

Interpretation of the Emerging Accounting Issues (E) Working Group

INT 13-03: Clarification of Surplus Deferral in SSAP No. 92 & SSAP No. 102

ISSUE NULLIFIED BY SSAP NO. 92 AND SSAP NO. 102

INT 13-03 Dates Discussed

November 20, 2013, and December 15, 2013

INT 13-03 References

Current:

SSAP No. 92—Accounting for Postretirement Benefits Other Than Pensions

SSAP No. 102—Accounting for Pensions

INT 13-03 Issue

1. In March 2012, the Statutory Accounting Principles (E) Working Group finalized SSAP No. 92 and SSAP No. 102 to adopt with modification GAAP guidance pertaining to pensions and postretirement benefit obligations other than pensions. As a result of the accounting guidance, and potential impact to surplus reflected in both SSAPs, the Working Group adopted transition guidance that allowed a surplus deferral for a period not to exceed ten years.
2. Per the surplus deferral provisions within the SSAPs, the deferral option was not intended to allow a surplus benefit to be recognized at initial transition for an unfunded plan. Additionally, the SSAPs required a minimum amount of the deferred liability to be subsequently recognized under the deferral option to cover the annual amortization of the “unrecognized items” into net periodic cost and prevent a surplus benefit.
3. The SSAPs also incorporated guidance to indicate that the reporting entities must recognize remaining transition liability to the extent that the plan reflects a prepaid benefit cost, with an example that if changes in circumstances resulted with the plan reflecting an overfunded status; the remaining transition liability must be recognized to the extent the plan is overfunded. Furthermore, the guidance indicated that if circumstances resulted with a subsequent gain attributed to the plan that would be recognized in earnings, the entity must recognize an additional amount of the remaining transition liability to offset the recognized gain.
4. Due to the current market environment resulting with increases in the fair value of plan assets and/or changes in discount rates that have reduced the projected obligations for pension and OPEB plans, questions have been received as to whether the reduction in pension or OPEB liabilities on the balance sheet, resulting in more favorable surplus positions related to the pension/OPEB plans, should be permitted when there are remaining unrecognized liabilities from the surplus deferral elected at transition of SSAP No. 92 and SSAP No. 102. These questions often refer to the current guidance in the SSAPs, which provide the example of a plan being in an overfunded state, or that the gain is recognized in earnings, as criteria for when an additional amount of the remaining transition liability is needed to offset the recognized gain. As the changes in fair value or discount rates (and other changes such as curtailments or settlements) may not result in an overfunded plan, and may not be recognized in earnings, there is uncertainty with regards to the application of the guidance.

5. The accounting issue is whether a surplus benefit was intended to result from pension/OPEB changes or activities when an unrecognized pension/OPEB transition liability continues to exist.

INT 13-03 Discussion

6. The Working Group reached a consensus that the existing explicit guidance highlighting the intent to prevent a surplus benefit reflects the original objective of the surplus deferral guidance in SSAP No. 92 and SSAP No. 102. As such, the guidance in SSAP No. 92 and SSAP No. 102 was not intended (on a net basis for each plan) to result in more favorable, subsequent surplus pension/OPEB positions when there are remaining unrecognized liabilities as a result of the reporting entity's initial election for surplus deferral.

7. In accordance with this consensus, if there is a plan curtailment, settlement, or other plan amendment resulting in a reduction of benefit obligations, or net benefit obligation gains due to revisions in assumptions (e.g., discount rates) or plan experience differing from assumptions, or plan asset gains due to the actual return on plan assets exceeding the expected return on plan assets, a corresponding amount of unrecognized liability from the surplus deferral shall be recognized. For this purpose, net gains, if any, are the net aggregation of all gains and losses (excluding plan amendments that increase benefit obligations) from factors such as those listed above, determined as of a measurement or remeasurement date. This shall occur regardless if the impact from the change results with the plan being in an overfunded state, or whether the gain is recognized in earnings. The Working Group agrees that the intent of the original guidance was to provide surplus relief from the immediate surplus impact from adopting SSAP No. 92 and SSAP No. 102, but that in no instances should changes (on a net basis for each plan) attributed to pension or OPEB plans result in more favorable, subsequent surplus positions when there are unrecognized liabilities remaining as a result of the reporting entity's initial election for surplus deferral.

INT 13-03 Status

8. No further discussion anticipated.