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Letter of Comment No: 22  
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Director, TA&I-FSP  
Financial Accounting Standards Board  
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**Proposed FASB Staff Position No. FAS 106-b  
Accounting and Disclosure Requirements Related to the Medicare Prescription Drug,  
Improvement and Modernization Act of 2003**

We appreciate the opportunity to comment on the above-referenced proposed FASB Staff Position (FSP). Overall, we believe that the proposed FSP provides appropriate guidance for preparers and auditors in accounting for and disclosing the effects of the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the Act) on postretirement health care plans that provide prescription drug benefits. However, we suggest that certain clarifications be made to adequately communicate that guidance. Those suggested clarifications are discussed below.

*Determining "Actuarial Equivalency"*

We believe that a sponsor of a single-employer defined benefit postretirement health care plan can only "reasonably" conclude that prescription drug benefits available under the plan will be at least "actuarially equivalent" to the Medicare Part D available benefits because the Department of Health and Human Services has not yet provided the method for determining actuarial equivalency. Absent that guidance, it will be difficult from an accounting and audit perspective to "conclude" or "deem" that a plan's provisions are "actuarially equivalent" to the Medicare Part D available benefits. Therefore, we recommend that the word "reasonably" be inserted in the first sentence of paragraph 3 of the proposed FSP before the word "concluded." In addition, we recommend that the proposed FSP be revised throughout to acknowledge the tentative nature of the determination of "actuarial equivalency."

*Frequency of Determining Actuarial Equivalency*

We believe that "actuarial equivalency" will not be a one-time determination, but will be determined on an annual or more frequent basis as remeasurements of plan assets and obligations are required. As such, the calculation of the effects of the subsidy should reflect the current substantive plan, which may not continue to be actuarially equivalent to the Medicare Part D prescription drug benefits in the future. An example of this is a plan in which the sponsor has "capped" its benefit cost. Based on expected future claims costs, that "capped" amount may not continue to be actuarially equivalent to the benefits provided by Medicare Part D. We recommend that the discussion in paragraph 3 in the proposed FSP be clarified to state that the determination of "actuarial equivalency" will be performed in "some or all future years,"

consistent with the final guidelines established by the appropriate administrative agency. Moreover, relative to paragraph 3 of the proposed FSP and our comments in this and the previous paragraph, we suggest that the following changes be made (additions are underscored and deletions are struck through):

The guidance in this FSP related to the accounting for the subsidy ~~applies only for this year and each future year~~ applies to the sponsor of a single-employer defined benefit postretirement healthcare plan for which (a) the employer has reasonably concluded that prescription drug benefits available under the plan are at least "actuarially equivalent" ~~and thus to the Medicare Part D available benefits and thus~~ qualify for the subsidy under the Act and (b) the expected subsidy will offset or reduce the employer's share of the costs of postretirement prescription drug coverage provided by the plan. However, this guidance also recognizes that the determination of actuarial equivalency is not only a one-time determination; rather, such determination will be performed in some or all future years, consistent with the final guidelines established by the appropriate administrative agency.

#### *Period of Attribution of the Subsidy*

We believe that sponsors of retiree health care benefit plans that provide a prescription drug benefit that is at least actuarially equivalent to Medicare Part D should attribute the subsidy over the same period the prescription drug benefits are attributed. However, in order to eliminate the possibility that sponsors attribute the effects of the subsidy over a period that is not consistent with the attribution period of the prescription drug benefits, we recommend that the following sentence be added at the end of paragraph 14:

The effects of the subsidy identified in this paragraph should be based on the attribution of the subsidy over the same period the prescription drug benefits are attributed.

#### *Accounting for Plan Amendments*

The first sentence of paragraph 16 of the proposed FSP reads, "If prescription drug benefits currently available under an existing plan are deemed *not* actuarially equivalent as of the date of enactment of the Act, but the plan is subsequently amended so as to provide actuarially equivalent benefits,...". We believe that the language "as of the date of enactment" is unnecessary. That is, a change at any time during a plan's existence (not just a change from a determination made at date of enactment) from not being actuarially equivalent to actuarially equivalent would invoke the accounting described in paragraph 16.

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Director, TA&I-FSP

April 12, 2004

Page 3

*Clarification of "Next Regularly Scheduled Measurement"*

The transition guidance in paragraph 21 of the proposed FSP addresses those situations in which the plan sponsor either (a) concludes that benefits available under its plan are not actuarially equivalent to Medicare Part D or (b) is unable to conclude in that regard. In those situations, the proposed indicates that the plan sponsor should "recognize any effects of the Act other than the subsidy...at the next measurement date." The proposed guidance further indicates that in those situations, if the plan sponsor concludes that the enactment of the Act is not a "significant event" pursuant to paragraph 73 of Statement 106, the related effects may be incorporated in the "next regularly scheduled measurement of plan assets and obligations." We have two comments with respect to this proposed guidance:

1. We do not believe it was the intent of the proposed guidance to require that the effects of the Act be "recognized" at the next measurement date. Instead, we believe that the intent of this guidance is that those effects be "measured" at the next measurement date. Accordingly, the language in paragraph 21 should be revised to provide clarification in that regard.
2. We believe that references to "next measurement date" and "next regularly scheduled measurement" refer to those measurement dates following initial application of the proposed guidance, as opposed to, in all situations, the measurement date following enactment of the Act. Therefore, clarification should be made in that regard.

*Application of Disclosure Requirement of Paragraph 5(f) of FASB Statement 132(R)*

Paragraph 5(f) of FASB Statement No. 132(R), *Employers' Disclosures about Pensions and Other Postretirement Benefits*, requires employers that sponsor defined benefit postretirement plans to disclose the benefits expected to be paid in each of the next five fiscal years, and in the aggregate for the five fiscal years thereafter. The federal subsidy available under the Act for sponsors of retiree health care benefit plans that provide a benefit that is at least actuarially equivalent to Medicare Part D will offset future benefit payments. Therefore, we recommend that the proposed FSP address whether the expected benefit payment disclosure requirement should include the effects of the federal subsidy, (i.e., whether the disclosure of benefit payments should be net of expected federal subsidy receipts).

We would be pleased to discuss our comments with the Board members or the FASB staff at your convenience.

Very truly yours,

*Ernst + Young LLP*