

May 31, 2006

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



LETTER OF COMMENT NO. 78

Subject:

Proposed Statement of Financial Accounting Standards:

Employers' Accounting for Defined Benefit Pension and Other

Postretirement Benefit Plans File Reference No. 1025-300

Dear Sir:

The American Cancer Society, Inc. (the "Society") is the nationwide, community-based, voluntary health organization dedicated to eliminating cancer as a major health problem by preventing cancer, saving lives, and diminishing suffering from cancer through research, education, advocacy, and service. This letter contains the Society's comments on the proposed amendment of Statements of Financial Accounting Standards (SFAS) Nos. 87 and 106 as issued in the March 31, 2006 Exposure Draft "Employers' Accounting for Defined Benefit Pension and Other Postretirement Benefit Plans".

The Society is supportive of the Board's efforts to improve existing reporting and disclosure for pensions and other postretirement benefits; however, we do have serious concerns about the proposed changes. The Society had hoped any changes would meaningfully improve the existing accounting for and understanding of pensions, but we feel, on the whole, they have further complicated the matter. Specifically, the Society respectfully offers the following comments about the proposed changes.

Using the Projected Benefit Obligation (PBO) vs. the Accumulated Benefit Obligation (ABO)

Under SFAS 87, the PBO is measured using assumptions about future compensation levels if the pension benefit formula is based on future compensation levels. While the use of the PBO may be appropriate for use as the determinate of net periodic pension cost, its use is inappropriate to measure a balance sheet liability.

Paragraph B17 of the exposure draft outlines why the Board feels the PBO is the most appropriate measure of the balance sheet pension liability, however, the Society believes the ABO is the more relevant measure because:

Using the PBO to measure a balance sheet liability is in conflict with Financial
Accounting Standards Board (FASB) Concept Statement 6. Paragraph 36 of FASB
Concept Statement 6 states that the essential characteristics of a liability include that "the
duty or responsibility obligates a particular entity, leaving it little or no discretion to
avoid the future sacrifice" and "the transaction or other event obligating the entity has

already happened." The PBO does not satisfy either of these criteria because 1) the plan sponsor can unilaterally cancel that part of the obligation that relates to future compensation levels and 2) the event causing the liability, the compensation increase, has not happened and typically will not happen unless the plan sponsor chooses to grant it.

- Including future compensation in pension liabilities misleads financial statement users as to the market value of liabilities. Balance sheet liabilities presumably represent a company's economic obligation as of the statement date. Unless an obligation to increase future pay levels exist, the value of future compensation increases to employees is not recorded as a liability on the balance sheet. Thus, it is inconsistent to require that an incremental value of future compensation increases be recorded on the balance sheet as part of the PBO when they are not included in other liabilities.
- Recording a future liability but a market value asset further misleads financial statement users. It is inconsistent to require the incremental value of future compensation increases be recorded on the balance sheet but current market value for the plan assets that will be used to settle the liability. If future liability is the most accurate measure of the liability, a projected return should be factored into the plan assets.
- Unlike other balance sheet liabilities, the PBO cannot be immediately settled. That is, a plan sponsor cannot exchange the PBO obligation with a third party due to the future compensation element which remains in the control of the plan sponsor.

If a liability is going to be recorded on the balance sheet, the Society believes the ABO is a more appropriate measure because:

- The ABO is based on compensation and service as of the measurement date, and has the characteristics of a liability as stated in FASB Concept Statement 6.
- The ABO can be settled with a third party (e.g., annuity contracts can be purchased from an insurer for benefits accrued to date) and, thus, is a better measure of the actual economic liability.
- The ABO is in substance similar to the Accumulated Postretirement Benefit Obligation (APBO) as defined in SFAS 106. While the APBO includes an allowance for health care cost trend rates, this is different than the inclusion of future compensation levels in the PBO. Health care inflation is outside the plan sponsor's control. In addition, health care inflation is similar to automatic cost-of-living increases provided by some pension plans and which would be reflected in the ABO.
- Use of the ABO is consistent with the existing SFAS 87 requirement to record an additional minimum liability on the balance sheet based on unfunded ABO.

Lastly, using the PBO could require an adjustment to intrestricted net assets which would significantly decrease our total net asset balance, which could, in turn, result in creating a

misleading perception to our constituents regarding our financial position. We work to provide the most accurate and relevant financial information in order for our constituents to make informed decisions regarding their investment in the non-profit industry. This accounting treatment would complicate the transparency of the Society's financial performance to our largest constituency group, the general public.

Eliminating Transition Assets or Obligations

The proposed standard requires the Society recognize as an adjustment to the opening balance of unrestricted net assets any transition asset or obligation remaining from the initial application of SFAS Nos. 87 and 106. Additionally, the proposed standard would eliminate the effect of amortizing the remaining transition asset or obligation, which reduces pension expense in future years.

Because the Society currently has an unrecognized transition asset, adoption of the proposed statement would require us to restate our financial statements to 1) adjust unrestricted net assets to eliminate the remaining unrecognized transition asset and 2) eliminate the transition asset amortization impact. Restating our financial statements would require the additional services of our actuary and external auditors as well as the additional time of our accounting personnel, which we estimate would cost the Society approximately \$20,000. Given that our average donation is approximately \$40, restating the financial statements would divert real donor dollars received from the public that were intended for our mission, eliminating cancer as a major health problem by preventing cancer, saving lives, and diminishing suffering from cancer through research, education, advocacy, and service. After experiencing a significant increase in independent auditor fees for the past few years, this additional burden is difficult to justify to our donors and stakeholders in the context of good stewardship.

Conclusion

In summary, the American Cancer Society is supportive of the Board's efforts to improve the overall transparency and completeness of financial statements, specifically with regard to pensions. We believe this proposed standard is overdue. However, as indicated above, there are specific areas of the proposed standard that the Society strongly feels should be reviewed and reconsidered. We hope the Board will give careful consideration to our comments. If the Board requires any additional clarification or explanations, please contact Catherine Mickle at (404) 329-7934.

Sincerely,

Catherine E. Mickle Chief Financial Officer

their knowle

American Cancer Society