

## SISTERS OF MERCY HEALTH SYSTEM

May 25, 2006



LETTER OF COMMENT NO. 72

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

Subject: File Reference 1025-300

Dear Sir:

This letter contains Sisters of Mercy Health System's comments on exposure draft titled "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans – an amendment of FASB Statements No. 87, 88, 106 and 132(R), as issued on March 31, 2006. Sisters of Mercy Health System is a not-for-profit health care corporation with over 26,000 co-workers in five states.

We recognize and appreciate the Board's need to improve the accounting and related disclosures regarding pensions and other postretirement benefits in an effort to increase the transparency and completeness of financial statements. However, we do have some concern regarding the proposed changes. Our comments are as follows.

## 1) ABO is a better measure of pension liabilities on the balance sheet than PBO.

The exposure draft includes a requirement to recognize the overfunded or underfunded status of defined benefit postretirement plans in the balance sheet using PBO as the measurement for pensions. One of the primary criteria of a liability is that there is "little or no discretion to avoid the future sacrifice." This criterion does not hold true for the PBO because the plan sponsor has a great deal of influence regarding the components of PBO, including level of future compensation levels and whether plan benefits will continue to be based on future compensation levels. Also, since GAAP does not require the value of future compensation to employees to be recorded as a liability on the balance sheet, there should not be a requirement that an incremental value of future compensation increases be recorded on the balance sheet associated with pension costs. Lastly, the suggested accounting for pension liabilities seems inconsistent with the accounting for pension assets since we cannot project our funding and present value it back to the current balance sheet. Therefore, we believe that pension liabilities should be measured using ABO rather than PBO.

## 2) It is not practical to use the fiscal year end as the measurement date.

The exposure draft includes a requirement to use a fiscal year end measurement date. The goal of using fiscal year end is to improve the preciseness of the liability calculation. However, the entire process of determining the liability involves numerous estimates and assumptions and uses data that is a number of months old. It is questionable as to if using the fiscal year end as opposed to an earlier measurement date improves the precision and the accuracy of estimating plan liabilities.

Also, it is not practical to use fiscal year end as the measurement date because of the time factor involved in collecting asset information. For companies that use different asset managers, it could be difficult to gather the required information in a timely manner. Also, there is a lag time that needs to be considered for some of the investments that are not traded in public markets (ie. private equity investments typically take three to four months to report asset values). Reducing the time period between measurement date and the required reporting could result in less accurate reporting.

A fiscal year end measurement date also drastically reduces the amount of time that actuaries have to prepare the actuarial valuation reports. The shortened time period will ultimately result in additional fees for companies because the actuary firms will have to increase their staff in order to issue the reports timely.

Changing the measurement date to year end also eliminates the opportunity for companies to evaluate their underfunded status and make additional contributions prior to year end.

For the reasons listed above, we believe that it would be more reasonable to keep the requirement that a measurement of plan assets and liabilities can be made at a date not more than three months prior to fiscal year end.

As mentioned previously, we agree that changes should be made to the current disclosure requirements for pensions and other postretirement benefits so that financial statements are more transparent and complete. However, we do feel that the comments mentioned above should be taken into consideration when finalizing the new rules. If any of our comments need further explanation, please contact me at 314-628-3678.

Sincerely,

James R. Jaacks

Senior Vice President and Chief Financial Officer

c: Julie Burke Stephanie King