



Property Casualty Insurers  
Association of America  
Shaping the Future of American Insurance  
2600 South River Road, Des Plaines, IL 60018-3286



LETTER OF COMMENT NO. 118

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Technical Director  
Financial Accounting Standards Board  
401 Merritt 7  
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Re: File Reference No. 1025-300

The Property Casualty Insurers Association of America (PCI) appreciates the opportunity to comment on the proposed Statement of Financial Accounting Standards Exposure Draft, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans – an amendment of FASB Statements No. 87, 88, 106, and 132(R)*. PCI is the nation's largest full-service property casualty insurance trade association, with over 1,000 members writing over \$184 billion in direct written premiums, over 40 percent of the U.S. property/casualty insurance market. Many of our members are publicly-traded companies, and many others are non-publicly owned insurers that file GAAP statements for various purposes.

#### General Comments

PCI recognizes the importance of the FASB's agreement with the International Accounting Standards Board to develop converged accounting standards. We see no reason to rush to converged pension accounting standards, however, at the expense of the health of the American businesses that offer defined benefit pension plans, and the employees of those businesses that depend on those benefits. As such, PCI offers FASB the following general comments:

1. **Merge Phase I with Phase II** – FASB has announced that its changes to postretirement benefit accounting standards will involve two phases. Phase I, as prescribed in the exposure draft, will result in dramatic changes to current accounting standards and significant harm to U.S. businesses. According to a study by Towers Perrin, Fortune 100 companies sponsoring defined benefit plans would have been required to recognize an additional liability of \$331 billion on their balance sheets at year end 2004, instead of the \$62 billion actually reported. These changes have the potential to further negatively affect the state of U.S. pension plans. A survey by PricewaterhouseCoopers shows 38% of companies with a defined benefit plan have made a change over the past three years. Of these companies, 67% have frozen their plan to new hires. Phase II will occur after the implementation of Phase I and will consist of a more comprehensive and thorough review of the overall pension accounting process and will be conducted cooperatively with the International Accounting Standards Board towards a single international standard. PCI believes a comprehensive and thorough review of U.S. and international pension accounting processes should be completed before any changes are made to the current U.S. standards. The proposed Phase I changes are so dramatic that it is imperative that all pension accounting issues are considered before any substantive changes are made to the current pension accounting standards.
2. **Reconsider Full Recognition of PBO** – Full recognition of the projected benefit obligation (PBO) is a dramatic change for ongoing plans. PCI recognizes that FASB has presented some valid arguments as to why the PBO may be a better measure of ultimate liability than the accumulated benefit obligation (ABO). However, we believe there are also compelling arguments as to why the ABO is the better measure of ultimate liability. One such argument is that employers may at any time reduce benefits or freeze pension plans. This means that employers are only committed at the financial statement date to paying a future benefit based on the current liability regardless of the present plan language that allows for increases in compensation. In light of the substantial and relevant questions about the ultimate plan liability, the use of the PBO vs. the ABO should be fully

evaluated before choosing one or the other. Developing alternatives that reach a "middle ground" by softening the impact of full recognition of the PBO could also be an appropriate and reasonable approach.

3. **Discount Rate Relief** – PCI believes the current discount rate methodology used by FASB is not appropriate. The current methodology assumes the employer must securitize its obligations using high-rate corporate bonds at the current reporting date. Since employers rarely securitize their obligations, the current discount rate only serves as a measuring device to ensure uniformity among companies. It does not accurately reflect the true long-term liability of the plan. The current discount rate methodology would also be a main driver of increased volatility under the proposed rules. Alternatives to the current discount rate methodology should be developed that will more accurately reflect the long term liability of the plan, reduce the volatility, and continue to allow for uniformity among companies.
4. **Measurement Date** – The exposure draft requires an employer to measure plan assets and benefit obligations as of the date of the employer's statement of financial position. PCI believes requiring the collection of plan asset and benefit obligations data as of the date of the statement of financial position results in unnecessary costs and burdens to employers, and actuarial firms may be seriously stressed in the attempt to provide these valuations at year-end. PCI asks FASB to reconsider the elimination of the current provisions that permit measurement as of a date that is not more than three months earlier than the date of the employer's statement of financial position.
5. **Retrospective Application** – The exposure draft requires employers to retrospectively restate comparative statements of financial position. According to FASB, the final draft of the standards will be issued in September of 2006 and effective as of plan years ending after December 15, 2006. PCI believes restating the statements of financial position will not be an easy task and the three-month period in which it must be accomplished does not give employers adequate time to do so.
6. **Delay / Phase-in of Implementation Date** – If FASB chooses to proceed with the exposure draft without changes, PCI believes a delay or phase-in of the implementation date will be necessary. The exposure draft results in dramatic changes to current accounting standards. As a result, a delay or phase-in of the implementation date would accomplish the long term goal of convergence with the international community while allowing for a much-needed transition for the majority of U.S. companies with pension plans.

Thank you for the opportunity to provide our comments and concerns on this exposure draft. Please contact me if you have any questions or would like to discuss our concerns in more detail. My email is [steve.broadie@pciaa.net](mailto:steve.broadie@pciaa.net) and my phone number is 847.553.3606.

Sincerely,



Stephen W. Broadie

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