NAMIC®
NATIONAL ASSOCIATION OF MUTUAL INSURANCE COMPANIES

HEADQUARTERS
3601 VINCENNES ROAD
INDIANAPOLIS, INDIANA 46268
TELEPHONE: (317) 875-5250
FAX: (317) 879-8408
WWW.NAMIC.ORG

WASHINGTON OFFICE
122 "C" STREET, NW
SUITE 540
WASHINGTON, D.C. 20001
TELEPHONE: (202) 628-1558
FAX: (202) 628-1601

May 31, 2006

LETTER OF COMMENT NO. 185

Technical Director
Financial Accounting Standards Board
Of the Financial Accounting Foundation
401 Merritt 7, PO Box 5116
Norwalk, Connecticut 06856
By e-mail
File Reference No. 1025-300

Dear Technical Director:

The National Association of Mutual Insurance Companies (NAMIC) comprises approximately 1,400 insurers in the United States and Canada, and these companies use defined benefit pensions in various forms and other post-employment benefit (OPEB) plans to compensate their employees. Most of those members do not use GAAP and report solely on the basis of statutory accounting prescribed by the states from the National Association of Insurance Commissioners' (NAIC) *Accounting Practices And Procedures Manual.* However, we note that FASB pronouncements, as they are issued, are compared with the fabric of statutory accounting by the NAIC for possible inclusion in that *Manual.* Indeed, FASB pronouncements are part of the statutory accounting hierarchy of authority as specified in the Manual. Because of that relationship between GAAP and statutory accounting, and in anticipation that content from the Exposure Draft will be considered for, and may enter, statutory accounting, we comment below on this subject matter.

Preface

Of fundamental concern to NAMIC in contemplating content of the *Exposure Draft*—and its potential effect on statutory accounting—is whether the detail sought and its geography in financial statements are beneficial in a broad look at the pension landscape. This concern originates in the following questions:

- Are defined benefit pension plans useful in compensating employees?
- Will the changes proposed in the Exposure Draft act as further disincentive for employers to offer such compensation?
- Will the changes preclude weakening of defined benefit plan sponsors—and failure or transfer of liability to the PBGC?

The first question, we believe, would be answered affirmatively by most employers—emphatically so by some. Defined benefit plans have great versatility in compensating and retaining employees of various rank. The second question must also be answered in the affirmative. It is principally the added element of volatility that is the disincentive the proposed changes will bring to financial statements of plan sponsors. Such volatility will be experienced by the sponsoring/reporting entity not just at the time of transition to such altered guidance but at other times. For many entities, including insurers and other holders and users of securities, times of declinining prices in the capital markets accompanied by declining interest rates with their effect on actuarial calculations, may produce the "perfect storm." Admittedly, such conditions generally do not occur in times of equilibrium in the economy, but it is to be remembered that they do occur. Adding defined benefit plans to "other comprehensive income" or its equivalent will inevitably augment volatility in income and statement of position. The proposed changes embodied in the Exposure Draft are accompanied by the explanation that footnote data and reconciliations are not understood well by users. We are moved to ask: Will users of financial statements understand the origins of such additional volatility if made part of "other comprehensive income" or its equivalent?

Relevant to the third question above, we observe in the *Exposure Draft* only the finding that the existing guidance on pension and OPEB disclosure does not report "overfunded or underfunded status" in the body of statements. Further, and most important, there can be no conclusion that existing guidance somehow caused insolvency or aggravated the failure of plan sponsors with the result that plan beneficiaries were not paid or that aggregate plan liability was assumed by the PBGC. We note emphatically for the Board that "overfunded or underfunded status" is adequately disclosed in substance via the reconciliation schedule in GAAP footnotes without integration of data into the income statement or statement of position. In other discussion of how the Draft's conclusions relate to the FASB's conceptual framework, it is related that "financial reporting should *provide information that is useful in making business and resource allocation decisions.*" Any buyer or rater of an entity has adequate data in the reconciliation for understanding pension and OPEB obligations. The *Draft's* assertion concerning "information that is useful in making business and resource allocation decisions" is fulfilled via existing requirements. can go no further than that and does not indict existing guidance as a cause, direct or indirect, of sponsors' failure. The user of GAAP financial statements already has available adequate data on periodic cost and funding via GAAP footnotes.

Issue Responses

We respond according to the numerical itemization of issues in the "Notice for Recipients" in the *Exposure Draft,* although we do not respond to every issue set out in the "Notice":

Issue 2: We understand reasons for the Board's intent to harmonize a) the measurement date of obligations and corresponding assets with b) the date of the reporting entity's statement of financial position, yet practical problems associated with such harmonization are inescapable. Yet such a requirement aggravates the limited availability of time for preparation of such information and the availability of actuarial consultation for its performance. Having the harmony sought in the draft, combined with the profusion of companies reporting at December 31, requires resources when they are not available or at a premium. Whenever performed, such estimates, we acknowledge, are subject to change with change in the significant input variables (changing interest rates applicable to discount of future obligations; changing expectations as to investment growth; changing actuarial assumptions as to retention, retirement, and other characteristics of the workforce benefited; and the cost of OPEB services provided). Yet how disadvantaged can a user of financial statements by pension measurements performed each year at the same time, even though that time may not coincide with the end of the fiscal or calendar year? Patterns in change will still be evident and presented on a periodic basis, and plan sponsors will not be under yet another incrment of year-end pressure.

Issue 3(a): Experience shows that the realizability of deferred tax assets is not only a matter that is complex by its nature and subject to changed assumptions. Retrospective application, as may be required by the *Draft*, becomes still more problematic when these factors are observed. Statutory accounting has only recently fully settled treatment of deferred tax assets and liabilities. Retrospective application is more difficult, given that circumstance.

Issue 4: Notwithstanding our disagreement with the essence of the *Draft*'s new guidance (see our response to *Issue 2*), we believe it is impractical and burdensome for rapid implementation of any decision to measure plans' status, especially in the instance of restatement of prior years' results and position. Advent should be no earlier than December 15, two years following adoption.

Summary

In our expectation that content of the *Draft Exposure* will be weighed by the NAIC against existing statutory accounting, we believe the Board should find that existing GAAP authority on pensions and OPEBs is adequate to provide for users of financial statements, as described by the *Draft*, "information that is useful in making business and resource allocation decisions." Those who make such decisions, we suggest, will have no additional advantage, and those who use such information on a more casual basis will be no wiser for integration of pension information into results of operations or statement of position. A further consequence of the Draft's prescriptions is still less use of defined benefit pension and OPEB plans.

Very truly yours,

/William D. Boyd'

Financial Regulation Manager