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TA & I Director—File Reference No. 1025-200 Financial Accounting Standards Board 401 Merritt 7 P. O. Box 5116 Norwalk, CT 06856-5116

Dear Sir:

Subject: File Reference 1025-200

This letter contains Hewitt Associates' comments on the proposed replacement of FASB Statement No. 132 as issued in the September 12, 2003 Exposure Draft titled "Employers' Disclosures about Pensions and Other Postretirement Benefits." Hewitt Associates is a global management consulting firm assisting large and small employers in all aspects of employee benefit and compensation programs. Our actuaries and consultants have a great deal of experience in the subject area of the Exposure Draft and have helped hundreds of employers with the application of FASB Statements No. 87, 88, 106 and 132.

We are supportive of the Board's efforts to develop useful disclosure information. We also recognize the challenges inherent in developing a disclosure standard that provides for valuable, but not overly lengthy, information about pension and other postretirement benefits. While we welcome the Board's attempt to balance these competing goals, we have concerns that certain proposed changes will not be helpful—and worse, might be potentially misleading. In addition, we believe the Board has overlooked some other readily available disclosure information that could be very useful to users of financial statements.

Our specific comments follow.

Plan Assets

The proposed new disclosure requirements regarding the expected long-term rate of return highlight the increased level of attention being paid to this assumption. Ever since the release of Statement 87, there has been an ongoing debate among actuaries and other pension professionals regarding the nature of the expected long-term rate of return assumption. Many believe, given the long-term nature of the assumption, that the rate should be based on a geometric average of expected future annual portfolio returns, and should reflect the multi-period effects of portfolio diversification and rebalancing. Others believe, given the operation of the expected long-term rate assumption in the calculation of net periodic expense (i.e., a one-year credit based on a beginning-of-period asset value), that the arithmetic average of expected future asset returns is more appropriate. From a statistical perspective, the arithmetic average gives the best estimate of the anticipated return for a single period, while the geometric

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average gives a more accurate estimate of returns over multiple periods. We strongly encourage the Board to take this opportunity to clarify their position regarding this critical assumption once and for all.

With respect to the proposed changes, we believe the disclosure of target asset allocation and of expected long-term rate of return by asset category will be of little value. The major asset categories described by the Board are very broad, and each category can contain sub-asset classes that have markedly different expected rates of return and risk characteristics (e.g., debt securities can include municipal bonds, junk bonds, and international bonds).

And while the preparation of this extra asset information might be relatively straightforward for a company with a single plan, the amount of work required to prepare the disclosures will likely be substantial for an organization with multiple plans, each with possibly different asset mixes and investment strategies.

For companies with multiple plans—including foreign plans—the target asset allocation range is likely to be more misleading than helpful. In fact, for some foreign plans, target asset allocations may not exist (e.g., in those countries where investment vehicles tend to be insurance contracts).

If the Board ultimately decides to retain the new disclosures relating to individual asset categories (i.e., their target weightings, actual weightings, and expected long-term rates of return), then we believe more consideration needs to be given to the underlying methodology. First, related to the "geometric versus arithmetic" issue discussed above, the Board should explicitly describe the methodology to be used in combining the individual asset category rates into a "total" blended rate.

For example, if the individual rates are meant to represent estimates of future geometric rates of return, then we would expect that an additional component would be added to the simple weighted average to reflect portfolio diversification and rebalancing. If the individual rates are meant to represent estimates of future arithmetic rates of return, then we would expect that the "total" rate would equal the weighted average of expected returns (weighted by asset category). In either case, we believe that provision needs to be made so that the expected long-term rate can also reflect the impact of any investment and administrative fees that are paid out of plan assets.

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On a related note, the Board should clarify whether the expected long-term rate of return assumption should be based on the target allocation of asset categories, or on actual asset allocations as of the measurement date. We believe the former interpretation is more consistent with the long-term nature of this assumption. If the Board concurs, then Illustration 1 will need to be redone since both the pension plans and other benefit plans have the same target allocations, yet the expected long-term rates of return are different: 8.0% for pension plans and 8.1% for other benefit plans. We note that these two different expected long-term rates of return can be duplicated under the "actual asset allocation as of the measurement date" interpretation.

Finally, we find it quite surprising that the Board did not add a requirement to disclose the market-related value of assets. As a key component in the development of net periodic cost, we believe that most users would find this item very useful. While users can derive an estimate of the market-related value based on other disclosure information, it would seem more appropriate to require disclosure of this already available figure.

Defined Benefit Pension Plan Accumulated Benefit Obligation

We agree with the Board's decision to require annual disclosure of the accumulated benefit obligation (ABO). We believe that disclosure of this readily available figure will be a useful addition.

Cash Flow Information—Schedule of Estimated Benefit Payments

We disagree strongly with the Board's proposal to disclose information about estimated future benefit payments. As noted in paragraph A22, the Board believes that "the disclosure of estimated future benefit payments should enable financial statement users to assess the amounts, timing, and patterns of cash flows and how well asset maturities align with benefit payments." Not only will the proposed schedules fail to accomplish either of these objectives, their preparation will unnecessarily increase the cost of disclosure.

We have a number of specific concerns with the proposal in the Exposure Draft:

Projections of annual benefit payment streams under Projected Benefit Obligation
(PBO) and Accumulated Postretirement Benefit Obligation (APBO) bases are not
readily available. There is a common misconception that these benefit payment
streams are created as a natural byproduct of the ongoing valuation process. In
reality, actuarial software is designed to utilize mathematical efficiencies in the
calculation of discounted payment streams. Thus, PBOs and APBOs are calculated

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without the need to develop the underlying benefit stream explicitly. Producing these benefit streams will increase the cost of disclosure. In fact, many actuarial firms will need to modify their valuation systems in order to develop benefit payments on a PBO or APBO basis, rather than on a Present Value of Benefits (PVB) / Expected Postretirement Benefit Obligation (EPBO) basis. The Board should also be aware that very few organizations would ever have a need to have the benefit payments on a PBO or APBO basis developed for any purpose other than this proposed disclosure requirement.

- Since many users of financial statements do not fully understand the subtleties that
 differentiate the ABO, PBO/APBO, and PVB/EPBO benefit payment streams, we
 believe that these schedules could easily be misinterpreted. For example, it would
 be incorrect to compare disclosed actual benefit payments (on a PVB/EPBO basis)
 to prior years' estimates of projected future benefit payments (developed on a
 PBO/APBO basis).
- We are also puzzled by the Board's decision to require the disclosure of the PBO and APBO benefit payments for each of the next five years and then a single total for all subsequent years. Users of financial statements will almost certainly find this information to be of minimal value, as it neither illustrates the total amount of anticipated future benefit payments (on a PVB/EPBO basis), nor allows users to assess the sensitivity of the plan's liabilities to changes in the discount rate (since the five-year period is too short for this purpose). Thus, companies will find this to be an added compliance expense that provides little useful information.

We believe the Board should reconsider requiring disclosure of the weighted-average durations of the PBO and APBO as of the measurement date in lieu of the proposed projected benefit streams. Despite the Board's conclusion in Paragraph A20, we believe these two numbers would give the users of financial statements significantly better information about the alignment of plan assets and plan obligations than the projected benefit payment schedules proposed in the Exposure Draft.

If the Board ultimately decides to retain some sort of projected benefit stream disclosure, we would also recommend that the benefit payment streams be more accurately described than they currently are in sample Illustration 1. For example, "Estimated Future Payments Used to Determine PBO and APBO" is a more precise description than just "Estimated Future Payments."

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We understand that the Board also discussed, but ultimately rejected, the disclosure of other related benefit obligations, such as pension liabilities calculated on a funding basis or on a PBGC termination basis. We fully agree with the Board's recognition of the limited usefulness of—and difficulty in interpreting—this information.

Cash Flow Information—Employer's Contributions Expected to be Paid to the Plan for the Next Fiscal Year

We agree that information about expected employer contributions would be useful. However, we believe that this information represents forward looking information that is more appropriate for the MD&A disclosure, and is possibly not appropriate for inclusion in the pension footnote.

And while we acknowledge the usefulness of expected contribution information, it is not clear to us why the Board felt it would be beneficial to require separate disclosures of minimum contributions and additional contributions—particularly as estimates of both of these separate amounts can change during the course of the year, while the total expected contribution amount could remain unchanged. (Consider, for example, an employer that intends to contribute the minimum required amount plus whatever additional amount is required to bring the total contribution to some predetermined amount.) In this regard, it will probably be helpful for the Board to keep in mind that under U.S. pension funding rules, minimum required contributions for a plan year do not need to be finalized until eight and one-half months after the end of a plan year. Thus, requiring that the disclosure of employer contributions be divided into two parts seems to add an additional layer of complexity, when simply requiring disclosure of total anticipated contributions would provide the information that is most useful.

Assumptions

We agree with the proposed tabular format to disclose major economic assumptions, along with a separate tabular disclosure of the health care cost trend rate assumptions (as shown in Illustration 1). However, in an effort to provide clarity, we believe it would also be helpful to users of financial statements to know the measurement date as of which the assumptions are chosen. In this regard, we recognize that different measurement dates are sometimes used for different plans in a controlled group, but companies with these circumstances could handle this via a descriptive disclosure. An example of a typical disclosure showing the measurement date could look like this:

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	Pension Benefits		Other Benefits	
	2003	2002	2003	2002
Weighted-average assumptions used to		-		
determine benefit obligations as of				
December 31				
Measurement Date	9/30	9/30	12/31	12/31
Discount Rate	6.75%	7.25%	7.00%	7.50%
Rate of Compensation Increase	4.25%	4.50%		

We have included additional comments about measurement date disclosure in a later section of this letter.

Sensitivity Information About Changes in Certain Assumptions

We agree with the Board's conclusion not to add new requirements to disclose sensitivity information about the impact of hypothetical changes in certain assumptions. In our opinion, a requirement to disclose sensitivity analysis, while well intended, would not disclose any information of real value. Key assumptions are tied together by underlying factors (such as inflation) and tend to move together. Thus, knowing the impact of a change in a single assumption is usually not relevant—as the Board concluded. We would advise the Board against adopting any new disclosure requirements to show the effect on obligations and expense of an increase or a decrease in any of the assumptions, such as the discount rate.

In addition, retirement plan design—particularly retiree medical plan design—has been going through some dramatic changes over the past several years, and will likely continue to evolve. Ultimately, plan design is the determinant of expense, and disclosing the sensitivity impact of long-term assumptions on the current plan design will not be useful information for most plans since the current design likely will change well ahead of the time the assumptions will play themselves out.

Thus, we suggest that the Board reconsider the current requirement that companies disclose the impact of a 1% increase and 1% decrease in the assumed health care cost trend rate. It seems inconsistent to keep this requirement, given the Board's decision about the questionable value of sensitivity analysis for other assumptions.

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Measurement Dates

The Exposure Draft would require the disclosure of the measurement date when: 1) a company uses a measurement date other than the end of the fiscal year; 2) an economic event occurs or economic conditions change between the measurement date and the end of the fiscal year; and 3) the economic event or change in economic conditions may have had a significant effect on plan assets, obligations, or net periodic cost if the fiscal year-end date had been used as the measurement date. The nature of the economic event or change in economic conditions would also need to be described.

For companies with early measurement dates, this new requirement may prove to be very burdensome. In effect, it means that companies will need to have a process to evaluate if their disclosure and expense results would have been significantly different if the results had been prepared at year-end. For example, companies will have to reevaluate the discount rate they would have chosen at the fiscal year-end and determine whether the new rate would have made a significant difference to the obligations and expense. In addition, users of financial statements still will not be able to know with certainty which companies used an early measurement date and which did not (except for those companies that make an explicit disclosure).

Thus, instead of the proposed requirements, it seems that the Board should simply require the disclosure of the measurement date for **all** companies, with **no** requirement for companies to evaluate post-measurement date economic changes for their significance. Not only would this relieve companies of a compliance burden, it would actually provide users with better information since they would know the "as of" date of the information provided. Users could then evaluate for themselves whether they believe the disclosure amounts should be adjusted for general economic conditions following the measurement date.

For companies that do not use the same measurement date for all of their defined benefit plans, we suggest an additional disclosure to indicate the percentage of the PBO and fair value of assets associated with each measurement date used. For example: "The Company uses measurement dates of both September 30 and December 31 for plans subject to Statement 87. Plans with a September 30, 2003 measurement date account for 60% of the PBO and 55% of the fair value of assets, while plans with a December 31, 2003 measurement date account for 40% of the PBO and 45% of the fair value of assets." Of course, there would be a parallel requirement for plans subject to Statement 106.

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Reconciliation of Beginning and Ending Balances of Plan Assets and Benefit Obligations

We believe the currently required reconciliation provides very useful information to those users of financial statements who want to understand year-to-year changes in obligations and assets. We feel strongly that the current disclosure requirements for these items should be retained. In addition, the proposed elimination of the reconciliation will force the users of this information to gather the relevant information (the usefulness of which the Board has acknowledged, but which would be scattered throughout the footnote under the proposed format) and assemble it in a meaningful way for themselves if they want to assess changes from one year to the next.

If the Board decides to eliminate the reconciliation as proposed, then we believe that the final Standard needs to clarify whether the items required by paragraph 5(b)—actual return on assets, employer contributions, participant contributions, and benefits paid—are to be the amounts 1) from measurement date to measurement date (as under Statement 132) or 2) for the prior fiscal year (which would be a change in reporting requirements from Statement 132). For consistency and comparison purposes, we believe that all amounts should be reported on a "from measurement date" basis.

Interim Period Financial Reports

We agree with the Board's decision not to add the same disclosures that are found in annual financial statements to interim financial reports. We agree that requiring full disclosures every quarter would be both burdensome and costly. As concluded by the Board, requiring quarterly updates would be inconsistent with the long-term nature of pension and other postretirement benefit plan obligations.

However, we do have a concern about the new requirement to disclose the components of net periodic benefit cost in interim financial statements. This requirement will necessitate the tracking of each of the cost components throughout the year. We believe that few, if any, financial systems currently track benefit costs by component, so the additional information will have to be prepared outside of the financial systems. Thus, while we agree that disclosure of benefit costs in interim reports might be useful, we believe that providing the total costs without individual component details should be sufficient. Of course, organizations should supplement this information with any relevant comments about material changes in the amount from interim period (e.g., with comments about the impact of significant events).

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Effective Date and Transition

We believe that the proposed year-end 2003 effective date for the new Statement is unnecessarily accelerated, especially since it might not be released until December 2003. While a company with just a single U.S. plan might have only minor difficulty complying with a year-end 2003 effective date, it is unrealistic to think that organizations with multiple plans (or ones with foreign plans) will be able to assemble all of the new disclosure information in such a short time frame.

In addition, many companies with foreign pension plans and those with early measurement dates (e.g., September 30) have already started preparation of their year-end disclosure under the existing Statement 132 format. A new Statement effective later this calendar year could force them to prepare a second set of footnote disclosures.

Therefore, we strongly encourage the Board to delay the effective date to apply to fiscal years beginning after December 15, 2003. That is, the new Statement could require disclosure of the components of pension expense recognized in the first quarter of 2004 (if the Board decides to keep this requirement) and implement the new year-end disclosure requirements at the end of 2004. Obviously, the Board could encourage early compliance for any new items that are available as of an earlier disclosure date.

At a minimum, we think there needs to be a deferred effective date for the new items that will not be readily available for most plans (e.g., the schedule of estimated benefit payments). For similar reasons, we believe that a deferred effective date for all plans outside the U.S. would be appropriate; this would be consistent with the Board's implementation schedule for Statement 87.

Disclosures Considered But Not Proposed

We agree with the Board's conclusions to reject a number of other disclosure items that were requested by users of financial statements. Not only would some of these disclosure items be costly to develop (e.g., estimate of plan liability on a termination basis), but they truly are of limited value—and worse, misleading—to users of financial statements unless the disclosure requirements were significantly expanded to adequately explain these concepts.

However, as noted above, we do believe that disclosure of the market-related value of assets as of the measurement date would be helpful to users. In addition, we believe that disclosure of the duration of benefit obligations would be more useful than the schedule of estimated future benefit payments.

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Conclusion

As noted earlier, we are supportive of the Board's efforts and we agree that the current disclosure requirements could be improved in a few areas. However, as indicated by our comments, there are several areas that we think should be revisited. We hope the Board will give careful consideration to our comments. If any of our comments need further explanation, please contact me at 847-295-5000.

Sincerely,

Hewitt Associates LLC

Curtis M. Cartolano

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