Interpretation of the Emerging Accounting Issues Working Group

INT 02-18: Accounting for the Intangible Asset as Described in SSAP No. 8 Paragraphs 9.d.v. and 9.f.

ISSUE NULLIFIED BY SSAP NO. 89

INT 02-18 Dates Discussed

September 10, 2002; December 8, 2002; March 9, 2003

INT 02-18 References

SSAP No. 8—Pensions (SSAP No. 8)

INT 02-18 Issue

1. *SSAP No. 8—Pensions* (SSAP No. 8) models many of its provisions after FASB Statement No. 87*, Employers' Accounting for Pensions* (FAS 87) and FASB Statement No. 132*, Employers' Disclosures about Pensions and Other Postretirement Benefits* (FAS 132). Specifically, the minimum accrued benefit liability that is to be reflected on a reporting entity's financial statements under FAS guidance must be at least as large as the unfunded Accumulated Benefit Obligation (ABO). If the unfunded ABO is larger than the net amount recognized on the financial statements, then an additional amount must be reflected to bring the accrued benefit liability up to the level of the unfunded ABO. This additional amount may be offset by any existing intangible asset (based on the outstanding unrecognized prior service cost, which includes the unrecognized transition obligation). However, in paragraph 2 of SSAP No. 8, any intangible asset shall be considered a nonadmitted asset. Some interested parties believe this contradicts the concept of deferring or amortizing the incremental liability set up January 1, 2001 as described in paragraph 19 of SSAP No. 8 (see examples, particularly example III). Also, in paragraph 37 of FAS 87, only the amount of the additional minimum liability that is in excess of the intangible asset shall be a reduction of equity (or a liability on the balance sheet). The rules under SSAP No. 8 appear to require a company to recognize the entire additional minimum liability, regardless of the existence of any intangible asset.

2. See examples I, II and III attached which are generated in Disclosure under SSAP No. 8. Examples I and II show disclosure for a qualified plan, while example III shows disclosure for a non-qualified plan (SERP or EXCESS plan). Please note that these examples may occur for either a qualified plan or a non-qualified plan. In these examples, each plan generates an additional minimum liability and uses an intangible asset as an offset to the additional minimum liability. Since paragraph 2 of SSAP No. 8 states that any intangible asset shall be considered a nonadmitted asset, then the entire additional minimum liability would need to be recorded on the balance sheet of the reporting entity. In the view of some interested parties, this treatment contradicts the concept of deferring or amortizing the incremental liability set up January 1, 2001 as described in paragraph 19 of SSAP No. 8 (see examples, particularly example III).

3. In examples I, the (accrued) liability is the "net amount recognized" of ($23,000,000) shown under the "Reconciliation of funded status" section. Under FAS 87, if the accumulated benefit obligation exceeds the fair value of assets, the company may need to recognize more liability than the (accrued) liability on the balance sheet. In the example, the "accrued benefit liability" line of the "Amounts recognized in statements of financial position consist of" section is equal to the unfunded accumulated benefit obligation of ($30,000,000) ($104,000,000 – $134,000,000). However, the "accrued benefit liability" is made up of two parts, the (accrued)

liability plus the additional minimum liability. In this example, the (accrued) liability is ($23,000,000) and the additional minimum liability is ($7,000,000) (($30,000,000) – ($23,000,000)).

4. Under paragraph 37 of FAS 87, an intangible asset is allowed to offset the additional minimum liability of ($7,000,000), which is shown in our example in the "intangible asset" line of the "Amounts recognized in statements of financial position consist of" section. For a reporting entity that does not follow SSAP No. 8, the total (accrued) liability on the balance sheet is ($23,000,000), since the additional minimum liability is entirely offset by the intangible asset. This results in a zero amount in the "accumulated other comprehensive income" line of the "Amounts recognized in statements of financial position consist of" section. For a reporting entity that follows SSAP No. 8, the same ($23,000,000) (accrued) liability is on the balance sheet, but it also includes an additional ($7,000,000) since an intangible asset is categorized as a nonadmitted asset.

5. Example II shows a similar situation. However, here the intangible assets does not entirely offset the additional minimum liability and the company has to recognize ($4,000,000) in "accumulated other comprehensive income" in addition to the ($14,000,000) on the balance sheet. The reporting entity that follows SSAP No. 8 would also have the intangible asset of $27,000,000 categorized as a nonadmitted asset, therefore increasing liabilities by another $27,000,000 up to $45,000,000.

INT 02-18 Discussion

6. The working group reached a consensus to require reporting entities to recognize the entire minimum pension liability in the financial statement. Further, any intangible asset offsetting the minimum pension liability shall be nonadmitted and charged to surplus.

7. The working group reached a consensus to allow a reporting entity that utilizes an actuarial valuation as of a date prior to the financial statement date to measure plan assets and obligations, and determines that an additional minimum liability is required to be established in accordance with paragraph 37 of FAS No. 87, and if the reporting entity contributes amounts to the plan to fund that additional minimum liability prior to the financial statement date, such amount funded may be used to reduce the additional minimum liability recognized in the reporting entity's financial statements.

INT 02-18 Status

8. No further discussion is planned.

XYZ Company Retirement Program
Example I
SSAP No. 8 Footnote Disclosure

	Qualified Pension Benefits 2001
Change in benefit obligation	
Projected benefit obligation at beginning of year	$130,000,000
Service cost	18,000,000
Interest cost	10,000,000
Participant contributions	0
Benefit payments	(3,000,000)
Actuarial losses/(gains)	14,000,000
Plan amendments	0
Curtailments	0
Settlements	0
Special termination benefits	0
Business combinations	0
Divestitures	0
Projected benefit obligation at end of year	$169,000,000
Accumulated benefit obligation at end of year	$134,000,000
Non-vested projected benefit obligation at end of year	$4,000,000
Change in plan assets	
Fair value of plan assets at beginning of year	$100,000,000
Actual return on assets (net of expenses)	(6,000,000)
Employer contributions	12,000,000
Participant contributions	0
Benefit payments	(2,000,000)
Settlements	0
Business combinations	0
Divestitures	0
Fair value of plan assets at end of year	$104,000,000
Reconciliation of funded status	
Funded status	($65,000,000)
Unrecognized transition obligation/(asset)	27,000,000
Unrecognized prior service cost	0
Unrecognized actuarial loss/(gain)	14,000,000
Net amount recognized	($23,000,000)
Amounts recognized in statements of financial position consist of:	
Prepaid benefit cost	$0
Accrued benefit liability (includes additional minimum liability)	(30,000,000)
Intangible asset	7,000,000
Accumulated other comprehensive income	0
Net amount recognized	($23,000,000)
Assumptions as of December 31	2001
Discount rate	7.25%
Expected return on assets	9.00%
Rate of compensation increase	Graded; 3.00% - 6.50%

XYZ Company Retirement Program
Example II
SSAP No. 8 Footnote Disclosure

	Qualified Pension Benefits 2001
Change in benefit obligation	
Projected benefit obligation at beginning of year	$302,000,000
Service cost	20,000,000
Interest cost	22,000,000
Participant contributions	0
Benefit payments	(13,000,000)
Actuarial losses/(gains)	18,000,000
Plan amendments	0
Curtailments	0
Settlements	0
Special termination benefits	0
Business combinations	0
Divestitures	0
Projected benefit obligation at end of year	$349,000,000
Accumulated benefit obligation at end of year	$320,000,000
Non-vested projected benefit obligation at end of year	$12,000,000
Change in plan assets	
Fair value of plan assets at beginning of year	$274,000,000
Actual return on assets (net of expenses)	(15,000,000)
Employer contributions	18,000,000
Participant contributions	0
Benefit payments	(2,000,000)
Settlements	0
Business combinations	0
Divestitures	0
Fair value of plan assets at end of year	$275,000,000
Reconciliation of funded status	
Funded status	($74,000,000)
Unrecognized transition obligation/(asset)	27,000,000
Unrecognized prior service cost	0
Unrecognized actuarial loss/(gain)	33,000,000
Net amount recognized	($14,000,000)
Amounts recognized in statements of financial position consist of:	
Prepaid benefit cost	$0
Accrued benefit liability (includes additional minimum liability)	(45,000,000)
Intangible asset	27,000,000
Accumulated other comprehensive income	4,000,000
Net amount recognized	($14,000,000)
Assumptions as of December 31	2001
Discount rate	7.25%
Expected return on assets	9.00%
Rate of compensation increase	Graded; 3.00% - 6.50%

XYZ Company Retirement Program
Example III
SSAP No. 8 Footnote Disclosure

	Non-Qualified Pension Benefits 2001
Change in benefit obligation	
Projected benefit obligation at beginning of year	$9,000,000
Service cost	1,000,000
Interest cost	1,000,000
Participant contributions	0
Benefit payments	0
Actuarial losses/(gains)	1,000,000
Plan amendments	0
Curtailments	0
Settlements	0
Special termination benefits	0
Business combinations	0
Divestitures	0
Projected benefit obligation at end of year	$12,000,000
Accumulated benefit obligation at end of year	$11,000,000
Non-vested projected benefit obligation at end of year	$0
Change in plan assets	
Fair value of plan assets at beginning of year	$0
Actual return on assets (net of expenses)	0
Employer contributions	0
Participant contributions	0
Benefit payments	0
Settlements	0
Business combinations	0
Divestitures	0
Fair value of plan assets at end of year	$0
Reconciliation of funded status	
Funded status	($12,000,000)
Unrecognized transition obligation/(asset)	7,000,000
Unrecognized prior service cost	0
Unrecognized actuarial loss/(gain)	1,000,000
Net amount recognized	($4,000,000)
Amounts recognized in statements of financial position consist of:	
Prepaid benefit cost	$0
Accrued benefit liability (includes additional minimum liability)	(11,000,000)
Intangible asset	7,000,000
Accumulated other comprehensive income	0
Net amount recognized	($4,000,000)

Assumptions as of December 31	**2001**
Discount rate	7.25%
Expected return on assets	9.00%
Rate of compensation increase	Graded; 3.00% - 6.50%