

June 22, 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. 241

Dear Sir:

I am writing about the proposed amendment to FASB Statement No. 87. Although the deadline for comments has passed, I hope you will consider my observations.

1. Effective date:

Affected entities may have to renegotiate debt covenants with multiple lenders as a consequence of financial statement changes triggered by the new rules. Hence, I suggest that you make the changes effective for fiscal years ending December 15, 2007 or later.

2. Measurement date:

Entities' budgets are typically finalized well in advance of the ensuing year to facilitate Board approval prior to the commencement of the budget year in question. Having a solid figure for the ensuing year's FAS 87 expense is vital in light of its magnitude. A significant budgeted income statement line item will become much less precise under the proposed measurement date rule.

Also, fiscal year end closing timing and reporting to key users would be affected by the proposed rule. Actuarial computations are complex and take weeks following receipt of pertinent information about the employee population and plan assets.

Further, the ABO/PBO figures represent liabilities to be settled over decades following the balance sheet date. Variability in ABO/PBO amounts under current rules – from year to year and even from month to month – is dramatic. That fluctuation is driven less by the lapsing of 90 days than it is by changing “spot” discount rates (please see subsequent comment about discount rates). Forcing adoption of a year end measurement date will not improve the precision of those figures.

3. PBO versus ABO:

The matching principle requires that expenses and liabilities be recorded as “incurred”; hence, they should relate to incurred service. Pay increases as reflected in PBO computations are contingent upon continued service.

Since ABO and PBO numbers are disclosed in extensive footnote disclosures about pension obligations, users of financial statements would not be misled under a decision to continue using ABO as the basis for recorded pension obligations.

4. Discount Rates:

In light of the long-term nature of pension obligations, I believe the FASB should identify a better means of determining discount rates for pension obligations. Inasmuch as long-term rates of return (not short term equity or fixed income return rates that vary capriciously over the short term) are deemed appropriate for valuing assets, an analogous mechanism should be identified for discounting liabilities. The year-to-year variability in pension liabilities under the current approach produces distorted financial statement trends, causes undue alarm on the part of investors and lenders as rates and recorded obligations fluctuate in the near term, and distorts comparison of financial obligations between organizations with different fiscal year ends.

As a former "Big 8" audit partner, I can appreciate the difficulty of your assignment – particularly in light of the high level of emotion and vested interest associated with pension issues. But I am also concerned that, unless the rules ultimately adopted are truly fair and reflective of the long-term nature of pension liabilities, you may add fuel to the present trend of companies freezing or terminating their plans. Rules that force organizations to record liabilities that do not fairly portray their ultimate pension obligations – and that cause distorted comparisons between fiscal years or organizations – will, on the one hand, fail to enhance the credibility, meaningfulness and comparability of financial statements but will, on the other hand, force companies to consider some tough options that should not be necessary.

Good luck in your continued deliberations.

Sincerely,



Robert D. O'Keefe
Vice President, Treasury Services
Aurora Health Care, Inc.
Milwaukee, Wisconsin