EITF ABSTRACTS

Issue No. 06-10

Title: Accounting for Collateral Assignment Split-Dollar Life Insurance Arrangements

Dates Discussed: November 16, 2006; March 15, 2007

References:
FASB Statement No. 5, *Accounting for Contingencies*
FASB Statement No. 88, *Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits*
FASB Statement No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions*
FASB Statement No. 154, *Accounting Changes and Error Corrections*
FASB Technical Bulletin No. 85-4, *Accounting for Purchases of Life Insurance*
FASB Concepts Statement No. 6, *Elements of Financial Statements*
APB Opinion No. 12, *Omnibus Opinion—1967*
APB Opinion No. 21, *Interest on Receivables and Payables*
AICPA Issues Paper, *Accounting for Key-Person Life Insurance*, dated October 31, 1984
International Accounting Standard 19, *Employee Benefits*
EITF Issue No. 06-4, "Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements"
EITF Issue No. 06-5, "Accounting for Purchases of Life Insurance—Determining the Amount That Could Be Realized in Accordance with FASB Technical Bulletin No. 85-4"

ISSUE

1. Companies purchase life insurance for various reasons that may include protecting against the loss of "key" employees, funding deferred compensation and postretirement benefit obligations, and providing an investment return. The two most common types of arrangements are endorsement split-dollar life insurance arrangements and collateral assignment split-dollar life insurance arrangements. Generally, the difference between these arrangements is dependent upon the ownership and control of the life insurance policy. In an endorsement split-dollar life insurance arrangement, the company owns and

Copyright © 2007, Financial Accounting Standards Board Not for redistribution

controls the insurance policy, whereas in a collateral assignment split-dollar life insurance arrangement, the employee (or the employee's estate or a trust controlled by the employee, hereinafter referred to as the "employee") owns and controls the insurance policy.

2. The Task Force reached a consensus on Issue 06-4 that for an endorsement split-dollar life insurance arrangement, an employer should recognize a liability for future benefits in accordance with Statement 106 (if, in substance, a postretirement benefit plan exists) or Opinion 12 (if the arrangement is, in substance, an individual deferred compensation contract) based on the substantive agreement with the employee.

3. The issues are:

Issue 1— Whether an entity should recognize a liability for the postretirement benefit associated with a collateral assignment split-dollar life insurance arrangement in accordance with either Statement 106 (if, in substance, a postretirement benefit plan exists) or Opinion 12 (if the arrangement is, in substance, an individual deferred compensation contract) based on the substantive agreement with the employee

Issue 2—How an employer should recognize and measure the asset in a collateral assignment split-dollar life insurance arrangement.

EITF DISCUSSION

4. The Task Force reached a consensus on Issue 1 that an employer should recognize a liability for the postretirement benefit related to a collateral assignment split-dollar life insurance arrangement in accordance with either Statement 106 (if, in substance, a postretirement benefit plan exists) or Opinion 12 (if the arrangement is, in substance, an individual deferred compensation contract) if the employer has agreed to maintain a life insurance policy during the employee's retirement or provide the employee with a death

Copyright © 2007, Financial Accounting Standards Board Not for redistribution

benefit based on the substantive agreement with the employee. For example, if the employer has effectively agreed to maintain[1] a life insurance policy during the employee's retirement, the estimated cost of maintaining the insurance policy during the postretirement period should be accrued in accordance with either Statement 106 or Opinion 12. Similarly, if the employer has effectively agreed to provide the employee with a death benefit, the employer should accrue a liability for the actuarial present value of the future death benefit as of the employee's expected retirement date, in accordance with either Statement 106 or Opinion 12.

5. The Task Force observed that all available evidence should be considered in determining the substance of the arrangement, such as explicit written terms of the arrangement, communications made by the employer to the employee, the employer's past practices in administering the same or similar arrangements, and whether the employer is the primary obligor for the postretirement benefit. For example, if the terms of the arrangement are such that the employer has no obligation, either stated or implied, to provide loans to an employee to cover insurance policy premiums in the postretirement period, that may be an indication that there is no postretirement obligation. However, if the employer through the collateral assignment arrangement with the employee has an obligation, either stated or implied, to provide loans to an employee to cover the experience gains and losses of the insurance company, that may indicate that an employer

[1] For purposes of this Issue, an employer has agreed to maintain a life insurance policy if the employer has a stated or implied commitment to provide loans to an employee to fund premium payments on the underlying insurance policy during the postretirement period. Absent evidence to the contrary, it shall be presumed that an employer will provide loans to an employee to fund premium payments on the underlying insurance policy in the postretirement period if the employer has provided loans in the past or if the employer is currently promising to provide loans in the future.

Copyright © 2007, Financial Accounting Standards Board Not for redistribution

has a postretirement benefit obligation. In determining the appropriate measurement and attribution of the cost and obligation under any particular arrangement, employers should refer to the guidance in Statement 106 or Opinion 12, as applicable.

6. In periods following the inception of the collateral assignment split-dollar life insurance arrangement, the Task Force observed that employers should continue to evaluate (pursuant to the guidance in Statement 106) whether a change in facts and circumstances (for example, an amendment to the arrangement or change from the employer's past practice) has altered the substance of the collateral assignment split-dollar life insurance arrangement, which could result in a liability or an adjustment to a previously recognized liability, for a postretirement benefit.

7. On Issue 2, the Task Force reached a consensus that an employer should recognize and measure an asset based on the nature and substance of the collateral assignment split-dollar life insurance arrangement. The Task Force observed that in determining the nature and substance of the arrangement, the employer should assess what future cash flows the employer is entitled to, if any, as well as the employee's obligation and ability to repay the employer. For example, if the arrangement limited the amount the employer could recover to the amount of the cash surrender value of the insurance policy held by the employee (or retiree), and if the employer's loan to the employee (or retiree) is greater than the cash surrender value of the insurance policy, at the balance sheet date the employer's asset would be limited to the amount of the cash surrender value of the insurance policy. Conversely, if the arrangement required the employee to repay the employer irrespective of the collateral assigned and the employer (a) has determined that

Copyright © 2007, Financial Accounting Standards Board Not for redistribution

the employee loan is collectible and (b) intends to seek recovery beyond the cash surrender value of the life insurance policy, the employer should recognize the value of the loan (including accrued interest, if applicable) considering the guidance in Opinion 21. An employer should evaluate all available information in determining the nature and substance of the collateral assignment split-dollar life insurance arrangement.

Transition

8. The consensus in this Issue is effective for fiscal years beginning after December 15, 2007, including interim periods within those fiscal years. Earlier application is permitted. Entities should recognize the effects of applying the consensus in this Issue through either (a) a change in accounting principle through a cumulative-effect adjustment to retained earnings or to other components of equity or net assets in the statement of financial position as of the beginning of the year of adoption or (b) a change in accounting principle through retrospective application to all prior periods.

9. If an entity chooses to apply the consensus in this Issue as a change in accounting principle through a cumulative-effect adjustment to retained earnings, the entity should disclose the cumulative effect of the change on retained earnings or on other components of equity or net assets in the statement of financial position.

10. If an entity chooses to apply the consensus in this Issue as a change in accounting principle through retrospective application to all prior periods, the entity should include the recognition of:

a. The cumulative effect of the change in accounting principle on periods prior to those presented reflected in the carrying amounts of assets and liabilities as of the beginning of the first period presented

Copyright © 2007, Financial Accounting Standards Board Not for redistribution

b. The cumulative effect of the change in accounting principle on retained earnings or on other components of equity or net assets in the statement of financial position as of the beginning of the first period presented
c. Adjustments to financial statements for each individual prior period presented to reflect the period-specific effects of applying the change in accounting principle.

11. If an entity chooses to apply the consensus in this Issue as a change in accounting principle through retrospective application to all prior periods, the entity should disclose the following:

a. A description of the prior-period information that has been retrospectively adjusted
b. The effect of the change in accounting principle on income from continuing operations, net income (or other appropriate captions of changes in the applicable net assets or performance indicator), any other affected financial statement caption, and any affected per-share amounts for any prior periods retrospectively adjusted
c. The cumulative effect of the change in accounting principle on retained earnings or other components of equity or net assets in the statement of financial position as of the beginning of the earliest period presented.

Board Ratification

12. At its March 28, 2007 meeting, the Board ratified the consensus reached by the Task Force in this Issue.

STATUS

13. No further EITF discussion is planned.

Copyright © 2007, Financial Accounting Standards Board Not for redistribution

Suggested Index Entries for Issue No. 06-10, “Accounting for Collateral Assignment Split-Dollar Life Insurance Arrangements”

Copyright © 2007, Financial Accounting Standards Board Not for redistribution