AMERICAN ACADEMY *of* ACTUARIES

Dec. 9, 2011

Joseph Fritsch, Chairperson
Statutory Accounting Principles (E) Working Group
National Association of Insurance Commissioners
2301 McGee Street, Suite 800
Kansas City, MO 64108-2604

Re: Exposure drafts of SSAP 92—*Accounting for Postretirement Benefits Other than Pensions, a Replacement of SSAP No. 14* and SSAP 102—*Accounting for Pensions, a Replacement of SSAP No. 89*

Dear Mr. Fritsch:

On behalf of the Joint Committee on Retiree Health and Pension Accounting Committee of the American Academy of Actuaries',[1] we appreciate the opportunity to provide comments to the National Association of Insurance Commissioners (NAIC) on the exposure drafts of Statements of Statutory Accounting Principles (SSAP) No. 92 and No. 102, which are intended to replace existing standards governing accounting for pension benefits and postretirement benefits other than pensions (OPEBs).

As we previously noted in our letter of Oct. 4, 2010, financial statement users reasonably might expect the "liability" to reflect the qualitative difference between a plan sponsor that has a right to unilaterally change substantive plan provisions and a plan sponsor that does not. For OPEBs in particular, the SSAP No. 14 method, which followed FAS No. 106 (now ASC 715-60) but disregarded the actuarial value of non-vested participants, recognizes this difference more fully than the proposed SSAP No. 92.[2]

Most plan sponsors that reserve the right to change substantive plan provisions have done so and are likely to continue to do so, particularly if accounting rules create an incentive to do so by recognizing the reduction in liability (due to the rescinded benefits) as an income statement gain. The SSAP No. 14 approach provided less incentive through accounting requirements to make these types of changes.

For these reasons, many consider the SSAP No. 14 approach to be a more appropriate measure of the liability associated with commitments made to date than the proposed SSAP No. 92 approach.

Under the transition procedure outlined in the exposure drafts, the non-vested participant liability and the previously unrecognized liability for prior service are not required to be immediately included in the net periodic (pension or benefit) cost, but are amortized into later cost. While the choice of amortization

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[1] The American Academy of Actuaries is a 17,000-member professional association whose mission is to serve the public and the U.S. actuarial profession. The Academy assists public policymakers on all levels by providing leadership, objective expertise, and actuarial advice on risk and financial security issues. The Academy also sets qualification, practice, and professionalism standards for actuaries in the United States.

[2] Although this issue is present to a certain extent for pension plans, it is a larger issue for OPEB plan sponsors. Many OPEB sponsors can unilaterally eliminate all of a benefit attributable to past service; pension plan sponsors generally are allowed to eliminate only future increases—due to salary changes—to the benefit attributable to past service.

period is frequently a matter of practicality, we do have some comments about the period chosen in the exposure draft.

Paragraph 11 of draft SSAP No. 102 indicates the amortization will be assigned equally "to each expected future period of service for non-vested employees active at the date of the amendment."

First, the identification of "non-vested employees" is preferable to an amortization for "each non-vested employee," which was included in an earlier draft. That earlier language, however, still is used in Paragraph 81e of Draft SSAP No. 102 and Paragraphs 37 and 99e of Draft SSAP No. 92. We believe the statements would be clarified and improved by substituting "non-vested employees" in those paragraphs.

Second, the future service period for non-vested employees differs from the amortization period prescribed for plan amendments, which is the future period of service of *all* employees expected to receive a benefit. This difference inadvertently may stretch the expense and balance sheet recognition over a *longer* period than is permitted under the current SSAPs.

For many insurers, the future service period of non-vested employees may have an average greater than that of the entire active employee population. This could be particularly significant in the case of pensions, in which many of the non-vested employees will be relatively young. Depending on the demographic assumptions (especially the termination decrement) in the computation of plan liability, the amortization for this additional liability, which may be relatively small compared to the overall plan liability, could continue for many years after this change in the accounting standard.

The problem may be less significant with OPEBs, in which vesting typically is nearer the retirement age, but the potential remains for the amortization period to extend beyond the date at which liability would have been recognized under the current SSAPs. This appears to us to be inconsistent with the intent of the SAPWG. Under the current SSAPs, the liability attributed to the years of service needed to achieve vesting is recognized in full at the end of the vesting period. If the intent of the change is to accelerate recognition of that liability, it would not be consistent with this intent for the amortization of the unrecognized prior service liabilities to extend beyond the date at which the liability would have been recognized under current SSAPs. There are numerous alternatives to accomplish this, some more administratively burdensome than others.

We again thank you for your consideration of our comments, and we ask that should you wish to discuss any of them or have any questions, please contact Heather Jerbi, the Academy's senior health policy analyst, at 202.785.7869 or jerbi@actuary.org.

Sincerely,

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