

Letter of Comment No: 33A File Reference: 1025-200 Date Received: /0/27/03

October 27, 2003

TA & I Director Financial Accounting Standards Board File Reference No. 1025-200

Dear Director.

I am writing on behalf of the Retirement and Investor Services division of The Principal Financial Group®(The Principal®). The Principal® is a leader in offering businesses, individuals and institutional clients a wide range of financial products and services, including retirement and investment services, life and health insurance and mortgage banking through its diverse family of financial services companies. The Principal is the second largest defined benefit plan service provider (Investment Management Consultants, Inc. 2002 Total Retirement Outsourcing Survey).

We provide FAS 87 disclosure and expense information to almost 500 plans annually. In addition, we provide investment services to a total of 1600 active defined benefit plans. The focus of our market tends to be small to mid-sized companies, and includes companies both privately held and publicly traded.

Our FAS working group has reviewed the exposure draft. We have consulted with our investment professionals. We have also consulted with our clients. From these three groups, we have compiled the feedback in this letter and attachment. Three overriding themes emerged:

- Our clients are extremely concerned about the cost this will add, both through additional time
 for them to collect information, and their providers to generate all of the additional
 information. Their comments universally pointed to concerns over increases in fees to
 provide this information to them.
 - We agree. Some portions of the information now being required is not readily available without modifications of systems and procedures. There will be both setup (reprogramming) and ongoing costs involved.
- 2. Several commented on the burden this brings to small pension plans (including one who is complying with a 10-life plan). One sponsor commented that they expected this additional burden to accelerate the termination of small-scale pension plans.

We would agree. The statement appears to be designed purely for large, publicly traded clients using large sophisticated audit firms. The vast majority of employers sponsoring defined benefit plans are not publicly traded, not sophisticated, and not large. The auditing firms who deal with those companies also tend to be not as sophisticated and not large. The

File Reference No. 1025-200 Page 2 October 27, 2003

statement needs to bring some balance to the needs and requirements of large and small companies.

3. In talking with our investment people and our actuarial staff, a major concern was that the timetable is unreasonably short. Based on the timetable discussed in your Frequently Asked Questions document, service providers will not have more than a few weeks before their clients' fiscal year end to review and implement the changes discussed in this draft.

We believe that the proposed standard offers some very good additions to the disclosures. However, the process needs to be slowed down, and the statement modified, to recognize that for smaller or some privately held companies, the amount of additional information is not justified by the cost to obtain it.

Thank you for allowing us to comment on this proposal. If you would like to discuss our comments, or have any questions, please contact me.

Sincerely,

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Attachment

Cc FAS Work Group Stu Brahs



The comments below are organized around the Issues you identified in the Exposure Draft.

The comment	s below are organized around the Issues you identified in the Exposure Draft.
Overriding Concerns	 The statement as drafted does not recognize an appropriate balance of cost versus value for smaller companies, and privately held companies. The cost to comply will not be small, for at least three reasons:
	 The one-time cost to redesign actuarial and investment systems to provide the requested information about investments and liability streams
	The ongoing cost of collecting the additional information by the providers
	 The ongoing cost to the company of aggregating plan-specific information.
	The statement as drafted does not allow sufficient time to put those system changes into place for the 2003 fiscal year ends.
	3. The statement does not recognize that much of the new information to be provided will not provide sufficient value to justify its collection for smaller companies. The users of their financial statements are not sophisticated enough to understand the nuances of the additional information.
Issue 1	We feel that the information requested could be valuable.
	2. Please clarify if the weighted average expected long-term rate of return for each single plan should be based on the target allocation or the actual allocation. Our preference is to allow plan sponsors to use what makes sense. At any given time, a plan may be in the process of changing to a new allocation, and requiring a weighting based on either the current mix or the target mix may not provide an appropriate picture.
	We do not see value in providing contractual maturities/term of debt securities as many plans use liquid, unit-valued debt vehicle (such as a separate account).
:	4. In plans that invest in specific debt securities, using contractual maturities ignores the cost and cash flow implications of call or refinancing provisions.
1	5. Assets invested in the General Account of insurance companies should be exempted from the requirement to disclose the range and average maturity of debt securities because:
	In the case of investment defaults, the plan has a call on any asset held in the General Account of the insurance company.

File Reference No. 1025-200 Comments on the Proposed State of Financial Accounting Standards amending FASB Statements No. 87, 88, and 106 and Replacing FASB Statement No. 132

	 The General Account is a liquid investment, not a collection of individual securities. It is not subject to penalty for early liquidation. There will be a significant cost to program systems to identify the average maturities allocated to a particular client in a General Account investment. This cost will be passed back to investors in some way. A key part of the technical difficulty relates to the fact that these accounts have interest allocated by quarter by client, with as many as 20-25 years worth of quarterly investment cells tracked.
	At minimum, General Account investments should be treated as a separate class of asset and be exempted from the meaningless (for it) identification of the range and weighted average of the underlying maturities. If they are not exempted, there should be guidance offered to allow insurance companies to provide these values on an Account-wide basis, rather than a plan specific basis.
Issue 2	We agree that the Accumulated Benefit Obligation is valuable information that should be required to be disclosed in all circumstances.
Issue 3(a)	We have concerns with the availability of the information that is being requested in Item a. As defined, this cannot be captured in our current actuarial software and we are using one of the leading providers of actuarial valuation software. We would anticipate other actuarial firms would have similar problems.
	2. Providing this information will result in additional cost to plan sponsors, as systems must be rewritten to provide it, and actuaries will need to order additional computer runs to capture it. Once again, the implementation timetable is a serious concern.
	3. We question the value of showing the estimated future benefit payments included in the determination of the benefit obligation.
	Please note these benefits only include service to the measurement date, and do not reflect service after that date. They are not the cash flow stream that the plan will pay they are only a portion of that stream.
	If you were to shift to a true projected benefit picture (including both service and salary projection to benefit payment age), you gain a better picture of benefit flows but lose the connection that you have tried to build between the benefit stream and the benefit obligation.

File Reference No. 1025-200 Comments on the Proposed State of Financial Accounting Standards amending FASB Statements No. 87, 88, and 106 and Replacing FASB Statement No. 132

	4.	We do not see that trying to match the liability stream over the first five years of the plan against the plan assets provides valuable information.
		 Most pension plans already invest in fairly liquid assets, and looking at the stream in the first five years is not necessarily a good picture of the cash outflow requirements of the plan.
		 It is also not a long enough time to completely or thoroughly illustrate the duration differences that could exist between two plans.
		 One of your original proposals had been to provide the duration of liabilities, but this was discarded because two plans could have the same duration and very different benefit patterns. Your proposal to show only the first five years of benefit obligation benefits would not provide significant additional information to distinguish between plans.
	5.	One additional comment: we see this illustration lending far less value than a sensitivity test on the discount rate would provide to plan sponsors, and both we and the Board agree that this is not a valuable measure.
Issue 3(b)	1.	Qualified plans are allowed up to 20 ½ months after the beginning of their plan year to make a required contribution. It's very difficult to determine within that period how much, and when contributions will be made by a company. This is especially difficult when the valuation report itself may not be completed until quite late within the plan year. That means that providing a breakout of contributions required by funding regulations alone could be difficult to provide, either accurately or in a timely fashion.
	2.	It appears that your goal is to report expected cash flows from the plan sponsors. But, defined benefit plans are prone to great uncertainty about contribution levels until during the actual plan year when the valuation is finalized.
	3.	By distinguishing between required and discretionary contributions, there is incentive for companies to fund only their expected (previously reported) contribution rather than the best level for their situation. The motivation for this would be to avoid having to explain why there was a change in the expected contribution level
	4.	The fiduciary decisions required of the plan sponsor could be called into question as cash is put into plans rather than made use of elsewhere in the business. This is not an arena for the investment analyst. (See also comments on Issue 3(c), comment 3)
	5.	We see an additional cost accruing to the plan sponsor, as the actuary is required to provide advance estimates of upcoming year funding levels, so

	that companies may provide the most reliable contribution estimate	s.
	While this type of estimate may be routinely provided in very large not the norm in smaller plans and will further discourage plan spon maintaining DB plans due to the additional expense.	plans, it is sors from
	Question 21 of your Frequently Asked Questions document does not address the question of whether the expected return on asset component of benefit cost needs to be adjusted in the interim reporting if expected contributions are changed. Please clarify that this adjustness expected.	onent of net the
	While it makes sense to make those adjustments, it adds a layer of to the disclosure and to the plan expense that may or may not be mathe overall financial picture of the company.	complexity aterial to
Issue 3(c)	We feel plans should disclose if a non-cash contribution has been n	nade.
	The non-cash contribution disclosure should be retrospective, not of upcoming fiscal year basis. It is difficult to estimate looking ahead cash or non-cash contributions would be made. Much depends on company's situation when contribution requirements are finalized adue.	l whether the
	We question the value of showing the required minimum contribut discretionary contributions. There are many motivations for fundit the absolute required minimum contributions. Splitting the contributions these two amounts lead to very involved discussions about motivation. Again, we could foresee some reluctance on the part of sponsors to have to defend a decision to contribute above the minimanalyst, even when it is the most reasonable course from a fiduciar standpoint.	ng above outions it of plan num to an
Issue 4	The formats and the concept put forward for this disclosure are an improvement over the current requirements. It is a good idea and sadopted.	should be
	There is a need on interim statements to disclose the benefit obliga gain or loss, and any assumption changes when the interim net peri benefit cost is based on different values than those shown in the pr year end disclosure.	iodic
	 We have observed companies who remeasure those component periodic benefit cost, and therefore, are basing their expense or obligations and gain/loss calculations that are never disclosed a in public information. This generates confusion for analysts are 	n at any time

	reviewing the results.
Issue 6	We agree that it seems reasonable not to provide the sensitivity information for defined benefit plans.
Issue 7	The measurement date should always be disclosed. That allows the analyst to evaluate any economic changes, which might have occurred between the measurement date and the fiscal year end. We do not see the value of providing the measurement date only if there is a change.
	2. Please include specific wording in the final statement that a quantification of impact is not required. The proposed statement language is ambiguous about the sort of description required. Wording similar to the discussion in the Frequently Asked Questions- Question 17 would prevent auditors from forcing a remeasurement where it is not the intent of the Board to require one.
	3. To provide a description of events occurring between the measurement date and fiscal year end requires monitoring events at fiscal year end for all clients. This will add cost to the process, since:
	Non-plan events are not currently tracked. A monitoring system for the various combinations of measurement date and fiscal year end will need to be implemented.
	Additional time and cost is added to generate additional disclosures as needed.
	5. We recommend simply disclosing the measurement date in all cases. This would allow the analyst to review the time period involved and to identify external economic events they deem to be significant. Since all noneconomical events are already covered under current FASB guidance, this seems a reasonable position.
Issue 8	We feel very strongly that the reconciliation of beginning and ending balances of assets and obligations should be retained in the disclosure. It is an extremely valuable tool to help plan sponsors and auditors understand how their liabilities and their assets change from one year to the next. This should not be removed from the disclosure items.
Issue 9	We agree with the board's conclusion that the information listed would not be required to be disclosed with <u>one exception</u> . A description of the company's participation in multi-employer plans is a significant item for an analyst to review.
	 The bargained contribution has an impact on a company's expected cash flow, just as much as the expected contributions on a qualified single-

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	employer plan do.
	• The existence of an unfunded vested benefit obligation in a multi- employer plan indicates if there is a contingent liability on the company if they were to withdraw from the plan.
	This information should be a required disclosure to provide a comprehensive picture of the obligations of the company.
Issue 11	The time frame for implementation is too short. It will be extremely difficult to plan and to adapt software and reports in the time that will be allowed for adoption at fiscal year ending 2003.
	As an alternative, we suggest that the effective date of this statement be the later of 6 months after the date it is issued or fiscal years ending after 12/15/2004. While this does defer the adoption of these new disclosures, we would point out that by allowing an effective date that is effective for fiscal years that are 6 months after issuance really allows only three months of reaction time for those plans who are using the full 90-day measurement date window.