July 31, 2006



LETTER OF COMMENT NO. 57

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

RE: Comments on EITF Issues 06-4, Accounting for Deferred Compensation and Post-Retirement Aspects of Split Dollar Arrangements

Dear Mr. Smith:

On June 15, 2006, the EITF reached a tentative conclusion that a life insurance policy with an endorsement split dollar arrangement attached constitutes a participating contract. Consequently, the expected split death benefit payable under the insurance policy should be accrued under FAS 106 or APB 12, (depending upon whether a substantive plan exists.)

Although the EITF conclusion does not seem consistent with the accounting requirements of FTB 85-4, the following comments pertain to the measurement of the employer's benefit obligation assuming there are no changes to the EITF Issue 06-4 Abstract released July 6, 2006.

## Measurement of the Benefit

In an Issue Summary dated May 31, 2006, the EITF staff provided an illustration of the proposed accounting for split dollar arrangements. The illustration suggested that the present value of the participant's expected future death benefit should be accrued in full during the participant's active service period.

According to FAS 106, paragraph 20, "Measurement of the expected postretirement benefit obligation is based on the expected amount and timing of future benefits, taking into consideration the expected future cost of providing the benefits and the extent to which those costs are shared by the employer, the employee (including consideration of contributions required during the employee's active service period and following retirement, deductibles, coinsurance provisions, and so forth),..." (Emphasis added.)

Accounting for Employee Contributions

In an endorsement split dollar arrangement, the employer and the employee share in the cost of maintaining the underlying insurance policy. Consideration for the participant's death benefit occurs through reimbursement to the employer or imputed income to the

Executive Benefit Solutions LLC 7701 France Avenue South, Ste 200, Minneapolis, MN 55435 Phone: (952) 486-8782 Email: info@ebsplans.com employee based the economic value of the death benefit. The employee's contribution for his or her portion of the insurance proceeds is required during the active service period and following retirement. Effectively, the employer is paying for their portion of the insurance proceeds—the cash surrender value, and the participant is paying for their portion of the insurance proceeds—the death benefit.

Pursuant to FAS 106, the post-retirement benefit obligation is the expected future cost of providing the benefit, less the employee's required contributions. For split dollar plans, the employer's cost of providing a death benefit after considering the employee's contribution, effectively leaves nothing to accrue.

Recognizing the Cost to the Employer

On a separate note, FAS 106, paragraph 20 refers to, "...the expected amount and timing of future benefits, taking into consideration the *expected future cost* of providing the benefits..." (Emphasis added.) In a post-retirement split dollar arrangement, the participant will receive a benefit under the insurance policy; however, the employer's actual cost of providing that benefit is the cost of insuring the individual in post-retirement and keeping the policy in-force. The cost of insurance is reflected in the insurer's mortality costs which are charged against policy earnings.

Under FAS 106, the employer should be accruing the present value of the projected mortality costs in post-retirement, rather than the death benefit the participant receives from the insurance carrier.

Please be advised in the banking industry, insurance policies and split dollar plans are sold in the millions. Given the material effect the proposed split dollar accruals and liability reversals will have on the financial statements, I respectfully request the EITF reevaluate the measurement of a split dollar benefit because the actual cost of providing a split dollar benefit to an individual, and the employer's net cost after the employee contribution, is not equal to present value of the participant's future death benefit.

Sincerely,

Amy L. Kaiser, CPA Principal

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