

Letter of Comment No: 13 File Reference: FSPFAS106A

January 2, 2004

Mr. Lawrence Smith
Director of Technical Application and Implementation Activities
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

File Reference No. FSP FAS 106-a

Dear Mr. Smith:

PricewaterhouseCoopers LLP appreciates the opportunity to respond to the Proposed FASB Staff Position (Proposed FSP), No. FAS 106-a, Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003.

The Proposed FSP states, "it would be premature for any plan sponsor to reflect enactment of the Act in the accounting for its plan or providing disclosures related to the plan" and that "it would be premature to disclose any anticipated effects regarding the accounting in subsequent periods." If a final FSP is issued, we recommend that it not contain these broad statements. The use of such sweeping language will preclude employers from accounting for aspects of the Act for which the levels of uncertainty may be no more significant than other uncertainties inherent in measuring FAS 106 obligations. For example, Section 811of Subtitle B of the Act provides for an income-related reduction in the Medicare Part B premium subsidy. That will have the effect of increasing a high-income retiree's monthly premium payment to the government for Medicare Part B coverage. To the extent that an employer's postretirement benefit arrangement provides that the employer will pay some or all of that premium for the retiree, the employer will need to adjust its FAS 106 obligation to reflect the estimated increase in the cost of the premium or account for a reduction in cost if the employer changes its benefit arrangement to eliminate some or all of this benefit. Depending on the facts and circumstances, estimating the effects of the Act in this regard may prove to be no more difficult than other estimates that are made in measuring the FAS 106 obligation. In another example, employers that currently provide prescription drug benefits to their retirees would need to adjust their FAS 106 obligations to reflect the expectation of lower costs attributable to retirees who are projected to forego the employer's benefit in favor of the new prescription drug benefit under Medicare. Each employer should determine whether the effects of the Act can be reliably measured for these types of situations. Employers should not be precluded by the FSP from making these types of assessments.

The Proposed FSP also states, "certain accounting issues raised by the Act may not be explicitly addressed by Statement 106." In discussing the subsidy that is to be provided to an employer by the government if the employer's prescription drug benefit is actuarially equivalent to the Medicare Part D benefit, page two of the Proposed FSP states "it is unclear at present whether the subsidy is substantively similar to other Medicare benefits that existed when Statement 106 was issued." We believe it is not necessary to get clarity on that issue in order to account for the effects of the Act under FAS 106. Paragraph 35 of FAS 106 clearly states "an employer's share of the expected future postretirement health care cost for a plan participant is developed by reducing the assumed per capita claims cost . . . by (a)

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the effects of coverage by Medicare." In our view, the Act represents merely another form of Medicare coverage as contemplated in paragraph 35. The fact that Medicare coverage at the time FAS 106 was written did not provide for an employer subsidy (although various proposals were made in the 1980s to cover the cost of prescription drugs under Medicare) is not, in our view, a sufficient reason to deviate from the general guidance in paragraph 35. Additionally, although the form of the subsidy payment will differ from previous Medicare coverage, the substance of the payment is to reduce the employer's net postretirement benefit cost, which is the same as increased Medicare coverage.

More importantly, with the current emphasis on moving away from detailed "rules-based" accounting standards to so-called "principles-based" accounting standards, we question why it is necessary to preclude any accounting for matters that are covered by the general guidance in paragraph 35 of FAS 106 but "may not be explicitly addressed by Statement 106." In our view, the general guidance in paragraph 35 is clear and should be considered sufficient. And, just as with any other event or transaction requiring accounting and disclosure, each individual employer can and should decide whether there exists "sufficiently reliable information . . . on which to measure the effects of the Act" and assess the extent to which "significant uncertainties presently exist" in determining the appropriate accounting and disclosure as a result of the Act. We believe that employers can make these assessments based on the facts, their own analyses of the Act, and any analogous guidance, and are capable of reaching appropriate conclusions about their ability to account for the effects of the Act without staff guidance in the form of broad sweeping language that will preclude accounting for aspects of the Act that are not dependent on receiving approval from the Secretary of Health and Human Services.

The Proposed FSP cites paragraph 40 of FAS 106, which provides that "presently enacted changes in the law . . . shall be considered in current-period measurements." We find that provision to be quite clear and applicable in this instance. Further, the staff's position in the answer to Question 63 in the FAS 87 Q&A Book and in 2002 on the sunset provisions of the Economic Growth and Tax Relief Reconciliation Act are consistent with the guidance in paragraph 40. We suggest that the Proposed FSP not depart from those previous positions, and that the sweeping language cited above be eliminated.

To be useful to preparers and auditors, rather than the FSP precluding the accounting for the effects of the Act, we recommend that it address certain accounting considerations under FAS 106. For example, it could address whether employers would be required to apply plan amendment accounting in order to report the effects of the new law on its postretirement benefit arrangements. In the third paragraph under "FASB Staff Position," the Proposed FSP implies that employers may need to amend their plans, but the discussion on that subject is not definitive. Perhaps the FSP could describe the factors that would be important in making this determination. Also, if an employer determines that it cannot reliably measure the effects of the Act currently, the FSP should encourage the disclosures described in the Proposed FSP, with which we agree.

We appreciate the opportunity to express our views on the proposal. If you have any questions regarding our comments, please contact Kenneth E. Dakdduk (973-236-7239).

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PricewaterhouseCoopers LLP