Accounting and reporting by health and welfare benefit plans : amendment to AICPA audit and accounting guide, Audits of employee benefit plans, and SOP 92-6, Accounting and reporting by health and welfare benefit plans; Statement of position 01-2;

American Institute of Certified Public Accountants. Accounting Standards Executive Committee

STATEMENT OF POSITION 01-2

AICPA

AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

April 20, 2001

Accounting and Reporting by Health and Welfare Benefit Plans

Amendment to AICPA Audit and Accounting Guide *Audits of Employee Benefit Plans* and SOP 92-6, *Accounting and Reporting by Health and Welfare Benefit Plans*

Issued by the
Accounting Standards Executive Committee

NOTE

Statements of Position on accounting issues present the conclusions of at least two-thirds of the Accounting Standards Executive Committee, which is the senior technical body of the Institute authorized to speak for the Institute in the areas of financial accounting and reporting. Statement on Auditing Standards No. 69, *The Meaning of* Present Fairly in Conformity With Generally Accepted Accounting Principles *in the Independent Auditor's Report*, identifies AICPA Statements of Position that have been cleared by the Financial Accounting Standards Board as sources of established accounting principles in category *b* of the hierarchy of generally accepted accounting principles that it establishes. AICPA members should consider the accounting principles in this Statement of Position if a different accounting treatment of a transaction or event is not specified by a pronouncement covered by rule 203 of the AICPA Code of Professional Conduct. In such circumstances, the accounting treatment specified by the Statement of Position should be used, or the member should be prepared to justify a conclusion that another treatment better presents the substance of the transaction in the circumstances.

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SUMMARY

This Statement of Position (SOP) amends chapter 4 of the AICPA Audit and Accounting Guide *Audits of Employee Benefit Plans* (the Guide), and SOP 92-6, *Accounting and Reporting by Health and Welfare Benefit Plans*.

This SOP—

1. Specifies the presentation requirements for benefit obligations information.
2. Requires disclosure of information about retirees' relative share of the plan's estimated cost of providing postretirement benefits.
3. Clarifies the measurement date for benefit obligations.
4. Establishes standards of financial accounting and reporting for postemployment benefits provided by health and welfare benefit plans.
5. Requires disclosure of the discount rate used for measuring the plan's obligation for postemployment benefits.
6. Requires the identification of investments representing 5 percent or more of the net assets available for benefits.

This SOP is effective for financial statements for plan years beginning after December 15, 2000, with earlier application encouraged. Financial statements presented for prior plan years are required to be restated to comply with the provisions of this SOP.

FOREWORD

The Financial Accounting Standards Board (FASB) has cleared the accounting guidance contained in this document. The procedure for clearing accounting guidance in documents issued by the Accounting Standards Executive Committee (AcSEC) involves the FASB reviewing and discussing the following in public board meetings:

- A prospectus for a project to develop a document
- A proposed exposure draft that has been approved by at least ten of AcSEC's fifteen members
- A proposed final document that has been approved by at least ten of AcSEC's fifteen members

The document is cleared if five of the seven FASB members do not object to AcSEC undertaking the project, issuing the proposed exposure draft, or after considering the input received by AcSEC as a result of the issuance of the exposure draft, issuing the final document.

The criteria applied by the FASB in its review of proposed projects and proposed documents include the following:

1. The proposal does not conflict with current or proposed accounting requirements, unless it is a limited circumstance, usually in specialized industry accounting, and the proposal adequately justifies the departure.
2. The proposal will result in an improvement in practice.
3. The AICPA demonstrates the need for the proposal.
4. The benefits of the proposal are expected to exceed the costs of applying it.

In a number of situations, before clearance, the FASB will propose suggestions, many of which are included in the documents.

Accounting and Reporting by Health and Welfare Benefit Plans

Introduction

1. The AICPA Audit and Accounting Guide *Audits of Employee Benefit Plans* (the Guide) provides guidance to preparers and auditors of financial statements of employee benefit plans, including defined benefit pension plans, defined contribution pension plans, and both defined benefit and defined contribution health and welfare benefit plans.

2. In August 1992, the AICPA issued Statement of Position (SOP) No. 92-6, *Accounting and Reporting by Health and Welfare Benefit Plans*, primarily to update the Guide to apply certain concepts of Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions*, to health and welfare benefit plans. SOP 92-6 has been incorporated into the Guide as chapter 4.

3. Many employers have continued to amend their postretirement health and welfare benefit plans to reduce benefits provided, to introduce or increase cost-sharing arrangements, or both, creating the need for more relevant information about how the plan's costs are shared. Also, since SOP 92-6 was issued there has been diversity in practice in implementing a number of its requirements, including the measurement date for benefit obligations. In addition, preparers and others have questioned the restrictive nature of some of the presentation requirements of SOP 92-6 and the adequacy of certain disclosure requirements.

4. In November 1992, FASB Statement No. 112, *Employers' Accounting for Postemployment Benefits*, was issued, establishing standards of financial accounting and reporting by employers for certain postemployment benefits provided to former or inactive employees after employment

but before retirement. Benefits provided may include salary continuation, supplemental unemployment benefits, severance, disability-related job training and counseling, and continuation of health care and life insurance. SOP 92-6 contains only limited accounting and reporting guidance related to postemployment benefits provided by health and welfare benefit plans (principally only accumulated eligibility credits).

5. This SOP amends the Guide and SOP 92-6 to provide accounting and reporting guidance for health and welfare benefit plans in the following areas:

   a. Presentation of benefit obligations information

   b. Accounting for and reporting of postemployment benefit obligations

   c. Measurement date for benefit obligations

   d. Disclosure of information about retirees' relative share of the plan's estimated cost of providing postretirement benefits

   e. Disclosure of discount rate used for measuring the plan's obligation for postemployment benefits

   f. Disclosure of investments representing 5 percent or more of the net assets available for benefits.

6. SOP 92-6 currently provides guidance in a number of those areas. However, certain aspects of that guidance require clarification. This SOP, which provides additional guidance on accounting and reporting by health and welfare benefit plans, adopts certain measurement concepts of FASB Statement No. 112, which applies to employer accounting for postemployment benefits. Terminology used in discussing postemployment benefits in this SOP is intended to follow that in FASB Statement No. 112.

Scope

7. This SOP applies to all health and welfare benefit plans, including single-employer, multiple-employer, and multiem-

ployer sponsored plans, as described in paragraphs 1 through 4 of SOP 92-6 (as amended[1]) and paragraphs 4.01 through 4.04 of the Guide.

Conclusions

Reporting and Disclosures

Presentation of Benefit Obligations Information

8. Paragraph 41 of SOP 92-6 (as amended) and paragraph 4.40 of the Guide identify the following kinds of benefit obligations:

   a. Claims payable and currently due for active and retired participants

   b. Premiums due under insurance arrangements

   c. Claims incurred but not reported (IBNR) to the plan for active participants

   d. Accumulated eligibility credits for active participants

   e. Postretirement benefits for the following:

   (1) Retired participants, including their beneficiaries and covered dependents

   (2) Active or terminated participants who are fully eligible to receive benefits

   (3) Active participants not yet fully eligible to receive benefits.

9. Information about the benefit obligations should be presented in a separate statement, combined with other information on another financial statement, or presented in the notes to financial statements. Regardless of the format selected, the plan financial statements should present the

1. The original paragraphs of Statement of Position (SOP) 92-6, *Accounting and Reporting by Health and Welfare Benefit Plans*, were renumbered by the issuance of SOP 94-4, *Reporting of Investment Contracts Held by Health and Welfare Benefit Plans and Defined-Contribution Pension Plans*. Subsequent references in this SOP to SOP 92-6 (as amended) refer to SOP 92-6 as amended by SOP 94-4. The amended SOP can be found in *AICPA Technical Practice Aids*, section 10,530.

benefit obligations information in its entirety in the same location. In addition, the minimum disclosure requirements for benefit obligations are the actuarial present value, as applicable, of the following:

a. Claims payable, claims IBNR,[2] and premiums due to insurance companies

b. Accumulated eligibility credits and postemployment benefits, net of amounts currently payable

c. Postretirement benefits for the following groups of participants:

(1) Retired plan participants, including their beneficiaries and covered dependents, net of amounts currently payable and claims IBNR[3]

(2) Other plan participants fully eligible for benefits

(3) Plan participants not yet fully eligible for benefits.

Aggregating claims payable and claims IBNR is often appropriate if adequate time has passed to provide sufficient data on costs incurred and the actuarially determined expected cost of long-term medical claims is insignificant. Benefits expected to be earned for future service by active participants (for example, vacation benefits) during the term of their employment should not be included. Benefit obligations should be reported as of the end of the plan year. The effect of plan amendments should be included in the computation of the expected and accumulated postretirement benefit obligations once they have been contractually agreed to, even if some provisions take effect only in future periods. For example, if a plan amendment grants a different benefit level for employees retiring after a future date, that increased or reduced benefit level should be included in current-period measurements for employees expected to retire after that date. To the extent they exist, the amounts of benefit obligations in each of the three major classifications identified above, should be shown as separate line items in the finan-

2. Claims incurred but not reported (IBNR) may be computed in the aggregate for active participants and retirees. Alternatively, if claims IBNR are not calculated in the aggregate for active participants and retirees, the claims IBNR for retirees are included in the postretirement benefit obligation.

3. See footnote 2.

cial statements or notes to financial statements. For negotiated plans, the disclosure of benefit obligations due during a plan's contract period may, but need not, be disclosed.

10. This SOP amends paragraph 55 of SOP 92-6 (as amended) and paragraph 4.56 of the Guide to require that changes in each of the three major classifications of benefit obligations be presented in the body of the financial statements or in the notes to financial statements; the information may be presented in either a reconciliation or a narrative format.

Accounting for and Reporting of Postemployment Benefit Obligations

11. The accounting and reporting for postemployment benefit obligations depend on the nature of the benefit promise. For plans that meet the conditions specified in paragraph 12, the benefit obligation is considered earned over the employee's service period as described in that paragraph. Otherwise, the benefit obligation is accounted for and reported as described in paragraph 13. In some cases, a plan participant's receipt of postemployment benefits is conditioned on the participant sharing in the plan's benefit cost by making contributions to the plan. However, unlike contributory postretirement benefit plans, in which participants usually are required to contribute to the plan during their retirement period (that is, after their service to the employer has ended), contributory postemployment benefit plans generally require contributions only during the participants' active service periods (for example, before the event triggering postemployment benefits occurs).

12. Plans that provide postemployment benefits should recognize a benefit obligation for current participants, based on amounts expected to be paid in subsequent years, if all of the following conditions are met:

    a. The participants' rights to receive benefits are attributable to services already rendered.

    b. The participants' benefits vest or accumulate.[4]

4. For example, the supplemental unemployment benefit is fifty-two weeks' pay if a participant worked three years, seventy-eight weeks' pay if a participant worked five years, and 104 weeks' pay if a participant worked seven years. In this situation, the benefits would be considered accumulating. Benefits that increase solely as a function of wage or salary increases are not considered accumulating.

c. Payment of benefits is probable.

d. The amount can be reasonably estimated.

The postemployment benefit obligation should be measured as the actuarial present value of the future benefits attributed to plan participants' services rendered to the measurement date, reduced by the actuarial present value of future contributions expected to be received from the current plan participants. That amount represents the benefit obligation that is to be funded by contributions from the plan's participating employer(s) and from existing plan assets. The obligation is to be measured assuming the plan continues in effect and all assumptions about future events are met. Any anticipated forfeitures or integration with other related programs (for example, state unemployment benefits) should be considered. The benefit obligation should be discounted using rates of return on high-quality fixed-income investments currently available with cash flows that match the timing and amount of expected benefit payments and expected participant contributions.

13. For postemployment benefits that do not meet conditions (*a*) and (*b*) of paragraph 12 of this SOP, the plan should recognize a benefit obligation if the event that gives rise to a liability has occurred and the amount can be reasonably estimated. For example, if all participants receive the same medical coverage upon disability regardless of length of service (the benefits do not accumulate), and the benefits do not vest, medical benefits for disabled participants should be accrued at the date of disability and not over the participants' working lives. When participant contributions are required after the event triggering postemployment benefits occurs, the postemployment benefit obligation should be measured in a manner consistent with paragraph 12. As a result, in those situations the benefit obligation should represent the amount that is to be funded by contributions from the participating employer(s) and from existing plan assets.

14. If an obligation for postemployment benefits is not recognized in accordance with paragraphs 12 or 13 only because the amount cannot be reasonably estimated, the financial statements should disclose that fact.

Measurement Date for Benefit Obligations

15. The financial status of the plan considers assets and obligations as of the same date. Because plan assets are required to be presented as of the plan's year end, the benefit obligations also should be measured and presented as of the plan's year end. That requirement does not, however, preclude the plan from using the most recent benefit obligations valuation rolled forward to the plan's year end to account for subsequent events (such as employee service and benefit payments), provided that it is reasonable to expect that the results will not be materially different from the results of an actuarial valuation as of the plan's year end. In rolling forward the benefit obligations to the plan's measurement date, the discount rates should be adjusted as appropriate to reflect current rates of return on high-quality fixed-income investments. For example, if a valuation was performed at September 30 and the plan has a calendar year end, the benefit obligations as of September 30 should be rolled forward to December 31 by making appropriate adjustments, such as for additional employee service; the time value of money; benefits paid; and changes in the number of participants, actuarial assumptions, discount rates, per capita claims costs, and plan terms.

Disclosures

Postretirement Benefit Obligations

16. A plan's obligation for postretirement benefits represents the actuarial present value of all future health and welfare benefits expected to be paid to or for (*a*) currently retired or terminated employees and their beneficiaries and dependents and (*b*) active employees and their beneficiaries and dependents after retirement from service with the participating employer or a group of employers based on the terms of the plan and the portion of the expected postretirement benefit obligation attributed to the employees' service rendered to date,[5] reduced by the actuarial present value of

5. The guidance in paragraphs 43 and 44 of Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions*, should be followed in attributing the expected postretirement benefit obligation to participants' service with the employer(s).

contributions expected to be received from the current plan participants during their remaining active service and postretirement periods. That amount represents the benefit obligation that is to be funded by contributions from the plan's participating employer(s) and from existing plan assets. In many cases, a plan participant's receipt of benefits under the plan is conditioned on the participant sharing in the benefit cost of the plan by making contributions to the plan, during either active service or retirement. Consequently, information about the extent of participant contributions provides important and useful information about how the cost of the plan is shared by the plan's participating employer(s) and the participants.

17. This SOP amends paragraph 58 of SOP 92-6 to require health and welfare plans to disclose in the notes to the financial statements for each year for which a year-end statement of net assets available for benefits is presented, the portion of the plan's estimated cost[6] of providing postretirement benefits funded by retiree contributions. The information about retiree contributions should be provided for each significant group of retired participants to the extent their contributions differ. If the plan terms provide that a shortfall in attaining the intended cost sharing in the prior year(s) is to be recovered by increasing the retiree contribution in the current year, that incremental contribution should be separately disclosed. Similarly, if the plan terms provide that participant contributions in the current year are to be reduced by the amount by which participant contributions in prior years exceeded the amount needed to attain the desired cost sharing, the resulting reduction in the current year contribution should be separately disclosed.

6. The plan's estimated cost of postretirement benefits is the plan's expected claims cost for the year. It excludes benefit costs paid by Medicare and costs, such as deductibles and copayments, paid directly to the medical provider by participants. The portion of the plan's estimated cost that is funded by retiree contributions is determined at the beginning of the year based on the plan sponsor's cost-sharing policy. In determining that amount, the retirees' required contribution for the year should be reduced by any amounts intended to recover a shortfall (or increased by amounts intended to compensate for an overcharge) in attaining the desired cost-sharing in the prior year(s).

Postemployment Benefits

18. A health and welfare benefit plan should disclose, in the notes to financial statements, the weighted-average assumed discount rate used to measure the plan's obligation for postemployment benefits.

Investment Transactions

19. A health and welfare benefit plan should disclose, in the notes to financial statements, investments representing 5 percent or more of the net assets available for benefits as of the end of the year.

Amendments to the Guide and SOP 92-6

Presentation of Benefit Obligations Information

20. The second sentences of paragraph 4.18 of the Guide and paragraph 20 of SOP 92-6 (as amended) are replaced with the following:

> Information about the benefit obligations should be presented in a separate statement, combined with other information on another financial statement, or presented in the notes to financial statements. Regardless of the format selected, the plan financial statements should present the benefit obligations information in its entirety in the same location.

21. Paragraphs 4.40 and 4.41 of the Guide and paragraphs 41 and 42 of SOP 92-6 (as amended) are replaced with the following:

> Benefit obligations* for single-employer, multiple-employer, and multiemployer defined-benefit health and welfare benefit plans should include the actuarial present value, as applicable, of the following:
>
> *a*. Claims payable, claims IBNR,† and premiums due to insurance companies
>
> *b*. Accumulated eligibility credits and postemployment benefits, net of amounts currently payable
>
> *c*. Postretirement benefits for the following groups of participants: †

(1) Retired plan participants, including their beneficiaries and covered dependents, net of amounts currently payable and claims IBNR†

(2) Other plan participants fully eligible for benefits

(3) Plan participants not yet fully eligible for benefits.

Aggregating claims payable and claims IBNR is often appropriate if adequate time has passed to provide sufficient data on costs incurred and the actuarially determined expected cost of long-term medical claims is insignificant. Benefits expected to be earned for future service by active participants (for example, vacation benefits) during the term of their employment should not be included. Benefit obligations should be reported as of the end of the plan year. The effect of plan amendments should be included in the computation of the expected and accumulated postretirement benefit obligations once they have been contractually agreed to, even if some provisions take effect only in future periods. For example, if a plan amendment grants a different benefit level for employees retiring after a future date, that increased or reduced benefit level should be included in current-period measurements for employees expected to retire after that date.

To the extent they exist, the amounts of benefit obligations in each of the three major classifications identified above should be shown as separate line items in the financial statements or notes to financial statements. Regardless of the format selected, the plan financial statements should present the benefit obligations information in its entirety in the same location. For negotiated plans, benefit obligations due during a plan's contract period may, but need not, be disclosed.

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* Administrative expenses expected to be paid by the plan (but not those paid directly by the plan's participating employer(s)) that are associated with providing the plan's benefits should be reflected either by including the estimated costs in the benefits expected to be paid by the plan or by reducing the discount rate(s) used in measuring the benefit obligation. If the latter method is used, the resulting reduction in the discount rate(s) should be disclosed.

† Claims IBNR may be computed in the aggregate for active participants and retirees. Alternatively, if claims IBNR are not calculated in the aggregate for active participants and retirees, the claims IBNR for retirees are included in the postretirement benefit obligation.

Subsequent footnotes in the Guide and in SOP 92-6 will be renumbered accordingly.

22. The second sentences in paragraph 4.56 (paragraph 4.60 as amended by this SOP) of the Guide and in paragraph 55 of SOP 92-6 (paragraph 59 as amended by this SOP) are replaced with the following:

> Changes in each of the three major classifications of benefit obligations should be presented in the body of the financial statements or in the notes to the financial statements; the information may be presented in either a reconciliation or narrative format.

Accounting for and Reporting of Postemployment Benefits

23. The following section addressing postemployment benefits is added following paragraph 4.55 of the Guide and paragraph 54 of SOP 92-6 (as amended):

> Postemployment Benefits
>
> Plans that provide postemployment benefits should recognize a benefit obligation for current participants, based on amounts expected to be paid in subsequent years, if all the following conditions are met:
>
> *a*. The participants' rights to receive benefits are attributable to services already rendered.
>
> *b*. The participants' benefits vest or accumulate.*
>
> c. Payment of benefits is probable.
>
> *d*. The amount can be reasonably estimated.
>
> The postemployment benefit obligation should be measured as the actuarial present value of the future benefits attributed to plan participants' services rendered to the measurement date, reduced by the actuarial present value of future contributions expected to be received from the current plan participants. That amount represents the benefit obligation that is to be funded by contributions from the plan's participating employer(s) and from existing plan assets. The obligation is to be measured assuming the plan continues in effect and all assumptions about future events are met. Any anticipated forfeitures or integration with other related programs (for example, state unemployment benefits) should be considered. The benefit obligation should be discounted using rates of return on high-quality fixed-income investments currently available with cash

flows that match the timing and amount of expected benefit payments and expected participant contributions.

For postemployment benefits that do not meet conditions (*a*) and (*b*) of the preceding paragraph, the plan should recognize a benefit obligation if the event that gives rise to a liability has occurred and the amount can be reasonably estimated. For example, if all participants receive the same medical coverage upon disability regardless of length of service (the benefits do not accumulate) and the benefits do not vest, medical benefits for disabled participants should be accrued at the date of disability and not over the participants' working lives. When participant contributions are required after the event triggering postemployment benefits occurs, the postemployment benefit obligation should be measured in a manner consistent with the preceding paragraph. As a result, in those situations the benefit obligation should represent the amount that is to be funded by contributions from the participating employer(s) and from existing plan assets.

If an obligation for postemployment benefits is not recognized in accordance with the two preceding paragraphs only because the amount cannot be reasonably estimated, the financial statements should disclose that fact.

* For example, the supplemental unemployment benefit is fifty-two weeks' pay if a participant worked three years, seventy-eight weeks' pay if a participant worked five years, and 104 weeks' pay if a participant worked seven years. In this situation, the benefits would be considered accumulating. Benefits that increase solely as a function of wage or salary increases are not considered accumulating.

The remaining paragraphs will be renumbered beginning with paragraph 4.59 of the Guide and beginning with paragraph 58 of SOP 92-6 (as amended) as a result of those amendments.

Measurement Date for Benefit Obligations

24. Footnote 17 of SOP 92-6 (as amended) and footnote 28 of chapter 4 of the Guide are replaced by the following:

The financial status of the plan considers assets and obligations as of the same date. Because plan assets are required to be presented as of the plan's year end, the benefit obligations also should be measured and presented as of the plan's year end. That requirement does not, however, preclude the plan from using the most recent benefit obligations valuation rolled forward to the plan's year end to account for subsequent events (such as employee service and benefit payments), provided that it is reasonable to expect that the results will not be materially different from the results of an actuarial valuation as of the plan's year end. In rolling forward the benefit obligations to the plan's measurement date, the discount rates should be adjusted as appropriate to reflect current rates of return on high-quality fixed-income investments. For example, if a valuation was performed at September 30 and the plan has a calendar year end, the benefit obligations as of September 30 should be rolled forward to December 31, by making appropriate adjustments, such as for additional employee service; the time value of money; benefits paid; and changes in the number of participants, actuarial assumptions, discount rates, per capita claims costs, and plan terms.

Disclosures

Postretirement Benefit Obligations

25. The following is added at the end of the third bullet of paragraph 4.59 of the Guide (paragraph 4.63 as amended by this SOP) and paragraph 58 of SOP 92-6 (paragraph 62 as amended by this SOP):

> For each year for which a year-end statement of net assets available for benefits is presented, a description of the portion of the plan's estimated cost* of providing postretirement benefits funded by retiree contributions. If the plan terms provide that a shortfall in attaining the intended cost sharing in the prior year(s) is to be recovered by increasing the retiree contribution in the current year, that incremental contribution should be separately disclosed. Similarly, if the plan terms provide that participant contributions in the current year are to be reduced by the amount by which participant contributions in prior year exceeded the amount needed to attain the desired cost-sharing, the resulting reduction in the current year contribution should be separately disclosed. The information about retiree contributions should be provided for each significant group of retired participants to the extent their contributions differ.

* The plan's estimated cost of postretirement benefits is the plan's expected claims cost for the year. It excludes benefit costs paid by Medicare and costs, such as deductibles and copayments, paid directly to the medical provider by participants. The portion of the plan's estimated cost that is funded by retiree contributions is determined at the beginning of the year based on the plan sponsor's cost-sharing policy. In determining that amount, the retirees' required contribution for the year should be reduced by any amounts intended to recover a shortfall (or increased by amounts intended to compensate for an overcharge) in attaining the desired cost-sharing in prior year(s).

26. The following modifications to appendix F of the Guide and paragraph 67, exhibit A, of SOP 92-6 are made to provide an example of the financial reporting for a defined benefit health and welfare plan under which retirees contribute a portion of the cost for their medical coverage. The illustration being modified is the first example, Allied Industries Benefit Plan. The revised Statements of Plan's Benefit Obligations follow:

EXHIBIT F-3

Allied Industries Health Care Benefit Plan
Statements of Plan's Benefit Obligations
December 31, 20X1 and 20X0

	20X1	*20X0*
Amounts currently payable		
Claims payable, claims incurred but not reported, and premiums due to insurers	$ 1,200,000	$ 1,050,000
Postemployment benefit obligations, net of amounts currently payable		
Death and disability benefits for inactive participants	1,350,000	1,000,000
Postretirement benefit obligations, net of amounts currently payable		
Retired participants	2,000,000	1,900,000
Other participants fully eligible for benefits	4,000,000	3,600,000
Participants not yet fully eligible for benefits	5,000,000	4,165,000
	11,000,000	9,665,000
PLAN'S TOTAL BENEFIT OBLIGATIONS	$13,550,000	$11,715,000

The accompanying notes are an integral part of the financial statements.

27. The Statement of Changes in Plan's Benefit Obligations also is revised, as follows:

EXHIBIT F-4

Allied Industries Heath Care Benefit Plan
Statement of Changes in Plan's Benefit Obligations
Year Ended December 31, 20X1

	20X1
Amounts currently payable	
Balance at beginning of year	$ 1,050,000
Claims reported and approved for payment, including benefits reclassified from benefit obligations	16,920,000
Claims paid	(16,770,000)
Balance at end of year	1,200,000
Postemployment benefit obligations, net of amounts currently payable	
Balance at beginning of year	1,000,000
Increase (decrease) in postemployment benefits attributable to: Benefits earned	600,000
Benefits reclassified to amounts currently payable	(450,000)
Interest	90,000
Changes in actuarial assumptions and other actuarial gains and losses	110,000
Balance at end of year	1,350,000
Postretirement benefit obligations, net of amounts currently payable	
Balance at beginning of year	9,665,000
Increase (decrease) in postretirement benefits attributable to: Benefits earned	1,150,000
Benefits reclassified to amounts currently payable	(650,000)
Interest	750,000
Plan amendment	(175,000)
Changes in actuarial assumptions and other actuarial gains and losses	260,000
Balance at end of year	11,000,000
PLAN'S TOTAL BENEFIT OBLIGATIONS AT END OF YEAR	$ 13,550,000

The accompanying notes are an integral part of the financial statements.

28. The notes to financial statements in exhibit A of SOP 92-6 and exhibit F-5 of the Guide are modified as follows:

a. In Note 1, "Description of Plan," the second sentence in the paragraph *Contributions* is replaced with the following:

Employees may contribute specified amounts, determined periodically by the Plan's actuary, to extend coverage to eligible dependents. The costs of the postretirement benefit plan are shared by the Plan's participating employers and retirees. In addition to deductibles and copayments, participant contributions in the current (and prior, if applicable) year were as follows:

Participants Retiring	***20X1 Retiree Contribution***	***20X0 Retiree Contribution***
(1) Pre-1990	(1) None	(1) None
(2) 1990–1994	(2) Retirees contribute 20% of estimated cost of providing their postretirement benefits*	(2) Retirees contribute 20% of estimated cost of providing their postretirement benefits
(3) 1995–1999	(3) Retirees pay the cost of providing their postretirement benefits in excess of $200 per month "cap" (approximately 60% of the estimated cost)	(3) Retirees pay the cost of providing their postretirement benefits in excess of $200 per month "cap" (approximately 50% of the estimated cost)
(4) 2000 and after	(4) Retirees pay 100% of estimated cost of providing their postretirement benefits	(4) Retirees pay 100% of estimated cost of providing their postretirement benefits

* Excluding $15 per month per capita increase in 20X1 due to adverse claims experience in 20X0.

b. In Note 2, "Summary of Significant Accounting Policies," the following paragraph replaces the first two sentences of the first paragraph of section C, "Postretirement Benefits":

The amount reported as the postretirement benefit obligation represents the actuarial present value of those estimated future benefits that are attributed by the terms of the plan to employees' service rendered to the date of the financial statements, reduced by the actuarial present value of contributions expected to be received in the future from current plan participants. Postretirement benefits include future benefits expected to be paid to or for (1) currently retired or terminated employees and their beneficiaries and dependents and (2) active employees and their beneficiaries and dependents after retirement from service with participating employers. The postretirement benefit obligation represents the amount that is to be funded by contributions from the plan's participating employers and from existing plan assets.

Postemployment Benefits

29. The following is added at the end of the bullets in paragraph 4.59 (paragraph 4.62 as amended by this SOP) of the Guide and at the end of the bullets in paragraph 58 of SOP 92-6 (paragraph 61 as amended by this SOP):

    - The weighted-average assumed discount rate used to measure the plan's obligation for postemployment benefits.

30. The illustrative financial statement examples of an employee benefit plan that provides postemployment benefits in appendix B of this SOP are added to the Guide as exhibits F-14 through F-16 and to SOP 92-6 as exhibit C.

Investment Transactions

31. The first sentence of the seventh bullet (including the addition of paragraph 25 of this SOP) of Guide paragraph 4.59 (paragraph 4.62 as amended by this SOP), and the first sentence of the seventh bullet (including the addition of paragraph 25 of this SOP) of paragraph 58 (paragraph 61 as amended by this SOP) of SOP 92-6, are replaced with the following:

    Identification of investments that represent 5 percent or more of the net assets available for benefits as of the end of the year.

Effective Date and Transition

32. This SOP is effective for financial statements for plan years beginning after December 15, 2000. Earlier application is encouraged. Financial statements presented for prior plan

years are required to be restated to comply with the provisions of this SOP. The effect of restating the beginning balance of benefit obligations for the earliest year presented should be disclosed.

The provisions of this Statement need not be applied to immaterial items.

APPENDIX A

Background Information and Basis for Conclusions

Measurement and Reporting of Postretirement Benefit Obligations

A.01 The primary objective of the financial statements of a health and welfare plan is to provide financial information that is useful in assessing the plan's current and future ability to pay its benefit obligations when due. To accomplish that objective, a plan's financial statements should provide information about the following:

a. Plan resources and the manner in which the stewardship responsibility for those resources has been discharged

b. Benefit obligations

c. Results of transactions and events that affect the information about those resources and obligations

d. Other information necessary for users to understand the information

A.02 The plan document states the nature and extent of benefits the plan will provide to its participants. The plan is dependent on the participating employer(s), plan participants, or both, to provide funding for those benefits. Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions*, requires employers to quantify the promises they make to current and former employees to provide them with postretirement benefits other than pensions.

A.03 When SOP 92-6, *Accounting and Reporting by Health and Welfare Benefit Plans*, originally was developed, the intent was that the plan would report the postretirement benefit obligation (measured in accordance with FASB Statement No. 106) to minimize actuarial and audit costs to health and welfare benefit plans. Under FASB Statement No. 106, the postretirement benefit obligation recognized by the employer (the plan sponsor for a single-employer plan) is the amount expected to be funded by contributions from the employer; it does not include amounts expected to be funded by participants' future contributions. In addition, since SOP 92-6 was issued, many employers have continued to amend their plans to reduce benefits provided, to introduce or increase cost-sharing arrangements, or both. Also, there has been diversity in practice in implementing a number of its requirements, including the measurement date for benefit obligations.

A.04 Employees may contribute specified amounts, determined periodically by the plan's actuary, to extend coverage to eligible dependents. The costs of the postretirement benefit plan are shared by the plan's participating employer(s) and participants (for example, retirees). Many health and welfare plans integrate benefits with Medicare. That integration normally is described in detail in the plan document. Benefits to be provided by Medicare are neither benefits provided by the plan nor obligations of the plan. Deductible amounts and copayments, which are described in the plan document, also are neither part of the benefits provided nor part of the plan's obligations. The plan's postretirement benefit obligation does not include the cost of benefits to be provided by Medicare or deductible amounts and copayments that are to be paid directly by the plan participants.

A.05 On March 22, 2000, an exposure draft of this SOP, *Accounting for and Reporting of Certain Health and Welfare Benefit Plan Transactions*, was issued. That exposure draft proposed the presentation of a combination of two alternative measures of the plan's obligations on the statement of benefit obligations. It proposed the presentation of the "gross" measure of the obligation—the postretirement benefits expected to be paid by the plan—and reconciliation (by deducting the amount of the postretirement benefit obligations expected to be paid by contributions from plan participants) of that amount to the net postretirement benefit obligation, which represents the obligation to be paid by the plan's participating employer(s) and from existing plan assets. The Accounting Standards Executive Committee (AcSEC) believed that presentation would provide more useful information about the plan's expected benefit payments and sources of funding than the presentation under SOP 92-6.

A.06 AcSEC considered the cost of measuring the plan's total benefit obligations attributed to participant service rendered to the measurement date (that is, the gross measure of postretirement benefits expected to be paid by the plan). It was believed that in most cases, the plan's total benefit obligations for a single-employer plan would be readily available if the sponsoring employer measures its postretirement benefit obligation in accordance with FASB Statement No. 106. Paragraph 27 of FASB Statement No. 106 says that the benefit obligation is measured as the actuarial present value of the benefits expected to be provided under the plan, reduced by the actuarial present value of contributions expected to be received from the plan participants during their remaining active service and postretirement.

A.07 AcSEC received twenty-two comment letters on its exposure draft. Many of those respondents believed that in many situations it would not be cost beneficial to require plans to calculate the gross measure of the postretirement benefits expected to be paid by the plan. That may be the case, for example, if the costs of the plan are shared by the plan's participating employer(s) and participants through contributory plans, such as "capped" plans, "defined dollar" benefit plans, "reimbursement plans," or through "retiree-pay-all" plans. In addition, because plans may have different contribution requirements for different groups of participants (for example, employees who retired before 1991, employees who retired between 1991 and 1998, and employees who retired after 1998), comparing the "gross" and "net" measures of the benefit obligations may not provide a relevant comparison of how the plan costs are shared by the plan's participating employer(s) and various groups of retired participants. After consultation with some of the respondents to the exposure draft, AcSEC concluded that information about the portion of the plan's estimated cost that is funded by retiree contributions could be provided more cost-effectively through additional financial statement disclosures.

A.08 In practice, many multiemployer plans negotiate participating employer and participant contribution rates that are intended to fund the benefits expected to be paid in the current period. As a result of the nature of those plans, many plan administrators believe that the plans have no legal liability to provide benefits to their participants beyond the periods specified by the terms of their contract. Therefore, plan trustees, administrators, and participants may find the note disclosure of benefit obligations due during the contract period, in addition to the plan's benefit obligations, useful in assessing the plan's funded status.

Presentation of Benefit Obligations Information

A.09 AcSEC has been asked whether certain kinds of benefit obligations, as described in paragraph 41 of SOP 92-6 (as amended) and paragraph 4.40 of the Guide, may be aggregated for reporting purposes. The intent of SOP 92-6 was that benefit obligations with similar characteristics may be aggregated. That is why, in part, three major classifications of benefit obligations were identified in paragraph 55 of SOP 92-6 (as amended) and paragraph 4.56 of the Guide. Those classifications include claims payable and premiums due to insurance companies, claims incurred but not reported (IBNR) and accumulated eligibility credits, and postretirement benefit obligations.

A.10 AcSEC believes claims payable and premiums due to insurance companies may be aggregated because they are known, determinable amounts as of the plan's year end, and are not estimates. In addition, AcSEC believes that claims IBNR may be aggregated with those amounts because sufficient data on actual costs incurred usually are available before issuance of the plan's financial statements. At that time, the characteristics of claims payable and claims IBNR may be similar. The claims IBNR amount reported as of the plan's year end usually is adjusted to reflect the actual cost incurred. Accumulated eligibility credits and the obligation for postemployment benefits are usually estimated amounts as of the plan's year end. As such, measurement of the obligation may encompass various assumptions. For that reason, AcSEC believes the obligation for those benefits should be presented as a separate classification.

A.11 FASB Statement No. 35, *Accounting and Reporting by Defined Benefit Pension Plans*, allows defined benefit pension plans to present information about the actuarial present value of accumulated plan benefits and changes therein in either the financial statements or in the notes. AcSEC believes similar alternatives should be provided for the presentation of information about benefit obligations and changes in benefit obligations of defined benefit health and welfare plans.

Accounting for and Reporting of Postemployment Benefits

A.12 FASB Statement No. 112, *Employers' Accounting for Postemployment Benefits*, requires employers to quantify the promises they make to employees to provide them with benefits after employment but before retirement. Those benefits are referred to as postemployment benefits.

A.13 Previously, there was no similar requirement to quantify postemployment benefits at the plan level. However, AcSEC believes that to the extent that plans provide for postemployment benefits, those promises represent obligations of the plan and should be reported in the plan's financial statements or notes to financial statements. Although FASB Statement No. 112 does not require discounting of the employer's obligation, this SOP requires that the plan's postemployment benefit obligation be discounted, consistent with the measurement of all other benefit obligations of the plan. AcSEC believes that a comparison of plan assets with an undiscounted measure of the obligation would be misleading. AcSEC recognizes the issuance of FASB Statement of Financial Accounting Concepts No. 7, *Using Cash Flow Information and Present Value in Accounting Measurements*, which sets forth a different basis for discounting the benefit obligation. However, AcSEC believes it is preferable to retain an approach to selecting the discount rates that is consistent with the rates required to be used in other measures of plans' and for employers' benefit obligations. AcSEC also considered requiring the disclosure of the portion of the plan's estimated cost of postemployment benefits funded by active or inactive participants' contributions. After deliberation, AcSEC rejected this requirement because it decided that this particular disclosure was not cost beneficial to the users of plan financial statements.

Measurement Date for Benefit Obligations

A.14 Paragraph 41 of SOP 92-6 (as amended) and paragraph 4.40 of the Guide say that benefit obligations should be reported as of the end of the plan year. Paragraph 72 of FASB Statement No. 106 permits employers to determine their postretirement benefit obligations as of a date not more than three months before year end, provided that the determination is made consistently from year to year. The intent of footnote 17 of SOP 92-6 (as amended) and footnote 28 of chapter 4 of the Guide was to incorporate that same concept for the determination of benefit obligations at the plan level.

A.15 The financial status of the plan considers assets and obligations as of the same date. Because plan assets are required to be presented as of the plan's year end, AcSEC believes benefit obligations (both postretirement and postemployment) also should be presented as of the plan's year end.

A.16 Benefit obligations are estimates based on various assumptions. Because of the inherent uncertainties surrounding those assumptions, AcSEC believes that the most recent information rolled forward to the plan's year end is permissible provided that it is reasonable to expect that the results will not be materially different from the results of an actuarial valuation at the plan's year end. A valuation rolled forward to the plan's year end should consider such factors as additional employee service, the time value of money, changes in the number of participants, actuarial experience and per capita claims costs, and benefits paid since the valuation date. A valuation rolled forward to the plan's year end would not be appropriate if there has been a material amendment to the plan or other significant changes unless the actuary has adjusted for the effects of those changes on the benefit obligation.

Investment Transactions

A.17 Paragraph 58 of SOP 92-6 (as amended) and paragraph 4.59 of the Guide require the health and welfare plan's financial statements to identify and disclose investments that represent 5 percent or more of total plan assets. However, it was noted that the disclosure of investments of defined benefit and defined contribution plans is based on 5 percent of the net assets, as listed in the plan's statement of net assets available for plan benefits as of the end of the year. AcSEC believes that the disclosures should be consistent among plans. Therefore, this SOP requires health and welfare plans to identify and disclose investments that represent 5 percent or more of the net assets available for plan benefits as of the end of the year.

Effective Date and Transition

A.18 A cumulative effect adjustment normally would be required to reflect the effect of changes in accounting. However, AcSEC concluded that because of the nature of a plan's financial statements and the changes required by this SOP, restatement of prior periods presented for comparative purposes is more appropriate.

APPENDIX B

Illustrative Financial Statements of a Supplemental Unemployment Benefit Plan

B.01 This Appendix illustrates certain applications of the provisions of this Statement of Position (SOP) that apply to the annual financial statements of a hypothetical supplemental unemployment benefit plan. It does not illustrate other provisions of this SOP that might apply in circumstances other than those assumed in this example. It also does not illustrate all disclosures required for a fair presentation in conformity with generally accepted accounting principles (GAAP). The formats presented and the wording of the accompanying notes are illustrative and are not necessarily the only possible presentations.

B.02 Although GAAP does not require comparative financial statements, the Employee Retirement Income Security Act of 1974 (ERISA) requires a comparative statement of net assets available for benefits. The illustrative financial statements are intended to comply with the requirements of ERISA.

B.03 ERISA and U.S. Department of Labor (DOL) regulations require that certain information be included in supplemental schedules, which are not required under GAAP. See appendix A of AICPA Audit and Accounting Guide *Audits of Employee Benefit Plans* for a further discussion of the ERISA and DOL requirements.

Supplemental Unemployment Benefit Plan for Employees of ABC Company Established Pursuant to Agreement With United Workers of America Statements of Net Assets Available for Benefits December 31, 20X1 and 20X0

	20X1	*20X0*
Assets		
Investments	$ 10,605	$ 80,750
Cash and cash equivalents	1,025	19,400
Accrued interest receivable	100	125
TOTAL ASSETS	11,730	100,275
Liability		
Accrued investment trustee fees	265	265
NET ASSETS AVAILABLE FOR BENEFITS	$ 11,465	$100,010

The accompanying notes are an integral part of the financial statements.

Supplemental Unemployment Benefit Plan for Employees of ABC Company Established Pursuant to Agreement With United Workers of America
Statement of Changes in Net Assets Available for Benefits
Year Ended December 31, 20X1

Additions:	
Contributions	$1,366,065
Interest income	1,960
TOTAL ADDITIONS	1,368,025
Deductions:	
Benefit payments	1,455,460
Investment trustee fees	1,110
TOTAL DEDUCTIONS	1,456,570
NET DECREASE DURING THE YEAR	(88,545)
Net assets available for benefits	
Beginning of year	100,010
End of year	$ 11,465

The accompanying notes are an integral part of the financial statements.

Supplemental Unemployment Benefit Plan for Employees of ABC Company Established Pursuant to Agreement With United Workers of America Notes to Financial Statements

NOTE 1: DESCRIPTION OF PLAN

In connection with a negotiated contract, the Supplemental Unemployment Benefit Plan for Employees of ABC Company Established Pursuant to Agreement With United Workers of America (the Plan) provides for payment of supplemental unemployment benefits to covered employees who have completed two years of continuous service. Payments are made to (*a*) employees on layoff and (*b*) certain employees who work less than 32 hours in any week. The following description is provided for general information purposes. The Plan document should be referred to for specific information regarding benefits and other Plan matters.

NOTE 2: SUMMARY OF ACCOUNTING POLICIES

Basis of Accounting. The financial statements of the Plan are prepared under the accrual method of accounting.

Investment Valuation. The Plan's investments consist of shares of a money market portfolio. The investments are reported at fair value.

Use of Estimates. The preparation of financial statements in conformity with generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Benefit Obligations. The Plan's obligation for accumulated eligibility credits is discounted using a weighted-average assumed rate of 7½ percent.

NOTE 3: FUNDING AND OPERATION OF THE PLAN

Funding of the Plan. Contributions funded by ABC Company, the Plan's sponsor, pursuant to the Plan are invested in assets held in a trust fund (the Fund). General Bank, the trustee of the Fund (the Trustee), invests the Fund's money as set forth in the Plan document. Investments consist of money market funds and are reported in the accompanying financial statements at fair value. Interest income from investments is recognized when earned.

Administration. The ABC Company Benefit Plan Administrative Committee has responsibility for administering the Plan. The ABC Company Benefit Plan Asset Review Committee has responsibility for the management and control of the assets of the Trust.

Benefits Under the Plan. The Plan provides for the payment of weekly and short-week supplemental unemployment benefits. The benefits payable are reduced by any state unemployment benefits or any other compensation received. Also, a "waiting-week" benefit of $100 will be payable if a participant fails to receive a state unemployment benefit solely because of the state's waiting-week requirement. Benefits paid for any week for which the employee received state unemployment benefits are limited to $180. Benefits paid for all other weeks are limited to $235. The Plan provides for a possible reduction of weekly benefits for employees with less than twenty years of service based upon a percentage determined generally by dividing the net assets of the Plan, as defined in the Plan document, by the "maximum financing" (see "ABC's Obligations Under the Plan"). Employees earn one-half credit unit for each week in which hours are worked or, in some situations, in which hours are not worked (vacation, disability, serving on grievance committee, and so on) up to a maximum of fifty-two credit units for employees with less than twenty years of service and 104 credit units for employees with twenty or more years of service. Generally, one credit unit is canceled for each weekly benefit paid and one-half credit unit is canceled for each short-week benefit paid.

ABC's Obligations Under the Plan. The "maximum financing" of the Plan at any month end is the lesser of (a) the product of $.40 and the number of hours worked by covered employees during the first twelve of the fourteen months next preceding the first day of the month and (b) 100 times the sum of the monthly benefits paid for the sixty of the preceding sixty-two months divided by sixty. ABC's monthly contribution to the Plan is computed as the lesser of (a) the product of $.175 and the number of hours worked by covered employees in the month and (b) the amount that, when added to the net assets of the Plan, as defined by the Plan document, as of the end of the preceding month, will equal the "maximum financing." In addition, ABC contributes an income security contribution of $.25 per hour worked by covered employees in the month. In the event of a plan deficit, ABC intends to make sufficient contributions to fund benefits as they become payable.

The following tables present the components of the plan's benefit obligations and the related changes in the plan's benefit obligations.

Benefit Obligations
December 31, 20X1 and 20X0

	20X1	*20X0*
Accumulated eligibility credits and total benefit obligations	$1,107,777	$1,095,620

Changes in Benefit Obligations
Year Ended December 31, 20X1

Benefit obligations, beginning of year	$ 1,095,620
Benefits earned	1,390,330
Interest	77,287
Claims paid	(1,455,460)
Benefit obligations, end of year	$ 1,107,777

Plan Expenses. ABC bears all administrative costs, except trustee fees, that are paid by the Plan.

NOTE 4: TAX STATUS

The Plan obtained its latest determination letter in 1990, in which the Internal Revenue Service stated that the Plan, as then designed, was in compliance with the applicable requirements of the Internal Revenue Code (IRC). The Plan has been amended since receiving the determination letter. Plan management and Plan's tax counsel believe that the Plan is currently designed and being operated in compliance with the applicable requirements of the IRC. Therefore, no provision for income taxes has been included in the Plan's financial statements.

NOTE 5: TRANSACTIONS WITH PARTIES IN INTEREST

ABC provides to the Plan certain accounting and administrative services for which no fees are charged.

NOTE 6: TERMINATION OF THE PLAN

Under certain conditions, the Plan may be terminated. Upon termination, the assets then remaining shall be subject to the applicable provisions of the Plan then in effect and shall be used until exhausted to pay benefits to employees in the order of their entitlement.

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The Health and Welfare Statement of Position Task Force gratefully acknowledges the contributions of former employee benefit plans committee members; Linda Delahanty, technical manager, AICPA Accounting & Auditing Publications; and the Office of Chief Accountant, Pension and Welfare Benefits Administration of the U.S. Department of Labor.