

SUPPLEMENTAL INSTRUCTIONS

Accounting for Indexed Retirement Plans

Banks that have agreements with individual employees to provide retirement benefits often fund the benefit obligation with the proceeds from bank-owned life insurance (BOLI). Some of these agreements are referred to as indexed retirement plans because retirement benefits are based upon the difference between the actual earnings on the BOLI and a predefined index ("excess spread"). If the agreements with individual employees, taken together, are equivalent to a postretirement income plan, then FASB Statement No. 87, *Employers' Accounting for Pensions*, governs the accounting. Otherwise, each agreement should be accounted for individually on an accrual basis in accordance with the terms of the underlying contract as required by the provisions of Accounting Principles Board Opinion No. 12, *Omnibus Opinion*, addressing deferred compensation contracts.

Many employee agreements provide for future benefit payments from the excess spread that accrues before and after retirement on the related BOLI. Opinion No. 12, as amended by FASB Statement No. 106, requires employer obligations under deferred compensation contracts to be accrued over the required service periods until the date the employee is fully eligible for the benefits ("full eligibility date"). However, some institutions have failed to record a liability for the estimated cost of benefit payments related to the excess spread that the employee will be entitled to receive after retirement. In addition, some institutions have failed to accrue the present value of the expected future benefit payments by the full eligibility date.

The failure to record a liability for the postretirement excess spread or to appropriately consider the impact of vesting provisions on the full eligibility date represents an accounting error. If an institution has made an error that is deemed material, it should make an adjustment to correct this accounting error and report the effect of the adjustment on retained earnings as of the beginning of the year in Schedule RI-A, item 2. The effect of the adjustment on earnings since the beginning of the year should be reflected in the appropriate income statement (Schedule RI) account on a year-to-date basis. The institution also should contact its primary federal supervisor to determine whether prior Call Reports should be amended. Revisions to the estimated cost of future benefits because of changes in assumptions (e.g., changes in interest rates) should be accounted for as a change in accounting estimate and not as an accounting error.