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Supplement **Client Alert** **June 29, 2006**

Unfavorable Accounting Changes Expected for Post-Retirement Split-Dollar Plans

Earlier this year, the Emerging Issues Task Force (EITF), an administrative arm of the Financial Accounting Standards Board (FASB), undertook an initiative to review and clarify the accounting for endorsement split dollar arrangements that contain a post-retirement benefit.

On June 15th, after an in-depth discussion of split dollar life insurance, the EITF concluded that the deferred compensation and post-retirement benefit aspects of a split dollar plan constitute a benefit liability that is not effectively settled by the underlying insurance policy. Consequently, a split-dollar benefit that extends into post-retirement must be accrued and charged to earnings in accordance with APB 12 or FAS 106, similar to other post-retirement benefits.

The EITF decision represents a significant change to the accounting treatment used by most employers. Previously, it was thought that all of the risk of providing a split-dollar benefit to an employee was transferred to the insurance company. Accordingly, no benefit liability or expense was recognized for endorsement split dollar plans.

Under the new guidance, employers will be required to accrue a liability for the post-retirement split-dollar death benefit over the participant's active service period. Upon the death of the insured, the employer would bring the accrued liability back into income.

Effective Date

The EITF's position is subject to a 30-day comment period, but the decision is expected to become final, without modification, later this Fall. The guidance would be effective for fiscal years beginning after December 15, 2006, and would apply to all postretirement split-dollar arrangements, regardless of when the plans were implemented.

For plans implemented prior to December 15, 2006, employers will need to record a prior-period adjustment for the cumulative split-dollar benefit expense that was not recorded in previous years. Prior-period adjustments are reported as a reduction to the opening retained earnings balance; therefore, this decision could have a significant impact on stockholder's equity and regulatory capital for financial institutions.

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