Introduction

In December 1990, the Financial Accounting Standards Board issued FASB Statement No. 106, Employers' Accounting for Postretirement Benefits Other Than Pensions. The Board cannot anticipate all the implementation questions that may arise for a particular Statement and provide answers to those questions when the Statement is issued. Accordingly, questions of implementation often are raised with the FASB staff by preparers, auditors, and others. Because of the unusually high number of inquiries received and the inherent complexities of accounting for postretirement benefits other than pensions, the FASB staff determined that this Special Report should be issued as an aid in understanding and implementing Statement 106.

In addition, the Special Reports on FASB Statements No. 87, Employers' Accounting for Pensions, and No. 88, Employers' Accounting for Settlements and Entitlements of Defined Benefit Pension Plans and for Termination Benefits, can be useful in answering questions on Statement 106 because of the similarities between accounting for pensions and accounting for other postretirement benefits. This Special Report contains implementation questions and answers that are not addressed in those reports. They are organized by the general topic in Statement 106 to which the questions relate.

Q&A 106 Questions and Answers

Scope

1. **Q**—Does FASB Statement No. 106, Employers' Accounting for Postretirement Benefits Other Than Pensions, apply to long-term disability benefits paid to former employees on disability retirement under an employer's postretirement benefit plan? [6, 11, 136, 137] *(2)*

   **A**—Yes. Statement 106 applies to postretirement benefits expected to be provided to disabled employees, whether in cash or in kind, for example, disability medical benefits. Paragraphs 136 and 137 of the Statement contain additional discussion of this issue. Disability benefits paid to former or inactive employees not on disability retirement should be accounted for under FASB Statement No. 112, Employers' Accounting for Postemployment Benefits. Disability income benefits paid pursuant to a pension plan should be accounted for under FASB Statement No. 87, Employers' Accounting for Pensions. Thus, which Statement applies depends on the type of plan that pays the benefits and on how the employer defines retirement in administering its plan(s).

2. **Q**—If some employees at retirement voluntarily elect under the provisions of the Consolidated Omnibus Budget Reconciliation Act of 1985 (COBRA), as amended, to continue their health care coverage provided through the active employee health care plan and the cost to the employer of
their continuing coverage exceeds the retirees' contributions, should the employer account for that cost under Statement 106? [6]

A—No. The right to continue health care coverage under COBRA does not constitute a postretirement benefit plan per se because an employee need not be a retiree to receive that benefit. It is a right generally available upon termination of employment. The employer should account for the excess cost in accordance with Statement 112.

3. Q—A collectively bargained defined benefit postretirement health care plan of a single employer may stipulate that benefits will be provided for the duration of the collective-bargaining agreement or may imply or explicitly state that benefits are subject to renegotiation upon the expiration of the current collective-bargaining agreement. Past negotiations have resulted in the continuation of the plan, although the plan has been amended at various times. Should the accumulated postretirement benefit obligation (APBO) be measured based only on benefits expected to be paid during the period the current agreement will be in force? [8, 23]

A—No. The APBO should be measured assuming that benefits will be provided beyond the period covered by the current collective-bargaining agreement. Paragraph 8 of Statement 106 states, "Absent evidence to the contrary, it shall be presumed that an employer that has provided postretirement benefits in the past or is currently promising those benefits to employees will continue to provide those future benefits." Thus, like accounting for the substantive plan, the practice of providing postretirement benefits creates a presumption that postretirement benefits will continue to be provided in the future. Unless the most recently negotiated collective-bargaining agreement explicitly states for the first time that the payment of postretirement benefits will be discontinued upon the contract's expiration and that is the expectation of the parties to the agreement, the presumption of an ongoing plan is not overcome by the presence of an expiration date for the present collective-bargaining agreement.

Deferred Compensation Contracts

4. Q—How should an employer account for a deferred compensation contract that does not provide a vested benefit for the employee's prior service at the date the contract is entered into? For example, an employee must render 30 years of service to receive benefits under a deferred compensation contract and has rendered 16 years of service at the date of entering into the contract. Credit is granted for that prior service in determining eligibility for the benefit to be provided. Should the total obligation be accrued over the remaining 14 years of service, or should the employer immediately recognize the portion related to the 16 years of service already rendered? [9, 13]

A—In this example, the employer should accrue the total obligation under the deferred compensation contract in a systematic and rational manner over the employee's future service period to the date full eligibility for the benefits is attained, that is, over the next 14 years, pursuant to ♦ paragraph 6 of APB Opinion No. 12, Omnibus Opinion—1967, as amended by Statement 106. If the employee is eligible to receive a portion of the benefits without regard to future service, that is, the credit for prior service results in a vested benefit, the obligation for that benefit should be fully accrued at the time the contract is entered into.

5. Q—An employee becomes fully eligible for benefits under a deferred compensation contract five years after entering into the contract. The contract states, however, that if the employee dies or becomes disabled, benefits will be payable immediately. The contract is not one of a group of contracts that possess the characteristics of a pension plan. What is the attribution period? [9, 13]

A—If the employee is expected to render service over the next five years, benefits should be
attributed over that service period. If death or disability unexpectedly occurs during the five-year period, the benefit obligation should be remeasured and any previously unrecognized amount should be immediately recognized at the date of the event. If the employee is expected to terminate service within the next five years, an accrual is normally not required because the employee is not expected to receive benefits under the plan. However, in the rare situation that it is probable that death or disability will occur during the five-year period, the benefit should be accrued over the relevant service period.

Substantive Plan

6. Q—Can future amendments to a written postretirement health care plan that change the amount of a defined dollar cap be anticipated as part of the substantive plan? [17, 23-25]

A—Yes, if the conditions in paragraphs 24 and 25 of Statement 106 are satisfied. A defined dollar cap is part of an employer's cost-sharing arrangement under which the employer limits the amount it will spend for retiree benefits by defining the maximum dollar amount for each retiree or the retiree group to be applied by the employer toward the cost of retiree benefits. For example, a plan with a defined dollar cap may stipulate that the employer will pay all retiree health care costs in a year up to a specified dollar limit. A past practice of regular increases (or decreases) in that defined dollar cap may indicate that the cost-sharing provisions of the substantive plan differ from the extant written plan.

7. Q—Is a postretirement health care plan with a defined dollar cap considered to be a plan that provides benefits defined in terms of monetary amounts as discussed in paragraph 26? [16, 17, 26]

A—No. Changes in monetary benefits provided by one plan or changes in the amount of a defined dollar cap on cost sharing for a different plan may need to be anticipated as part of determining what are the substantive plans. However, the nature of the promises for the two plans differs. Benefits for the first plan are defined in monetary amounts, for example, a stipulated dollar amount of life insurance coverage, whereas benefits offered under the defined dollar capped plan are not defined in monetary amounts. Although the cap on the employer's contribution is defined in monetary terms, the benefits are the specified eligible medical claims with payment by the employer being no greater than the amount of that cap. Changes in the types of benefits or the types of health care costs covered by a plan cannot be anticipated.

Measurement Assumptions

8. Q—Should the assumed discount rates used to measure an employer's postretirement benefit obligation be the same rates used to measure its pension benefit obligation under Statement 87? [31, 180-188]

A—The rates may be the same, or they may not be for various reasons. Similar to the provisions in Statement 87, the assumed discount rates under Statement 106 should reflect the rates at which an amount invested at the measurement date in a portfolio of high-quality debt instruments would provide the necessary future cash flows to pay benefits when due. However, differences could occur between the discount rates used to measure the pension benefit obligation and the discount rates used to measure the postretirement benefit obligation. For example, the expected timing of postretirement benefit payments may differ from the expected timing of pension benefit payments. Those differences could occur particularly if the participants in each plan are different. In addition, rates implicit in current prices of annuity contracts might be used to measure the pension benefit obligation, and no similar contracts may be available to settle the postretirement benefit obligation.
9. **Q—** An employer sponsors a health care plan that provides benefits to both active employees and pre-age-65 retirees. The plan requires active employees and retirees to contribute to the plan. Can the contributions of active employees ever be used to reduce the employer's cost of providing benefits to retirees? [35]

**A—** Yes, but only if the amount contributed by active employees over their service periods exceeds the cost of providing their health care benefits while they are employed and the employer has no obligation to refund that excess. In that case, the excess would be applied to reduce the cost of the retirees' benefits. If active employee contributions do not exceed the cost of active benefits, the full amount of the active employees' contributions should be applied to the cost of their active benefits. The cost of providing health care benefits to active employees should be measured assuming only active employees are covered by the plan.

10. **Q—** An employer has a contributory health care plan covering active employees and retirees under which retirees pay 100 percent of the average cost of benefits determined based on the combined experience of active employees and retirees. The employer pays all of the remaining cost. The active employees do not contribute to the plan. Under this arrangement, does the employer have an obligation under Statement 106? [35]

**A—** Yes, if the actual cost of providing benefits to the retirees is greater than their contributions. In that case, the employer is subsidizing a portion of the cost of the retirees' benefits. Footnote 14 to paragraph 35 states:

In some cases, retiree contributions are established based on the average per capita cost of benefit coverage under an employer's health care plan that provides coverage to both active employees and retirees. However, the medical cost of the retirees may cause the average per capita cost of benefit coverage under the plan to be higher than it would be if only active employees were covered by the plan. In that case, the employer has a postretirement benefit obligation for the portion of the expected future cost of the retiree health care benefits that are not recovered through retiree contributions, Medicare, or other providers of health care benefits. Thus, the employer would have an obligation for the difference between the expected cost of providing the retirees' benefits and the retirees' expected contributions, whether those contributions are established at 100 percent of the average cost or at a lesser amount.

11. **Q—** Are there any circumstances in which an employer may measure its postretirement health care benefit obligation by projecting the cost of premiums for purchased health care insurance? [36-39]

**A—** Yes. For a plan that stipulates that the benefit to be provided is the payment of certain health insurance premiums for retirees rather than the payment of their health care claims, the employer should project the cost of those future premiums in measuring its benefit obligation. That projection requires an assessment of how future health care costs will affect future premiums.

For a plan that stipulates that the benefit to be provided is the payment of retirees' health care claims, the cost of premiums for insurance that an employer expects to purchase to finance its obligation may be used to measure the obligation if it produces a reasonable estimate of the future cost of benefits covered by the plan. In some situations, such as in a community-rated insurance plan that provides the type of benefits covered by the employer's plan and in which the premium cost to the employer is based on the experience of all participating employers, the claims experience of a single employer generally will have little impact on its premiums. Accordingly, in those situations a projection of future premiums based on the current premium structure and...
expected changes in the general level of health care costs may provide a reasonable estimate of the employer's obligation. However, if premiums are adjusted for the actual claims experience or the age and sex of the plan's participants (an experience-rated plan), the foregoing projection of the employer's obligation may not produce a reasonable estimate of the future cost of the underlying benefits of the plan.

12. **Q**—If an employer has measured its postretirement health care benefit obligation by projecting the cost of premiums for purchased health care insurance, does that reduce or eliminate the applicability of any provisions of Statement 106, for example, calculating and disclosing service and interest cost? [6, 46, 74]

**A**—No. The employer should follow Statement 106 in its entirety including calculating and disclosing the components of net periodic postretirement benefit cost, which would still include service cost for active employees and interest cost.

13. **Q**—Should employers assume a trend of decreasing (or increasing) Medicare reimbursement rates if Medicare has consistently reduced (or increased) the portion of benefits it will cover? For example, certain health care costs may have increased by 15 percent last year but Medicare may have only covered a smaller increase, which increased the employer's or retirees' share of the cost of benefits. Should an employer assume that such a reduction in Medicare coverage would continue when determining its postretirement benefit obligation? [40]

**A**—Changes in Medicare coverage should be projected only if those changes result from currently enacted legislation or regulations. For instance, to the extent that certain coverage under Medicare changes as a result of applying a legislated formula or historical administrative practice, an employer should consider the effects of those changes in projecting Medicare coverage in future years. Doing so may result in a higher or lower amount of coverage. Future legislation that would change the portion of costs covered by Medicare should not be anticipated even though a historical trend of those changes may be apparent.

**Attribution**

14. **Q**—An employer modifies the eligibility requirements under its postretirement benefit plan by changing the plan's credited service period from "25 years of service after age 40" to "15 years of service after both (a) reaching age 50 and (b) rendering 10 years of service." What is the beginning of the attribution period? [44]

**A**—The attribution period begins at the date of hire because the plan has an undefined credited service period. The amended plan still requires 25 years of credited service. However, it grants credit for 10 years of service before age 50 and those years of service are not defined. The effect of the change in eligibility requirements is to lengthen the attribution period for employees hired prior to age 40.

15. **Q**—An employer provides retiree health care and life insurance benefits under one plan. Employees are eligible for health care and death benefits upon attaining age 55 and having rendered 20 years of service; however, the life insurance benefits are based on final pay. Does basing the life insurance benefits on final pay extend the full eligibility date to a plan participant's expected retirement date? For example, if an employee is expected to fulfill the 20-year service requirement before age 55 and is expected to retire at age 62 with salary increases in all years of service, is the employee's full eligibility date the date he or she reaches age 62? [21, 44]

**A**—Yes, provided the incremental increase in the life insurance benefits offered under the plan for an employee's service after age 55 is not trivial in relation to the total benefits expected to be
received by the employee under that plan. The full eligibility date is defined as the date at which an employee has rendered all of the service necessary to have earned the right to receive all of the benefits expected to be received by that employee under the plan. Paragraph 21 states that "determination of the full eligibility date is affected by plan terms that provide incremental benefits expected to be received by or on behalf of an employee for additional years of service, unless those incremental benefits are trivial" (emphasis added). The plan described has an indefinite credited service period, since the qualifying 20-year period is unspecified. Accordingly, the attribution period for that plan begins at the date of hire and ends on the full eligibility date.

16. Q—Would the answer to Question 15 be different if the benefits are provided and accounted for under two separate plans, one providing life insurance benefits and the other providing health care benefits? [21, 44, 76]

A—Yes. If the life insurance and health care benefits are provided and accounted for under two separate plans, the full eligibility date for participants in the life insurance plan would not influence the determination of the full eligibility date for participants in the health care plan.

17. Q—If the terms of the plan in Question 15 specified which 20-year service period constituted the credited service period, for example, the first 20 years after date of hire, or the first 20 years of service after age 35, would basing life insurance benefits on final pay still extend the full eligibility date to the expected date of retirement? [21, 43, 44]

A—Yes, assuming the incremental life insurance benefits after the defined 20 years of service are nontrivial. If the plan formula specifies the first 20 years as the credited service period, the employer needs to assess whether that results in a frontloaded benefit as described in paragraph 43. If that provision results in a frontloaded benefit, the benefit obligation should not be attributed ratably to each year of service in the attribution period but should be attributed in accordance with the plan's benefit formula.

18. Q—Under what conditions would a plan be considered a frontloaded plan? [43, 44, 412]

A—A plan with a benefit formula that attributes all or a disproportionate share of the expected postretirement benefit obligation (EPBO) to employees' early years of service in the credited service period is frontloaded. For that type of plan, the EPBO should not be attributed ratably to each year of service in the credited service period but should be attributed in accordance with the benefit formula. Whether a plan is frontloaded is determined by considering the active participants as a group rather than applying the benefit formula to each individual participant. Paragraph 412 of Statement 106 contains an example of a benefit formula that results in a frontloaded benefit for a plan that provides only postretirement death benefits.

A frontloaded plan may provide two or more benefits, such as health care and life insurance benefits, that are earned under different benefit formulas. For example, assume the typical participant covered by the plan described in Question 15 is an individual hired at age 20 who is expected to retire at age 62 with 42 years of service. If the EPBO at age 40 for that employee is $39,405 ($28,500 for health care benefits and $10,905 for life insurance benefits), a ratable (1/42) allocation of the EPBO to each year of service would result in an accumulated postretirement benefit obligation (APBO) of $18,764 ($13,571 for health care benefits and $5,193 for life insurance benefits) at the end of the 20th year. However, if the plan's benefit formulas for both health care and life insurance benefits stipulate that employees are not required to render additional service after their first 20 years in order to receive those benefits, the aggregate benefits under the plan may be frontloaded, even though life insurance benefits increase for additional years of service beyond the 20th year.

Superseded by the FASB Accounting Standards Codification on July 1, 2009.
If the combined values of both health care and life insurance benefits earned based on their respective benefit formulas after 20 years are significantly greater than the APBO that would result from a ratable allocation of the EPBO, a disproportionate share of the EPBO is attributable under the benefit formulas to the employee's early years of service. In that case, the attribution of the obligation for both benefits under the plan should follow their respective benefit formulas. Following the benefit formulas in this example, the APBO for health care and for life insurance benefits for the hypothetical employee at the end of 20 years is $28,500 and $3,728, respectively. Accordingly, the APBO for that employee at the end of the first 20 years of service should be $32,228 rather than $18,764; that is, the plan is frontloaded and benefits should be attributed following the benefit formula.

19. Q—An employer has a retiree health care plan that bases benefits on length of service and requires employees to render a minimum of 10 years of service after attaining age 45 to be eligible for any benefits. However, upon attaining age 45, employees receive credit for 3 percent of the maximum benefit for each year of service before age 45. For example, at age 45 an employee hired at age 25 receives credit for 60 percent (3 percent x 20 years) of the plan's postretirement health care benefits. When does the credited service period begin? [44]

A—The credited service period begins at the date of hire because the amount of total benefits is based on the years of service rendered after that date.

20. Q—An employer requires an employee to participate in its contributory active health care plan in order to be eligible to participate in its retiree health care plan. An employee can join the active plan at any time prior to retirement but must have worked 10 years and attained age 55 while in service to be eligible for benefits under the retiree plan. When does the attribution period begin? [44]

A—The attribution period for an employee who is or is expected to be a participant in the active plan begins at the date of hire because the plan's eligibility requirements do not specify which 10 years of service must be rendered in exchange for the benefits. That an employee must participate in the contributory active plan does not affect the determination of the attribution period. However, an employee would not be considered a plan participant if the employer expects that the employee will never contribute to the active plan and, therefore, will not be eligible to participate in the retiree plan.

21. Q—Should an employer's annual accrual for the service cost component of net periodic postretirement benefit cost relate to only those employees who are in their credited service periods? [44, 47]

A—Generally, yes. However, if the credited service period begins later than the date of hire and is considered nominal relative to the employees' average total expected years of service to full eligibility, employees expected to receive benefits under the retiree plan should be considered plan participants at the date of hire, and the expected obligation for their benefits should be accrued from that date.

22. Q—In determining the attribution period, what is considered a nominal credited service period? [44]

A—Judgment is required to determine whether a credited service period is nominal. Generally, a nominal credited service period is a period that is very short compared to employees' average total expected years of service prior to full eligibility.

Negative Plan Amendments and Curtailments
23. Q—An employer's previous accounting for postretirement benefits has considered the written plan to be the substantive plan. On July 1, 20X1, its board of directors approves a negative plan amendment (that is, an amendment that reduces benefits attributable to prior service) that will be effective on January 1, 20X3. The employer intends to announce the negative plan amendment to plan participants on July 1, 20X2. When should the effects of the negative plan amendment be considered for accounting purposes? [23, 55] [Revised 12/98.]

A—The effects of the negative plan amendment should be accounted for as of July 1, 20X2 when it is communicated to plan participants and not as of July 1, 20X1, the date of the board's approval. The effects of a plan amendment, whether positive or negative, should be considered at the date the amendment is adopted only if it is communicated to plan participants at that time or within a reasonable period of time thereafter; that is, within the time period that would ordinarily be required to prepare information about the amendment and disseminate it to employees and retirees. The amendment in this instance will not be communicated within a reasonable period of time after its adoption. Therefore, the extant unamended written plan continues to be the substantive plan that should be accounted for because it represents the last plan whose terms were mutually understood by the employer and the plan participants.

24. Q—Is it important to distinguish between a reduction in the accumulated postretirement benefit obligation (APBO) caused by a negative plan amendment and a reduction caused by a curtailment? [55, 98, 99]

A—Yes. Unless the plan is being terminated, a reduction in the APBO caused by a negative plan amendment that exceeds any unrecognized transition obligation or prior service cost is not immediately recognized as a reduction of current postretirement benefit costs. On the other hand, a reduction in the APBO caused by a curtailment is potentially recognizable as a current component of income.

25. Q—What is the difference between a negative plan amendment and a curtailment that reduces the accumulated postretirement benefit obligation (APBO)? [55, 96, 98, 99]

A—A negative plan amendment is a change in existing plan terms that reduces or eliminates benefits attributed to employee services already rendered. A curtailment is an event that significantly reduces the expected years of future service of active plan participants, such as a plant closing, or eliminates future accruals of additional benefits for some or all of the future services of a significant number of active plan participants. If a curtailment reduces the expected postretirement benefit obligation, the associated reduction in the APBO is potentially recognizable as a current component of income. The following examples illustrate the difference between a negative plan amendment and a curtailment. The answer to ♦ Question 30 provides additional illustrations.

Example 1—Negative Plan Amendment

On December 31, 20X1, Company A changes the terms of its retiree health care plan to require current and future retirees to contribute $100 per month toward the cost of benefits provided by the plan. The plan was previously noncontributory. As a result of the change, the APBO for both active employees and retirees at December 31, 20X1 decreases by $500,000. That reduction is a negative plan amendment because the change in plan terms has reduced the benefits under the plan attributed to employee service already rendered. A curtailment has not occurred because there has been no reduction in the expected years of future service of active plan participants and the plan continues to provide additional benefits for future services.

Example 2—Curtailment
On December 31, 20X1, Company B changes the terms of its retiree life insurance plan for future retirees from a death benefit equal to 5 percent of final pay for each year of service to a death benefit equal to 5 percent of the pay rate in effect at December 31, 20X1 for each year of service prior to that date. Because Company B switched the terms under which benefits are based to provide benefits only for services rendered prior to December 31, 20X1, the company will no longer provide benefits for future service and there will be no increases in retiree life insurance for any employee services rendered after that date. That change constitutes a curtailment because accruals of death benefits for future employee service are no longer required (that is, the change eliminates the need for future accruals of death benefits for all of the future services of the active plan participants). However, the change in plan terms does not result in a termination of the plan because there is a continuing obligation to pay the future death benefits already earned by employees and current retirees. Only the accrual of additional death benefits for employees’ future services has been eliminated.

Because this plan was previously a final-pay plan, the APBO at December 31, 20X1 before the amendment included an amount based on projected future employee pay levels. In this case, that amount equaled $400,000. Thus, the APBO at December 31, 20X1 decreases by $400,000 as a result of the plan amendment because increases in employees’ future pay levels will no longer increase their death benefits under the plan. That reduction is potentially a currently recognizable curtailment gain.

26. **Q**—Why is the $400,000 in Example 2 of [Question 25] “potentially” a currently recognizable curtailment gain? [97-99]

**A**—Whether any or all of the $400,000 should be recognized currently depends on the existence and amount of any previously unrecognized net loss that must be offset before that curtailment gain can be recognized. Any unrecognized prior service cost or unrecognized transition obligation also will enter into determining the net curtailment gain or loss. (Refer to [Question 27].)

27. **Q**—Should the accounting for a curtailment always consider any unrecognized prior service cost or unrecognized transition obligation? [97]

**A**—Yes. A reduction of the expected years of future service of the work force, for example, termination of active plan participants who are not yet eligible for benefits or elimination of future accruals of defined postretirement benefits for a significant number of active plan participants, raises doubt about the continued existence of the future economic benefits of unrecognized prior service cost. Accordingly, Statement 106 requires recognition of any related unrecognized prior service cost. For purposes of accounting for a curtailment, any remaining unrecognized transition obligation is considered to be unrecognized prior service cost.

28. **Q**—Does a curtailment result only from events that occur outside a postretirement benefit plan? [55, 96-99]

**A**—No. Although many curtailments may result from events that occur outside a plan, such as closing a plant, discontinuing a component of an entity, or otherwise terminating employees, a curtailment also can result from a plan amendment (including a negative plan amendment) that has the effect of eliminating the accrual of defined benefits for some or all of the future services of a significant number of active plan participants. (Refer to [Question 25, Example 2].) If such an amendment occurs, accounting for a curtailment should be applied to (a) any decrease in the accumulated postretirement benefit obligation (APBO) representing the reduction or elimination of benefits attributable to future service, which may result in a curtailment gain, (b) any increase in the APBO resulting from employees retiring earlier than expected as a result of the amendment, which may result in a curtailment loss, and (c) any previously unrecognized prior service cost or
any unrecognized transition obligation attributable to the future years of service of the employee group for which future accrual of benefits has been eliminated. Accounting for a curtailment is not applied to any newly created prior service cost. (Refer to ♦ Question 30, Example 3 and footnote i to Example 5.) [Revised 9/01; 5/03.]

29. Q—Does a gain result if at the time of a curtailment there exists unrecognized negative prior service cost due to a previous plan amendment that reduced benefits under the plan? [55, 97]

A—Yes. Under ♦ paragraph 55, unrecognized negative prior service cost that results from an amendment that reduces benefits under the plan is treated the same as unrecognized prior service cost that results from an amendment that improves benefits. For purposes of measuring the effect of a curtailment, unrecognized prior service cost includes any unrecognized negative prior service cost from a prior plan amendment. Thus, the previously unrecognized negative prior service cost associated with the future years of service that are affected by the curtailment is a gain. That gain, to the extent it is not offset by any other effects of the curtailment, is currently recognized as a component of income.

30. Q—What are examples of the accounting for a negative plan amendment that results in a curtailment? [55, 96-99]

A—The following examples illustrate the accounting in three different situations. Example 3 illustrates the accounting for a negative plan amendment that results in a curtailment gain. Example 4 illustrates the accounting for a negative plan amendment that results in a curtailment loss. Example 5 illustrates the accounting for a negative plan amendment and a curtailment that results in recognition of unrecognized prior service cost.

Example 3—Negative Plan Amendment and Curtailment Gain

Company A sponsors an unfunded postretirement benefit plan whose only benefit is life insurance coverage equal to an employee's final pay. On December 31, 20X1, Company A amends its plan to eliminate that benefit for active employees who are not 40 years of age or older, which is a significant portion of its work force. The resulting reduction in the accumulated postretirement benefit obligation (APBO) consists of two components: $150,000 represents benefits based on past pay and service already rendered by employees under age 40 (a negative plan amendment), and $250,000 represents that portion of the APBO based on a projection of those employees' future pay. Because the change in plan terms eliminates the accrual of additional benefits for those employees, the $250,000 is potentially a currently recognizable curtailment gain.

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Superseded by the FASB Accounting Standards Codification on July 1, 2009.
The journal entry to record the curtailment gain is:

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The negative plan amendment results in negative prior service cost because it reduces the APBO by an amount that exceeds the previously unrecognized prior service cost and the remaining unrecognized transition obligation. The negative prior service cost of $30,000 is recognized by amortizing it over future periods beginning January 1, 20X2 in accordance with paragraph 52. Only those participants who are active at the date of the amendment and who are not yet fully eligible for benefits (that is, participants who are 40 years of age or older) are considered in applying paragraph 52 to the net negative prior service cost that results from this plan amendment.

**Example 4—Negative Plan Amendment and Curtailment Loss**

Company B sponsors an unfunded postretirement health care benefit plan covering employees at five locations. On December 1, 20X1, Company B amends its plan so that any employee at location X who does not retire by the end of 20X1 will not be entitled to receive benefits. Those employees at location X who retire by December 31, 20X1 will receive benefits under the plan terms. Employees at the other four locations are not affected by the amendment and will continue to earn benefits.

As a result of the amendment, Company B's APBO is reduced by $400,000, representing the elimination of benefits attributable to years of service already rendered by active employees who are not eligible to retire and those eligible employees who choose not to retire (a negative plan amendment). The remaining employees at location X decide to take early retirement on December 31, 20X1 (a curtailment). The unexpected early retirements cause a $200,000 increase in the APBO that is accounted for as part of the curtailment. The previously expected remaining years of service associated with all employees at location X who were plan participants at the date of transition represent 20 percent of the previously expected remaining years of service of all plan participants at the date of transition. As a result, $100,000 (20 percent x $500,000) is recognized representing accelerated amortization of the remaining unrecognized transition obligation. Because the previously unrecognized prior service cost is eliminated by the negative plan amendment, it does not enter into the accounting for the curtailment.

<table>
<thead>
<tr>
<th>Before Negative Plan Amendment</th>
<th>Negative Plan Amendment</th>
</tr>
</thead>
<tbody>
<tr>
<td>APBO</td>
<td>$950,000</td>
</tr>
<tr>
<td>Unrecognized prior service cost</td>
<td>100,000</td>
</tr>
<tr>
<td>Unrecognized transition obligation</td>
<td>800,000</td>
</tr>
<tr>
<td>Unrecognized net gain</td>
<td>(150,000)</td>
</tr>
<tr>
<td>Total</td>
<td>750,000</td>
</tr>
</tbody>
</table>

Accrued postretirement benefit cost

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accrued postretirement benefit cost</td>
<td>$(200,000)</td>
</tr>
<tr>
<td></td>
<td>$ 0</td>
</tr>
</tbody>
</table>

Superseded by the FASB Accounting Standards Codification on July 1, 2009.
The journal entry to record the curtailment loss is:

<table>
<thead>
<tr>
<th>Account</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Curtailment loss</td>
<td>$150,000</td>
</tr>
<tr>
<td>Accrued postretirement benefit cost</td>
<td>$150,000</td>
</tr>
</tbody>
</table>

Example 5—Negative Plan Amendment and Curtailment That Results in Recognition of Unrecognized Prior Service Cost

Company C sponsors an unfunded postretirement health care benefit plan. Benefits under the plan are not pay related; thus, no assumption is required about employees' future pay levels in measuring the APBO. When it adopted Statement 106, Company C immediately recognized its transition obligation. On December 31, 20X1, the company changes the plan's eligibility requirements from the attainment of age 65 while in service and 20 years of service to be rendered after attaining age 45. The new credited service period is not deemed to be nominal in relation to employees' average total years of service prior to their full eligibility dates. This change reduces the APBO for benefits attributable to past service (a negative plan amendment) by $300,000 for employees hired before age 45.

Because a significant number of employees previously expected to receive benefits under the plan are under age 45, the change in plan terms also meets the definition of a curtailment because it eliminates those employees as active participants under the plan. Their remaining years of expected service represent 15 percent of the previously expected remaining years of service of all plan participants at the date of a prior plan amendment that increased benefits. Because no portion of the APBO includes any amounts attributed to future pay levels, the impact of accounting for the curtailment is limited to accelerating the recognition of the portion of remaining unrecognized prior service cost (15 percent x $100,000) related to those employees' future years of service.

<table>
<thead>
<tr>
<th></th>
<th>Before Negative Plan Amendment</th>
<th>Negative Plan Amendment</th>
</tr>
</thead>
<tbody>
<tr>
<td>APBO</td>
<td>$(850,000)</td>
<td>$300,000</td>
</tr>
<tr>
<td>Item not yet recognized in earnings:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unrecognized prior service cost</td>
<td>400,000</td>
<td>(300,000) h(18)</td>
</tr>
<tr>
<td>Accrued postretirement benefit cost</td>
<td>$(450,000)</td>
<td>0</td>
</tr>
</tbody>
</table>

The journal entry to record the curtailment loss is:

<table>
<thead>
<tr>
<th>Account</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Curtailment loss</td>
<td>$15,000</td>
</tr>
<tr>
<td>Accrued postretirement benefit cost</td>
<td>$15,000</td>
</tr>
</tbody>
</table>

31. Q—An employer adopts an amendment to its postretirement health care plan that has the dual effect of expanding the plan's coverage and increasing the deductible. Should the increase in the deductible be measured and recognized separately from the benefit improvement? [51-53, 55]

A—No. When a plan amendment results in numerous changes to a plan that both increase and
decrease benefits attributed to prior service, the net effect of all those changes should be considered at the same time to determine whether there has been a net positive or negative plan amendment. If the combined effect of all the changes is a net increase in benefits (a positive plan amendment), the resulting prior service cost should be amortized in accordance with ♦ paragraph 52 or 53. If the combined effect is a net decrease in benefits (a negative plan amendment), the effect should be recognized in accordance with ♦ paragraph 55.

Gains and Losses

32. Q—In applying the provisions of ♦ paragraph 59 or 60 for the recognition of gains and losses, is it appropriate for an employer to elect annually a new method of amortization of unrecognized gains and losses? [59, 60]

A—No. An employer should select an amortization method and apply it consistently from period to period as long as the resulting amortization equals or exceeds the minimum amortization specified by paragraph 59. Any change in the method selected would be subject to FASB Statement No. 154, Accounting Changes and Error Corrections. To satisfy the requirements of Statement 154, the preferability of the change in accounting would need to be demonstrated. [Revised 3/05.]

33. Q—An employer sponsors a contributory postretirement health care plan that has an annual limitation on the dollar amount of the employer's share of the cost of benefits (a defined dollar capped plan). The cap on the employer's share of annual costs and the retirees' contribution rates are increased 5 percent annually. Any amount by which incurred claims costs exceed the combined employer and retiree contributions is initially borne by the employer but is passed back to retirees in the subsequent year through supplemental retiree contributions for that year. In 20X1, incurred claims costs exceed the combined employer and retiree contributions requiring a supplemental retiree contribution in 20X2. If the employer decides in 20X2 to absorb the excess that arose in 20X1 rather than pass it on to the retirees, when should the employer recognize the loss due to that temporary deviation from the substantive plan? [61]

A—The employer should recognize the loss in 20X2 when it makes the decision to deviate from the substantive plan.

34. Q—If an employer previously projected that health care costs under a defined dollar capped plan would exceed the cap in 20X1 but actual claims in that year do not exceed the cap, does that result in a gain that should be recognized immediately in 20X1 in accordance with ♦ paragraph 61? [56, 61]

A—No. The change in the accumulated postretirement benefit obligation due to experience different from that assumed results in a gain or loss that should be recognized in accordance with ♦ paragraph 56. Paragraph 61 addresses the recognition of a temporary deviation from provisions of the substantive plan that increases or decreases the employer's share of the benefit costs incurred in the current or past periods. A situation that would result in a gain or loss that should be recognized immediately is one in which an employer has a past practice of changing the cap to reduce its share of expenses such that that practice constitutes the cost-sharing provision of the substantive plan. If, as a result of perceived economic adversity affecting the retiree population, the employer decides in 20X1 and for that year alone not to change the cap to further reduce its share of expenses in 20X1 as had been anticipated in the substantive plan, that action would give rise to a loss that would be required to be recognized immediately in 20X1.

35. Q—What situation would result in a gain that would be recognized immediately in accordance with ♦ paragraph 61? [61]
A gain would occur if participants voluntarily agreed to bear a one-time higher share of costs for a past or current period. For example, if retirees agreed to make a contribution to the plan in one year that is larger than the contribution amount called for by the plan and future contributions would comply with the existing terms of the plan, the employer would recognize immediately a one-time gain for the excess of the new retiree contribution amount over the old retiree contribution amount.

**Plan Assets**

36. **Q**—May an employer include in plan assets the assets of a "rabbi trust" (so named because the first grantor trust to receive a favorable ruling from the Internal Revenue Service was one formed for a rabbi)? [63, 64]

   **A**—No. The assets of a rabbi trust do not qualify as plan assets because they are explicitly available to the employer's creditors in the event of bankruptcy. Under Statement 106, assets must be segregated and restricted (usually in a trust) to be used for the payment of benefits in order to qualify as plan assets. Assets not segregated in a trust, or otherwise effectively restricted, so that they cannot be used by the employer for other purposes are not plan assets, even though it may be the employer's intent to use those assets to provide postretirement benefits. In EITF Issue No. 93-3, "Plan Assets under FASB Statement No. 106," the Emerging Issues Task Force reached a consensus that it is not necessary to determine that a trust is bankruptcy-proof for the assets of the trust to qualify as plan assets under Statement 106. The Task Force also reached a consensus that assets held in a trust that explicitly provides that such assets are available to the general creditors of the employer in the event of the employer's bankruptcy would not qualify as plan assets under Statement 106.

37. **Q**—An insurance contract with a captive insurance company does not qualify as a plan asset. However, can an investment contract with a captive insurance company qualify as a plan asset if it meets the criteria in paragraph 63? [63, 64, 67]

   **A**—Yes. To qualify as a plan asset, an investment contract with a captive insurance company must be segregated and restricted for the payment of postretirement benefits. In addition, because a plan's investment contract with a captive insurance company represents an obligation of the employer to pay cash to be used to pay benefits and because amounts accrued by the employer to pay benefits are not plan assets, that contract should be considered an employer debt security for purposes of Statement 106 and, therefore, must be currently transferable to be included in plan assets. (Refer to Question 38.)

38. **Q**—If an employer issues its own debt or equity securities directly to its postretirement benefit trust, may those securities be included in plan assets under Statement 106? [63]

   **A**—Yes, provided the securities are currently transferable. To be transferable the securities held by the postretirement benefit trust must be legally and unconditionally transferable to unrelated third parties at any time, for any reason, and without economic penalties. Thus, the trustee of the postretirement benefit trust must have the unilateral right and ability to legally and unconditionally sell, transfer, or otherwise dispose of the securities. Securities that are not transferable in their present state do not meet the transferability requirement even though they can be converted into securities that are transferable or can otherwise be made transferable through other means, such as through future registration of the securities for trading in a public market. For example, if an employer issues to its postretirement benefit trust nontransferable convertible preferred stock that can be converted into transferable common stock of the employer, the convertible preferred stock would not meet the criterion of currently transferable and, thus, would not be included in plan...
Disclosures

39. Prior to adopting Statement 106, what disclosures about its postretirement benefit plans should an employer provide in its financial statements? [12]

A—Statement 106 is generally effective for fiscal years beginning after December 15, 1992. However, for (a) plans outside the United States and (b) an employer that is a nonpublic enterprise and that sponsors defined benefit postretirement plans with no more than 500 plan participants in the aggregate, the effective date is delayed until fiscal years beginning after December 15, 1994. Prior to Statement 106 becoming effective, the provisions of FASB Statement No. 81, Disclosure of Postretirement Health Care and Life Insurance Benefits, apply. Even though Statement 81 is superseded by Statement 106, it still has applicability until the effective date for Statement 106. In addition, an employer that is a public enterprise may be required to make certain disclosures in accordance with SEC Staff Accounting Bulletin No. 74, Disclosure of the Impact That Recently Issued Accounting Standards Will Have on the Financial Statements of the Registrant When Adopted in a Future Period.

40. Should an employer's disclosure of the weighted average of the assumed discount rates for its postretirement benefit obligation be the same as that disclosed for its pension benefit obligation?

A—Not necessarily, for reasons stated in the answer to Question 8. Even if the assumed discount rates are the same, the weighted average of those rates that is disclosed for the postretirement benefit obligation may not be the same as that disclosed for the pension benefit obligation because the weighted average is influenced by the timing and pattern of benefits to be provided, which can differ between a pension and a postretirement benefit plan. For example, pension benefits are usually paid in fixed amounts throughout retirement. On the other hand, postretirement health care benefits tend to increase during retirement because retirees generally require more health care services as they age, although the net cost to employers after retirees reach age 65 is reduced by Medicare. If, as a result of the expected cost of health care, the timing or pattern of postretirement benefits differs from that for pension benefits, that difference should be reflected in the weighting of the assumed discount rates. [Revised 12/98.]

Employers with Two or More Plans

41. An employer has two legally separate postretirement benefit plans. Both plans are unfunded defined benefit plans covering the same employees. One plan provides postretirement medical care and the other provides postretirement dental care. May the employer account for the two plans as one plan? [76]

A—Yes. The first sentence of paragraph 76 states, "The data from all unfunded [defined benefit] postretirement health care plans may be aggregated for measurement purposes if (a) those plans provide different benefits to the same group of employees or (b) those plans provide the same benefits to different groups of employees." Thus, an employer that has two or more such plans is permitted, but not required, to account for those plans as a single plan. The last sentence of paragraph 76 reinforces the criterion that the plans must be unfunded: "However, a plan that has plan assets (as defined herein) shall not be aggregated with other plans but shall be measured separately."

42. When is it appropriate for the employer in Question 41 to change from one-plan accounting to multi-plan accounting?
to two-plan accounting; that is, to accounting for each plan separately? [76]

A—The change would be appropriate if the conditions of paragraph 76 are no longer satisfied. If the change is elective (that is, it is made even though the conditions of paragraph 76 are still satisfied), the employer would have to demonstrate the preferability of the change in accounting to satisfy the requirements of Statement 154, and its effects would be accounted for in accordance with that Statement. [Revised 3/05.]

Multiemployer Plans

43. Q—An employer that has a single-employer postretirement benefit plan decides to provide health care benefits to its retirees through participation with several unrelated employers in a group postretirement health care benefit arrangement that does not result from collective bargaining. The arrangement is administered by an independent board of trustees and provides a uniform level of benefits to all retirees by utilizing group medical insurance contracts. Each participating employer is assessed an annual contribution for its share of insurance premiums, plus administrative costs, and may require its respective retirees to pay a portion of the annual assessment. Retirees whose former employer discontinues paying the annual assessment have the right to continue participation if they assume the cost of the annual premiums needed to maintain their existing benefits. Should the employer account for this arrangement as a multiemployer plan? [79, 84]

A—No. A characteristic of a multiemployer plan is that its obligation to retirees continues even if a former employer discontinues its participation in the plan. That characteristic is not present in the arrangement described.

44. Q—May a multiemployer plan be considered a substantially equivalent replacement plan (a successor plan) for an employer that terminates its single-employer defined benefit postretirement plan such that acceleration of the recognition of unrecognized prior service cost is not required? [79, 97, 100]

A—No. The characteristics and the accounting for a multiemployer plan are sufficiently different from a single-employer plan that neither plan can be a successor plan for the other. The nature of the employer's promise is different in each plan. In a single-employer plan, the employer promises to provide defined benefits. In a multiemployer plan, the employer promises to make a defined contribution. That employees continue to render service is important only if the accounting for a defined benefit plan is being applied, which includes the deferred recognition in earnings of certain items. Because the unit of account is the individual plan, the termination of a single-employer defined benefit plan without replacing it with a successor defined benefit plan concludes the employer's ability to apply defined benefit plan accounting. Therefore, to continue to recognize the prior service cost over future periods for the terminated plan in this situation is not appropriate.

Business Combinations

45. [Question deleted 12/98 because the effective date of Statement 106 has passed.]

Q—Prior to adopting Statement 106, an employer recognizes a postretirement benefit liability as part of the purchase price allocation of an entity acquired in a purchase business combination. Must the employer (the acquiring entity) recognize postretirement benefit expense for the acquired entity's plan in accordance with Statement 106 in years subsequent to the purchase but prior to adopting that Statement? [86]

A—No. The establishment of a postretirement benefit liability in the purchase price allocation
does not require the acquiring entity to adopt Statement 106 prior to its effective date. EITF Issue No. 86-20, "Accounting for Other Postemployment Benefits of an Acquired Company," provides additional guidance in this situation.

## Settlements

46. **Q**—An employer that immediately recognized its transition obligation upon adopting Statement 106 subsequently amends its plan to eliminate its obligation for postretirement benefits and partially compensates affected participants by increasing their pension benefits. How should those events be accounted for? [90, 93, 100]

**A**—The employer has terminated its postretirement benefit plan and effectively settled its remaining postretirement benefit obligation by increasing its obligation to pay pension benefits. Because the cost to the employer of settling its postretirement benefit obligation is the increase in the obligation for pension benefits, the gain on the termination of the plan must be measured taking into account the cost of the pension benefit increase. That increase should be accounted for as an increase in accrued pension cost (or a decrease in prepaid pension cost). The previously recognized obligation for postretirement benefits should be eliminated. The difference is a gain on plan termination.

## Special Termination Benefits

47. **Q**—What is the intent of paragraph 102 on special termination benefits? [102]

**A**—The intent of paragraph 102 is that an employer measure and account for the postretirement benefit incentive to be received by employees in exchange for early termination.

48. **Q**—How should an employer measure the postretirement benefit incentive to be received by employees in exchange for early termination? [102]

**A**—That incentive is generally measured as the difference between the actuarial present value of (a) the accrued benefits for employees terminating with the enhanced benefits and (b) the accrued benefits for those employees assuming they terminated without the enhancements.

The following simplified examples address situations involving (a) a typical postretirement benefit plan under which participants become eligible for benefits upon attaining age 55 while in service and rendering 10 years of service and (b) a plan under which benefits are based on years of service. To simplify the examples further, discounting and health care cost trends have been ignored.

### Example 6—A Typical 55 and 10 Plan

Under Company X's postretirement health care benefit plan, the annual cost of coverage is estimated to be $4,500 for retirees under age 65 and $1,500 for those 65 and older. The probability of employees retiring is 40 percent at age 57, 50 percent at age 62, and 10 percent at age 65. There is a 100 percent probability that retirees will die at age 75. Employees that retire on or after attaining age 55 while in service and rendering 10 or more years of service receive full employer-paid postretirement benefit coverage.

As part of an incentive package to encourage employees to retire early, Company X offers for a short period of time to add three years of age and three years of service to an employee's age and accumulated service credits to determine eligibility for postretirement benefits. Two employees, A and B, accept the offer. A is age 57 and has rendered 20 years of service. B is age 52 and has rendered 12 years of service.
The expected postretirement benefit obligation (EPBO) for A and B prior to the offer is $36,150 each, determined as follows:

<table>
<thead>
<tr>
<th>Retirement Age</th>
<th>Benefits</th>
<th>Age 65 to 75</th>
</tr>
</thead>
<tbody>
<tr>
<td>57</td>
<td>($4,500 × 8 yrs) +</td>
<td>($1,500 × 10 yrs) ×</td>
</tr>
<tr>
<td>62</td>
<td>($4,500 × 3 yrs) +</td>
<td>($1,500 × 10 yrs) ×</td>
</tr>
<tr>
<td>65</td>
<td></td>
<td>($1,500 × 10 yrs) ×</td>
</tr>
</tbody>
</table>

The accumulated postretirement benefit obligation (APBO) for A and B prior to the offer is $36,150 and $28,920, respectively, determined as follows:

<table>
<thead>
<tr>
<th>Years of Service Rendered to Total Required</th>
<th>Employee EPBO</th>
<th>APBO</th>
</tr>
</thead>
<tbody>
<tr>
<td>18/18 a(23)</td>
<td>$36,150 ×</td>
<td>$36,150</td>
</tr>
<tr>
<td>12/15 b(23)</td>
<td>36,150 ×</td>
<td>28,920</td>
</tr>
<tr>
<td>$72,300</td>
<td></td>
<td>$65,070</td>
</tr>
</tbody>
</table>

The special termination postretirement benefit is measured as the difference between the following two amounts:

a. The benefits attributed to past service based on what A and B receive if they retire at the earliest date at which they could retire and receive postretirement benefits under the plan, ignoring the special termination benefits. That date would be immediately for A and in 3 years (upon attaining age 55) for B.

b. The benefits A and B receive if they accept the special termination benefits offer and retire immediately.

The calculation of those two amounts follows.

**Accrued Benefits Ignoring Special Termination Benefits and Assuming A Retires Immediately and B Retires at Age 55**

<table>
<thead>
<tr>
<th>Beneficiary</th>
<th>Pre-Age 65</th>
<th>Age 65 to 75</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>($4,500 × 8 yrs) +</td>
<td>($1,500 × 10 yrs) ×</td>
</tr>
<tr>
<td>B</td>
<td>($4,500 × 10 yrs) +</td>
<td>($1,500 × 10 yrs) ×</td>
</tr>
</tbody>
</table>

**Accrued Benefits That Reflect Special Termination Benefits Assuming A and B Retire Immediately**

<table>
<thead>
<tr>
<th>Beneficiary</th>
<th>Pre-Age 65</th>
<th>Age 65 to 75</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>($4,500 × 8 yrs) +</td>
<td>($1,500 × 10 yrs) ×</td>
</tr>
<tr>
<td>B</td>
<td>($4,500 × 13 yrs) +</td>
<td>($1,500 × 10 yrs) ×</td>
</tr>
</tbody>
</table>
Thus, the cost of the special termination postretirement benefits is $25,500 ($124,500 - $99,000). If A and B represent a significant portion of Company X's work force, the increase in the APBO attributable solely to their early retirement, $33,930 ($99,000 - $65,070, both calculated without regard to the special termination benefits), would be accounted for as a curtailment. Otherwise, the $33,930 would be an experience loss.

Example 7—Benefits Based on Years of Service

The facts are the same as in Example 6 except that under the plan's terms retiring employees receive 2 1/2 percent coverage for each year of service. Thus, prior to the acceptance of special termination benefits, the full eligibility dates for A and B would be their expected retirement dates.

The APBO for A and B prior to accepting the offer is $28,920, determined as follows:

### At Retirement

<table>
<thead>
<tr>
<th>Age</th>
<th>Years of Service</th>
<th>Benefits</th>
<th>Pre-Age 65</th>
<th>Age 65 to 75</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employee A</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>57</td>
<td>20</td>
<td>($4,500 × 8 yrs)</td>
<td>+</td>
<td>($1,500 × 10 yrs)</td>
</tr>
<tr>
<td>62</td>
<td>25</td>
<td>($4,500 × 3 yrs)</td>
<td>+</td>
<td>($1,500 × 10 yrs)</td>
</tr>
<tr>
<td>65</td>
<td>28</td>
<td></td>
<td></td>
<td>($1,500 × 10 yrs)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Age</th>
<th>Years of Service</th>
<th>Benefits</th>
<th>Pre-Age 65</th>
<th>Age 65 to 75</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employee B</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>57</td>
<td>17</td>
<td>($4,500 × 8 yrs)</td>
<td>+</td>
<td>($1,500 × 10 yrs)</td>
</tr>
<tr>
<td>62</td>
<td>22</td>
<td>($4,500 × 3 yrs)</td>
<td>+</td>
<td>($1,500 × 10 yrs)</td>
</tr>
<tr>
<td>65</td>
<td>25</td>
<td></td>
<td></td>
<td>($1,500 × 10 yrs)</td>
</tr>
</tbody>
</table>

The special termination postretirement benefit is measured in the same manner as in Example 6.

Accrued Benefits Ignoring Special Termination Benefits and Assuming A Retires Immediately and B Retires at Age 55

<table>
<thead>
<tr>
<th>Employee</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
</tr>
<tr>
<td>B</td>
</tr>
</tbody>
</table>

Accrued Benefits That Reflect Special Termination Benefits Assuming A and B Retire Immediately

<table>
<thead>
<tr>
<th>Employee</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
</tr>
<tr>
<td>B</td>
</tr>
</tbody>
</table>
Thus, the cost of the special termination postretirement benefits is $13,388 ($56,888 - $43,500), and $14,580 ($43,500 - $28,920) would be accounted for as a curtailment or an experience loss.

Defined Contribution Plans

49. Q—An employer has two legally separate postretirement benefit plans—a defined benefit plan and a defined contribution plan. The terms of the defined benefit plan specify that the employer's obligation under that plan is reduced to the extent that a participant's account balance in the defined contribution plan shall be used to pay incurred health care costs covered by the defined benefit plan. Should those plans be considered a single plan or two plans for purposes of applying Statement 106? [104]

A—Two plans. The defined benefit plan is commonly described as a "floor-offset" plan. As participants' account balances in the defined contribution plan grow, the employer's obligation under the defined benefit plan diminishes. However, the nature of the employer's obligation under each plan, how that obligation is satisfied, the availability of plan assets to pay benefits, and the accounting for a defined benefit versus a defined contribution plan are sufficiently dissimilar for the two plans that they cannot be considered a single plan for purposes of applying Statement 106.

50. Q—If there are any assets of the defined contribution plan described in ♦ Question 49 that have not yet been allocated to participants' individual accounts, do they reduce the accumulated postretirement benefit obligation of the defined benefit plan? [63, 104]

A—No. The terms of the defined benefit plan require the payment of benefits that exceed those payable using participants' individual account balances in the defined contribution plan. Pursuant to those terms, assets of a defined contribution plan that have not yet been allocated to participants' individual accounts do not reduce the employer's present obligation under the defined benefit plan. Although an employer's intent may be to allocate the unallocated assets in the future so that participants can use those assets to pay health care costs, that intent is insufficient to offset the present defined benefit plan obligation. When the unallocated assets in the defined contribution plan are allocated, the benefits payable under that plan are increased and the obligation of the defined benefit plan is reduced. That reduction is recognized immediately in determining the net periodic postretirement benefit cost for the defined benefit plan.

Because the two plans are legally separate and, thus, the assets of one plan are not available to pay the benefits of the other, neither the allocated nor the unallocated assets of the defined contribution plan would be considered plan assets of the defined benefit plan.

Effective Date

51. Q—Company A has a minority investment in Company B, which it accounts for on the equity method. Company A has a September 30 year-end, and Company B has a December 31 year-end. Company B is required to adopt Statement 106 on January 1, 1993. Company A is not required to adopt Statement 106 until October 1, 1993.

a. May Company A adjust Company B's earnings to eliminate the effects of adopting Statement 106 when it includes Company B's results in its financial statements for the year ending September 30, 1993?

b. Must Company A adopt Statement 106 early (that is, in its fiscal year beginning October 1,

A—

a. No. Making that adjustment would be inappropriate for both conceptual and practical reasons. Conceptually, it would be inappropriate because that adjustment would involve the investor's changing the investee's accounting for postretirement benefits from a generally accepted accounting principle (GAAP) to a non-GAAP method (presumably the cash basis) after the investee has adopted the Statement. Statement 106 does not allow an employer to reverse the effects of adoption after the Statement is applied and switch to a non-GAAP method to account for postretirement benefits. Because the investee is not permitted to make that adjustment, it would be inappropriate for an investor to do so in applying the equity method. Further, making that change would cause the investor to account for a different transition obligation (or asset) than that determined by the investee. In determining the investor's share of the investee's earnings, accounting for the effects of that difference initially and over time, for example, the recognition of gains or losses, could be complex.

b. No. There is no requirement that an investor adopt a Statement early if an equity method investee has adopted that Statement.

c. Yes. Although it may be desirable that investors and investees use the same methods of accounting, it is not required.
do so for all of its plans that would be subject to Statement 106 by that first effective date. For example, a calendar-year publicly held employer that applied Statement 106 in 1991 should have applied it to all existing plans that would otherwise have been subject to the Statement by January 1, 1993. However, the employer in that situation would not be required to apply Statement 106 early for its foreign plans.

Transition

55. [Question deleted 12/98 because the effective date of Statement 106 has passed.]

Q—How and when should an employer that adopted Statement 106 prior to the issuance of this Special Report account for the effects (other than a correction of an error), if any, of initially complying with the subsequently issued implementation guidance? [108, 110]

A—The accounting for the effects of implementation guidance in this Special Report that involve the initial determination of the transition obligation or asset depends on how an employer reported the effects of its initial adoption of Statement 106.

• An employer that immediately recognized its Statement 106 transition obligation or asset in annual financial statements issued prior to the issuance of this Special Report is permitted, but not required, to restate the financial statements of all prior years for which Statement 106 has been applied to reflect the effects of the change in accounting to initially adopt the implementation guidance. However, an employer is not permitted to change either the method of transition adopted or the initial year for which the Statement was applied. (Refer to Opinion 20 for applicable disclosure requirements.) If that employer does not elect to restate the financial statements of all prior years for which Statement 106 has been applied, it should account for those effects as the cumulative effect of a change in accounting principle in accordance with paragraph 20 of Opinion 20. (Refer to Opinion 20 for applicable disclosure requirements, including disclosures of pro forma amounts.)

• If an employer elected delayed recognition of its transition obligation or asset, the cumulative effect of the change in accounting to adopt the implementation guidance that affects the initial determination of the transition obligation or asset should be accounted for over the remaining amortization period.

The implementation guidance in this Special Report that addresses either negative plan amendments or curtailments applies prospectively; that is, to future events and transactions. However, financial statements that have been issued for past periods in which a plan amendment occurred that resulted in a curtailment or a negative plan amendment may be restated to conform to the implementation guidance.

The effects of the change in accounting to initially adopt the implementation guidance in this Special Report on other items that are accounted for under delayed recognition provisions of the Statement should be accounted for over future periods in the manner required by the Statement; for example, a change that affects an unrecognized gain or loss that is being amortized should be recognized over the subsequent amortization period. 11(25)

In all other instances, the effect of the change in accounting to initially adopt the implementation guidance should be accounted for as the cumulative effect of a change in accounting principle in accordance with paragraph 20 of Opinion 20. (Refer to Opinion 20 for applicable disclosure requirements, including disclosures of pro forma amounts.)

An employer should initially comply with the implementation guidance in this Special Report as
soon as it is reasonably practicable to do so.

56. **Q**—A parent company has a postretirement benefit plan covering employees at some of its subsidiaries, and one subsidiary has its own separate postretirement benefit plan. The parent elects to adopt Statement 106 early and immediately recognize the transition obligation. May the transition obligation of the subsidiary with its own plan be recognized on a delayed basis in the consolidated financial statements of the parent and its subsidiaries? [108, 110]

**A**—No. In the consolidated financial statements, the employer is the consolidated group. The employer must make one election for all plans within the consolidated group. Paragraph 110 discusses the elections available to the employer. However, in the separate financial statements of the subsidiary with its own plan, the employer is the subsidiary. For its separate financial statements, a subsidiary-employer can elect delayed recognition of the transition obligation for its separate plan, even though that subsidiary's transition obligation is recognized immediately in the consolidated financial statements. It should be noted, though, that this would require maintaining two separate calculations for the subsidiary's postretirement benefit plan.

57. [Question deleted 12/98 because the effective date of Statement 106 has passed.]

**Q**—An employer adopts a negative plan amendment during the year and subsequently decides to adopt Statement 106 in that year, which is prior to its required adoption date. Should the transition obligation at the beginning of the year reflect the effect of the negative plan amendment? [23-25, 110]

**A**—The transition obligation at the beginning of the year of adoption should reflect the substantive plan at that date. If at the beginning of the year there was no mutual understanding between the employer and plan participants of the general nature, timing, and effect of the benefit reduction, the transition obligation should not include the effects of the negative plan amendment.

58. [Question deleted 12/98 because the effective date of Statement 106 has passed.]

**Q**—May an employer change from delayed recognition to immediate recognition of the transition obligation after adopting Statement 106? [110, 260]

**A**—No. The last sentence of paragraph 110 states, "A single method of transition shall be elected at the date this Statement is initially applied for all defined benefit and defined contribution postretirement plans."

59. [Question deleted 12/98 because the effective date of Statement 106 has passed.]

**Q**—May an employer divide its transition obligation and recognize one portion immediately and the other portion on a delayed basis? For example, may the portion of the transition obligation relating to retirees be immediately recognized and the portion relating to active employees recognized on a delayed basis? [110]

**A**—No. An employer has one transition obligation that should be recognized either immediately or on a delayed basis. Electing to "unbundle" the transition obligation and use different methods or periods of recognition is not permitted by Statement 106. Similarly, employers may not elect to account for the transition obligation differently on a plan-by-plan basis.

60. [Question deleted 12/98 because the effective date of Statement 106 has passed.]

**Q**—May an employer immediately recognize the portion of its transition obligation that relates to either a previously discontinued operation or an operation that is discontinued in the year Statement 106 is adopted and amortize the remainder of its transition obligation over future service periods? [110]
<table>
<thead>
<tr>
<th>Q</th>
<th>May an employer separately present in the income statement as part of discontinued operations the portion of its transition obligation immediately recognized that relates to previously discontinued operations rather than include it as part of the cumulative effect adjustment? [110]</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>No. The first sentence of footnote 31 to paragraph 110 states, &quot;The effect of the accounting change and the related income tax effect shall be presented in the statement of income between the captions 'extraordinary items' and 'net income.'&quot; Thus, the portion of the transition obligation that relates to the previously discontinued operation should not be reported outside the section in the income statement labeled &quot;cumulative effect adjustment&quot; or some similar title. However, it would be acceptable to present in the income statement the portions of the transition obligation that relate to continuing and discontinued operations on separate lines under one subheading describing the cumulative effect adjustment.</td>
</tr>
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<tr>
<th>Q</th>
<th>An employer adopted Statement 106 on January 1, 1993 for its U.S. plans and immediately recognized its transition obligation. Must the employer use the same method of recognizing the transition obligation when it adopts Statement 106 for its plans outside the United States? [110]</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>Yes. The last sentence of paragraph 110 states, &quot;A single method of transition shall be elected at the date this Statement is initially applied for all defined benefit and defined contribution postretirement plans&quot; (emphasis added). Therefore, if an employer elects immediate recognition of the transition obligation for its U.S. plans, it must immediately recognize the transition obligation of its plans outside the United States when it adopts Statement 106 for those plans. Likewise, if the employer elects delayed recognition of the transition obligation for its U.S. plans, it is required to use delayed recognition for its plans outside the United States.</td>
</tr>
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<tr>
<th>Q</th>
<th>If an employer that immediately recognizes its transition obligation retroactively adjusts its purchase price allocation at the date of adopting Statement 106 to record a postretirement benefit obligation assumed in a purchase business combination consummated after December 21, 1990, may the corresponding debit to goodwill be written off as part of the adjustment to record the cumulative effect of adopting Statement 106? [110, 111]</th>
</tr>
</thead>
</table>
| A | Generally, no. If goodwill is recorded as a result of adjusting the purchase price allocation to reflect the postretirement benefit obligation assumed in a purchase business combination, that goodwill should be combined with any other goodwill recognized in the purchase business combination and amortized over the same life. In the rare circumstance that an identifiable business event or series of events occurred between the acquisition date and date of adopting Statement 106 indicating an impairment in the value of the goodwill, the employer should appropriately write off the impaired portion of the goodwill. Paragraph 111 states, "The cumulative effect on prior periods' income of that retroactive adjustment of the purchase price allocation, for example, increased amortization of goodwill associated with the business combination, . . . shall be recognized as part of the effect of the accounting change to adopt this Statement." The write-off of goodwill as the result of specific events that caused an impairment of
that asset is tantamount to accelerated amortization of goodwill.

It would be difficult, however, to justify writing off only the goodwill that arose from the adjustment of the purchase price allocation if that was not the only goodwill associated with that business combination. In addition, if an event occurred in the year of adoption that indicates that a decline in the value of the acquired entity occurred after the transition date, that write-off of goodwill should not be included as part of the cumulative effect adjustment.

Footnote disclosure of any write-off as part of the cumulative effect adjustment would be appropriate.

64. [Question deleted 12/98 because the effective date of Statement 106 has passed.]

Q—If the average remaining service period of active plan participants is greater than 20 years, may an employer elect to use a transition period that is less than the average remaining service period? [112]

A—No. If the average remaining service period of active plan participants is greater than 20 years, the employer should use the average remaining service period. An election to use a different period is permitted only if the average remaining service period is less than 20 years. In that case, a 20-year period may be used.
Endnotes

1 (Popup - Footnote *)
Q&A 106 Footnote *—At the date of issuance of this implementation guide, Kenneth E. Dakdduk was a practice fellow at the FASB and Jules M. Cassel was a senior technical advisor at the FASB. The positions and opinions expressed in this implementation guide were theirs. Revisions to this implementation guide have been made by current members of the FASB staff. Official positions of the FASB are determined only after extensive due process and deliberation.

2 (Popup - Footnote 1)
Q&A 106 Footnote 1—Numbers in brackets refer to the paragraphs in Statement 106 to which the question and answer relate.

3 (Popup - Footnote 2)
Q&A 106 Footnote 2—$10,915 equals the actuarial present value of life insurance benefits based on final pay, assuming the employee was hired at a salary of $15,000 that increases by 5 percent annually, a life expectancy of 75 years, and a discount rate of 7 percent.

4 (Popup - Footnote 3)
Q&A 106 Footnote 3—20/42 x $39,405 = $18,764.

5 (Popup - Footnote 4)
Q&A 106 Footnote 4—20/42 x $28,500 = $13,571.

6 (Popup - Footnote 5)
Q&A 106 Footnote 5—20/42 x $10,905 = $5,193.

7 (Popup - Footnote 6)
Q&A 106 Footnote 6—Assumed life insurance benefit equal to year 20 salary of $39,799 discounted at 7 percent for 35 years = $3,728.

8 (Popup - Footnote a)
Q&A 106, #30, Example 3, Footnote a—The decrease in the APBO due to a negative plan amendment is used first to reduce any existing unrecognized prior service cost, then to reduce any remaining unrecognized transition obligation.

9 (Popup - Footnote a)
Q&A 106, #30, Example 3, Footnote a—The decrease in the APBO due to a negative plan amendment is used first to reduce any existing unrecognized prior service cost, then to reduce any remaining unrecognized transition obligation.

10 (Popup - Footnote b)
Q&A 106, #30, Example 3, Footnote b—The decrease in the APBO due to a curtailment is used first to reduce any unrecognized net loss at the date of the curtailment.

11 (Popup - Footnote c)
Q&A 106, #30, Example 3, Footnote c—The curtailment gain is not a component of net periodic postretirement benefit cost and should be disclosed separately.

12 (Popup - Footnote d))
Q&A 106, #30, Example 3, Footnote d—If Company A had instead amended the plan on October 31, 20X1 and it had a calendar-year fiscal year-end, the effects of the negative plan amendment in determining net periodic postretirement benefit cost for 20X1 would be recognized prospectively starting from November 1, 20X1. The net periodic postretirement benefit cost for the first 10 months of the year would reflect the terms of the plan prior to the plan amendment.

13 (Popup - Footnote 7)
Q&A 106 Footnote 7—Unlike the terms of the plan described in Example 3, benefits under this plan are
not pay related. Thus, the accounting for the curtailment does not include any gain for the elimination of the effects of a projection of final pay.

14 (Popup - Footnote e)

Q&A 106, #30, Example 4, Footnote e—Refer to footnote a.

15 (Popup - Footnote e)

Q&A 106, #30, Example 4, Footnote e—Refer to footnote a.

16 (Popup - Footnote f)

Q&A 106, #30, Example 4, Footnote f—The increase in the APBO due to a curtailment is used first to reduce any unrecognized net gain at the date of the curtailment.

17 (Popup - Footnote g)

Q&A 106, #30, Example 4, Footnote g—The curtailment loss is not a component of net periodic postretirement benefit cost and should be disclosed separately.

18 (Popup - Footnote h)

Q&A 106, #30, Example 5, Footnote h—Refer to footnote a.

19 (Popup - Footnote i)

Q&A 106, #30, Example 5, Footnote i—A portion of prior service cost is recognized because the net balance of $100,000 arose from a previous amendment and the current employees under age 45 who were participants at the date of the previous amendment are no longer participants. Accordingly, their future service has been eliminated as a basis for delayed recognition of the prior service cost. If the negative prior service cost from the new amendment exceeded the unrecognized prior service cost from the previous amendment, none of the net negative prior service cost would be recognized currently. The net negative prior service cost would be amortized over active participants' expected future service periods to full eligibility.

20 (Popup - Footnote 8)

Q&A 106 Footnote 8—An insurance contract is defined in Statement 106 as follows:

A contract in which an insurance company unconditionally undertakes a legal obligation to provide specified benefits to specific individuals in return for a fixed consideration or premium. An insurance contract is irrevocable and involves the transfer of significant risk from the employer (or the plan) to the insurance company. If the insurance company providing the contract is a captive insurer, or if there is any reasonable doubt that the insurance company will meet its obligations under the contract, the contract is not an insurance contract for purposes of this Statement.

21 (Popup - Footnote 9)

Q&A 106 Footnote 9—Paragraphs 7 and 8 of FASB Statement No. 97, Accounting and Reporting by Insurance Enterprises for Certain Long-Duration Contracts and for Realized Gains and Losses from the Sale of Investments, describe investment contracts:

Long-duration contracts that do not subject the insurance enterprise to risks arising from policyholder mortality or morbidity are referred to in this Statement as investment contracts. A mortality or morbidity risk is present if, under the terms of the contract, the enterprise is required to make payments or forgo required premiums contingent upon the death or disability (in the case of life insurance contracts) or the continued survival (in the case of annuity contracts) of a specific individual or group of individuals. A contract provision that allows the
holder of a long-duration contract to purchase an annuity at a guaranteed price on settlement of the contract does not entail a mortality risk until the right to purchase is executed. If purchased, the annuity is a new contract to be evaluated on its own terms.

Annuity contracts may require the insurance enterprise to make a number of payments that are not contingent upon the survival of the beneficiary, followed by payments that are made if the beneficiary is alive when the payments are due (often referred to as life-contingent payments). Such contracts are considered insurance contracts under this Statement and Statement 60 [Accounting and Reporting by Insurance Enterprises] unless (a) the probability that life-contingent payments will be made is remote or (b) the present value of the expected life-contingent payments relative to the present value of all expected payments under the contract is insignificant. [Footnote references omitted.]

22 (Popup - Footnote 10)


23 (Popup - Footnote a)

Q&A 106, #48, Example 6, Footnote a—A was hired at age 37 and, therefore, after 18 years of service has rendered the required 10 years of service and attained age 55 while in service to be fully eligible for benefits.

24 (Popup - Footnote b)

Q&A 106, #48, Example 6, Footnote b—B must render 3 more years of service to attain age 55 while in service to be fully eligible for benefits.

25 (Popup - Footnote 11)

Q&A 106 Footnote 11—At its June 24, 1993 meeting, the Board directed the staff to provide the guidance in this and the preceding paragraphs of this answer. Without that direction, the staff would be able to provide only the answer that Opinion 20 would require, namely, that the effect of initially adopting the implementation guidance in this Special Report should be accounted for as the cumulative effect of a change in accounting principle in accordance with paragraph 20 of Opinion 20. It is not the Board's intent that this answer be used to justify the manner in which the effect of any other change in accounting method is recognized.