



615ElsinorePlace Cincinnati, Ohio 45202

Phone # 513 # 639 # 2800 Fax = 513 = 639 = 2700

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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.

Subject:

Proposed Statement of Financial Accounting Standards Employers' Accounting for Defined Benefit Pension and Other Postretirement **Plans**

I am the Chief Financial Officer of Catholic Healthcare Partners (CHP), a not for profit healthcare organization. CHP sponsors 10 pension plans and 9 other postretirement benefit (OPRB) plans covering 38,000 participants.

As a preparer of financial statements, we understand the need for transparent accounting and reporting. Our management team supports FASB's efforts to improve the value and relevance of financial information reported to the users of financial statements by revisiting the decisions made 20 years ago in developing SFAS Nos. 87 and 106. However, we have significant concerns about the proposed statement of financial accounting standards, Employers' Accounting for Defined Benefit Pension and Other Postretirement Benefit Plans, which would amend SFAS Nos. 87, 88, 106, and 132(R):

- Measurement date. Pension and other postretirement benefit (OPRB) plan assets and obligations are significantly different from other types of assets or liabilities recognized in our financial statements and require additional lead time to measure accurately. A measurement date up to three months prior to fiscal year-end remains appropriate. In contrast, a fiscal year-end measurement date would not materially improve the accounting. Instead, it would force us to use estimation techniques rather than accurate values as of an earlier measurement date, and it would increase the likelihood of reporting errors.
- Pension liability measure. The accumulated benefit obligation (ABO) the current value at the measurement date of benefits earned to date by our current and former employees - is the most appropriate measure of the market value of pension liabilities. The ABO - not the projected benefit obligation (PBO) - should be used to determine the required balance sheet recognition.

These concerns are detailed below.

Measurement date

Pension and OPRB assets and liabilities are significantly different from other types of assets and liabilities reported in our financial statements. Most other financial statement items are recorded and adjusted monthly to reflect the ongoing financial results of operations during the year. Pension and OPRB reporting and disclosures, however, require gathering new information and subjecting it to extensive calculations, analysis, and review. The table below details the steps and current timing involved in preparing our year-end disclosures.

Activity	Timing
Prepare cash-flow projections for discount rate determination	By measurement date
Collect and review interest rates, yield curves, and liability durations and internally decide on discount rates	2 weeks after measurement date
Obtain auditor approval of discount rates; provide discount rates to local actuaries to use in computing benefit liabilities	2½ weeks after measurement date
Collect asset information as of the measurement date for each plan	3 – 4 weeks after measurement date
Collect benefit liabilities and related information from actuaries and review for reasonableness	5 weeks after measurement date
Consolidate the liability and asset information for all plans to generate preliminary reconciliations	6 weeks after measurement date
Review reconciliations against local regions books and consolidated reporting to identify any issues	7 weeks after measurement date
Investigate any issues identified in the preceding step and make adjustments as appropriate	8 weeks after measurement date
Determine fourth-quarter benefit payments from unfunded OPRB and nonqualified pension plans (this step would be eliminated by using a fiscal year-end measurement date)	1 – 2 weeks after fiscal year-end
Make and reconcile all divisional financial statement entries (this step would become much more difficult and significant with required balance sheet entries to recognize the funded status of all pension and OPRB plans – not just pension plans with unfunded ABO)	2 weeks after fiscal year-end
Obtain final FAS 132 report with footnote information from local actuaries	2 – 3 weeks after fiscal year-end
Draft consolidated retirement plans footnote and MD&As and circulate internally for review and approval	4 – 5 weeks after fiscal year-end

In particular, we are concerned about the time required to complete the following tasks:

- Obtain market values of assets. Final market values of certain limited partnerships, including absolute return strategies and private equity are not generally available until three to four weeks after the measurement date. If a fiscal year-end measurement date must be used, this leaves insufficient time to complete our financial statements. To cope with a fiscal year-end measurement date, we would be forced to roll forward market values determined as of an earlier date for these assets which offers little or no benefit over using an earlier measurement date.
- Select the discount rate for each plan. We use a high-quality matching bond portfolio to determine the appropriate discount rate. The universe of appropriate high-quality corporate bonds as of the measurement date, however, is generally not available until one to two weeks after the measurement date. It must then be matched against projected cash flows to determine the appropriate discount rate, a process that requires a few business days. After we provide the discount rate, the actuary needs another two weeks to determine all the required plan liabilities (including ABO for pension plans and trend-sensitivity demonstration for OPRB plans), reconcile the funded status, and prepare the balance sheet entries and footnote disclosures. If a fiscal year-end measurement date must be used, liabilities won't be available until four to five weeks after fiscal year-end, which leaves insufficient time to complete our financial statements. To cope with a year-end measurement date requirement, we would need to either (i) adopt a less accurate discount-rate selection method (for example, using a bond yield index) or (ii) before fiscal year-end, perform multiple liability measurements using a range of discount rates at substantial additional cost and then select which measure to use after the appropriate discount rate is determined.
- Obtain claims cost information for OPRB plans. Our OPRB plan administrator does not provide claims information until after the measurement date. If forced to use a fiscal year-end measurement date, we will have to determine our starting claims cost using payments as of an earlier date plus estimated claims through fiscal year-end a process which, one again, offers no improvement over use of an earlier measurement date.

We believe pension and OPRB assets and obligations are significantly different from other types of assets and liabilities recognized in our financial statements and require additional lead time to measure accurately. The use of a measurement date up to three months prior to fiscal year-end remains appropriate, and SFAS Nos. 87 and 106 should not be amended to require use of a fiscal year-end measurement date. Such a requirement would not materially improve the accounting. As a practical matter, it would force us to use estimation techniques rather than accurate values at the earlier disclosed measurement date, and it would increase the chance of material errors in our financial statements. The proposed requirement is likely to result in more inaccurate and misleading information, not less.

Pension liability measure

The projected benefit obligation (PBO) – the present value of a hypothetical benefit determined by dividing projected retirement benefits (including assumed pay increases between the valuation date and the assumed retirement date) by benefit accrual service to the assumed retirement date – is *not* a measure of the "market value" of plan liabilities. Rather, it is merely another SFAS No. 87 smoothing mechanism designed to produce a more level pattern of net periodic cost over participants' careers. The PBO includes amounts related to future salary increases that are not yet liabilities of the company as defined in Concept Statement 6. Requiring balance sheet recognition of the PBO goes against the underlying conceptual framework of GAAP accounting and artificially increases plan sponsors' liabilities. It will discourage the continuation of defined benefit plans – a result that cannot be undone if the Board decides in Phase 2 that the accumulated benefit obligation (ABO) – or some other measure – is the correct measure for balance sheet recognition (and perhaps also for expense).

The ABO – the present value of benefits earned by our current and former employees as of the measurement date – is the appropriate market-value measure of pension liabilities. Use of the ABO to determine balance sheet recognition is a logical extension of the current SFAS No. 87 additional minimum liability rules. It would also improve comparability among companies. Using ABO, my company's balance sheet liability for a 40-year-old employee who has earned a benefit of \$10,000 per year payable starting at age 65 would be the same as any other company's balance sheet liability for a 40-year-old employee with the same accrued benefit – a logical and consistent result. But by using PBO, different companies' balance sheet liabilities for identical participants with identical accrued benefits will vary according to whether the pension plan is frozen, flat dollar, career pay, or final pay – a result that defies logic. For these reasons, the ABO, not the PBO, should be used to determine any required balance sheet recognition.

We appreciate your consideration of these comments. Please call me if we can provide any additional clarification or assistance.

Sincerely.

William Shuttleworth

Senior Vice President and Chief Financial Officer

Catholic Healthcare Partners

615 Elsinore Place

Cincinnati, OH 45202

(513) 639-2723