



On Your Side®

May 31, 2006

Technical Director  
Financial Accounting Standards Board  
401 Merritt 7  
P.O. Box 5116  
Norwalk, CT 06856-5116  
Re: File Reference No. 1025-300



LETTER OF COMMENT NO. 218

Dear Technical Director:

We would like to offer our comments on the current Financial Accounting Standards Board (FASB) exposure draft, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*.

Nationwide Mutual Insurance Company is comprised of three affiliated mutual insurance companies under common management, Nationwide Mutual Insurance Company, Nationwide Mutual Fire Insurance Company, and Farmland Mutual Insurance Company and the subsidiaries or affiliates controlled by those entities (collectively known as "Nationwide"). Nationwide is a plan sponsor for several employer sponsored defined benefit and other postretirement plans. Nationwide supports the effort of the FASB in designing and implementing guidance to improve financial statement transparency.

We ask you to strongly consider our following comments:

### **General**

We agree with the FASB that the current accounting models for defined benefit pension and other postretirement benefit plans ("OPEB") as prescribed by FASB Nos. 87 and 106, respectively, do not fully reflect the economic value underlying employer-sponsored defined benefit plans. We acknowledge that the FASB's proposal to recognize the funded status of the plan on the balance sheet provides a better representation of the current economic status of the plan as compared to the current accounting model. However, we do not agree that this proposed treatment represents the most accurate economic picture of the plan as it does not focus on the underlying economic liability to the company.

### **PBO vs. ABO**

The projected benefit obligation (PBO) currently used in the funded status calculation includes the impact of future salary increases. Future salary increases are not current obligations and an employer has the ability to modify or terminate benefit plans. Upon termination, the accumulated benefit obligation (ABO) becomes the basis of calculating the funded status of the plan. We believe that the

ABO is a better measure of a financial statement liability under paragraph 36 of FASB Concept Statement No. 6. ("CON 6") because it excludes the impact of future salary and service benefits. By including assumptions for future employee salaries and benefits, the PBO conflicts with CON 6 because these amounts do not represent obligations that employers have little discretion to avoid in the future, and they do not represent past transactions or events for which the employer is responsible.

#### Funded Status vs. Economic Measure of Plan

In its exposure draft, the Board has likened the funded status of the plan to the current economic reality of the plan, which we believe is misleading. While we acknowledge that reporting the funded status is an improvement over the current accounting model, we feel that it is premature for the FASB to conclude that the funded status is the economic measure of the plan. We believe that this assessment would be better addressed in conjunction with Phase II of the FASB's pension project, which plans to explore all of the fundamental issues surrounding pension accounting.

#### Timing of Proposed Implementation

We strongly believe that the proposed implementation of this exposure draft of December 15, 2006 is extremely aggressive and unreasonable for the majority of organizations across all industries. The adoption of this exposure draft can have significant impacts to an entities financial condition well beyond GAAP financial statements, requiring the evaluation of existing plans, communication with financial institutions/investors relating to debt covenants, impacts to regulatory capital, etc.

We recommend the FASB consider delaying the implementation of the exposure draft until the end of 2007.

#### **Responses to Specifically Requested Issues**

**Issue #1:** Do you agree that the cost of implementing this standard would not be significant because the information required to be presented is largely available?

Response: We agree that there will be very little implementation cost to companies associated with adopting this guidance on a go-forward basis. However, we believe that certain implementation issues in limited situations will make the task of restating financial statements burdensome from a cost and effort standpoint. Restating financial statements when a settlement or curtailment has occurred may become costly because third party consultants most likely will be utilized to perform this work, which is generally higher than in-house specialists. Additionally, restating prior year earnings may become burdensome if the FASB continues with its proposal to charge the unamortized transition asset or obligation to beginning retained earnings. Companies may incur significant costs by restating other balances that are impacted by the earnings restatement (such as DAC amortization).

In order to address these concerns, we recommend that the FASB reconsider its proposed treatment of settlements and curtailments as they pertain to restatements. Additionally, we believe that the FASB should consider permitting the unamortized transition or liability to be charged against other comprehensive income in a manner consistent with the treatment of actuarial gains/losses and prior service cost. However, if the FASB continues with its proposal to charge the unamortized transition

asset or obligation against earnings, we recommend that the balance be charged against retained earnings in a cumulative effect adjustment instead of restating prior period earnings.

**Issue #2:** Are there specific implementation issues associated with the requirement to align the plan's measurement date with the financial statement date?

Response: Nationwide currently uses a measurement date for their pension and OPEB plans that coincides with the date of their statement of financial position; however, many insurance companies use a measurement date that is up to three months earlier than their balance sheet date in order to expedite their financial statement close at the end of the year. The insurance industry is a heavily regulated industry, and as such, companies with multiple plans have extremely short timeframes with which to complete both statutory compliance reporting and GAAP financial statements. The earlier measurement date affords companies the ability to produce timely financial data. In addition, we do not believe that changing the measurement date would provide improvement or added value in the outcome of the calculation in the company's financial statements given the fact that the determination of both the ABO and PBO is statistical in nature and relies heavily upon estimates and assumptions which cannot be considered exact even when based on the most current market data. We recommend that the FASB reconsider the requirement to align the measurement date with the financial statement date. This provides Nationwide with the opportunity to expedite our close process.

**Issue #3a:** Should the Board provide an impracticability exemption related to the assessment of the realizability of deferred tax assets? Are there other reasons that retrospective application might be impracticable?

Response: The assessment of the realizability of deferred tax assets is not a significant issue for Nationwide and we do not have specific comments regarding this issue to offer to the FASB.

**Issue #3b:** How would this standard impact contractual arrangements other than debt covenants?

Response: The calculation of policyholder dividends for some of our participating policies may be based on our profitability as a whole. Restating earnings for prior years and changing the projected earnings in the current year at such a late point in the year (if the standard is adopted in the third or fourth quarter) may impact the policyholder dividend payment for the current year. We recommend that the effective date for the proposed standard be delayed to fiscal years ending after December 15, 2007 in order to allow us sufficient time to address all of the restatement issues associated with the implementation of this standard.

**Issue #4:** Are there specific impediments to implementation that would make the proposed effective date impracticable? How would a delay alleviate those impediments?

Response: We recommend that the effective date for the proposed standard be delayed to fiscal years ending after December 15, 2007. The delayed effective date will allow Nationwide with the time to assess the impact of restating its financial statements and communicate these findings to management and the investing community.

Technical Director  
Financial Accounting Standards Board  
Page 4

Nationwide appreciates the efforts by the FASB to improve the transparency of the financial statements and appreciate the opportunity to respond. If you would like to discuss this matter further please call Paul Kopsky, Enterprise Controller & Chief Accounting Officer at (614) 249-8548 or myself at (614) 249-4903.

Respectfully,

A handwritten signature in black ink that reads "Stephen Cross". The signature is written in a cursive style with a large, sweeping initial 'S'.

Stephen Cross  
AVP, Accounting Policy and Research  
Nationwide Mutual Insurance