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LETTER OF COMMENT NO. 94

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May 31, 2006

Mr. Lawrence Smith
Director of Technical Applications and Implementation Activities
Financial Accounting Standards Board
401 Merritt 7, P.O. Box 5116
Norwalk, Connecticut 06856-5116

RE: Proposed Statement of Financial Accounting Standards, Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans
Reference No. 1025-300

Dear Mr. Smith:

We greatly appreciate the opportunity to comment on the Board's Proposed Statement of Financial Accounting Standards: Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans ("ED"). We understand the significance of this first phase of the Board's two phase project not only because of the impact on the companies directly affected, but also because of the impact it will have on standards setting in this crucial accounting area. Furthermore, this ED will influence the Board's stated goal of achieving convergence with international accounting standards for defined benefit pension and other postretirement benefit plans, as the reporting treatment which the ED requires (use of Projected Benefit Obligation as a basis for the measurement of the employer's recognized asset or liability) would more closely align the US accounting treatment with that of the IAS.

AIG is the world's leading international insurance and financial services organization, with operations in more than 130 countries and jurisdictions. AIG member companies serve commercial, institutional and individual customers through the most extensive world-wide property-casualty and life insurance networks of any insurer. In the United States, AIG companies are the largest underwriters of commercial and industrial insurance and AIG American General is a top-ranked life insurer. AIG's global businesses also include: i) financial services, ii) retirement services, and iii) asset management.

Underfunded and overfunded positions

AIG supports the Board's conclusion to require recognition of the underfunded and overfunded status of defined-benefit post retirement plans in an employer sponsor's statement of financial position. We believe this step will lead to greater transparency in financial reporting. We also support the gross presentation of overfunded and underfunded plans in the statement of financial position. We agree with the Board's observation as presented in paragraph B32 of the ED with respect to existing transition assets or obligations under FAS 87 and FAS 106.

Measurement

While we agree with the overall direction of the ED, we believe that the Accumulated Benefit Obligation is the appropriate basis for measuring the employer's recognized asset or liability for financial reporting purposes, as this is the obligation that the Plan and the employer have to the Plan participants at the measurement date. The Projected Benefit Obligation lacks a key characteristic of a liability as discussed in Concepts Statement No. 6: namely, the transaction or other event obligating the entity has not already happened.[1] For example, none of our defined benefit plans obligates AIG or the Plan to pay future salary increases in the absence of services performed by the participants. Indeed, using the Projected Benefit Obligation as the measure of the liability to participants seems inconsistent with recent accounting decisions under FAS 123R that compensation expense (and the offsetting entry to a liability or to equity, based on the nature of the award) should reflect the provision of current, and not future services. We believe that the future salaries component is not a transaction or event that creates an obligation for an entity. Furthermore, using the Projected Benefit Obligation as the basis for determining amounts recognized for financial reporting purposes will compound issues for companies in managing their capital because a larger Projected Benefit Obligation (relative to the Accumulated Benefit Obligation) incorporates numerous assumptions that may not be realized.

Finally, in the context of defined benefit plan accounting with its extremely long time horizon, the potential reflection of large changes in the Projected Benefit Obligation caused by small changes in the discount rate in Other Comprehensive Income will not provide readers with useful information. This is because the discount rate fluctuations are predominantly short-term in nature and may not affect the amount for which the liability will ultimately be settled. The greater sensitivity of the Projected Benefit Obligation to interest rate changes relative to the Accumulated Benefit Obligation raises the question as to whether the Projected Benefit Obligation really represents the most appropriate measure of an entity's obligation for purposes of determining amounts to be recognized for financial reporting purposes. Given the central nature of the appropriate obligation to be used as a basis for recognizing amounts in the financial statements, we believe the Board should address this issue as part of Phase I.

However, whether the Board determines that the Projected Benefit Obligation or the Accumulated Benefit Obligation is the most appropriate measure of an entity's obligation, we believe that financial statement readers would be better served by more explicit disclosure of the discount rate assumptions and more standardized methodology for computing the discount rate.

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[1] SFAS Concepts Statements No 6, "Elements of Financial Statements," par. 36.

Implementation

While AIG supports the Board's objectives for Phase I, we recommend that implementation be prospective rather than retrospective. We anticipate that other companies like AIG will face implementation challenges in seeking to gather and formulate sufficiently substantive information to record the appropriate adjustments, net of tax. Many companies, including AIG, have realized through the implementation of FAS 123R that this information was not always readily available and required significant efforts to obtain.

The challenges above will be compounded by what we anticipate will be a strain on the availability of actuarial service providers for 12/31/06 reporting. Although AIG is already a December 31 measurement date company, our concern is that the tighter reporting deadlines that we need to achieve with our actuary as part of our ongoing commitment to streamline our reporting process will be jeopardized due to pressure on our actuarial service providers from the needs of other clients who are not December 31 measurement date reporters. We anticipate that demand from these filers may compromise our service providers' ability to comply with our deadlines. We are encouraged in our request by the Board's tendency to be pragmatic with regard to transition concerns. We view FAS 87 and FAS 106 as examples of such pragmatism. In that situation, the Board took a prospective approach toward implementation. If the Board decides that retrospective implementation is called for, we would ask that a one year delay be granted for implementation of the new standard.

Potential Financial Effect

We ask that the Board include determination of the pension obligation's measurement basis as part of its Phase I work. We believe that recording the Projected Benefit Obligation net of related plan assets onto companies' statements of financial position needs careful assessment. There is the potential that the final decision may lead to suboptimal behavior by plan sponsors resulting in: a) acceleration of the trend toward terminating defined benefit pension plans; b) switching from defined benefit plans to vehicles with shorter time horizons such as defined contribution plans; and c) altering the investment mix within defined benefit plans from equity toward debt instruments. We believe transparency can be significantly enhanced without creating an incentive for responsible companies to abandon the most secure form of delivering retirement benefits to the employee.

We would be pleased to discuss our comments with the Board or the FASB staff at your convenience. If you have any questions please contact me at 212-770-6463 regarding the contents of this letter.

Very truly yours,

/s/Anthony J. Valoroso
Deputy Comptroller
Director of Accounting Policy

cc: Steven Bensinger, Executive Vice President and Chief Financial Officer
David L. Herzog, Senior Vice President and Comptroller