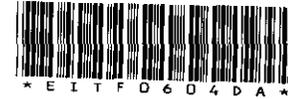


JAMES RENZ  
DIRECTOR, ACCOUNTING POLICY  
[jimrenz@acli.com](mailto:jimrenz@acli.com)



August 4, 2006

Mr. Lawrence W. Smith  
Chairman of Emerging Issues Task Force  
Financial Accounting Standards Board  
401 Merritt 7  
Norwalk, CT 06856-5116



LETTER OF COMMENT NO.

95

**Re: EITF 06-4 - Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements**

Dear Mr. Smith:

The American Council of Life Insurers (ACLI) would like to provide comments on the above referenced matter being addressed by the Emerging Issues Task Force (Task Force). ACLI's 377 member companies account for 91 percent of the total assets and 90 percent of the life insurance premiums in the United States. We appreciate the opportunity to comment.

We take great interest in this issue as the policies of our member companies are used by employers to provide post-retirement benefits to employees. The employers endeavor to faithfully represent the nature of these plans in their financial statements and are impacted by the Task Force deliberations. In particular, the benefits to the employer and employee of the endorsement split-dollar plan meeting the definition of a settlement, in whole or part, under FAS 106 transcend the accounting issues and are significant. The settlement of the benefit liability on the part of the employer makes certain the benefit cost allowing the employer to use capital more effectively and the employee enjoys the certainty of a fully funded benefit. For these reasons and for the sake of consistency in financial reporting, we feel it is very important that the final version of this guidance be clear on the matter of settlement and how it may be achieved.

In our opinion the Task Force is correct in recognizing that the structure of endorsement split dollar arrangements and the types of insurance policies used are complex and varied. For this reason we seek clarification in the following areas and ask that it is included in the Task Force's guidance:

**Settlement and Insurance Policy Guaranteed Amounts**

There are various policy forms used as funding of post-retirement endorsement split dollar arrangements. It is important to consider certain provisions of those policies in light of the discussion concerning when a settlement under FAS 106 may have occurred. The consensus exposed for comment indicates "the purchase of an endorsement type policy does not constitute a settlement since the policy does not qualify as non-participating because the policyholders are subject to the favorable and unfavorable experience of the insurance company."

In the universe of life insurance policies, a “participating” policy is one that participates in the overall performance of the insurance company with respect to investment performance, mortality experience, and management of expenses. Many “participating” policies also provide guarantees including minimum investment return, maximum mortality charges, and maximum administrative expenses. Policies with fixed premiums also guarantee a minimum death benefit so long as the scheduled premiums are paid. The schedule of premium payments varies from a single premium paid at issue to annual premiums payable for the life of the insured. Fixed premium policies also include an option that allows the policy owner to change the policy from a premium paying status to a fully paid up status that guarantees an adjusted death benefit with no obligation to pay any further premiums.

The certainty of the guarantees under a life insurance policy is dependent on the financial strength of the insurance company that issued the policy. Life insurance companies are regulated by the states and are required by state law to maintain reserves sufficient to satisfy the benefits promised under their policies. In addition, the major ratings agencies scrutinize the financial records of life insurance companies and publish evaluations of each company’s claims paying ability. Moreover, state insurance commissions maintain guarantee funds that protect the death benefits of policies issued by companies that become insolvent. With the safeguards imposed by state regulation, we are not aware of an instance where a death claim was denied because of insurer insolvency.

We believe that, in cases where a “participating” life insurance policy that provides a guaranteed death benefit is used to fund a post-retirement endorsement split dollar plan, at least a portion of the liability may appropriately be considered settled. We believe that the value of these guaranteed benefits is, in effect, the equivalent of the insurance example of a settlement provided in FAS 106 paragraph 90 described as “purchasing long term non-participating insurance contracts for the accumulated postretirement benefit obligation for some or all of the plan participants.” To the extent the guaranteed death benefit is insufficient to cover the promised post-retirement benefit or to the extent the employer is likely to be obligated to continue premium payments after the retirement of a participant in an endorsement split dollar plan in order to maintain the guaranteed death benefit, the liability under the plan would not be considered settled.

### **Substantive Agreement / Amount of the Liability**

The first sentence of paragraph 5 of the Task Force discussion indicates “an employer should recognize a liability for future benefits in accordance with Statement 106 or Opinion 12...based on the substantive agreement with the employee.” Endorsement split dollar arrangements exist in the form of legal agreements. However, paragraph 156 of FAS 106 states that “in accordance with Concepts Statement 6, the Board has looked beyond the legal status of the promise to consider whether the liability is effectively binding on the employer because of past practices, social or moral sanctions, or customs.”

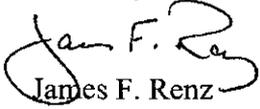
The premise is that the employer is promising a future benefit (whether legally enforceable or not) in exchange for the current service of employees. In light of the guarantees available with life insurance policies, the role of state regulators in monitoring the financial stability of life insurance companies, and the availability of thorough evaluations of insurance company financial strength, the obligation of the employer typically extends no further than the payment of premiums as mandated by the plan document.

We believe that the liability arises from the promise of the employer to provide (through the insurance company) a death benefit after retirement in excess of the guaranteed death benefit. To provide a non-guaranteed death benefit, premiums would be required after retirement. The amount of those premiums discounted to the retirement date represents the liability as of the retirement date. This liability should be

attributed to the active service period of the employee and accrued accordingly. The matter of assumptions concerning the retirement date, discount rate or other computational inputs would be handled consistent with other assumptions under FAS 106.

Thank you for considering our comments. Attached to this comment letter for your reference is a single premium life insurance policy table of guaranteed values from one of our member companies. If you have any questions or would like more information prior to the September Task Force meeting please don't hesitate to contact me.

Sincerely,

A handwritten signature in black ink that reads "James F. Renz". The signature is written in a cursive style with a large, looping initial "J".

James F. Renz

Director, Accounting Policy

BENEFITS AND PREMIUMS  
DATE OF ISSUE - OCTOBER 1, 2001

PLAN AND ADDITIONAL BENEFITS	AMOUNT	SINGLE PREMIUM
SINGLE PREMIUM WHOLE LIFE	\$ 100,000	\$ 25,273.00

THIS POLICY IS ISSUED IN A SELECT PREMIUM CLASS.

TABLE OF GUARANTEED VALUES

END OF POLICY YEAR	OCTOBER 1,	CASH VALUE	RESERVE
1	2002	\$ 23,960	\$ 26,019
2	2003	24,984	26,892
3	2004	26,050	27,790
4	2005	27,158	28,712
5	2006	28,309	29,659
6	2007	29,504	30,630
7	2008	30,744	31,623
8	2009	32,030	32,641
9	2010	33,364	33,683
10	2011	34,748	34,748
11	2012	35,837	35,837
12	2013	36,951	36,951
13	2014	38,089	38,089
14	2015	39,252	39,252
15	2016	40,440	40,440
16	2017	41,653	41,653
17	2018	42,888	42,888
18	2019	44,143	44,143
19	2020	45,416	45,416
20	2021	46,704	46,704
AGE 60	2026	53,364	53,364
AGE 65	2031	60,301	60,301
AGE 70	2036	67,206	67,206

SPECIMEN COPY

VALUES ARE INCREASED BY PAID-UP ADDITIONS AND DIVIDEND ACCUMULATIONS AND DECREASED BY POLICY DEBT.

THE OWNER MAY ELECT THE SPECIFIED RATE OR THE VARIABLE RATE LOAN INTEREST OPTION. SEE SECTIONS 5.4 THROUGH 5.6 OF THE POLICY. THE VARIABLE RATE LOAN INTEREST OPTION WAS ELECTED ON THE APPLICATION.

DIRECT BENEFICIARY                      JANE M. DOE, WIFE OF THE INSURED  
OWNER    JOHN J. DOE, THE INSURED

INSURED	JOHN J. DOE	AGE AND SEX	35	MALE
POLICY DATE	OCTOBER 1, 2001	POLICY NUMBER	00 000 000	
PLAN	SINGLE PREMIUM WHOLE LIFE	AMOUNT	\$ 100,000	