

LETTER OF COMMENT NO. 40

May 22, 2006

Technical Director – File Reference No. 1025-300
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Subject: Proposed Statement of Financial Accounting Standards
Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans

I am the Chief Financial Officer of Children's Hospital & Health System, Inc., a children's hospital that was recently rated #3 in the nation. Children's Hospital & Health System sponsors pension plans covering nearly 6,000 participants.

As a preparer and user of financial statements, I understand the need for transparent accounting and reporting. Our management team supports FASB's efforts to improve the value and relevance of financial information reported to the users of financial statements by revisiting the decisions made 20 years ago in developing SFAS Nos. 87 and 106. However, we have significant concerns about the proposed statement of financial accounting standards, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Benefit Plans*, which would amend SFAS Nos. 87, 88, 106, and 132(R):

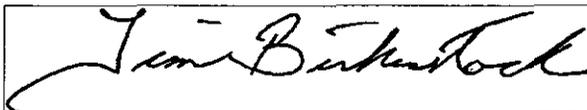
- ***Pension liability measure.*** The projected benefit obligation (PBO) – the present value of a hypothetical benefit determined by dividing projected retirement benefits (including assumed pay increases between the valuation date and the assumed retirement date) by benefit accrual service to the assumed retirement date – is not a measure of the “market value” of plan liabilities. Rather, it is merely another SFAS No. 87 smoothing mechanism designed to produce a more level pattern of net periodic cost over participants' careers. The PBO includes amounts related to future salary increases that are not yet liabilities of the company as defined in Concept Statement 6. Requiring balance sheet recognition of the PBO goes against the underlying conceptual framework of GAAP accounting and artificially increases plan sponsors' liabilities. It will discourage the continuation of defined benefit plans – a result that cannot be undone if the Board decides in Phase 2 that the accumulated benefit obligation (ABO) – or some other measure – is the correct measure for balance sheet recognition (and perhaps also for expense).

The accumulated benefit obligation (ABO) – the current value at the measurement date of benefits earned to date by our current and former employees – is the most appropriate measure of the market value of pension liabilities. The ABO – the present value of benefits earned by our current and former employees as of the measurement date – is the appropriate market-value measure of pension liabilities. Use of the ABO to determine balance sheet recognition is a logical extension of the current SFAS No. 87 additional minimum liability rules. It would also improve comparability among companies. Using ABO, my company's balance sheet liability for a 40-year-old employee who has earned a benefit of \$10,000 per year payable starting at age 65 would be the same as any other company's balance sheet liability for a 40-year-old employee with the same accrued benefit – a logical and consistent result. But by using PBO, different companies' balance sheet liabilities for identical participants with identical accrued benefits will vary according to whether the pension plan is frozen, flat dollar, career pay, or final pay – a result that defies logic. For these reasons, the ABO, not the PBO, should be used to determine any required balance sheet recognition.

- **Implementation costs, effective dates, and transition.** The implementation costs of the proposed standard will be significant. We will have increased cost for the retrospective application of the new standard. We have other contractual arrangements that reference financial statement metrics that may need to be renegotiated if the proposed standard is adopted. To minimize transition costs, the effective date should be at least six months after publication of the final standard, and the transition method (retrospective application and the transition to a fiscal year-end measurement date) should be modified.
- **Measurement date.** Pension and other postretirement benefit (OPRB) plan assets and obligations are significantly different from other types of assets or liabilities recognized in our financial statements and require additional lead time to measure accurately. A measurement date up to three months prior to fiscal year-end remains appropriate. In contrast, a fiscal year-end measurement date would represent false precision and would not materially improve the accounting. Instead, it would force us to use estimation techniques rather than accurate values as of an earlier measurement date, and it would increase the likelihood of reporting errors.

We appreciate your consideration of these comments. Please call me at 414-266-6220 if we can provide any additional clarification or assistance.

Sincerely,



Timothy Birkenstock
Treasurer & CFO