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MetLife[®]

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Technical Director
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
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LETTER OF COMMENT NO. 164

Re: Exposure Draft
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)

Dear Technical Director:

MetLife, Inc. ("MetLife") appreciates the opportunity to comment on the Exposure Draft related to the 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)* (the "Proposed Standard" or the "Exposure Draft").

We support the Financial Accounting Standards Board's ("FASB" or "Board") objective of improving transparency and understandability of accounting for costs and obligations related to pension and other postretirement benefits in the financial statements; however, we have the following comments that reflect our major concerns regarding implementation of the Exposure Draft. We also seek clarity on certain aspects in the Exposure Draft as currently drafted.

Comments on Issues Raised by the FASB

Exposure Draft Issue #1: Costs of Implementing the Proposed Statement's Requirement to Recognize a Plan's Overfunded or Underfunded Status in the Employer's Statement of Financial Position

Do you agree that implementation of this proposed Statement would not require information (other than that related to income tax effects) that is not already available, and, therefore, the costs of implementation would not be significant? Why or why not?

We generally agree with the Board's conclusion that the costs of implementing the requirements to recognize the overfunded or underfunded status of the defined benefit postretirement plan in the employer's statement of financial position would not be significant. The information necessary to recognize the overfunded or underfunded status is currently disclosed in the financial statements as required by existing accounting pronouncements; however, there are other costs companies may incur associated with *implementation such as the need to renegotiate debt covenants or modify other contractual arrangements and the need to discuss with rating agencies and analysts the implications of the Proposed Standard on debt-to-equity and return-on-equity ratios and trends.*

Exposure Draft Issue #3: Recognition of the Overfunded or Underfunded Status

Issue 3(a): Retrospective Application

An entity would be exempt from retrospective application only if the entity determines that it is impracticable to assess the realizability of deferred tax assets that would be recognized in prior periods as a result of applying the proposed Statement. Should the Board provide an impracticability exemption related to the assessment of the realizability of deferred tax assets? Why or why not? Are there other reasons that retrospective application might be impracticable that the Board should be aware of?

Retrospectively recognizing the overfunded or underfunded status will make financial statement comparison more meaningful; however, upon adoption of the Proposed Standard only the three most recent years would be restated and presented, and opined upon, in the audited financial statements. SEC reporting rules (Regulation S-K, Rule 3-01) require registrants to include five years of selected financial data in their Annual Report on Form 10-K and in offering documents filed with the SEC. The financial information presented in the selected financial data is derived from the previously issued and audited financial statements. Retrospective application, which is principally aimed at providing comparable financial information, may require the application of the Proposed Standard to the two years preceding those included in the most recent audited financial statements in order for the objective of comparability to be achieved. If the two preceding years are restated, the information may not be considered audited because an audit opinion covering such information has not been issued. While it is not required per Regulation S-K Rule 3-01 that such selected financial data be audited, it is customary that such information is audited. Without auditing the restated selected financial data in the two preceding years, auditors may not be able to provide the level of comfort requested by underwriters pursuant to Statement on Auditing Standard No. 72, *Letters for Underwriters and Certain Other Requesting Parties* and amendments made thereto as per Statement on Auditing Standard No. 86. Alternatively, if not restated, the numbers may not be comparable thereby defeating the principal objective of retrospective application, which is comparable financial information.

When considering the requirement for retrospective application, the need to retrospectively apply the Proposed Standard to all five years of selected financial data, and have such data audited, should be considered and additional guidance should be provided on whether all periods presented should be restated. Without additional guidance, there may be inconsistency in practice and a lack of comparability.

Issue 3(b): Impact on Contractual Arrangements

The Board is interested in gathering information for use in determining the time required to implement this proposed Statement by entities that have such arrangements other than debt covenants. That information includes (a) the types of contractual arrangements that would be affected and what changes to those arrangements, if any, would need to be considered, (b) how the economic status of postretirement plans that is presently included in note disclosures is currently considered in those arrangements, and (c) how the effects of the current requirement in Statement 87 to recognize a minimum pension liability previously were addressed for those contractual arrangements.

Retrospective application of the overfunded or underfunded status may have unintended and illogical consequences in a situation where share-based compensation arrangements are based upon performance measures reliant upon return-on-equity. The effect of recognizing underfunded plans in prior financial statements could revise and increase the shareholder return metrics calculation thereby increasing employee compensation in an underfunded plan recognition scenario and decrease employee compensation in the situation of overfunded plan recognition. Additionally, when such performance measures are reliant upon a company's return-on-equity relative to a peer group's return-on-equity, results under the plan could be affected in a manner which cannot be precisely determined until the Proposed Standard has been fully adopted by the peer group. Accordingly, share-based arrangements may need to be modified to account for such retrospective application's impact on such share-based compensation arrangements.

We believe that inclusion of a choice to use a modified prospective or modified retrospective application to recognize the overfunded or underfunded status in the proposed standard would be appropriate in the light of the discussions above.

Comments on Additional Issues

1) Use of Accumulated Benefit Obligation (ABO) versus Projected Benefit Obligation (PBO) for Recognition of the Funded Status of Defined Benefit Pension Plans

The Proposed Standard requires the recognition of the overfunded or underfunded status of an entity's defined benefit pension plans and other postretirement plans. The measurement of the funded status of such plans is the difference between the PBO and the fair value of the plan assets at the balance sheet date.

Statement of Financial Accounting Concepts No. 6, ("Concept 6") which is one of the many relating to the Board's conceptual framework for financial accounting and reporting, defines liabilities as:

"... probable future sacrifices of economic benefits arising from present obligations of a particular entity to transfer assets or provide services to other entities in the future as a result of past transactions or events."

The computation of PBO includes the effect of estimated future compensation increases which are not a present obligation as per Concept 6. Accordingly, it would be inappropriate to record a pension liability based on estimates of future compensation increases as they are not a present obligation of a sponsoring entity. We believe the ABO is a better measure of the overfunded or underfunded status of a defined benefit pension plan as it reflects the present obligation based on compensation and service as of the plan's measurement date. This is consistent with the existing requirement under Statement 87 to record a minimum pension liability on the balance sheet based on the difference between ABO and the fair value of plan assets.

Additionally, if ABO is used as the balance sheet measure of the funded status of the plan, the ABO should be used in the measure of net periodic benefit cost in order for the income statement and balance sheet measures to be consistent. Considering ABO in the net periodic benefit cost reflects the actual accrual based on current compensation levels and actual service completion.

Supplementally, use of PBO in the Proposed Standard may have the impact of reflecting the fair value of the pension obligation in the financial statements and is consistent with the requirement to consider PBO as a measure of the liability in the case of business combinations as required currently by paragraph 74 of Statement 87.

2) *Accounting and Disclosures in the Separate Financial Statements of Subsidiaries that Participate in Consolidated Employee Retirement Defined Benefit Plans*

Defined benefit pension and postretirement benefits offered by employers are many times offered to all employees within a consolidated group but for purposes of administrative convenience the legal entity sponsoring the actual defined benefit plan may be different from the legal entity to which the employee provides services. Accordingly, the cost of such benefits is allocated from the legal entity sponsoring the plan to the legal entity to which the employee is providing services. Statements 87 and 106 do not, however, address the accounting in the subsidiary's stand-alone financial statements for the defined benefit obligation by the subsidiary whose employees are provided benefits under the plan but of which it is not the plan sponsor. The extent of the disclosure in the subsidiary's stand-alone financial statements is also not addressed. For purposes of accounting and disclosure in such subsidiary financial statements analogy has been made to the accounting and disclosures required for multi-employer plans as set forth in Statements 87 and 106. This analogy is drawn from the responses to Questions 86 and 87 of the FASB Staff Implementation Guide on Statement 87.

Accordingly, the extent of a subsidiary's employee participation in such consolidated group defined benefit plans, along with the allocation of the net period pension cost is currently disclosed in the stand-alone financials of the subsidiary, but no liability, asset or minimum pension liability is recorded in the stand-alone financials of the subsidiary and a detailed disclosure as required under Statements 87, 106 or 132 (R) for the proportion of their employee participation is currently not required in the stand-alone financials of the subsidiary.

With the full recognition of the underfunded or overfunded status of the defined benefit obligation in the plan sponsor's financial statements, we believe the FASB should provide more clarity and concise guidance in the Proposed Standard on the accounting and disclosures requirements related to the stand-alone subsidiary financials of subsidiaries who participate in plans covering a consolidated group. Under the Proposed Standard, it would appear that such subsidiaries will continue to reflect their proportion of the defined benefit costs in their stand-alone financials but will not record or disclose their proportion of any underfunded or overfunded defined benefit obligation.

3) *Is the Reflection of a Net Overfunded or Underfunded Status Equivalent to that of Consolidation of the Plan such that Transactions between the Plan and the Sponsoring Entity would need to be Eliminated for the Purposes of Presentation of Consolidated Financial Statements of the Sponsor?*

The Proposed Standard requires the underfunded or overfunded status of a defined benefit pension or postretirement plan be presented on the sponsor's balance sheet on a "net" basis whereby the asset or liability recorded in the sponsor's financial statements is the difference between the fair value of the plan assets and the project benefit obligation or accumulated postretirement benefit obligation. Defined benefit plans may invest their assets, resulting principally from sponsor contributions, in insurance or investment-type contracts issued by the sponsor, when such sponsor is an insurance or financial institution. The assets held by the plan, and issued by the sponsor, are reflected in the "net" overfunded or underfunded position of the plan which is to be recorded by the sponsor under the Proposed Standard. The assets held by the plan, and issued by the sponsor, are also reflected as obligations in the sponsor's financial statements. The valuation of such obligations in the sponsor's financial statements, particularly if such obligations are insurance contracts, may not be equivalent to the valuation of the assets by the plan due to the fact that separate accounting literature governs the accounting and valuation of each. Accordingly, we believe further clarification and guidance on the following matters should be addressed in the Proposed Standard:

- i. Is the accounting for a net underfunded and overfunded status of a defined benefit pension or postretirement plan in the plan sponsor's financial statements tantamount to consolidation accounting – albeit in a single line in the financial statements – of the sponsor for the plan(s)?
- ii. If yes, in the case of insurance or investment-type contracts between the plan and the sponsoring entity, should the transactions related to such contracts be eliminated as would be required in consolidation accounting?

4) *Disclosure of the Estimated Amount of Amortization for the Next Fiscal Year*

The Proposed Standard requires disclosure of the portion of the net actuarial gain (loss) and/or the prior service cost (credit) included in accumulated other comprehensive income, that will be recognized as a component of net periodic benefit cost over the fiscal year that follows the most recent statement of financial position presented. Actuarial gains and losses reflect discount rate changes, actual asset returns that differ from assumed asset returns, and assumption deviations related to participant data. While most entities would know the impact on the following year's actuarial gain or loss from the discount rate changes and actual versus assumed asset returns, the update for participant data is normally completed in the first quarter of the following year. The impact of these updates to the actuarial gains (losses) that are subject to amortization is not reflected at the end of the fiscal year, but will impact the following year's amortization amount. Additionally, such updates may impact the gain (loss) corridor and the net actuarial gain (loss) subject to amortization. Additionally, we question the value of disclosing this estimated amount, especially since all components of net periodic benefit cost are disclosed in the interim statements of the first quarter following the year end.

5) *Inclusion of Fair Value Disclosure Requirements as per SFAS 107*

Paragraph 8 of Statement 107, and paragraph 71 in the basis for conclusions section of Statement 107, exempts employer's obligations for pension and other postretirement benefits from fair value disclosures. With the reflection of the underfunded or overfunded status in the balance sheet on a PBO basis and with the acknowledgement in paragraph 74 of Statement 87 that such PBO valuation should be used as the fair value of the obligation when applying purchase accounting, the Board should clarify whether the disclosure of fair values of defined benefit pension and other postretirement plan assets or liabilities are within the scope of Statement 107.

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We appreciate the opportunity to comment on the Proposed Standard and your consideration of our comments. If you have any questions regarding the contents of this letter, please feel free to contact me.

Very Truly Yours,

Sandra J. Peters
Vice-President & Corporate Controller.

cc: Joseph J. Prochaska, Jr.
Executive Vice-President, Chief Accounting Officer

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