THE CHUBB CORPORATION

CHUBB

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May 31, 2006

Technical Director – File Reference No. 1025-300
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

1025-300

LETTER OF COMMENT NO. 209

RE: PROPOSED STATEMENT OF FINANCIAL ACCOUNTING STANDARDS, "EMPLOYERS' ACCOUNTING FOR DEFINED BENEFIT PENSION AND OTHER POSTRETIREMENT PLANS, AN AMENDMENT OF FASB STATEMENTS NO. 87, 88, 106, AND 132(R)," FILE REFERENCE NO. 1025-300

Dear Technical Director:

The Chubb Corporation is a holding company with subsidiaries principally engaged in the property and casualty insurance business (collectively, the Corporation). At December 31 2005, the Corporation employed approximately 10,800 persons. The Corporation has several defined benefit pension and other postretirement plans covering eligible employees. We appreciate the opportunity to respond to this proposed Statement, which represents the initial phase of a comprehensive project on employers' accounting for defined benefit postretirement plans.

We support the Board's plan to comprehensively reconsider the accounting for defined benefit postretirement plans. As stated in paragraph B15, the objective of the proposed Statement is to improve the understandability and representational faithfulness of the amounts reported in the balance sheet by recognizing the overfunded or underfunded status of defined benefit postretirement plans as an asset or liability, respectively. We support this objective. However, we do not agree that the measurement of the benefit obligation for a defined benefit pension plan should be based on the projected benefit obligation (PBO). We believe that the accumulated benefit obligation (ABO) represents the most relevant measure of the liability at the balance sheet date for a defined benefit pension plan. In addition, we do not believe that the proposed disclosures would provide significant value, and we encourage the Board to eliminate the requirement for such disclosure.

Measurement of the Benefit Obligation

We believe that the fair value of a company's pension liability as of the balance sheet date is the ABO. The use of the PBO to measure the benefit obligation for pension plans would overstate the pension liability at the balance sheet date by including the effect of future salary increases.

In paragraph 18 of Statement of Financial Accounting Standards (SFAS) No 87, Employers' Accounting for Pensions, the Board stated that the ABO provides information about the obligation the employer would have if the plan were discontinued. Also, in the proposed statement on fair value measurements, the Board defines fair value as the price that would be received for an asset or paid to transfer a liability in a transaction between market participants at the measurement date. In other words, the price used to measure fair value is the exit price. For defined benefit pension plans, we believe that measure is the ABO. In a traditional final pay pension plan, using the PBO to measure periodic benefit cost smoothes cost over an employee's career. However, it should not be considered the fair value of pension liabilities at the balance sheet date.

In paragraph B16, the Board states that the proposed Statement would not change the basic approach to measuring benefit obligations. We disagree with this assertion. In paragraph 143 of SFAS No. 87, the Board concluded that the ABO should be the basis on which to decide whether a minimum liability needs to be recognized. We believe that using the ABO to measure the balance sheet pension liability would be the logical progression of this current accounting practice. This approach would meet the Board's short term objective of improving the understandability and representational faithfulness of the amounts reported in the balance sheet. The issues associated with the measurement of the benefit obligation, including the apparent conflict between the measurement of the benefit obligation and the net periodic benefit cost, should be considered as part of the second phase of the project. Basing the balance sheet pension liability measurement on the PBO would represent a fundamental shift in pension accounting theory and should only be considered as part of the comprehensive reconsideration of accounting for defined benefit postretirement plans.

Disclosure

The current disclosure requirements related to pension and other postretirement benefit plans are already excessive. We do not believe that the proposed disclosure of the separate components of the actuarial gains and losses and the prior service costs and credits recognized in other comprehensive income and the estimated portion of the net actuarial gain or loss and the prior service cost or credit that will be recognized as a component of net periodic benefit cost in the following year would provide significant value to users of the financial statements. In particular, we question the value of disclosing only one component of the net periodic benefit cost for the following year. We believe this disclosure would not be understood by most readers of the financial statements.

In the second phase of this project, we urge the Board to reconsider all disclosures that are currently required for pension and other postretirement benefit plans, including establishing a materiality threshold. For the Corporation, pension and other postretirement benefit expense for the year ended December 31, 2005 was less than 1% of total losses and expenses and the net unrecognized pension and other postretirement benefit amount at December 31, 2005, net of tax, was less than 3% of shareholders' equity. These amounts are clearly not material to the Corporation's financial statements. Yet, the footnote on employee benefits included in our 2005 financial statements filled 2½ pages.

We recognize that when the Board issued SFAS No. 132(R), Employers' Disclosures about Pensions and Other Postretirement Benefits, it considered whether to include a materiality threshold for certain disclosures, but decided against it. However, the Board acknowledged that this decision did not imply that the provisions of SFAS No. 132 should be applied to immaterial amounts. Given the current atmosphere surrounding effective corporate governance, we find that it is difficult for a company that has pension and other postretirement plans to take the position that disclosures required by FASB Statements are immaterial. We believe that additional guidance from the Board in this regard would help eliminate immaterial disclosures and allow users of the financial statements to focus on what is truly important.

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In conclusion, we believe that the ABO represents the most relevant measure of the liability at the balance sheet date for a defined benefit pension plan. Therefore, we urge the Board to reconsider using the ABO as the measure of the balance sheet pension liability in this phase of the project. The issues related to the measurement of the benefit obligation and the net periodic benefit cost are complex and, as such, we believe that they should be reconsidered in the second phase of the project.

We do not believe that the proposed disclosures would provide significant value. Therefore, we encourage the Board to eliminate the requirement for such disclosure.

We would be pleased to discuss our comments and recommendations with members of the Board or its staff.

Very truly yours,

Henry B. Schram
Senior Vice President and
Chief Accounting Officer