Interpretation of the Emerging Accounting Issues Working Group

INT 03-18: Accounting for a Change in the Additional Minimum Liability in *SSAP No. 8—Pensions* (SSAP No. 8)

ISSUE NULLIFIED BY SSAP NO. 102

INT 03-18 Dates Discussed

September 14, 2003; December 7, 2003

INT 03-18 References

SSAP No. 8—Pensions (SSAP No. 8)

INT 03-18 Issue

1. The combination of poor asset returns and low interest rates at the end of 2002 forced numerous insurers with defined benefit plans to be in an additional minimum liability position. Some insurers recorded the change in the additional minimum liability directly to surplus while others recorded the change as a component of net income.

2. The following is excerpted from SSAP No. 8:

Defined Benefit Plans

2. A defined benefit plan defines the amount of the pension benefit that will be provided to the plan participant at retirement or termination. For such benefit plans, reporting entities shall adopt FASB Statement No. 87*, Employers' Accounting for Pensions* (FAS 87) with a modification to exclude non-vested employees. Therefore, the cost related to services rendered prior to becoming eligible and vested in the plan are recognized as a component of the net periodic pension cost in the period the employee becomes vested. Any intangible asset or prepaid expense resulting from adoption of the provisions of this statement shall be considered a nonadmitted asset, as such an asset cannot be readily converted to cash to satisfy policyholder obligations.

Disclosures

9. The following disclosures shall be made for defined benefit pension plans for which the reporting entity is directly liable:

f. The amount included in income for the period arising from a change in the additional minimum pension liability recognized pursuant to paragraph 37 of FAS 87;

3. The Statutory Accounting Principles Working Group has proposed changes in the accounting for pensions in *Issue Paper No. 123—Accounting for Pensions, A Replacement of SSAP No. 8* (IP No. 123) which prescribes that the recording of a change in the additional minimum liability should be recorded directly to surplus. The accounting issue is, if reporting entities that included the change in the additional minimum liability, as a component of net income in 2002 should be permitted to recognize the reversal of that additional minimum liability as a component of net income if the changes in IP No. 123 are adopted in an SSAP?

INT 03-18 Discussion

4. The working group reached a consensus that additional minimum pension liability amounts previously expensed through income shall not be reversed through income in a subsequent period. Changes in accounting principle are reported as adjustments to unassigned funds (surplus) in accordance with *SSAP No. 3—Accounting Changes and Corrections of Errors*.

INT 03-18 Status

5. No further discussion is planned.