

Statement of Financial Accounting Standards No. 81

Note: This Statement has been completely superseded

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Disclosure of Postretirement Health
Care and Life Insurance Benefits

November 1984



Financial Accounting Standards Board
of the Financial Accounting Foundation
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Disclosure of Postretirement Health Care and Life Insurance

Benefits

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FAS 81: Disclosure of Postretirement Health Care and Life Insurance Benefits

FAS 81 Summary

This Statement requires the following disclosures about an employer's accounting for postretirement health care and life insurance benefits: (a) a description of the benefits provided and the employee groups covered, (b) a description of the employer's current accounting and funding policies for those benefits, and (c) the cost of those benefits recognized for the period.

This Statement is effective for financial statements for periods ending after December 15, 1984 for postretirement health care and life insurance benefits provided in the United States and foreign countries. However, if information on foreign benefits is unavailable, it need not be included in financial statements for periods ending before June 15, 1985. Thereafter, current and comparative data for periods ending after December 15, 1984 are required to include foreign benefits.

INTRODUCTION

1. In February 1984, the Board established its project on employers' accounting for postemployment ¹ benefits other than pensions as a separate agenda project. Until that time, other postemployment benefits issues had been combined with the project on employers' accounting for pensions and were addressed in the documents ² issued as part of that project.
2. Accounting for other postemployment benefits was made a separate agenda project because the Board believes that approach will ensure clear identification and full consideration of the complex measurement and recognition issues involved. Because of that complexity, it is unlikely that a final Statement covering measurement and recognition will be issued in the near future.
3. Because of existing differences in accounting for the cost of postretirement health care and life insurance benefits, the lack of disclosures in employers' financial statements about those benefits, and the magnitude of the related costs, the Board has decided that certain disclosures

should be required as an interim measure, pending completion of the project.

4. The Board has concluded that it can reach an informed decision on the basis of existing data, without another public hearing,³ and that the effective dates and transition specified in paragraphs 8 and 9 are advisable in the circumstances.

STANDARDS OF FINANCIAL ACCOUNTING AND REPORTING

Scope

5. This Statement addresses only postretirement health care and life insurance benefits⁴ provided by individual employers. Health care benefits include all health-related benefits, such as dental, hearing, and vision benefits. This Statement does not address death benefits that are presently accrued and disclosed as part of pension costs, benefits provided by multiemployer-sponsored plans, and government-required employer contributions to a national health plan.

Disclosures

6. An employer that provides health care or life insurance benefits to retirees, their dependents, or survivors shall disclose, as a minimum,⁵ the following information:

- a. A description of the benefits provided and the employee groups covered
- b. A description of the accounting and funding policies followed for those benefits
- c. The cost⁶ of those benefits recognized for the period, unless the provisions of paragraph 7 apply
- d. The effect of significant matters affecting the comparability of the costs recognized for all periods presented.

Employers are encouraged to use reasonable methods to approximate the costs of postretirement health care and life insurance benefits. The disclosures may be made separately for each type of benefit provided or in the aggregate for all benefits.

7. If the cost of any postretirement health care or life insurance benefits cannot readily be separated from the cost of providing such benefits for active employees or otherwise be reasonably approximated, the total cost of providing those benefits to both active employees and retirees, as well as the number of active employees and the number of retirees⁷ covered by the plan, shall be disclosed.

Effective Date and Transition

8. This Statement shall be effective for financial statements issued for periods ending after December 15, 1984 for postretirement health care and life insurance benefits provided in the United States and foreign countries. However, if information for foreign benefits is unavailable, it need not be included in financial statements for periods ending before June 15, 1985. Thereafter, current and comparative data for periods ending after December 15, 1984 shall include foreign benefits.

9. The disclosures required by this Statement are encouraged, but not required, for financial statements for periods that end before the effective date of this Statement.

**The provisions of this Statement need
not be applied to immaterial items.**

This Statement was adopted by the affirmative votes of six members of the Financial Accounting Standards Board. Mr. March dissented.

Mr. March dissents from this Statement because he believes the required disclosures fail to provide useful information sufficiently relevant to the cost of future *postretirement* health care and life insurance benefits for currently active as well as retired employees. He agrees that these benefits are usually a form of deferred compensation and that they may involve material amounts. However, in his view, the disclosures required have such severe shortcomings, as noted in paragraphs 26 and 27, that they are not cost beneficial. The disclosure of the existence of the benefits may serve as a warning that some deferred compensation liability may be missing. However, the specific cost amounts specified for disclosure are not relevant to the missing compensation. Research is needed to develop a practical method of measuring and recognizing the cost of these benefits. Until this is completed, he concludes, the financial statements are not substantively improved by merely pointing to the existence of these undefined and unmeasured possible expenses and liabilities relating to employees' prior and current service.

Members of the Financial Accounting Standards Board:

Donald J. Kirk, *Chairman*
Frank E. Block
Victor H. Brown
Raymond C. Lauver
John W. March
David Mosso
Robert T. Sprouse

Appendix A: ILLUSTRATIVE DISCLOSURES

Example 1

10. In addition to providing pension benefits, the company and its subsidiaries provide certain health care and life insurance benefits for retired employees. Substantially all of the company's employees, including employees in foreign countries, may become eligible for those benefits if they reach normal retirement age while working for the company. The estimated cost of such benefits is accrued over the working lives of those employees expected to qualify for such benefits as a level percentage of their payroll costs. Accrued costs are funded annually and were \$XXX for 19X4.

Example 2

11. In addition to providing pension benefits, the company and its subsidiaries provide certain health care and life insurance benefits for retired employees. Substantially all of the company's employees, including employees in foreign countries, may become eligible for those benefits if they reach normal retirement age while working for the company. Those and similar benefits for active employees are provided through an insurance company whose premiums are based on the benefits paid during the year. The company recognizes the cost of providing those benefits by expensing the annual insurance premiums, which were \$XXX for 19X4. The cost of providing those benefits for XXX retirees is not separable from the cost of providing benefits for the XXX active employees.

Example 3

12. In addition to providing pension benefits, the company and its subsidiaries provide certain health care and life insurance benefits for retired employees. Substantially all of the company's employees, including employees in foreign countries, may become eligible for those benefits if they reach normal retirement age while working for the company. The cost of retiree health care and life insurance benefits is recognized as expense as claims are paid. For 19X4, those costs totaled \$XXX.

Appendix B: BACKGROUND INFORMATION AND BASIS FOR CONCLUSIONS

13. On July 12, 1979, the Board issued an Exposure Draft of a proposed Statement of Financial Accounting Standards, *Disclosure of Pension and Other Post-Retirement Benefit Information*. If the nonpension-related provisions of the Exposure Draft had been adopted, they would have required disclosure of other postretirement benefits offered, the accounting policies followed with respect to those benefits, and the cost of those benefits for the period.

14. Because of the increasing cost of other postretirement benefits, the Board was concerned about alternative accounting practices and the lack of disclosures concerning those benefits. The disclosures were to be an interim measure, pending completion of the Board's major project on employers' accounting for pensions and other postemployment benefits. However, in view of the comments received in response to the Exposure Draft, the Board decided not to require disclosure of other postretirement benefits.

15. On February 19, 1981, the Board issued a Discussion Memorandum, *Employers' Accounting for Pensions and Other Postemployment Benefits*, that explored whether accounting for other postemployment benefits should be different from accounting for pensions. The majority of respondents to that document and many commentators at the July 1981 public hearing believed that most postemployment benefits other than pensions should be accounted for in the same manner as pensions, although some of those respondents were concerned about measurement problems and that the costs of requiring the accounting to be the same might exceed the benefits of that accounting. Those who concluded that the accounting should be different generally believed that the employer's obligation to provide other postemployment benefits is different from the employer's obligation to provide pension benefits. In their view, other postemployment benefits are not directly related to service, and the legal requirements related to other postemployment benefits are not the same as the legal requirements for pensions. Some respondents said that the cost of other postemployment benefits is immaterial, and therefore "cash basis" or "pay-as-you-go" accounting is appropriate.

16. In November 1982, the Board issued its Preliminary Views, *Employers' Accounting for Pensions and Other Postemployment Benefits*, in which it proposed that the cost of postretirement health care and life insurance benefits be accrued over the periods in which employees render service, provided the amounts involved are material. On April 19, 1983, the Board issued a second Discussion Memorandum, *Employers' Accounting for Pensions and Other Postemployment Benefits*. That Discussion Memorandum explored other postemployment benefits measurement and transition issues that had not been discussed in previous documents.

17. The Preliminary Views proposal was based on the view that most other postemployment

benefits are provided to employees in exchange for services and therefore may be described as a form of deferred compensation. That view led the Board to the tentative conclusion that the cost associated with an employee's benefits is incurred and should be recognized in the years during which the employee provides services, rather than during the postemployment period, when payments are made.

18. Approximately half of the respondents that addressed the other postemployment benefits issues covered in the Preliminary Views and in the 1983 Discussion Memorandum supported the proposal to accrue the cost of postretirement health care and life insurance benefits. Most of those who opposed the proposal believe that it is difficult to measure the costs of those benefits and that the employer is not legally bound to continue providing them.

19. Many respondents to the Preliminary Views and the 1983 Discussion Memorandum commented that there are significant differences between pensions and other postemployment benefits. Many commented that the other postemployment benefits issues had been overshadowed by the pensions issues. Those respondents urged the Board to study other postemployment benefits apart from the project on employers' accounting for pensions. Similar suggestions were made by commentators at the January 1984 public hearing.

20. The Board was convinced that there was sufficient need for additional research into the nature of other postemployment benefits and the related measurement and recognition issues for those benefits to be addressed in a separate project. Accordingly, employers' accounting for postemployment benefits other than pensions was made a separate agenda project on February 8, 1984.

21. Some respondents to the Preliminary Views and the 1983 Discussion Memorandum suggested that the Board delay action on the other postemployment benefits project until the employers' accounting for pensions project was completed. Others said that the cost of those other benefits can be significant in some situations and suggested that the Board proceed in an expeditious manner to provide financial statement users with better information about other postemployment benefits.

22. The majority of the respondents that addressed other postemployment benefits disclosures in their responses to the Preliminary Views or the 1983 Discussion Memorandum supported disclosing the existence of a plan, a description of the benefits provided, and the cost for the period. In addition, a number of respondents supported disclosing information about the obligation for benefits of retired, or all, participants.

23. Pending completion of the study of the measurement and recognition issues, the Board has decided to require certain disclosures about postretirement health care and life insurance benefits. An Exposure Draft of a proposed FASB Statement, *Disclosure of Postretirement Health Care and Life Insurance Benefits Information*, was issued on July 3, 1984. The Board received 162 responses to the Exposure Draft.

24. The following paragraphs discuss the significant comments received on the Exposure Draft and the factors deemed significant by the Board in reaching the decisions in this Statement. Individual Board members gave greater weight to some factors than to others.

25. Some respondents said that an interim Statement should not be issued before the Board resolves the measurement and recognition issues regarding other postemployment benefits. Other respondents said that the cost of postretirement health care and life insurance benefits is immaterial and, therefore, the disclosures are not needed. The Board did not accept those views because it believes that postretirement health care and life insurance benefits costs are material for some companies and that only a few companies currently disclose any information about those benefits in their financial statements. In addition, current accounting practices with respect to those benefits range from (a) accrual of their cost over employees' working lives based on an actuarial cost method to (b) "cash basis" or "pay-as-you-go" accounting. Because of the materiality of the potential future benefits, the Board believes that there is a present need to provide financial statement users with some information about postretirement health care and life insurance benefits. Those benefits, like pensions, are a form of deferred compensation and, like pensions, are of sufficient importance to an understanding of financial position and results of operations that the disclosures set forth in this Statement should be made.

26. The Board acknowledges that the required disclosures do not provide users with all the information necessary for a complete understanding of the financial effects of an employer's postretirement health care and life insurance benefit plans. However, until the Board completes its project, disclosures can alert users to the existence of such plans and provide some information about the cost of providing those benefits. The Board believes that the required disclosures are based on information that should be readily available to most employers and, therefore, the benefit of the information is greater than the cost to obtain it.

27. The Board recognizes that the disclosures permitted by paragraph 7 are not as useful as those required by paragraph 6(c). Therefore, if the information necessary to provide the paragraph 6(c) disclosures is not readily available, the Board encourages employers to use reasonable methods to approximate the costs recognized for retirees' benefits.

28. The Board encourages employers to provide whatever additional information they believe would be useful to financial statement users in assessing the significance of the disclosures. For example, employers might disclose the following information if not otherwise required by this Statement:

- a. Information concerning the magnitude of the potential future postretirement health care and life insurance benefits for both active employees and retirees
- b. The average benefits per retiree for the most recent year for which that information is available (The average benefits per retiree might be determined as the total benefit payments for that year divided by the number of covered retirees.)

- c. The number of covered retirees
- d. The average age and number of active employees potentially eligible for coverage.

29. Certain respondents said that the cost of providing information concerning multiemployer plans would outweigh its usefulness. They believe that the cost would be excessive because (a) many employers contribute to several multiemployer plans for only a short time, (b) in some situations the employer's contribution for postretirement health care and life insurance benefits is not readily separable from the contribution for other health care and welfare benefits, and (c) in many situations, employers do not know if plans to which they contribute provide postretirement health care and life insurance benefits. Those respondents also said that because it is usually not possible to identify retirees with specific employers, the total cost for the period does not provide meaningful or relevant information about the employer's costs for postretirement health care and life insurance benefits. The Board decided, based on those and other comments, to exempt benefits provided by multiemployer plans from the disclosure requirements of this interim Statement. The Board will continue to study the measurement, recognition, and disclosure issues related to multiemployer plans.

30. A few respondents suggested that nonpublic enterprises or employers with small plans be exempted from the requirements of this Statement. The Board decided not to exempt those employers from the disclosure requirements because the Board believes that users of those employers' financial statements should be informed about postretirement health care and life insurance benefits if they are material. The Board believes that the cost to provide the information will not be excessive.

31. This Statement does not involve measurement requirements for the employer's obligation for postretirement benefits or a prescribed method of attributing the cost of those benefits to particular periods. The Board concluded that measurement and recognition issues should not be addressed in this Statement. Those issues will be addressed as part of the overall project on other postemployment benefits.

Footnotes

FAS81, Footnote 1--*Postemployment* is a broader term than *postretirement*. *Postemployment* includes the period of time after termination but before retirement, during which disability and other benefits may be provided. *Postretirement* includes only the period after retirement.

FAS81, Footnote 2--Refer to Appendix B, paragraphs 13, 15, and 16.

FAS81, Footnote 3--Public hearings, held in July 1981 and January 1984, covered the accounting for and disclosure of information related to retiree health care and life insurance benefits. Refer to Appendix B, paragraphs 15 and 19.

FAS81, Footnote 4--Other types of postemployment benefits will be the subject of further study.

FAS81, Footnote 5--This Statement does not preclude additional disclosures. The Board is aware that a few employers currently disclose information other than that required by this Statement, such as the present value of estimated future health care and life insurance benefits for retirees, the amount of contributions to trusts established for the payment of those benefits, and the fair value of assets in such trusts. The Board encourages such disclosures but does not require that they be made. Paragraph 28 also identifies additional information that an employer is encouraged to disclose.

FAS81, Footnote 6--The cost disclosed shall be based on the accounting policy described.

FAS81, Footnote 7--Active employees or retirees and members of their families shall be counted as one unit.