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LETTER OF COMMENT NO. 43

May 23, 2006

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

Dear Technical Director:

The American Council of Life Insurers (ACLI) would like to offer our comments on the current FASB exposure draft, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*. The ACLI is the principal trade association of life insurance companies, representing 377 members that account for, in the aggregate, 91 percent of the total assets of legal reserve life insurance companies, 90 percent of the life insurance premiums, and 95 percent of annuity considerations in the United States. Our comments are presented below in the following sections: General Comments; Responses to Specifically Requested Issues; and ACLI Recommendations.

General Comments

We agree with the FASB that the current accounting models for defined benefit pension and other postretirement benefit plans ("OPEB") as prescribed by FASB Nos. 87 and 106, respectively, do not accurately reflect the economic value underlying employer-sponsored defined benefit plans. We acknowledge that the FASB's proposal to recognize the funded status of the plan on the balance sheet provides a better representation of the current economic status of the plan as compared to the current accounting model. However, we do not necessarily feel that this treatment represents the most accurate economic picture of the plan as it does not focus on the underlying economic liability to the company, which would include the present value of expected future contributions.

Our belief that the funded status may not be the most accurate reflection of the plan's economics is based around three primary principles. First, the current calculation of the funded status does not give consideration to the fact that the plan assets grow at a rate that is often different from the discount rate used in determining the present value of the liabilities. In today's current low interest rate environment, this omission would lead to an overstated economic liability to the company because the assets are actually growing faster than the liabilities, yet the funded status has not recognized this aspect of the economics. Second, the accumulated benefit obligation ("ABO") may represent a better measure of the value of employee benefits as of the measurement date than the projected benefit obligation ("PBO") currently used in the funded status calculation. We believe that the ABO is a better measure of a financial statement liability under paragraph 36 of FASB Concept Statement No. 6. ("CON 6") because it excludes the impact of future salary and service benefits. By including assumptions for future employee salaries and benefits, the PBO conflicts with CON 6 because these amounts do not represent

obligations that employers have little discretion to avoid in the future, and they do not represent past transactions or events for which the employer is responsible. While we acknowledge that the FASB chose the PBO instead of the ABO as the measurement of the liability in the funded status calculation because the PBO is the basis of the periodic benefit cost recognized in the income statement, we feel that there is little merit in aligning the measurement bases used in the balance sheet and income statement at this stage of the FASB's pension project given the numerous inconsistencies that already exist. We feel that this issue would be more appropriately addressed in Phase II of the project. Finally, different future market scenarios may result in different employer outcomes relative to their funding needs. For instance, an overfunded plan that has significant adverse market experience may require future employer contributions. Conversely, an underfunded plan may never require future employer contributions under favorable market conditions in which the discount rate on the liabilities is less than the earned rate on the assets. In either case, the funded status on the balance sheet does not reflect the underlying economic reality of each plan, which is the probability weighted average of the impact under various market scenarios.

For these reasons, we believe that the funded status as it is currently calculated is not the best representation of the economic liability to the company relative to its defined benefit plans. In its exposure draft, the Board has likened the funded status of the plan to the current economic reality of the plan, which we feel is misleading to constituents. While we acknowledge that reporting the funded status is an improvement over the current accounting model, we feel that it is premature for the FASB to conclude that the funded status is the economic measure of the plan. We feel that this assessment would be better addressed in conjunction with Phase II of the FASB's pension project, which plans to explore all of the fundamental issues surrounding pension accounting.

Responses to Specifically Requested Issues

The ACLI would like to offer our comments on the specific issues raised by the Board in the exposure draft, as follows:

Issue #1: Do you agree that the cost of implementing this standard would not be significant because the information required to be presented is largely available?

Response: We largely agree that there will be very little implementation cost to companies associated with adopting this guidance on a go-forward basis. However, we feel that certain implementation issues in limited situations will make the task of restating financial statements burdensome from a cost and effort standpoint. For instance, restating financial statements when a settlement or curtailment has occurred may become burdensome because third party consultants typically perform the majority of this valuation work at a cost to the company that is generally higher than in-house specialists. Additionally, restating prior year earnings may become burdensome if the FASB continues with its proposal to charge the unamortized transition asset or obligation to beginning retained earnings. Companies may incur significant costs by restating other balances that are impacted by the earnings restatement (such as DAC amortization for our member companies) even though the actual earnings impact is most likely immaterial due to the fact that this asset or obligation has been amortized for a number of years.

In order to address these concerns, we recommend that the FASB reconsider its proposed treatment of settlements and curtailments as they pertain to restatements. Additionally, we believe that the FASB should consider permitting the unamortized transition asset or liability to be charged against other comprehensive income in a manner consistent with the treatment of actuarial gains/losses and prior service cost. We do not believe that the unamortized transition asset or liability has qualities so

dissimilar from the other adjustments as to necessitate a difference in the geography of where the balance is charged. However, if the FASB continues with its proposal to charge the unamortized transition asset or obligation against earnings, we recommend that the balance be charged against retained earnings in a cumulative effect adjustment instead of restating prior period earnings.

Issue #2: Are there specific implementation issues associated with the requirement to align the plan's measurement date with the financial statement date?

Response: Many insurance companies currently use a measurement date for their pension and OPEB plans that is up to three months earlier than their balance sheet date in order to expedite their financial statement close at the end of the year. The insurance industry is a heavily regulated industry, and as such, companies with multiple plans have extremely short timeframes with which to complete both statutory compliance reporting and GAAP financial statements. The earlier measurement date affords companies the ability to produce timely financial data. Changing the measurement date would be burdensome because of the additional work involved in refreshing assumptions such as the discount rate and long-term asset return rate based on market conditions at the end of a reporting period. Few companies have systems in place that would allow them to quickly produce a range of hypothetical valuations based on varying assumptions and choose the most appropriate assumptions in time to meet reporting deadlines, especially those companies with multiple plans and reporting bases for which they must perform the valuations. Furthermore, changing the measurement date would likely provide little improvement or added value in the outcome of the calculation in the company's financial statements given the fact that the determination of both the ABO and PBO is statistical in nature and relies heavily upon estimates and assumptions which cannot be considered exact even when based on the most current market data. The SEC has been sympathetic to this issue as well. In a 2004 meeting of the SEC staff and AICPA SEC Regulations Committee, the SEC acknowledged that for accelerated filers with an actuarial measurement date that currently coincides with their year end, it would not object if the registrant changes its measurement date by no more than a month.

Therefore, the ACLI recommends that the FASB reconsider the requirement to align the measurement date with the financial statement date. Companies that elect to use the earlier measurement date should be required to adjust their discount rate and long-term asset return rate if current market conditions at the end of the reporting period have significantly changed from the measurement date. Disclosure around this process would provide adequate detail to users.

Issue #3a: Should the Board provide an impracticability exemption related to the assessment of the realizability of deferred tax assets? Are there other reasons that retrospective application might be impracticable?

Response: The assessment of the realizability of deferred tax assets is not a significant issue for our member companies; therefore, we do not have specific comments regarding this issue to offer to the FASB. However, we believe that there are other reasons that could make the retrospective application of this proposed standard impracticable. Consistent with our assessment of the cost to implement this guidance discussed above, we feel that prior year restatements of specific transactions such as curtailments and settlements may become impracticable for insurance companies, especially in cases where the valuation effort involved in restating becomes burdensome and other financial statement balances, such as DAC amortization, become affected by the restatement.

Issue #3b: How would this standard impact contractual arrangements other than debt covenants?

Response: The calculation of policyholder dividends for some of our mutual insurance member companies will be impacted due to certain assumptions used in the calculation that are based on the company's profitability as a whole. Restating earnings for prior years and changing the projected earnings in the current year at such a late point in the year (if the standard is adopted in the third or fourth quarter) will significantly impact the policyholder dividend payment for the current year. The ACLI therefore recommends that the effective date for the proposed standard be delayed to fiscal years ending after December 15, 2007 in order to allow companies sufficient time to address all of the restatement issues associated with the implementation of this standard.

Issue #4: Are there specific impediments to implementation that would make the proposed effective date impracticable? How would a delay alleviate those impediments?

Response: As stated previously, our member companies may experience a significant cost and time effort in implementing this standard due to the impact of the retrospective requirement for specific transactions such as settlements and curtailments as well as the impact on other financial statement calculations due to the restatement of prior year earnings. Additionally, changing the measurement date for the 2007 net periodic benefit cost calculation so late into the current year will be burdensome for companies because it will require additional work this year to perform two measurement calculations. In many instances, companies already have existing schedules and contracts with third party consultants for the year based on the earlier measurement date option, and this change will likely cause a significant increase in third party consultant costs for companies.

The ACLI recommends that the effective date for the proposed standard be delayed to fiscal years ending after December 15, 2007 in order to allow companies sufficient time to address all of the restatement issues associated with the implementation of this standard. Immediately effective accounting guidance that will require many companies to expend significant resources and effort surrounding restatement as well as altering current year time schedules and contracts with third party consultants is an unprecedented practice by the FASB and will cause many companies significant struggles in order to comply. We feel that a delayed effective date will be necessary to provide companies with the time to assess the impact of restating its financial statements and communicate these findings to management and the investing community. Companies will also need additional time to work with third party consultants in redeveloping their strategy for performing both the restatement and revised current year pension and OPEB projections.

Issue #5: This issue is not applicable to the ACLI member companies and as such we have no comments to offer at this time.

ACLI recommendations to the FASB

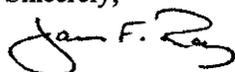
We do not believe that recognition of the funded status on the balance sheet as proposed by this guidance provides for a true representation of the current economic status of the plan, although we do agree that the current accounting model for pension and OPEB defined benefit plans is flawed and the funded status is a better representation than the calculation in use today. Ultimately we believe that Phase II of this project, which is designed to provide a complete reengineering of pension accounting, is the proper forum for determining the best economic reflection of an employer's pension obligation.

However, we do acknowledge the fact that the FASB is attempting with Phase I to address the pension and OPEB reporting concerns that exist within the financial community today.

With this goal in mind, we have four primary recommendations to the FASB as it proceeds with Phase I of the pension and OPEB project. First, we recommend that the FASB consider the use of the ABO in the funded status calculation to be recognized on the balance sheet in lieu of the PBO. We feel that the ABO is a better measure of a company's current obligation because it does not include salary and service increase assumptions, which makes it a better match against the company's current plan assets and is a better measure of a liability under CON 6 as compared to the PBO. Second, we recommend that the FASB reconsider its proposed treatment of the transition asset or obligation remaining from the initial adoption of FAS 87 or FAS 106. Restating prior year earnings and subsequently adjusting other affected balances and current year projections will be burdensome for many companies. This effort will likely be made for a relatively immaterial restatement since companies have been amortizing the transition asset or obligation since the adoption of FAS 87 and FAS 106. Additionally, we do not believe that the nature of the transition asset or obligation is so dissimilar from adjustments such as actuarial gains/losses to warrant a different treatment in the geography of how the amount is charged off. Third, we believe that the FASB should eliminate the requirement to align the measurement date of the plans with the financial statement date. Utilizing the current option to measure the plan up to three months in advance of the year-end financial statement close affords companies the ability to produce timely, accurate financial data. We do not believe that aligning the measurement date with the financial statement date will provide a significant improvement to the pension and OPEB calculations. Finally, we believe that the effective date of the guidance should be delayed to fiscal years ending after December 15, 2007 in order to allow companies adequate time to assess and communicate the impact of the proposed guidance on its financial statement and current year projections as well as to complete complicated earnings restatements and adjustments to other affected financial statement accounts.

Thank you for this opportunity to express our views, concerns, and recommendations on this developing accounting guidance. Should you have any questions or wish to discuss our concerns in greater detail, please feel free to contact us.

Sincerely,



James F. Renz

Director, Accounting Policy