

May 31, 2006

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. 192

VIA e-mail to director@fasb.org

Dear Technical Director:

RE: PROPOSED AMENDMENTS TO FAS 87, 88, 106, AND 132(R)

CCA Strategies LLC appreciates the opportunity to comment on the exposure draft *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans – an amendment of FASB Statements No. 87, 88, 106 and 132(R)*. CCA Strategies is a benefits and compensation consulting firm. Among other services, we assist clients in their preparation of financial statement information related to employer-provided postretirement benefits.

We agree with the Board that a comprehensive review of the accounting for postretirement employer-provided benefits is needed. Financial statements users will benefit from greater transparency around employer benefit commitments and a more lucid approach to recognizing plan costs. We understand the desire to find interim improvements in Phase I while deferring the thorough reconsideration until Phase II. With this two-stage process in mind, we are offering suggestions to enhance the reporting contemplated under Phase I.

Phase I largely leaves the method for calculating expense intact, including the use of Projected Benefit Obligation (PBO) under FAS 87 and Accumulated Postretirement Benefit Obligation (APBO) under FAS 106. Phase II will consider whether PBO/APBO form the correct foundation for expense. Such deliberations will take time, and retention of PBO/APBO as the basis for measurement cannot be assumed.

The focus of Phase I is improving in balance sheet reporting during this interim period. We believe the process for determining such improvements should recognize that, while the basis for expense calculation will remain for the time being, there is range of possible outcomes after Phase II's holistic review. Phase I's enhancements should seek immediate improvement while minimizing disruption both now and after the Phase II changes are determined.

Balance sheet - Pensions

Financial statements would be more complete and understandable with clearer reporting of an employer's current obligation for their benefit plans. We believe an employer's current obligation for a plan is best represented by the liability that would remain if the plan were discontinued. In a pension context, the Accumulated Benefit Obligation (ABO) already defines this amount.

The ABO essentially represents the liability associated with freezing the pension plan at the measurement date. It removes the effect of future pay increases, but recognizes that ongoing service with the employer may affect benefits through, for example, vesting and early retirement subsidies. We believe it is most appropriate to interpret an employer's liability for its plan along these lines, particularly in today's environment of pension plan freezes

To emphasize, though we accept relying on PBO as the basis for expense until its appropriateness is reconsidered under Phase II, we suggest the Board would more effectively meet its Phase I objective by tying the balance sheet to the ABO funded position of the plan. The footnotes should then disclose the relationship among PBO, ABO, and the accrued position used for expense calculation. This approach will clearly indicate to the financial statement user the employer's current obligation, while still indicating where it is headed if the plan remains intact.

Briefly looking towards Phase II, we cannot assume PBO will be the appropriate liability target after comprehensive review. On the contrary, we concur with the position of the American Academy of Actuaries' Committee on Pension Accounting that ABO is a better representation of liability than PBO, both for balance sheet reporting and possibly for the expense determination after the Phase II considerations. If the PBO is selected as the liability under Phase I but the ABO is ultimately determined to be the appropriate liability under Phase II, the Phase I interregnum could represent a substantive discontinuity between what came before and after. This may be marked by substantial movements in employer balance sheet liabilities in the intervening period, not due to the economic environment, but solely prompted by the two-step process.

For these reasons, we believe ABO is the appropriate liability for balance sheet recognition under Phase I. The inconsistency in the means of liability determination for expense versus balance sheet recognition during the interim period is consistent with FAS 87 currently (i.e., the additional minimum liability calculation) and should be viewed as an acceptable result of using the two-step process.

Balance sheet - OPRB

For other postretirement benefits (OPRB) such as retiree medical, we again accept that, until a thorough review of the accounting rules under Phase II shows otherwise, APBO is a reasonable basis with which to determine annual expense. However, APBO is particularly troublesome as a marked-to-market liability on the balance sheet.

For most employers' OPRB plans, the current obligation can arguably range anywhere from the APBO all the way down to zero. Most employers have reserved the right to reduce or eliminate OPRB benefits and many have exercised that right with little consequence. As such, we suggest representing APBO as an employer's current balance sheet liability will misstate the liability as often as recording no liability at all. An alternate measure should be considered.

It is frequently stated that FAS 106 does not have an ABO equivalent for APBO. We do not consider this a significant challenge. While most employers reserve the right to eliminate benefits even for existing retirees and those fully eligible to retire, they are less likely to do so than for current employees. The Board itself recognized this division when contemplating a minimum liability during the construction of FAS 106. From paragraph 303: "The minimum liability was defined as the unfunded accumulated postretirement benefit obligation for retirees and other fully eligible plan participants. The Board believed that that measurement represented a threshold below which the recognized liability would not be sufficiently representationally faithful."

We agree with the Board's previous consideration of this liability - this "fully eligible" APBO - for purposes of balance sheet recognition. It is readily available and it is a reasonable representation of the employer's current obligation (provided it would also reflect contractually protected benefits). And we note the Board's decision not to utilize this liability as a minimum under FAS 106 was due to its adverse effect on the transition provisions of FAS 106 (as discussed in paragraph 305), not due to its inadequacy as a liability measure. We would encourage disclosure in the footnotes of the relationship among this fully eligible APBO, the APBO, and the accrued position used for expense calculation.

Balance sheet - Pension and OPRB alternative

As we have noted, the Phase I changes envisioned in the exposure draft have the potential for disruptive effects given the uncertainty surrounding Phase II. We offer another alternative for the short-term that would still immediately improve the balance sheet reporting as desired under Phase I, but would reduce potential disruption for employers whose accrued position is within a *reasonable range of the unfunded, or overfunded, liability*.

For pensions, it is reasonably safe to assume that the comprehensive review under Phase II will yield a liability that is on the continuum between ABO and PBO. Although there may be adjustments to how ABO and PBO are ultimately calculated, it is likely the foundation for pension accounting will resemble one of these two liability concepts.

Accepting these parameters, a less disruptive alternative for Phase I would be to target balance sheet values that, in essence, fall outside the range of the unfunded ABO to the unfunded PBO. This could be accomplished by expanding the existing additional minimum liability mechanism under FAS 87. A plan's balance sheet liability would need to be at least equal to the unfunded ABO. On the other end, it would be limited to the plan's unfunded PBO. If the existing accounting under FAS 87 has resulted in the balance sheet accrual falling within these constraints, then additional adjustments due to Phase I would not be required.

To illustrate, assume a plan has an ABO of \$90, a PBO of \$100, and assets equal to \$80. If the balance sheet liability were currently \$5, it would need to be increased to \$10 so that it at least equaled unfunded ABO. In contrast, if the balance sheet liability were currently \$25, it would be reduced to \$20 to equal the unfunded PBO.

If the plan is in an overfunded position, the mechanics still hold. The balance sheet asset would be at least as great as the excess of the assets over the PBO, but would be no greater than the assets in excess of the ABO. As long as the existing accounting under FAS 87 has resulted in the balance sheet accrual falling within this range, no additional adjustments under Phase I would be necessary.

This approach could easily be extended to the OPRB balance sheet accruals. For an unfunded OPRB liability, the balance sheet accrual would need to be at least equal to the fully eligible APBO as discussed above, but no greater than the total APBO. If it is within this corridor, no Phase I adjustment would be necessary.

Again, recognizing that Phase I is an interim measure, and there is a range of reasonable outcomes of Phase II, we suggest that having Phase I target the range, rather than a particular point within the range, will satisfy the need for immediate balance sheet improvement without introducing potentially unnecessary disruption, regardless of the Phase II decision on the appropriate liability measure. In addition, this approach can be easily implemented since all components are readily available.

Measurement date

The Board is also considering eliminating the ability to use a measurement date up to three months before the end of the fiscal year. We agree that fiscal year end measures would be preferable conceptually, but we have concerns about implementing such a change, particularly in the timeframe outlined under the Phase I exposure draft.

Due to the complexity of the liability calculations associated with retirement plans, challenges in *timely valuation of assets without ready markets, difficulties in consolidating information*

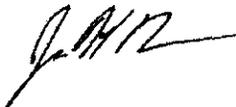
(particularly for multi-national companies), and tight reporting deadlines in the US, many employers will face increased burdens with use of a fiscal year end measurement date. We believe allowance for an early measurement date is a reasonable balance between developing complete and understandable financial statements and addressing these complexities. But if change is necessary, employers need sufficient time to put in place processes to satisfy the new requirements.

Employers' annual valuation processes consider the plan year (for funding purposes), the accounting measurement date, the employer's fiscal year, and the availability of current census data, claims data, asset information, etc. Typically, these processes are established to provide an efficient and standardized cycle for meeting all of the employer's needs relative to the plans. A new measurement date might make an employer rethink and revise such annual processes. But under the timetable of the exposure draft, many employers will be forced into improvised measurements until they have time to thoughtfully establish new ongoing valuation processes. We question the value of forcing such interim processes on employers.

A delay in implementation until Phase II, or at least a one-year delay until fiscal years beginning after December 15, 2007 (identical to that proposed for nonpublic entities), would allow a single, thoughtful transition in annual valuation processes.

Thank you for consideration of our comments. We would be happy to discuss them with you further, if so desired. You can contact me at (720) 932-0353 or at John.Moore@CCAstrategies.com.

Sincerely,

A handwritten signature in black ink, appearing to read "J. H. Moore", with a long horizontal flourish extending to the right.

John H. Moore, FSA, MAAA, FCA
Chief Actuary