

M Benefit Solutions

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August 2, 2006

Via e-mail

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



LETTER OF COMMENT NO.

Mr. Smith:

M Benefit Solutions is pleased to respond and comment on the draft abstract for EITF Issue No. 06-4, "Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements."

We do not concur with the position stated in the draft abstract. Following are the key points that support our view:

1. The Employer Has No Obligation to Pay a Benefit

The consensus that has been proposed appears to be based on the premise that the sponsoring employer has entered into an agreement to provide a death benefit to an employee, and based on that assumed liability has acquired a life insurance policy to fund or settle that promise to pay. In fact, the employer has no obligation to pay a death benefit under the agreement – the split dollar death benefit will be paid directly by the insurance company upon the employee's death. The employer will not pay a benefit under any circumstances, so recording a liability for that benefit is misleading and inappropriate.

A clarification of the nature of an endorsement split dollar program is helpful. In such a program an endorsement is filed with the insurance policy, obligating the insurance company to pay the specified death benefit directly to the participant's beneficiary. The owner of the policy (the employer) only receives the remaining share of the death proceeds.

2. Financial Statements Under the Proposal Would Be Misleading

Given the facts in #1 above, where the employer does not have an obligation to pay a death benefit under the endorsement split dollar agreement, recording a liability on the employer's balance sheet (with related expense on the income statement) is not accurate. A misleading financial picture results from recording an obligation and expense that will simply be reversed upon the employee's death when the insurance company pays the death benefit directly to the employee's beneficiary.



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3. The Obligation is Effectively Settled

Although we disagree that a benefit liability exists in the first place, if such a liability did exist, we would not agree with the conclusion that such an obligation is not settled by the acquisition of a life insurance policy subject to a split dollar endorsement. According to FAS 106 paragraph 90, the definition of settlement is as follows:

a. Is an irrevocable action;

Once the insurance company issues the policy, it becomes irrevocable from the standpoint of the insurance company. The employer may surrender the policy but doing so will also terminate the split dollar benefit to be provided by the policy.

b. Relieves the employer (or plan) of primary responsibility for a postretirement benefit obligation;

As described earlier, an endorsement split dollar arrangement by its nature is simply a sharing of death benefits between the employer and employee. This benefit is payable directly from the insurance company – the employer does not have either primary or secondary responsibility for paying a postretirement benefit.

c. Eliminates significant risks related to the obligation and the assets used to effect the settlement.

The employer does not have any "risk related to the obligation and the assets used to effect the settlement," since the life insurance company has sole responsibility for paying the benefit in all circumstances. Further, the concept of "participating" vs. "nonparticipating" policies is not relevant for this analysis, since the performance of the insurance policy does not impact or create an obligation on the part of the employer, particularly when considering the guaranteed elements of a life insurance contract.

The bottom line with respect to settlement is that FAS 106 is based on the premise that the postretirement benefits are payable to the employee whether insurance (or other funding) is in place or not. This is clearly not the case with an endorsement split dollar agreement.

4. Creation of Asset/Liability Mismatch

Should the recording of a postretirement benefit obligation be required, it would not be consistent with the concept of asset/liability matching. Under FTB 85-4, the cash surrender value of life insurance policies (whether subject to a split dollar endorsement or not) is recorded as an asset, with increases to the cash surrender value recognized as income. There is no current provision to recognize any portion of the policy's death benefit in excess of the cash surrender value, even though that "net amount at risk" is the source of the split dollar



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benefit in question. Recognizing only the liability portion of this arrangement does not present an accurate depiction of the aggregate financial impact of such an arrangement.

5. Duplication of Expenses

The proposal would result in a duplication of expenses on the part of the employer. The annual cost of the insurance charges is reflected in the accounting treatment of the cash surrender value. Creating an additional charge via a benefit accrual would be a duplication of the expense associated with the policy death benefits.

6. Accounting Guidance

Should the proposed consensus be finalized, we would request additional guidance with respect to the appropriate accounting for income tax purposes (FAS 109) and Cash Flow Statement reporting (FAS 95) for an endorsement split dollar agreement.

7. Effective Date

Should the proposed consensus be finalized, we request that the transition period be extended to be effective for fiscal years beginning after December 15, 2007. The change to the accounting methodology will have a significant impact on employers as they make the required cumulative adjustments (and corresponding reduction in capital). A final decision rendered in September of this year provides employers only three months to analyze the impact and implement the necessary changes (up to and including the outright elimination of the benefits provided under such arrangements).

Again, we appreciate the opportunity to provide feedback on the proposed consensus and we thank you for your consideration. Please do not hesitate to contact us with any questions or comments.

Regards,

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