

Statement of Statutory Accounting Principles No. 89

Accounting for Pensions, A Replacement of SSAP No. 8

STATUS

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Accounting for Pensions, A Replacement of SSAP No. 8**SCOPE OF STATEMENT**

1. This statement establishes statutory accounting principles and related reporting for employers' pension obligations.
2. This statement supersedes the conclusions reached in *Statement of Statutory Accounting Principles* (SSAP) No. 8—*Pensions* (SSAP No. 8) and incorporates the guidance in *Interpretation* (INT) 99-24: *Accounting for Restructuring Charges*, INT 99-26: *Offsetting Pension Assets and Liabilities*, INT 01-16: *Measurement Date for SSAP No. 8 Actuarial Valuations*, INT 01-17: *Accounting for Nonqualified Retirement Plans, Nonvested Ancillary Benefits Within Retirement Plans, and Protected Benefits Such as Early Retirement Subsidies in Retirement Plans*, as well as some of the guidance in INT 02-18: *Accounting for the Intangible Asset as Described in SSAP No. 8 Paragraph 9.d.v. and 9.f.*

SUMMARY CONCLUSION**Defined Benefit Plans**

3. 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 *Financial Accounting Standards Board* (FASB) *Statement No. 87* (FAS 87), *Employers' Accounting for Pensions* with modifications to exclude non-vested employees and to account for the additional minimum pension liability. 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, other than the intangible asset associated with the transition obligation recorded as of January 1, 2001, 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. This is consistent with the definition of assets and nonadmitted assets set forth in *SSAP No. 4—Assets and Nonadmitted Assets* (SSAP No. 4).
4. If the accumulated benefit obligation exceeds the fair value of plan assets, the reporting entity shall recognize a liability (including unfunded accrued pension cost) that is at least equal to the unfunded accumulated benefit obligation. Recognition of an additional minimum liability is required if an unfunded accumulated benefit obligation exists and (a) a prepaid pension cost asset has been recognized as a nonadmitted asset, (b) the liability already recognized as unfunded accrued pension cost is less than the unfunded accumulated benefit obligation, or (c) no accrued or prepaid pension cost has been recognized.
5. If an additional minimum liability is recognized an equal amount shall be recognized as an intangible asset, provided that the asset recognized shall not exceed the amount of unrecognized prior service cost (unrecognized prior service cost shall include unamortized incremental liability). If an intangible asset generated by the additional minimum liability is recognized, only that portion in excess of the unamortized incremental liability associated with the transition shall be nonadmitted. If an additional liability required to be recognized exceeds unrecognized prior service cost, the excess (which would represent a net loss not yet recognized as net periodic pension cost) shall be reported as a component of unassigned funds (surplus), net of any tax benefits that result from considering such losses as temporary differences for purposes of applying the provisions of *SSAP No. 101—Income Taxes, A Replacement of SSAP No. 10R and SSAP No. 10.*
6. When a new determination of the amount of additional liability is made, the related intangible asset and the balance accumulated in unassigned funds (surplus) shall be eliminated or adjusted as necessary.

7. If a reporting entity settles or curtails a defined benefit plan, the reporting entity shall immediately recognize all previously unrecognized amounts as discussed below. A settlement is a transaction which is irrevocable and releases the employer from responsibility for the pension obligation by eliminating the risks relative to the obligation and the assets associated with the plan (e.g., making lump-sum cash payments to plan participants in exchange for their rights to receive specified pension benefits or purchasing nonparticipating annuity contracts to cover vested benefits). If a settlement occurs and the net result is a loss, such loss is recognized at the time of the settlement. If the net result is a gain, such gain is not recognized until the proceeds are received by the reporting entity. A curtailment is an event which significantly alters the makeup of the pension plan. If a curtailment occurs, there are generally two components to any gain or loss (e.g., a reduction in the years of service required or the employees covered). Any unrecognized prior service cost shall be recognized as a loss. An increase or decrease in pension benefit obligations due to the curtailment will also result in a gain or loss, and is combined with the prior service cost loss. If the net result of the curtailment is a loss, such loss shall be recognized when it is probable that the curtailment will occur and that the effects can be reasonably estimated. If the net result is a gain, such gain shall not be recognized in earnings until the employees terminate or the plan suspension or amendment is adopted and the proceeds are received by the reporting entity. When settlement gains or curtailment gains are recognized, any excise tax surcharges shall also be recognized.

Defined Contribution Plans

8. A defined contribution plan defines the amount of the employer's contributions to the plan and its allocation to plan participants. The pension benefit provided to the plan participant at retirement or termination depends on the amount of employer and employee contributions, earnings on plan investments and, in some plans, other participant forfeitures.

9. For defined contribution plans, the reporting entity shall expense contributions required by the plan over the period in which the employee vests in those contributions. Contributions to plan participants' accounts made prior to vesting shall be treated as prepaid expenses, and shall be nonadmitted. Contributions required after participants terminate or retire shall be accrued and an expense shall be recorded over the working lives of the participants beginning at the date the participant initially vests in plan contributions.

10. Certain defined contribution plans may define the employer's contribution as a percentage of the plan participants' individual compensation rather than as a specific dollar amount which is allocated among the plan participants. If an employer's contributions to a defined contribution plan are in excess of those required under the plan and required to be allocated to individual participants, such amounts are recorded as a prepaid expense and nonadmitted under statutory accounting principles.

Disclosures

11. The following disclosures shall be made for defined benefit pension 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 projected 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 accumulated benefit obligation for fully vested employees and partially vested employees only to the extent of their vested amounts.

- c. The amount of the projected pension obligation and accumulated benefit obligation for non-vested employees as of the most recent actuarial valuation date;
- d. 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;
- e. The funded status of the plan, 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 of this statement;
 - iv. The net pension or other postretirement benefit prepaid assets or accrued liabilities; and
 - v. Any intangible asset;
- f. 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 or range of 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, the 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.
- g. 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;
- h. 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.
 - i. 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 incremental liability or incremental asset (see paragraph 18), 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;
 - j. The amount included in unassigned funds (surplus) for the period arising from a change in the additional minimum pension liability recognized pursuant to paragraph 5;
 - k. On a weighted-average basis, the following assumptions used in the accounting for the plan: 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 the net benefit cost;
 - l. The measurement date(s) used to determine pension measurements for the pension plans that make up at least the majority of plan assets and benefit obligations;
 - 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 to paragraphs 26 and 33 of FAS 87;
 - 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.

12. The reporting entity shall disclose the amount of cost recognized for defined contribution pension 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.

13. 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.

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

Consolidated/Holding Company Plans

15. The employees of many reporting entities are members of a plan sponsored by a parent company or holding company. A reporting entity who participates in these plans and is not directly liable for obligations under the plan shall recognize pension expense equal to its allocation from the holding company or parent company of the required contribution to the plan for the period. A liability shall be established for any such contributions due and unpaid. Furthermore, the reporting entity shall disclose in the notes to 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 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 obligations under the plan, then the requirements outlined above in paragraphs 3-11 and 18-22 of this statement shall be applied.

Relevant Literature

16. The conclusions in paragraphs 3-11 and 18-22 adopt FAS 87, *FASB Statement No. 88, Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits* (FAS 88), *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 (R), Employers' Disclosures about Pensions and Other Postretirement Benefits—An Amendment of FASB Statements No. 87, 88, and 106* (FAS 132R) with certain modifications. Those modifications and additional information from nullified interpretations are listed below:

- a. Calculation of the pension obligation shall exclude non-vested employees. Partially vested employees are included only to the extent of their vested amounts;
- b. A liability for ancillary benefits (primarily death and disability benefits) shall be accrued prior to the triggering event of these benefits for purposes of Projected Benefit Obligation (PBO) and Service Cost (SC) in accordance with the guidance in FAS 87 (use of a general vesting standard rather than an Internal Revenue Service income tax vesting standard);
- c. A liability for protected, nonvested benefits shall be accrued for purposes of PBO and SC in accordance with the guidance in FAS 87 (use of a general vesting standard rather than an Internal Revenue Service income tax vesting standard);
- d. A liability for nonvested, nonqualified benefits prior to retirement shall be accrued for purposes of PBO and SC in accordance with the guidance in FAS 87 (using a general vesting standard rather than an Internal Revenue Service income tax vesting standard) when there is no longer a substantial risk of forfeiture;

- e. Entities shall perform actuarial analysis consistent with the three month guideline contained within FAS 87; (Incorporated from *INT 01-16: Measurement Date for SSAP No. 8 Actuarial Valuations*)
- f. 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 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;
- g. It is not acceptable statutory accounting practice to offset pension or postretirement benefits other than pensions (OPEB) liability generated by one plan against the prepaid asset of another plan; (Incorporated from *INT 99-26: Offsetting Pension Assets and Liabilities*)
- h. Reporting entities may downsize their operations and in doing so, often offer severance pay and other benefits to displaced workers. Costs associated with downsizing shall be recorded as an expense in the financial statements;
- i. The prepaid asset which results from an excess of the fair value of plan assets over the pension obligation shall be recorded as a nonadmitted asset;
- j. Any intangible asset offsetting the minimum pension liability (excluding the unamortized incremental liability associated with transition) shall be nonadmitted and charged to surplus;
- k. Any additional minimum liability in excess of unrecognized prior service cost that is reported as a component of unassigned funds (surplus), shall be classified as an aggregate write-in for gains and losses in surplus;
- l. As of January 1, 2001 the pension obligation or asset not previously recognized related to vested employees may be recorded immediately or may be amortized over future periods;
- m. Paragraphs 36-38 of FAS 87 are adopted with the modifications described in paragraph 5 of this statement;
- n. A net gain (net of excise tax surcharge) resulting from the settlement or curtailment of a pension plan is not recognized until the proceeds are received by the reporting entity;
- o. 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 included in paragraph 5 of FAS 132;
- p. For the disclosures relating to the initial date of application in paragraph 5 of FAS 132 and FAS 132R, January 1, 2001 shall be considered the initial date of application; and
- q. Pension disclosures relating to other comprehensive income in paragraph 5 of FAS 132 and FAS 132R shall be made for unassigned funds (surplus) on a statutory basis.

17. This statement also adopts *FASB Emerging Issues Task Force No. 88-1, Determination of Vested Benefit Obligation for a Defined Benefit Pension Plan, FASB Emerging Issues Task Force No. 90-3, Accounting for Employers' Obligations for Future Contributions to a Multiemployer Pension Plan, FASB Emerging Issues Task Force No. 91-7, Accounting for Pension Benefits Paid by Employers after*

Insurance Companies Fail to Provide Annuity Benefits, and FASB Emerging Issues Task Force No 96-5, Recognition of Liabilities for Contractual Termination Benefits or Changing Benefit Plan Assumptions in Anticipation of a Business Combination. This statement nullifies *INT 99-24: Accounting for Restructuring Charges; INT 01-17: Accounting for Nonqualified Retirement Plans, Nonvested Ancillary Benefits Within Retirement Plans, and Protected Benefits Such as Early Retirement Subsidies in Retirement Plans; and INT 02-18: Accounting for the Intangible Asset as Described in SSAP No. 8 Paragraph 9.d.v. and 9.f.*

Effective Date and Transition

18. As of January 1, 2001, the transition obligation or asset shall be determined as the difference between the vested projected benefit obligation and the fair value of plan assets. If prior to the effective date of January 1, 2001, the reporting entity has adopted FAS 87 for statutory accounting purposes, the transition obligation or asset calculated above shall be compared to those amounts previously recorded under FAS 87. The difference between these amounts represents an incremental asset or liability. If the reporting entity has not previously adopted FAS 87 for statutory accounting purposes, the entire transition asset or obligation represents the incremental asset or liability.

19. As of January 1, 2001, if the reporting entity calculates an incremental liability, this liability shall be recognized according to one of the two following methods:

- a. The reporting entity may elect to record the entire incremental liability as a direct charge to surplus;
- b. Alternatively, the reporting entity may elect to amortize the incremental liability as a component of net periodic pension cost over a period not to exceed 20 years.

20. As of January 1, 2001, if the reporting entity calculates an incremental asset, this asset shall be recognized according to one of the two following methods:

- a. The reporting entity may elect to record the entire incremental asset as a direct credit to surplus;
- b. Alternatively, the reporting entity may elect to accrue the incremental asset as a component of net periodic pension cost in an amount each period such that total net periodic pension cost may be reduced to an amount not less than zero (i.e., the accrual of the incremental asset may be used to offset current period net periodic pension cost).

21. An incremental asset resulting from a transition obligation that is less than an amount previously recorded under FAS 87 shall first reduce the recorded liability. Any remaining incremental asset shall be recorded as nonadmitted.

22. This statement is effective for years ending on or after, December 31, 2003. SSAP No. 8 applies to the calculation of the transition obligation in accordance with the adoption of FAS 87 for periods prior to the adoption of this statement. 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*. For reporting entities that expensed the additional minimum pension liability through income prior to January 1, 2004 under SSAP No. 8, if the additional minimum pension liability subsequently decreases because of factors such as asset value recovery, the reversal of the expense shall be through unassigned funds (surplus). Restatement of previously expensed additional minimum liability amounts through the income statement is not permitted.

AUTHORITATIVE LITERATURE**Generally Accepted Accounting Principles**

- *FASB Statement No. 87, Employers' Accounting for Pensions*
- *FASB Statement No. 88, Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits*
- *FASB Statement No. 132, Employers' Disclosures about Pensions and Other Postretirement Benefits an amendment of FASB Statements No. 87, 88, and 106*
- *FASB Emerging Issues Task Force No. 88-1, Determination of Vested Benefits Obligation for a Defined Benefit Pension Plan*
- *FASB Emerging Issues Task Force No. 90-3, Accounting for Employers' Obligations for Future Contributions to a Multiemployer Pension Plan*
- *FASB Emerging Issues Task Force No. 91-7, Accounting for Pension Benefits Paid by Employers after Insurance Companies Fail to Provide Annuity Benefits*
- *FASB Emerging Issues Task Force No. 96-5, Recognition of Liabilities for Contractual Termination Benefits or Changing Benefit Plan Assumptions in Anticipation of a Business Combination*

RELEVANT ISSUE PAPERS

- *Issue Paper No. 8—Accounting for Pensions*
- *Issue Paper No. 123—Accounting for Pensions, A Replacement of SSAP No. 8*

SSAP No. 89—EXHIBIT A**Pension Journal Entry Illustrations**

This Exhibit is included to assist in the implementation of SSAP No. 89. Further, these illustrations adopt FAS 87, paragraph 261, *Illustration 5—Recognition of Pension Liability, Including Minimum Liability* with modification to conform to the gross presentation basis utilized in statutory accounting principles versus the net presentation basis utilized in generally accepted accounting principles.

These illustrations report the additional minimum liability separately from the prepaid/accrued pension cost. This treatment provides increased transparency in the reporting of pension accounts and recommends reporting the intangible pension asset and any additional liability as separate annual statement write-ins.

Please note that the gross presentation basis provides additional detail of pension assets and liabilities, but does not create a GAAP to SAP difference beyond the modifications to *Financial Accounting Standards Board Statement No. 87, Employers' Accounting for Pensions* described in paragraph 16 of SSAP No. 89; the totals will be consistent if netted as a cross-check.

Case 1—Minimum Liability Less Than Unrecognized Prior Service Cost

Company K applied the provisions of this Statement, including those requiring recognition of minimum liability, for its 2001 financial statements. Shown below is the funded status of its plan for the years 2004 through 2007.

	2004	As of December 31,		2007
		2005	2006	
		(in thousands)		
FUNDED STATUS—COMPANY K				
Assets and obligations:				
Accumulated benefit obligation	\$(1,254)	\$(1,628)	\$(1,616)	\$(1,554)
Plan assets at fair value	1,165	1,505	1,622	1,517
Unfunded accumulated benefits	\$ (89)	\$ (123)		\$ (37)
Overfunded accumulated benefits			\$ 6	
Projected benefit obligation	\$(1,879)	\$(2,442)	\$(2,424)	\$(2,331)
Plan assets at fair value	1,165	1,505	1,622	1,517
Items not yet recognized in earnings:				
Unrecognized incremental liability (asset) at January 1, 2001	280	260	240	220
Unrecognized prior service cost	715	1,314	1,172	1,039
Unrecognized net gain	(251)	(557)	(460)	(476)
(Accrued)/prepaid pension cost	<u>\$ 30</u>	<u>\$ 80</u>	<u>\$ 150</u>	<u>\$ (31)</u>

DETERMINATION OF AMOUNTS TO BE RECOGNIZED

(Accrued)/prepaid pension cost at beginning of year	\$ 0	\$ 30	\$ 80	\$ 150
Net periodic pension cost	(304)	(335)	(397)	(361)
Contribution	<u>334</u>	<u>385</u>	<u>467</u>	<u>180</u>
(Accrued)/prepaid pension cost at end of year	<u>\$ 30</u>	<u>\$ 80</u>	<u>\$ 150</u>	<u>\$ (31)</u>
Required minimum liability (unfunded accumulated benefits)	\$ (89)	\$ (123)	\$ 0	\$ (37)
Adjustment required to reflect minimum liability:				
Additional liability ^(a)	\$ (89)	\$ (34)	\$ 123	\$ (6)
Intangible asset (not to exceed unrecognized prior service cost inclusive of unrecognized incremental liability)	\$ 89	\$ 34	\$ (123)	\$ 6
Balance of additional liability	\$ (89)	\$ (123)	\$ 0	\$ (6)
Balance of intangible asset	\$ 89	\$ 123	\$ 0	\$ 6

^(a) This amount is equal to unfunded accumulated benefits, minus accrued pension cost, minus the previous balance. For financial statement presentation, the additional liability is not combined with the (accrued)/prepaid pension cost. Rather, record the additional liability in the category "Aggregate write-ins for other liabilities". In the event a prepaid pension cost exists, it is not recorded net with the additional liability; rather, record the prepaid expense in the category "Aggregate write-ins for other than invested assets". Finally, record an intangible asset resulting from an additional minimum liability calculation in the category "Aggregate write-ins for other than invested assets". Only the portion of the intangible asset that is in excess of the unrecognized incremental liability is nonadmitted.

Journal Entries

The journal entries required to reflect the accounting for the company's pension plan for the years 2004 through 2007 are as follows (in thousands):

Year 2004:Entry 1

Net periodic pension cost (G/A Expense) ^(b)	304	
Accrued pension cost (G/A Due and Accrued)		304

To record net periodic pension cost for the period.

Entry 2

Accrued pension cost (G/A Due and Accrued)	304	
Prepaid pension cost (Asset Write-in)	30	
Cash		334

To record cash contribution.

Entry 3

Unassigned Funds (Change in nonadmitted asset)	30	
Prepaid pension cost (Asset Write-in)		30

To record the change in nonadmitted asset.

Entry 4

Intangible asset (Asset Write-in)	89	
Additional liability (Liability Write-in)		89

To record an additional liability to reflect the required minimum liability. ^(c)

Year 2005:Entry 1

Net periodic pension cost (G/A Expense)	335	
Accrued pension cost (G/A Due and Accrued)		335

To record net periodic pension cost for the period.

^(b) For financial statement presentation, allocate net periodic pension cost among claims, claims adjustment expenses and adjusting and other as required in the SSAPs and the Annual Statement Instructions for each line of business.

^(c) For financial statement presentation, the additional liability account balance is *not* combined with the accrued/prepaid pension cost account balance. Since SAP supports a gross presentation, the company would recognize prepaid pension cost of \$30 as a nonadmitted asset, the additional liability of \$89, which is equal to unfunded accumulated benefits because there is no accrued pension cost, and an admitted intangible asset of \$89 as the amount does not exceed the unrecognized incremental liability of \$280.

Entry 2

Accrued pension cost	335	
Prepaid pension cost (Asset Write-in)	50	
Cash		385

To record cash contribution.

Entry 3

Unassigned Funds (Change in nonadmitted asset)	50	
Prepaid pension cost (Asset Write-in)		50

To record change in nonadmitted asset.

Entry 4

Intangible asset (Asset Write-in)	34	
Additional liability (Liability Write-in)		34

To record an additional liability to reflect the required minimum liability.

Year 2006:

Entry 1

Net periodic pension cost (G/A Expense)	397	
Accrued pension cost (G/A Due and Accrued)		397

To record net periodic pension cost for the period.

Entry 2

Accrued pension cost	397	
Prepaid pension cost (Asset Write-in)	70	
Cash		467

To record cash contribution.

Entry 3

Unassigned Funds (Change in nonadmitted asset)	70	
Prepaid pension cost (Asset Write-in)		70

To record change in nonadmitted asset.

Entry 4

Additional liability (Liability Write-in)	123	
Intangible asset (Asset Write-in)		123

To reverse additional liability no longer required (Since plan assets exceed accumulated benefits, no additional liability is necessary.)

Year 2007:Entry 1

Net periodic pension cost (G/A Expense)	361	
Accrued pension cost (G/A Due and Accrued)		361

To record net periodic pension cost for the period

Entry 2

Accrued pension cost	361	
Prepaid pension cost (Asset Write-in)		150
Cash		180
Accrued pension cost (G/A Due and Accrued)		31

To record cash contribution.

Entry 3

Prepaid pension cost (Asset Write-in)	150	
Unassigned Funds (Change in nonadmitted asset)		150

To record change in nonadmitted asset.

Entry 4

Intangible asset (Asset Write-in)	6	
Additional liability (Liability Write-in)		6

To record an additional liability to reflect the required minimum liability.

Case 2—Minimum Liability in Excess of Unrecognized Prior Service Cost

Company L applied the provisions of this Statement, including those requiring recognition of minimum liability, for its 2001 financial statements. Shown below is the funded status of its plan for the years 2004 and 2005.

	As of December 31,	
	2004	2005
	(in thousands)	
FUNDED STATUS—COMPANY L		
Assets and obligations:		
Accumulated benefit obligation	\$(1,270)	\$(1,290)
Plan assets at fair value	<u>1,200</u>	<u>1,304</u>
Unfunded accumulated benefits	\$ (70)	
Overfunded accumulated benefits		<u>\$ 14</u>
Projected benefit obligation	\$(1,720)	\$(1,807)
Plan assets at fair value	<u>1,200</u>	<u>1,304</u>
Items not yet recognized in earnings:		
Unrecognized incremental liability (asset) at January 1, 2001	20	16
Unrecognized prior service cost	42	40
Unrecognized net loss	<u>486</u>	<u>497</u>
(Accrued)/prepaid pension cost	<u>\$ 28</u>	<u>\$ 50</u>
DETERMINATION OF AMOUNTS TO BE RECOGNIZED		
(Accrued) prepaid pension cost at beginning of year	\$ 0	\$ 28
Net periodic pension cost	(141)	(144)
Contribution	<u>169</u>	<u>166</u>
(Accrued)/prepaid pension cost at end of year	<u>\$ 28</u>	<u>\$ 50</u>
Required minimum liability (unfunded accumulated benefits)	\$ 70	\$ 0
Adjustment required to reflect minimum liability:		
Additional liability ^(d)	\$ (70)	\$ 70
Intangible asset (not to exceed unrecognized prior service cost inclusive of unrecognized incremental liability)	\$ 62	\$ (62)
Charge to surplus (excess of AML over unrecognized prior service cost inclusive of unrecognized incremental liability)	\$ 8	\$ (8)
Balance of additional liability	\$ (70)	\$ 0
Balance of intangible asset	\$ 62	\$ 0
Balance of surplus account	\$ 8	\$ 0

^(d) This amount is equal to unfunded accumulated benefits, minus accrued pension cost, minus the previous balance. For financial statement presentation, the additional liability is not combined with the (accrued)/prepaid pension cost. Rather, record the additional liability in the category “Aggregate write-ins for other liabilities”. In the event a prepaid pension cost exists, it is not recorded net with the additional liability; rather, record the prepaid expense in the category “Aggregate write-ins for other than invested assets”. Finally, record an intangible asset resulting from an additional minimum liability calculation in the category “Aggregate write-ins for other than invested assets”. Only the portion up to the unrecognized incremental liability cost is admitted.

Journal Entries

The journal entries required to reflect the accounting for the company's pension plan for the years 2004 and 2005, are as follows (in thousands):

Year 2004:Entry 1

Net periodic pension cost (G/A Expense)	141	
Accrued pension cost (G/A Due and Accrued)		141

To record net periodic pension cost for the period.

Entry 2

Accrued pension cost (G/A Due and Accrued)	141	
Prepaid pension cost (Asset Write-in)	28	
Cash		169

To record cash contribution.

Entry 3

Unassigned Funds (Change in Nonadmitted Asset)	28	
Prepaid pension cost (Asset Write-in)		28

To record change in nonadmitted asset.

Entry 4

Excess of additional pension liability over unrecognized prior service cost (Surplus aggregate Write-in)	8	
Intangible asset (Asset Write-in)	62	
Additional liability (Liability Write-in)		70

To record an additional liability to reflect the required minimum liability. ^(e)

^(e) For financial statement presentation, the additional liability account balance is *not* combined with the accrued/prepaid pension cost account balance. Since SAP supports a gross presentation, the company would record the following: 1) prepaid pension cost of \$28 as a nonadmitted asset; 2) an additional liability of \$70, which equals the unfunded accumulated benefits as there is no accrued pension cost; 3) an intangible asset of \$62; and 4) a surplus aggregate write-in of \$8 as the additional liability exceeds unrecognized prior service cost plus the unrecognized incremental liability.

Entry 5

Unassigned Funds (Change in Nonadmitted Asset)	42	
Intangible asset (Asset Write-in)		42

To record the nonadmitted portion of the nonadmitted intangible asset. ^(f)

Year 2005:

Entry 1

Net periodic pension cost (G/A Expense)	144	
Accrued pension cost (G/A Due and Accrued)		144

To record net pension cost for the period.

Entry 2

Accrued pension cost (G/A Due and Accrued)	144	
Prepaid pension cost (Asset Write-in)	22	
Cash		166

To record cash contribution.

Entry 3

Unassigned Funds (Change in nonadmitted asset)	22	
Prepaid pension cost (Asset Write-in)		22

To record change in nonadmitted asset.

Entry 4

Additional liability (Liability Write-in)	70	
Excess of additional pension liability over unrecognized prior service cost (Surplus Aggregate Write-in)		8
Intangible asset (Asset Write-in)		62

To reverse additional liability no longer required (Since plan assets exceed accumulated benefits, no additional liability is necessary.)

Entry 5

Intangible asset (Asset Write-in)	42	
Unassigned Funds (Change in Nonadmitted Asset)		42

To record the change in nonadmitted portion of the intangible asset.

^(f) Per SSAP No. 89, paragraph 5, "...only the portion of the intangible asset in excess of the unamortized incremental liability associated with the transition shall be nonadmitted." Thus, when a company records an intangible asset, prior service cost is \$42, and the unrecognized incremental liability is \$20, only \$20 of the intangible asset is admitted.