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 [illegible]

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

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

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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 [illegible] 0. Tw -ecte 0.0benefs 0.0901

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

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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.

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

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.

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.

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 lithe prliuectedchasefss cshall bncludesa sithelity oor ultaed bostretirement enefit

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

(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

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 specifica89suh 6tSd0hsis

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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, 2012[4] 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:

105.

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

and benefit obligations for the first year application have been rejected to ensure consistent application for statutory purposes. Revisions incorporated within

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

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 co25.lberedclaioe.lb the acoopan tandtutili]TJ0.00059Tc 0.306 Tw 12.203 Gzd holeri claios. Tis rontclusion i

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(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

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 comingled 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*

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*

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.

FSP FAS 106-1, Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003

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):

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

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