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***Accounting for Changes in Post-  
Retirement Health Care Plans***

*Presented by:*

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# *Accounting Literature*

- Employers' accounting for defined benefit pension and other postretirement plans
- FASB Statements No. 87, 88, 106, 132(R) and 158
- Now ASC 715-60 Defined Benefit Plans – Other Postretirement

# *Overview*

- This presentation is not intended to be an all inclusive detailed presentation of how to account for changes in Postretirement Health Care Plans
- The goal is to help identify key components and how they might affect your Postretirement Health Care Plans

# *Overview*

Always a good idea to consult with your auditor and cost consultant before finalizing any decisions on plan changes and amendments

# *Complex Issues*

- Legal
- Income Tax
- Settlements
- Actuarial Assumptions
- GAAP Accounting
- Employee Expectations
- Future Uncertainty

# *Legal*

- Employment Laws
- Health Care Legislation (Affordable Health Care Act)
- Medicare Part D subsidy replaced by Employee Group Waiver Plan (EGWP)

# *Income Taxes*

- 100% Excise tax
- Deductibility of plan contributions vs. accruals
- Withdrawal of plan assets

# *Settlements*

- Negative Rate Base
- Corporate Operations Caps
- Expense Recovery



# *Actuarial Assumptions*

- Discount Rate
- Health Care Cost Trend Rate
- Expected Long-Term Rate of Return
- Mortality Assumptions

# *GAAP Accounting*

- No new accounting standards
- Lots of new issues relating to plan amendments, curtailments, settlements, etc.

# *Employee Expectations*

- Expected Benefit
- Other postretirement healthcare options (Medicare)
- Alternative methods of compensation

# *Future Uncertainty*

- Telecommunications Industry
- Affordable Health Care Act
- Medicare

# *Why pick on OPEB?*

- Significant Cost
- Often Overlooked
- Changing Environment
- Uncertain Future Benefits

# *Significant Cost*

- Current Health Care Insurance
- Pension Cost
- Postretirement Accruals

# *Often Overlooked*

- Often one of the largest liabilities and largest investment on the books
- Critically important to fill out actuary questionnaire correctly
- Management review
- Practice vs. Policy
- Actuarial Assumptions

# *Changing Environment*

- Management closely looking at all expenses
- Settlement practices changing



# *Uncertain Future Benefits*

- How much is the true value of the benefits?
- How will this be affected by potential future laws?
- Other options to provide value to retired employees?

# *What are the Options?*

- Keep things the same
- Plan amendments
- Plan Freeze
- Curtailment
- Settlement

# *Keep things the same*

- Possibly easiest choice
- Possibly most costly choice
- Possibly most uncertain choice
  - Industry uncertainty
  - Political uncertainty

# *Plan amendments*

- Plan amendment is not as simple as it sounds
- Depending on the size and scope of the amendment it can be treated several different ways

# *Plan amendments*

- Minor amendments are simply included in the amount that will be amortized over the future amortization period
- Negative plan amendments are when a company reduces benefits already earned by plan participants for past services – these are accounted for under curtailment accounting

# *Plan Freeze*

- An amendment to a defined benefit pension plan to permanently eliminate future benefit accruals would be considered a “Hard Freeze”. These are accounted for under curtailment accounting.
- A less common practice would be to eliminate benefits for future service, however continue to allow increases to the current obligation which would be a “Soft Freeze”. These are normally accounted for as a plan amendment not a curtailment.

# *Curtailment Accounting*

- Curtailment accounting is required when the accrual of defined benefits for a significant number of employees is eliminated for some or all of their future services. (Hard Freeze).
- Significant number is a judgment call (10%?)

# *Settlement Accounting*

- Settlement relating to work force reductions
- Early Retirement incentives



# *Other Considerations*

- Curtailment accounting does not always result in a reduction of current cost
- Often due to large deferred losses from asset declines and unamortized prior service cost, the accumulated deferred losses may exceed any decrease in the projected benefit obligation resulting from the reduction of future benefits

## *Other Considerations*

- Any significant event (curtailment, settlement, significant plan amendment) requires an interim remeasurement of plan obligations and assets.
- Unlike pension benefits, ERISA generally does not protect OPEB benefits.

# *Practical Examples*

- Actuarial Assumptions
  - Rule of 85, actuary assumed 100%, actual plan was tiered with a graduated scale by years of service going from 25% up to 100% coverage

# *Practical Examples*

- Practice vs. Policy
  - Early retirement option that no employees had ever used
  - Retired Directors

# *Practical Examples*

- Employee Expectations
  - Freeze on postretirement health benefits offset by additional contributions to 401k Savings Plan

# *Summary*

- Many telecommunications companies are looking for ways to reduce costs
- Complex Issues
- Often Overlooked
- Review with Cost Consultant and Auditor before any amendments are adopted

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