

ASSOCIATION OF LIFE AND HEALTH ADMINISTRATORS

July 28, 2006

VIA EMAIL (director@fasb.org)



Director
Financial Accounting Standards Board
Emerging Issues Task Force

LETTER OF COMMENT NO. 51

RE: EITF0604 – Comment Regarding Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements

To Whom It May Concern:

I have learned that the EITF is proposing a radical change to accounting for split-dollar life insurance benefits under endorsement-style arrangements. As a concerned citizen working with banks with Bank-Owned Life Insurance (BOLI) and endorsement split-dollar arrangements, I am concerned about the impact this will have on banks, and their benefit plans, not to mention the reduction in retained earnings if banks choose to retain these plans. Therefore, the following comment is submitted for your consideration.

Comment

The relevant portion of the EITF's conclusion is stated as follows:

“The Task Force believed that the purchase of an endorsement type policy (sic) 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.”

Another parties reading of FAS 106 does not support this conclusion. In fact they note that FAS 106 clearly states that a participating insurance policy may also effectively settle a post-retirement benefit obligation, provided certain requirements are met. When the bank's policies are participating, however, the specially designed products that are used for most plans have death benefits which are guaranteed even beyond the mortality age of the plan participants. So, even if the carrier had “unfavorable experience,” the policy guarantees still support the death benefits. It is difficult to understand: How does this not settle the obligation?

Moreover, each month the country's leading BOLI vendors supply banks with asset accounting information that shows the interest credited, as well as the costs of insurance – which is an expense banks recognize – relative to their BOLI assets. It is understood that the interest and expense portions of these reports reflect the insurance carriers costs to provide the promised death benefit to the insured's expected mortality age. It seems

that the banks are appropriately recognizing the income and expense on these assets currently, and now the recommendation is for them to also recognize these expenses a second time to accommodate this new accounting change!

At implementation of a plan, banks and their participants understand, and their documents reflect that employees' beneficiaries would only receive a death benefit if there was an insurance policy in place at the time of death. The concept is straightforward: If there is no policy, there is no death benefit; though, if there is a policy, there is a death benefit. Executives and directors of banks can easily understand that language. It is impossible to understand why a bank, under these proposed accounting changes, essentially be required to accrue for a benefit that it never, under any circumstances, would be required to pay!

Therefore, as a concerned party who works with benefit plans and banks, I urge the FASB to not adopt this proposed change in accounting treatment of post-retirement split-dollar, and instead adopt the treatment espoused by the proponents of View B, for the reasons stated in View B, which is the current practice.

Respectfully,

Mary J. Preister
National Director - Education
Association of Life and Health Administrators
5579 Hedge Brooke Drive, NW
Acworth, GA 30101