

Statement of Statutory Accounting Principles No. 14**Postretirement Benefits Other Than Pensions****STATUS**

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Postretirement Benefits Other Than Pensions**SCOPE OF STATEMENT**

1. This statement establishes statutory accounting principles for employers' accounting for postretirement benefits other than pensions.

SUMMARY CONCLUSION

2. Postretirement benefits are all forms of benefits, other than retirement income, provided by an employer to retirees. Those benefits may be defined in terms of specified benefits that are provided to retirees as the need for those benefits arises, such as certain health care benefits, or they may be defined in terms of monetary amounts that become payable on the occurrence of a specified event, such as life insurance benefits or deferred compensation arrangements.

3. The principles contained herein shall apply to postretirement benefits other than pensions for all eligible and vested employees and vested former employees including their beneficiaries and covered dependents, pursuant to the terms of an employer's undertaking to provide those benefits. Any asset resulting from an overfunding of the plan shall be recorded as a nonadmitted asset.

4. An employer shall account for its postretirement benefits on an accrual basis. The postretirement benefit obligation for current retirees and fully eligible or vested employees at transition (initial adoption date) is measured by estimating the actuarial present value of benefits expected to be received at retirement using explicit assumptions. A health care cost trend rate assumption is used in the estimation. A health care cost trend rate is an assumption about the annual rate(s) of change in the cost of health care benefits currently provided by the postretirement benefit plan, due to factors other than changes in the composition of the plan population by age and dependency status, for each year from the measurement date until the end of the period in which benefits are expected to be paid. The health care cost trend rates implicitly consider estimates of health care inflation, changes in health care utilization or status of the plan participants.

5. Plan assets, if any, shall be segregated and restricted, and measured at fair value.

6. In each period, estimated postretirement benefits for newly eligible or vested employees shall be accrued at eligibility date ("estimated eligibility cost"). Interest cost on the postretirement benefit obligation at the beginning of the period shall be recognized during the period. Actuarial gains and losses (other than plan asset gains and losses) arising from differences between assumptions and actual experience upon subsequent remeasurement of the obligation may be recognized as a component of the net periodic postretirement benefit cost in the current period or amortized. The net actuarial gain or loss shall be included as a component of the net periodic postretirement benefit cost for a year, if, as of the beginning of the year, that unrecognized net gain or loss exceeds 10 percent of the greater of the postretirement benefit obligation or the fair value of plan assets. That gain or loss, if not recognized immediately, shall be amortized over the average life expectancy of the employer's fully vested and retiree group. The method elected must be consistently applied.

Gains or Losses On Plan Assets

7. Plan asset gains and losses are differences between the actual return on plan assets (including changes in the fair values of plan assets) during a period and the expected return on plan assets for that period. Amortization of an unrecognized net asset gain or loss shall be included as a component of net postretirement benefit cost for a year if, as of the beginning of the year, that unrecognized net gain or loss exceeds 10 percent of the greater of the postretirement benefit obligation or the fair value of plan assets. That excess shall be amortized over the average life expectancy of the employer's fully vested and retiree group.

Plan Amendments

8. Plan amendments may include provisions that increase or reduce benefits to retirees and fully eligible employees. The cost of benefit improvements is the increase in the postretirement benefit obligation as a result of the plan amendment, measured at the date of the amendment. That increase shall be amortized over the average life expectancy of the employer's fully vested and retiree group.

9. A plan amendment can reduce, rather than increase, the postretirement benefit obligation. A reduction in that obligation shall first reduce any existing unrecognized plan amendment cost, and then, reduce any remaining unrecognized transition obligation. The excess, if any, shall be amortized on the same basis as plan amendments that increase benefits.

Financial Statement Presentation

10. The net periodic postretirement benefit cost (i.e., the estimated eligibility cost, interest cost, actuarial gains or losses, and any amortization costs) shall be reflected in the income statement. If an employer elects immediate recognition of the initial transition obligation, it shall be accounted for as a change of accounting method (i.e., the initial transition obligation is recorded as an adjustment to statutory surplus).

Transition Asset

11. If the fair value of plan assets exceeds the postretirement obligation and a transition asset results, the asset shall be considered a nonadmitted asset.

Defined Contribution Plans

12. A defined contribution postretirement benefit plan is a plan that provides postretirement benefits by establishing 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, 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 these contributions, and forfeitures of other plan participants' benefits that may be allocated to the plan participant's account.

13. To the extent that an employer's defined contributions to an individual's account are vested or irrevocable, 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, the estimated costs shall be accrued at retirement date.

Consolidated/Holding Company Plans

14. The employees of many reporting entities are eligible for certain postretirement benefits other than pensions provided by a parent company or holding company. A reporting entity with employees who are eligible for those benefits and is not directly liable for those related obligations shall recognize an expense equal to its allocation of the benefits earned during the period. A liability shall be established for any such amounts due but not yet paid.

15. The reporting entity shall disclose in the financial statements that its employees participate in a plan sponsored by the holding company for which the reporting entity has no legal obligation. The amount of the postretirement benefit expense incurred and the allocation methodology utilized by the provider of such benefits shall also be disclosed. If the reporting entity is directly liable for postretirement benefits other than pensions, then the requirements outlined in paragraphs 2-13 and paragraphs 16-19 of this statement shall be applied.

Disclosures

16. The following disclosures shall be made for postretirement defined benefit plans for which the reporting entity is directly liable (i.e., the plan resides directly in the reporting entity):

- a. A reconciliation of beginning and ending balances of the benefit obligation showing separately, if applicable, the effects during the period attributable to 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;
- b. The amount of the postretirement obligation for nonvested employees as of the most recent actuarial valuation date;
- c. A reconciliation of beginning and ending balances of the fair value of plan assets showing separately, if applicable, the effects during the period attributable to actual return on plan assets, foreign currency exchange rate changes, contributions by the reporting entity, contributions by plan participants, benefits paid, business combinations, divestitures, and settlements;
- d. The funded status of the plans, the amounts not recognized in the statement of financial position, and the amounts recognized in the statement of financial position, including:
 - i. The amount of any unamortized prior service cost;
 - ii. The amount of any unrecognized net gain or loss (including asset gains and losses not yet reflected in market-related value);
 - iii. The amount of any remaining unamortized, unrecognized net obligation or net asset existing at the initial date of application, which is described in paragraph 22 of this statement;
 - iv. The net pension or other postretirement benefit prepaid assets or accrued liabilities; and
 - v. Any intangible asset;
- e. Information about plan assets:
 - i. For each major category of plan assets, which shall include, but is not limited to, equity securities, debt securities, real estate, and all other assets, the percentage of the fair value of total plan assets held as of the measurement date used for each statement of financial position presented.
 - ii. A narrative description of investment policies and strategies, including target allocation percentages for each major category of plan assets presented on a weighted-average basis as of the measurement date(s) of the latest statement of financial position presented, if applicable, and other factors that are pertinent to an understanding of the policies or 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.
 - iii. A narrative description of the basis used to determine the overall expected long-term rate-of-return-on-assets assumption was based on historical returns, to

extent to which adjustments were made to those historical returns in order to reflect expectations of future returns, and how those adjustments were determined.

- iv. Disclosure of additional asset categories and additional information about specific assets within a category is encouraged if that information is expected to be useful in understanding the risks associated with each asset category and the overall expected long-term rate of return on assets.
- f. The benefits (as of the date of the latest balance sheet 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 periodic benefit cost recognized, showing separately the service cost component, the interest cost component, the expected return on plan assets for the period, the amortization of the unrecognized transition obligation or transition asset, the amount of recognized gains and losses, the amount of prior service cost recognized, and the amount of gain or loss recognized due to a settlement or curtailment;
- i. On a weighted-average basis, the following assumptions used in the accounting for the plans: assumed discount rate, rate of compensation increase (for pay-related plans), and expected long-term rate 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;
- j. The measurement date(s) used to determine other postretirement benefit measurements for postretirement benefit plans that make up at least the majority of plan assets and benefit obligations.
- 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 cost 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 reporting entity and related parties included in plan assets, the approximate amount of future annual benefits of plan participants covered by insurance contracts issued by the reporting entity or related parties, and any significant transactions between the reporting entity or related parties and the plan during the period;

- n. If applicable, any alternative method used to amortize prior service amounts or unrecognized net gains and losses pursuant paragraphs 53 and 60 of *FASB Statement No. 106, Employers' Accounting for Postretirement Benefits Other Than Pensions* (FAS 106);
- o. 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;
- p. If applicable, the cost of providing special or contractual termination benefits recognized during the period and a description of the nature of the event; and
- q. An explanation of any significant change in the benefit obligation or plan assets not otherwise apparent in the other disclosures required by this statement.

Amounts related to the reporting entity's results of operations shall be disclosed for each period for which an income statement is presented. Amounts related to the reporting entity's statement of financial position shall be disclosed as of the measurement date used for each balance sheet presented.

17. The reporting entity shall disclose the amount of cost recognized for defined contribution other postretirement benefit plans during the period 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.

18. The reporting entity shall disclose the amount of contributions to multiemployer plans for each annual period for which a statement of income is presented. The reporting entity may disclose total contributions to multiemployer plans without disaggregating the amounts attributable to pensions and other postretirement benefits. 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.

19. Refer to the preamble for further discussion regarding disclosure requirements.

Relevant Literature

20. This statement adopts FAS 106, *FASB Statement No. 132, Disclosures about Pensions and Other Postretirement Benefits* (FAS 132), *FASB Statement No. 132(R), Employers' Disclosures about Pensions and Other Postretirement Benefits* (FAS 132R) and *Accounting Principles Board Opinion No. 12, Omnibus Opinion—1967*, paragraphs 6-8 with the following modifications:

- a. Any asset which results from an excess of the fair value of plan assets over the postretirement benefit obligation shall be recorded as a nonadmitted asset;
- b. Calculation of the postretirement benefit obligation shall exclude non-vested employees. Partially vested employees are included only to the extent of their vested amounts; and
- c. The disclosures required by this statement are modified from those required by FAS 132 and FAS 132R in consideration of the modification in this statement to include only vested employees.
- d. The reduced disclosure requirements for nonpublic entities described in paragraph 8 of FAS 132 and FAS 132R are rejected. All reporting entities shall follow the disclosure requirements of this statement.

- e. The disclosures relating to the initial date of application in paragraph 5 of FAS 132 and FAS 132R shall be the date of adoption for statutory purposes. The initial adoption date is described in paragraph 22 of this statement.
- f. The disclosures relating to other comprehensive income in paragraph 5 of FAS 132 and FAS 132R shall be made for income on a statutory basis.

21. This statement adopts *FASB Emerging Issues Task Force No. 93-3, Plan Assets under FASB Statement No. 106*.

Effective Date and Transition

22. For most reporting entities, the transition or initial adoption date was January 1, 1993. For reporting entities whose plans are outside the United States and for defined benefits of employers with no more than 500 plan participants in the aggregate, the transition or initial adoption was January 1, 1995. At transition, an employer elects to recognize the unfunded postretirement benefit obligation immediately in statutory surplus or amortize it as a component of net periodic postretirement benefit cost over a period of up to twenty years.

23. This statement is effective for years beginning January 1, 2001. A change resulting from the adoption of this statement shall be accounted for as a change in accounting principle in accordance with *SSAP No. 3—Accounting Changes and Corrections of Errors*.

AUTHORITATIVE LITERATURE

Generally Accepted Accounting Principles

- *FASB Statement No. 106, Employers' Accounting for Postretirement Benefits Other Than Pensions*
- *FASB Statement No. 132, Employers' Disclosure about Pensions and Other Postretirement Benefits*
- *FASB Emerging Issues Task Force No. 93-3, Plan Assets under FASB Statement No. 106*
- *Accounting Principles Board Opinion No. 12, Omnibus Opinion—1967, paragraphs 6-8*

RELEVANT ISSUE PAPERS

- *Issue Paper No. 14—Employers' Accounting for Postretirement Benefits Other Than Pensions*