



BENMARK



LETTER OF COMMENT NO.

9R

August 4, 2006

VIA EMAIL (director@fasb.org)

Director
Financial Accounting Standards Board
Emerging Issues Task Force

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

To Whom It May Concern:

We are informed that the EITF is proposing a radical change to accounting for split-dollar life insurance benefits under endorsement-style arrangements. As a concerned employee of a company that administers many Split Dollar plans for financial institutions with Bank-Owned Life Insurance (BOLI), I submit the following comment for your consideration.

Comment

I am personally familiar with the split dollar documents for the plans that we administer, which dictate the benefits at death to the institution and to the employees' beneficiaries. The vast majority of these documents are specific in detailing that the benefit is paid if, and only if, there is an insurance policy in place at the time of death. If there is a policy in force, the insurance carrier pays the benefit to the employee's beneficiaries. The institution receives only the portion of the policy death benefit it is entitled to under the terms of the agreement. The institution does not receive any monies to pass on as a split dollar death benefit to the employee's beneficiaries. If there is no policy, there is no promise of any death benefit to the employee. If there is a policy, there is a death benefit – PAID BY THE INSURANCE CARRIER. There is simply no liability to the institution to pay a death benefit. Should an institution with this type of agreement, under these proposed accounting changes, be required to accrue for a benefit that it never, under any circumstances, would be required to pay?

Further, in today's world, it is common to experience employee turnover. If this accounting change is accepted, what havoc that will play on their financial reporting: to reverse the expense for a terminated employee who no longer has a benefit, to record an accelerated expense for a terminated employee who has sufficient vesting to retain the

split dollar benefit, to start recording expenses for employees with new agreements, to reverse the full expense at the death of an employee. These may well place institutions under undeserved scrutiny by their regulatory bodies. As I am sure you aware, banks are limited as to the amount of BOLI they may purchase to 25% of their capital. If they have to start surrendering insurance policies to stay in regulatory compliance, the split dollar death benefits will be eliminated, which would then increase their capital. What would we have accomplished at that point? The employee and employer will have both lost significant benefits. The full impact of this proposed change would be negative in the extreme for small entities.

As a BOLI administrator, we supply our clients with asset accounting information that shows the interest credited, as well as the costs of insurance – which is an expense they recognize – relative to their BOLI assets. As we understand it, the interest and expense portions of these reports reflect the insurance carrier's costs to provide the promised death benefit to the insured's expected mortality age. We direct our clients to recognize the income and expense on these assets currently; must they also recognize these expenses a second time to accommodate this new accounting change?

Accordingly, I ask that you reconsider and adopt the treatment espoused by the proponents of View B, for the reasons stated in View B, which is the current practice. If the proposed change is approved, please consider allowing exceptions where there is truly no liability by the employer to ever pay the benefit.

Sincerely,

Karen Wise
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