

College of Pension Actuaries NFP
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March 9, 2006

Mr. Robert H. Herz
Chairman, Financial Accounting Standards Board
401 Merritt 7
P.O. Box 06856-5116
Norwalk, CT 06856-5116

RE: Phase 1 project to reconsider Pension and Other Postemployment Benefit Accounting Standards

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Dear Mr. Herz:

These comments are made on behalf of the College of Pension Actuaries (COPA). Membership in COPA is restricted to Enrolled Actuaries and is open to any Enrolled Actuary who is either actively enrolled or retired in good standing. These comments are made by a subcommittee whose purpose is to work with the accounting profession and other interested parties to develop better financial standards and reporting for retirement plans.

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We are pleased to offer our comments regarding recent tentative decisions reached by the Board to use the projected benefit obligation (PBO) under SFAS 87 in measuring balance sheet pension liability. We do not believe that this modification will ensure that an employer reports in the balance sheet the true asset or liability status of its defined benefit pension plan. Instead, we believe that the incorporation of the PBO as the basis for this reporting (1) may inappropriately lead to misinterpretation of balance sheet liabilities by lenders, shareholders, and other company stakeholders, and (2) may result in an adverse social impact.

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In concurrence with the American Academy of Actuaries, we too, applaud the Board's decision to break the project into phases. We also concur with each of the points made in the Academy's February 10, 2006 letter arguing in favor of using the ABO rather than the PBO. Indeed, we believe the difference between plan assets and the ABO should be the **only** measure of asset or liability attributable to sponsorship of a defined benefit plan.

While we understand the need to improve the transparency, understandability and representational faithfulness of the sponsoring employer's balance sheet, we are concerned that the use of the PBO as an initial measurement during phase 1 will present an outcome difficult to reverse should the Board ultimately determine in the second phase to substitute the ABO as a measure of plan liabilities. We hope that the following considerations will be helpful in your deliberations--

1. The Board is well familiar with the actuarial arguments presented by our peer entities regarding the inappropriateness of the PBO as an accurate measure of current pension obligations. We need not reiterate them here. However, we wish to underscore that upon initial application the use of the PBO as the measure of liability will almost always present an immediate decrease in equity with the following potential impacts:
 - (a) Decreased company equity may cause companies to violate existing debt covenants
 - (b) Decreased company equity may cause companies to violate minimum capitalization requirements under state laws.

2. We assert that PBO-based balance sheet liabilities are inherently misleading since the PBO is not an actual liability of the plan sponsor. The introduction to FAS-87 states "Opinion 8 required that if the company has a legal obligation for pension cost in excess of the amounts paid or accrued, the excess should be shown in the balance sheet as a liability...". Because of the use of future salary increases, the PBO often significantly overstates any contractually guaranteed obligation of the plan sponsor. Furthermore, this overstatement is more significant (as a percentage) for emerging companies with younger workforces than for mature companies. We consider these companies to be the lifeblood of our total economic development and we believe that the expectations of pension benefits based on future compensation, although not guaranteed, are "good" for our society, and should not be discouraged with misleading disclosure requirements. It is important to note that the original rules under FAS-87 were the result of a fine balance (or compromise) among three elements – PBO attribution, smoothing, and ABO-based minimum liability. To change one element (even for one year) without a thorough and wholesale review of the entire set of rules can create distorted and misleading results, with resulting unwarranted potential damage.

3. Allowing the liabilities of a pension plan to reflect the cost of employee service before the company actually receives the benefit for the performance of that service violates the basic economic premise of matching the costs and benefits in a transparent, market-value based accounting approach and leads to misinterpretation of the net worth of the sponsoring company. The overall conservatism of PBO-based balance sheet liabilities is inappropriate for transparent, market value based accounting. Overstating liabilities is just as inappropriate as understating liabilities. It has been argued that as a matter of survival an employer has no choice but to implement inflation based pay increases. This is simply not true. In order to survive, an employer must remain

competitive. However, there is no lockstep between remaining competitive and implementing pay increases.

4. The use of the PBO presents an inconsistent reporting among the various types of retirement plans currently operating today. In lieu of the traditional final pay pension plan, many companies are adopting or have adopted other types of retirement plans with similar patterns of accrued benefits, but with benefits based upon current pay rather than final average pay. Examples include career pay plans, many cash balance plans, many money purchase or profit sharing plans and multiemployer plans. Including the PBO on the balance sheet could create an inappropriate reporting disparity among sponsors of different types of retirement plans with similar guarantees and obligations.
5. There remains an inherent opportunity for gaming in using PBO-based balance sheet liabilities as a measure of a company's financial position. An unscrupulous plan sponsor could potentially "time" a pension plan's termination to create a settlement gain when it would be "convenient" for its overall financial reporting.

We acknowledge that it is not part of the Board's mission, other than tangentially, to establish a climate favorable to the maintenance of pension plans. However, we see many arguments against a swing to PBO that do have relevance to the Board's mission. We have great concern that this change will be profoundly negative and will result in acceleration of the flight from defined benefit pension plans. This would have serious and unfavorable consequences for the retirement security of our nation's work force. One point we find especially troubling is that the result of Phase 2 of the OPEB project might actually be a climate more salubrious to these plans. It would be unfortunate if, by the time Phase 2 is completed, there should be no pension plans left to enjoy this friendlier climate.

We urge you to reconsider in Phase 1 the concept of PBO-based liabilities as the basis for financial reporting and disclosure. We urge that you consider further the concept that ABO alone is the **only** appropriate liability measure.

Turning to other aspects of Phase 1, we support fully the notion of recognizing previously unrecognized items (gains and losses, past service costs, and transition costs). We also support fully the notion that the measurement date should be the last day of the entity's fiscal year.

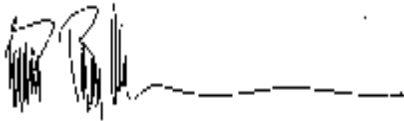
We are pleased to be able to offer these comments to the Board in an effort to assist you in a laudable endeavor. We strongly support the principles espoused in your decision to bring transparency and accurate and fair disclosure to all stakeholders in employee benefit plans.

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The principal authors of this letter are Arthur Tepfer and Richard Kutikoff, although other members of the subcommittee made significant contributions. We stand ready to respond by phone, by letter, or in person to any comments or questions the Board or its staff might have.

Sincerely,

THE ACCOUNTING AND STANDARDS SUBCOMMITTEE
OF THE REGULATIONS AND LEGISLATION COMMITTEE

A handwritten signature in black ink, appearing to be 'ABV', followed by a horizontal line extending to the right.

By _____
Annie Brown Voldman
Member, College of Pension Actuaries
Subcommittee Chair