



Pension Benefit Guaranty Corporation
1200 K Street, N.W., Washington, D.C. 20005-4026

Letter of Comment No: 8
File Reference: 1025-PNU

Office of the Executive Director

November 7, 2005

Robert Herz
Chairman
Financial Accounting Standards Board
401 Merritt 7
Norwalk, CT 06856-5116

Dear Mr. Herz: *Bob*

I understand that the Board will meet on November 10 to discuss, among other issues, whether to add a project to its agenda to reconsider the provisions of FASB statement No. 87, *Employers' Accounting for Pensions*.

In view of the problems with the current accounting for pensions identified by numerous commentators and analysts, as well as by the SEC staff in the Commission's off-balance-sheet report earlier this year, I would strongly encourage the Board to undertake such a project. I would also urge the Board and its staff to consider interim measures to enhance the quality and relevance of information presented in financial statement footnotes pertaining to pensions.

Given the large and growing amount of pension liabilities taken on by private sector employers, by some estimates as much as \$2 trillion in aggregate, it is vitally important that plan participants, equity owners, bondholders, and other users of financial statements have relevant and timely information regarding the funded status of a company's pension plan(s) and the potential call that pension obligations may have on the company's future cash flows.

Unfortunately, FAS 87 falls well short of the goal of providing participants, investors, and other stakeholders with the kind of information that will enable informed decision-making. As noted by the SEC staff in its recent off-balance sheet report, "accounting for defined-benefit pension plans deviates from the accounting required for other business and compensation arrangements, even when the economics are similar." The staff also observes that "the complex series of smoothing mechanisms, and the disclosures to explain them, render financial statements more difficult to understand and reduce transparency." I concur with both these assessments.

Pension accounting is a study in obfuscation; among other problems, liabilities are not accurately measured, volatility is hidden from view, and default risk is ignored. In addition, current accounting rules have the effect of encouraging companies to take additional investment risk with plan assets, assuming higher expected rates of return, by not requiring those risks to be transparent and priced. Also problematic is the disconnect between financial accounting standards and Employee Retirement Income Security Act (ERISA). It is the latter which governs the contributions that companies must make to their pension plans,

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the amount of liabilities owed in the event of a standard termination of the pension plan(s), as well as the amount of the claim that the PBGC would have against a company in the event of a distress or involuntary plan termination.

These are not abstract issues. The amount of underfunding in pension plans sponsored by reporting companies, whether measured on a FAS 87 or termination basis, has been well reported. In some cases, the pension liability, or even just the unfunded portion of benefits, exceeds the market value of the sponsoring company. In some cases, the amount of minimum required contributions under the ERISA funding and so-called Deficit Reduction Contribution rules exceeds the amount of a company's reported earnings. The size of the unfunded pension liability and minimum required contributions under ERISA appear to have been contributing factors to several companies filing for bankruptcy protection. And, there have been several terminations of pension plans in which the funded ratio of the plan(s) on a termination basis was substantially less than reported on a FAS basis.

I commend the Board for taking up this important financial and public policy issue. The Bush Administration has proposed needed reforms to ERISA to, among other things, improve the measurement of assets and liabilities, strengthen funding rules, and enhance transparency. A project undertaken by FASB to improve pension accounting along similar lines would complement these proposals.

If you have any questions, or need additional information, please let me know. In addition, PBGC staff would be pleased to assist FASB staff in working through these and related issues.

Sincerely,

A handwritten signature in black ink, appearing to read "Brad", written in a cursive style.

Bradley D. Belt