and nullifies *INT 01-16: Measurement Date for SSAP No. 8 Actuarial Valuations* (INT 01-16), *INT 03-18—Accounting for a Change in the Additional Minimum Liability in SSAP No. 8 (INT 03-18)* and *INT 04-03: Clarification for Calculating the Additional Minimum Pension Liability under SSAP No. 89* (INT 04-03) This issue paper also modifies *INT 04-17: Impact of Medicare Modernization on Postretirement Benefits* (INT 04-17) to remove reference to pensions as this interpretation only addresses postretirement benefits other than pensions.

SUMMARY CONCLUSION

Defined Benefit Plans

Single-Employer Defined Benefit Pension Plans

5. A defined benefit pension plan is one that defines an amount of pension benefit to be provided, usually as a function of one or more factors such as age, years of service, or compensation. (Hybrid pension plans that refer to an account balance, rather than a monthly annuity at retirement (also known as 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)* and *FASB Staff Position FAS 136(R)-1, Employers' Disclosures about Postretirement Benefit Plan Assets* (FSP FAS 136(R)-1), with modifications as discussed within paragraph 83.

6. A pension benefit is part of the compensation paid to an employee for services. In a defined benefit pension plan, the employer promises to provide, in addition to current wages, retirement income payments in future years after the employee retires or terminates service. Generally, the amount of benefit to be paid depends on a number of future events that are incorporated in the plan's benefit formula, often including how long the employee and any survivors live, how many years of service the employee renders, and the employee's compensation in the years immediately before retirement or termination. In most cases, services are rendered over a number of years before an employee retires and begins collecting the pension. Even though the services rendered by an employee are complete and the employee has retired, the total amount of benefit that the employer has promised and the cost to the employer of the services rendered are not precisely determinable but can only be estimated using the benefit formula and estimates of the relevant future events, many of which the employer cannot control.

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Elements of Pension Accounting

7.

Service Cost

12. The service cost component recognized in a period shall be determined as the actuarial present value of benefits attributed by the pension benefit formula to employee service (including both vested and nonvested employees) during that period.

13. The prior service cost for nonvested employees not previously recognized[2] is not required to be included in net periodic pension cost entirely in the year this issue paper is adopted. Unrecognized prior service cost for nonvested employees shall be amortized as a component of net periodic pension 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. Un

19. 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 granting retroactive benefits is shorter than the entire remaining service period of the active employees. Identification of such situations requires an assessment of the individual circumstances and the substance of the particular plan situation. 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.

20. A plan amendment that retroactively reduces, rather than increases, benefits decreases the projected benefit obligation. The reduction in benefits shall be recognized as a 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). Any remaining prior service credit shall be amortized as a component of net periodic pension cost on the same basis as the cost of a benefit increase.

Gains and Losses

21. Gains and losses are changes in the amount of either the projected benefit obligation or plan assets resulting from experience different from that assumed and from changes in assumptions. This issue paper 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, recognition of gains and losses as components of net pension cost of the period in which they arise is not required. Gains and losses that are not recognized immediately as a component of net periodic pension cost shall be recognized as increases or decreases in unassigned funds (surplus) as they arise.

22. 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.

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

24. As a minimum, amortization of a net gain or loss included in unassigned funds (surplus) shall be included as a component of net pension 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 projected 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 employees expected to receive benefits under the plan. 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 average remaining service.

25. Any systematic method of amortizing gains or losses may be used in lieu of the minimum specified in the previous paragraph provided that (a) the minimum is used in any period in which the minimum amortization is greater (reduces the net balance included in unassigned funds (surplus) by more), (b) the method is applied consistently, (c) the method is applied similarly to both gains and losses, and (d) the method used is disclosed.

26. The gain or loss component of net periodic pension cost shall consist of (a) the difference between the actual return on plan assets and the expected return on plan assets and (b) amortization of the net gain or loss included in unassigned funds (surplus).

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Recognition of Liabilities and Assets

27. If the projected benefit obligation (considering both vested and nonvested participants) exceeds the fair value of plan assets, the employer shall recognize in its statement of financial position a liability that equals the unfunded projected benefit obligation. If the fair value of plan assets exceeds the projected benefit obligation, the employer shall recognize in its statement of financial position an asset that equals the overfunded projected benefit obligation. This prepaid asset resulting from the excess of the fair value of plan assets over the projected benefit obligation shall be nonadmitted.

28. If multiple single-employer plans exist, the employer shall aggregate the statuses of all overfunded plans and recognize that amount as an 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.

29. The asset or liability that is recognized pursuant to paragraph 27 may result in a temporary difference, as defined in *SSAP No. 101—Income Taxes – A Replacement of SSAP No. 10R and 10* (SSAP No. 101). The deferred tax effects of any temporary differences shall be recognized in income tax expense or benefit for the year and shall be allocated pursuant to SSAP No. 101.

30. If a new determination of the funded status of a plan to be recognized as an asset or a liability in the employer's statement of financial position is made, or when net gains or losses, prior service costs or credits, or the net transition asset or obligation existing at the date of initial application of this issue paper are amortized as components of net periodic pension cost, the related balances for those net gains or losses, prior service costs or credits, and transition asset or obligation in unassigned funds (surplus) shall be adjusted as necessary and reported in unassigned funds (surplus).

Measurement of Cost and Obligations

31. The service component of net periodic pension cost, the projected benefit obligation, and the accumulated benefit obligation are based on an attribution of pension benefits to periods of employee service and on the use of actuarial assumptions to calculate the actuarial present value of those benefits. Actuarial assumptions reflect the time value of money (discount rate) and the probability of payment (assumptions as to mortality, turnover, early retirement, and so forth).

Attribution

32. Pension benefits ordinarily shall be attributed to periods of employee service based on the plan's

34. Some plans may have benefit formulas that attribute all or a disproportionate share of the total benefits provided to later years of service, thereby achieving in substance a delayed vesting of benefits. For such plans the total projected benefit shall be considered to accumulate in proportion to the ratio of the number of completed years of service to the number that will have been completed when the benefit is first fully vested. If a plan's benefit formula does not specify how a particular benefit relates to services rendered, the benefit shall be considered to accumulate as follows:

a. For benefits of a type includable in vested benefits, in proportion to the ratio of the number of completed years of service to the number that will have been completed when the benefit is first fully vested.

b. For benefits of a type not includable in vested benefits, in proportion to the ratio of completed years of service to total projected years of service.

Assumptions

35. Each significant actuarial 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.

36. Assumed discount rates shall reflect the rates at which the pension benefits could be effectively settled. It is appropriate in estimating those rates to look to available information about rates implicit in current prices of annuity contracts that could be used to effect settlement of the obligation. In making those estimates, employers may also look to rates of return on high-quality fixed-income investments currently available and expected to be available during the period to maturity of the pension benefits. Assumed discount rates are used in measurements of the projected, accumulated, and vested benefit obligations and the service and interest cost components of net periodic pension cost.

37. The objective of selecting assumed discount rates using the method noted in paragraph 36 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 pension benefits when due. Notionally, that single amount, the projected benefit obligation, would equal the 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 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.

38. The expected long-term rate of return on plan assets shall reflect the average rate of earnings expected on the funds invested or to be invested to provide for the benefits included in the projected benefit obligation. In estimating that rate, appropriate consideration should be given to the returns being earned by the plan assets in the fund and the rates of return expected to be available for reinvestment. The expected long-term rate of return on plan assets is used to compute the expected return on assets.

39. The service cost component of net periodic pension cost and the projected benefit obligation shall reflect future compensation levels to the extent that the pension benefit formula defines pension benefits

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wholly or partially as a function of future compensation levels. Future increases for which a present commitment exists shall be similarly considered. Assumed compensation levels shall reflect an 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 of the same future economic conditions,

when a significant event such as a plan amendment, settlement, or curtailment occurs that calls for a remeasurement. Upon remeasurement, a business 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.

45. Measurements of net periodic pension cost for both interim and annual financial statements shall be based on the assumptions used for the previous year-end measurements unless more recent measurements of both plan assets and obligations are available or a significant event occurs, such as a plan amendment, that would ordinarily call for such measurements.

Employers with Two or More Plans

46. An employer that sponsors two or more separate defined benefit pension plans shall determine net periodic pension cost, liabilities, and assets by separately applying the provisions of this issue paper to each plan. In particular, unless an employer clearly has a right to use the assets of one plan to pay benefits of another, a liability required to be recognized for

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.

Other Contracts with Insurance Companies

52. Insurance contracts that are in substance equivalent to the purchase of annuities shall be accounted for as such. Other contracts with insurance companies shall be accounted for as investments and measured at fair value. For some contracts, the best available evidence of fair value may be contract value. If a contract has a determinable cash surrender value or conversion value, that is presumed to be its fair value.

Defined Benefit Plans – Settlements and Curtailments

53. 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 pension 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 (a) making lump-sum cash payments to plan participants in exchange for their rights to receive specified pension benefits and (b) purchasing nonparticipating annuity contracts to cover vested benefits.

54. A transaction that does not meet all of the above three criteria 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 does not constitute a settlement because the investment decision can be reversed and such a strategy does not relieve the employer (or the plan) of primary responsibility for a pension obligation nor does it eliminate significant risks related to the obligation.

Annuity Contracts

55. The definition of an annuity contract is included in paragraph 47. If the substance of a participating annuity contract is such that the employer remains subject to all or most of the risks and rewards associated with the benefit obligation covered or the assets transferred to the insurance company, the purchase of the contract does not constitute a settlement.

Curtailment

56. A curtailment is an event that significantly reduces the expected years of future service of present employees or eliminates for a significant number of employees the accrual of defined benefits for some or all of their future services. 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 defined benefits for future services. In the latter situation, future service may be counted toward vesting of benefits accumulated based on past service.

Relationship of Settlements and Curtailments to Other Events

57. A settlement and a curtailment may occur separately or together. If benefits to be accumulated in future periods are reduced 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

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nonparticipating annuity contracts for vested benefits 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 is terminated (that is, the obligation is settled and the plan ceases to exist) and not replaced by a successor defined benefit plan, both a settlement and a curtailment have occurred (whether or not the

Termination Benefits

64. An employer may provide benefits to employ

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 65.d.v.(b), 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 65.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 could 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 65.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 65.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 65.d.v.(b)., for each annual period:

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(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. For defined benefit pension plans, the accumulated benefit obligation.

f. 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 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.

g. 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.

h. The amount of net 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.

i. Separately the net gain or loss and net prior service cost or credit recognized in unassigned funds (surplus) for the period pursuant to paragraphs 17 and 21 and reclassification adjustments of unassigned funds (surplus) for the period, as those

[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.

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amounts, including amortization of the net transition asset or obligation, are recognized as components of net periodic benefit cost.

j. 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.

k. 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.

l. 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.

m. If applicable, any alternative method used to amortize prior service amounts or net gains and losses pursuant to paragraphs 18 and 25.

n. 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.

o. If applicable, the cost of providing special or contractual termination benefits recognized during the period and a description of the nature of the event.

p. 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.

q. 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.

r. 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.

Disclosures – Employers with Two or More Defined Benefit Plans

66. The disclosures required by this issue paper shall be aggregated for all of an employer's defined benefit pension plans and 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 67. Disclosures shall be as of the date of each statement of financial position presented. Disclosures about pension plans with assets in excess of the accumulated benefit obligation generally may be aggregated with disclosures about pension plans with accumulated benefit obligations in excess of assets. The same aggregation is permitted for other postretirement benefit plans. If aggregate disclosures are presented, an employer shall disclose:

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Disclosures - Defined Contribution Plans

72. An employer shall disclose the amount of cost recognized for defined contribution pension plans and for other 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.

Multiemployer Plans

73. A multiemployer plan is a pension 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.

74. A reporting entity participating in a multiemployer plan shall recognize as net pension cost the required contribution for the period and shall recognize as a liability any contributions due and unpaid.

75.

considered single-employer plans rather than multiemployer plans, and each reporting entity's accounting shall be based on its respective interest in the plan.

Non-U.S. Pension Plans

pertaining to health care (paragraphs 5.l. and 5.m.) have been rejected for inclusion within this standard, but will also be considered in accordance with revisions to SSAP No. 14. 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 disclosures requirements as amended by FSP FAS 132(R)-1 relate to nonpublic entities and are rejected. This Statement adopts by reference *FSP FASB 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 statement, as modified for statutory accounting. The following modifications from the adopted paragraphs of FAS 158 have been incorporated within this standard:

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 projected benefit obligation shall be nonadmitted. Furthermore, any asset recognized from the cost of a 'participation right' of an annuity contract per paragraph 51 shall also be nonadmitted.

c. Provisions within paragraph 30 of FAS 87, as amended by FAS 158, permitting a market-related value of plan assets have been eliminated with only the fair value measurement method for plan assets being 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 included in 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 e20cluderod0 Tod for pl ex-ated raph 8 c. mo(u).0004 Tc 0.1048 Tw44[d1-1.65.0incom)rsTJ0ted

h. Provisions within paragraph 36 of FAS 87, 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.

i. Provisions within paragraph 49 of FAS 87, 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.

j. Provisions within paragraph 52 of FAS 87, 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 44 of this statement.

k. Transition under FAS 158 is different from this issue paper. FAS 158 requires entities with publicly traded equity securities to initially apply the requirement to recognize the funded status of a 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 84-92.

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 is 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

84. Reporting entities are required to disclose the projected benefit obligation, the accumulated benefit obligation and the fair value of plan assets for defined benefit pension plans in the first reporting period after the effective date of this standard and in each subsequent reporting period. This disclosure shall specifically note the funded/underfunded status of the pension plan based on the projected benefit obligation. Reporting entities shall also specifically note the surplus impact necessary, at each reporting date, to reflect the full projected benefit obligation within the financial statements.

85. 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 pension amounts, as determined when the projected 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 projected benefit obligation, the asset shall be considered a nonadmitted asset. Net periodic pension cost shall include a component for unrecognized prior service cost for nonvested employees beginning in 2013.

86. Gains or losses, prior service costs or credits (including prior service costs for non-vested participants pursuant to paragraph 13), and remaining transition assets or obligations from prior application of SSAP No. 89 (collectively referred to as “unrecognized items”) that have not yet been

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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.

96. 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.

97. 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.

98. 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 106 or postretirement benefits other than pensions have not been addressed within this issue paper and will be considered in accordance with revisions to SSAP No. 14. 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 projected benefit obligation shall be nonadmitted. Furthermore, any asset recognized from the cost of a "participation right" of an annuity contract per paragraph 51 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 30 of FAS 87, 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 in 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 periodic pension cost and in the

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pension 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. 89, guidance has been included to indicate that the unrecognized prior service cost attributed to nonvested individuals is not required to be included in net periodic pension 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 periodic pension 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 04-12*: EITF 03-4: Determining the Classification and Benefit Attribution Method for a "Cash Balance" Pension Plan* (INT 04-12) indicating that 'cash balance' plans are considered defined benefit plans has been incorporated within paragraph 5 of this issue paper.

g. 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 28 of this issue paper.

h. Provisions within paragraph 36 of FAS 87, as amended by FAS 158, regarding the classification of underfunded liabilities as current or noncurrent liabilities and the plan h Tv

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eliminated.) The increase to the projected benefit obligation is not anticipated to be significant for pension plans as federal legislature already exists that requires vesting within a fairly short timeframe after the start of employment (seven years maximum).

WORKING GROUP RESEARCH AND KEY ISSUES CONSIDERED:

100. 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

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 (no transition).

    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;

        (b) Amortization[10] of the "unrecognized items" into net periodic pension 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 all three 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).);

        (c) Amount necessary to establish a total liability that is equal to any unfunded accumulated benefit obligation (the accumulated benefit obligation less the fair value of plan assets).

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

[10] Unless otherwise impacted from the provisions within this issue paper or in accordance with changes to the pension plan, the amortization of the unrecognized items into net periodic pension cost shall continue to follow the existing amortization schedules in effect on the transition date.

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include (1) prepaid benefit cost with unfunded liability – no surplus deferral elected, (3) prepaid benefit cost with unfunded liability – surplus deferral elected with funded accumulated benefit obligation, and (3) prepaid benefit cost with unfunded liability – surplus deferral elected with unfunded accumulated benefit obligation. These examples were adopted Nov. 29, 2012, and have been reflected within the implementation guide of this issue paper.

b. 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 89 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. This agenda item also proposed revisions to clarify that *INT 03-18—Accounting*

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 89-90 of the issue paper should be followed.

c. INT 03-18: Accounting for a Change in the Additional Minimum Liability in SSAP No. 8—Pensions. This INT will be nullified as this issue paper eliminates the additional minimum liability.

d. *INT 04-03: Clarification for Calculating the Additional Minimum Pension Liability UNder5(SSAP1N.oT.891—A)8(Acuntiing1fTorfP0eTnrsIiNoTnsw,i.lA1RNelpo.la8cememnt:o)f-5S7SAcPoNuon.t8;paar.a8g;rpaapragraph h22*

c. *EITF 91-7: Accounting for Pension Benefits Paid by Employers after Insurance Companies Fail to Provide Annuity Benefits* (EITF 97-1) – This EITF issue is how an employer should account for the cost of making up the deficiency in annuity payments to the retirees. The consensus reached that the employer should recognize a loss at the time the deficiency is assumed by the employer

- *Issue Paper No. 123—Accounting for Pensions, A Replacement of SSAP No. 8*
- *INT 04-03: Clarification for Calculating the Additional Minimum Pension Liability Under SSAP No. 89—Accounting for Pensions, A Replacement of SSAP No. 8, paragraph 16.f.*
- *INT 04-11: EITF 03-2: Accounting for the Transfer to the Japanese Government of the Substitutional Portion of Employee Pension Fund Liabilities*
- *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 02-18: Accounting for the Intangible Asset as Described in SSAP No. 8 Paragraph 9.d.v. and 9.f.*
- *INT 01-16: Measurement Date for SSAP No. 8 Actuarial Valuations*
- *INT 01-17: Accounting for Nonqualified Retirement Plans, Nonvested Ancillary Benefits Within Retirement Plans, and Protected Benefits Such as Early Retirement Subsidies in Retirement Plans*
- *INT 99-24: Accounting for Restructuring Charges*
- *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. 87, Employers' Accounting for Pensions*
- *FASB Statement No. 88, Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits*
- *FASB Statement No. 130, Other Comprehensive Income*
- *FASB Statement No. 132(R), Employers' Disclosures about Pensions and Other Postretirement Benefits*
- *FASB Emerging Issues Task Force No. 88-1, Determination of Vested Benefits Obligation for a Defined Benefit Pension Plan*
- *FASB Emerging Issues Task Force No. 90-3, Accounting for Employers' Obligations for Future Contributions to a Mutliemployer Pension Plan*
- *FASB Emerging Issues Task Force No. 91-7, Accounting for Pension Benefits Paid by Employers after Insurance Companies Fail to Provide Annuity Benefits*
- *FASB Emerging Issues Task Force No. 96-5, Recognition of Liabilities for Contractual Termination Benefits or Changing Benefit Plan Assumptions in Anticipation of a Business Combination*

STATE REGULATIONS:

— No additional guidance obtained from state statutes or regulations.

EXHIBIT A - IMPLEMENTATION GUIDE

Note: Implementation guidance included in SSAP No. 102 has not been duplicated within this Issue Paper.

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