



AMERICAN ACADEMY of ACTUARIES

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April 13, 2004

Financial Accounting Standards Board  
401 Merritt 7  
P.O. Box 5116  
Norwalk, Connecticut 06856-5116

Letter of Comment No: 18  
File Reference: FSPFAS106B

Re: Comments on FASB Staff Position 106-b

Dear Sir or Madam:

On behalf of the American Academy of Actuaries<sup>1</sup> Joint Committee on Retiree Health, we appreciate the opportunity to comment on the proposed FASB staff position (FSP) 106-b, *Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003*.

The Medicare Modernization Act (MMA) is expected to have a significant impact on the availability, cost, and financing of retiree healthcare benefits, not only for current and future Medicare-eligible retirees, but also for non-Medicare eligible retirees. FSP 106-b provides useful guidance for preparers of financial statements and the actuaries who provide them with advice and consulting services. Our committee strongly supports your decision to include the effects of the 28 percent subsidy as a direct reduction of postretirement benefit costs in the context of FAS 106.

We have concerns in the following areas of the guidance.

1. We have some concerns about the effective date of the final staff position. We suggest that the proposed FASB staff position not be implemented until after the regulations defining actuarial equivalence have been issued. If these regulations are not issued prior to the effective date, an employer would, pursuant to paragraph 20, be required to determine the net periodic benefit cost for the current period, without firm knowledge whether their plan was or was not actuarially equivalent.

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<sup>1</sup> The American Academy of Actuaries is the public policy organization for actuaries of all specialties within the United States. In addition to setting qualification standards and standards of actuarial practice, a major purpose of the Academy is to act as the public information organization for the profession. The Academy is nonpartisan and assists the public policy process through the presentation of clear actuarial analysis. The Academy regularly prepares testimony for Congress, provides information to federal and state elected officials, regulators and congressional staff, comments on proposed federal and state regulations and legislation, and works closely with state officials on issues related to insurance. The Academy also develops and upholds actuarial standards of conduct, qualifications and practice, and the Code of Professional Conduct for all actuaries practicing in the United States.

2. We suggest the FSP include comments that the expected impact on benefit obligations resulting from the MMA will have an impact on both medical and prescription drug benefit cost projections, both for non-Medicare eligible and Medicare-eligible retirees. At present, the FASB staff has focused the guidance on the federal subsidy for prescription drug coverage for Medicare eligible retirees. The FSP should provide the reasons for this focused guidance.
3. We believe it would be helpful if the FASB staff expanded the simple numerical example in paragraph 18. As the federal subsidy is excluded from taxable income of the employer for federal income tax purposes, taxable entities will likely need to maintain two sets of funded status values: one based on “gross” benefit obligations and a second based on “net” benefit obligations. Actuaries are often asked to prepare the input values for the FAS 109 calculations.

While it is important for preparers of financial reports to understand the underlying principles of delayed recognition of certain events, reporting net cost, and offsetting liabilities and related assets, we strongly believe that the measurement of these amounts should be left up to the actuary’s judgment.

Members of the Joint Committee on Retiree Health appreciate your consideration of these issues, and we would be delighted to discuss our comments with you at your convenience. Please feel free to contact Heather Jerbi, the Academy’s pension policy analyst (202-785-7869; [Jerbi@actuary.org](mailto:Jerbi@actuary.org)), with any questions or if we can be of any assistance.

Sincerely,

Adam J. Reese, FSA, MAAA  
Co-Chairperson  
Joint Committee on Retiree Health  
American Academy of Actuaries