1025-300

LETTER OF COMMENT NO. 199

From: Director - FASB
Sent: Thursday, June 01, 2006 9:24 AM
To: Patricia Lapolla
Subject: FW: FASB File Reference No. 1025-300

-----Original Message-----
From: Robert&Lois Benson [mailto:rlbenson@inreach.com]
Sent: Wednesday, May 31, 2006 11:56 PM
To: Director - FASB
Subject: FW: FASB File Reference No. 1025-300

Financial Accounting Standards Board
401 Merritt 7
Norwalk, CT 06856-5116

Financial Accounting Standards Board:

Thank you for opportunity to respond to the Exposure Draft entitled "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans," File Reference No. 1025-300. I am responding solely as an individual. I am pleased with the Financial Accounting Standards Board for taking the lead in improving financial reporting of these plans.

I am concerned about the human side of employment and retirement. The success of defined benefit pension plans and other post-employment benefit plans depends to a great degree on adequate funding. The benefits promised to retirees are only as real as the funding for them. Far too often, benefits to retirees are either reduced or eliminated because a plan has not been adequately funded. With alarming regularity, defined benefit pension plans are transferred to the Pension Benefit Guaranty Corporation where the benefits, sometimes reduced, become the responsibility of others, and this unfairly transfers the financial burden to them. Therefore, I believe that fair financial reporting of the costs of defined benefit plans and other post-employment benefit plans is essential so that both employers and employees can adequately understand the status of their plans and make appropriate plans. Fair financial reporting means that the financial statements should be neither materially overstated nor understated. Because of the actuarial assumptions made, these financial statements can only be reasonable approximations.

Therefore, I am concerned about the quality of information presented in financial statements, including information about defined benefit plans and other post-employment benefits. The information should not only be reliable and relevant, it should also be useful in decision making. One of the foundations of financial reporting is the going concern assumption, and, because of this assumption, financial information should be useful in understanding both the past events and in predicting the future. All investment managers need useful and fairly presented financial information with full disclosure. Full disclosure is perhaps the overarching principle of financial accounting.

I applaud the FASB for revisiting the financial reporting of defined benefit pension plans and other post-employment benefit plans. I support the FASB in this work and note that financial reporting is merely a messenger. I do not believe that fairly stating financial information will destroy defined benefit plans as some have argued, but I do believe that underfunding of plans will destroy them and be detrimental to the ple who are depending on them. If the funding of a plan is too optimistically reported, this will lead the employers to contribute less, resulting in an increased deficit and expectation gap. If a plan is too optimistically reported, this will lead to a false sense of security by employees and retirees, and they cannot properly plan for and manage their retirements. Illusions of proper funding may create short-term benefits for a few, such as those who have executive stock options, but, in the long run, they are detrimental to almost all concerned. These illusions are detrimental to the nation as a whole because younger, productive workers are asked to support these people through taxes, charities and health insurance premiums.

I note that a number of firms and individuals have already written to the FASB to express support or to voice concern about the present proposal. I note that several actuarial firms have written to the FASB voicing concern about the use of the Projected Benefit Obligation (PBO) rather than the Accumulated Benefit Obligation (ABO) in financial reporting. I believe that (1) if the going concern model is applied and (2) if data are going to be useful in decision-making, then the PBO is the appropriate measure to use in the financial statements. The PBO is simply more relevant than the ABO. Nevertheless, I believe that the ABO should also be disclosed in the notes because it may be more reliable.

More importantly, the notes should disclose the actuarial assumptions used in calculating the PBO, and the notes should disclose the effects of changing the actuarial assumptions. For example, the assumed investment rate of return should be disclosed, and the effect on the PBO of returns of plus or minus 1, 2 and 3 percentage points should be presented. Moreover, the notes should disclose past actual rates of return and benchmark returns for the past 1, 3, 5, 10 and 15 years so the reader can assess the reasonableness of the future return rate chosen relative to past performance and relative to the benchmark. Finally, the notes should disclose who is responsible for choosing the assumed future rate of return used. The persons ponsible for choosing the future assumed investment rate of return may be management, an investment advisor, or the actuary. The other actuarial assumptions should receive similar treatment in the notes.

I note that the Governmental Standards Board (GASB) requires that employers disclose the liability or asset of both defined benefit pension plans and other post employment plans in their government wide statement of net assets (GASB Statement 34, Paragraph 82; GASB Statement 45, Paragraph 21), so there is already a precedent for the FASB's proposal. GASB standards require that the complete financial statements of the defined benefit plans be included in the employers' financial statements unless the plan makes separate statements available (GASB Statement 34, Paragraph 106), and this requirement is one that the FASB should consider in Phase 2 of this project.

Another point that the FASB, and the GASB for that matter, should consider is instituting cash flow statements for defined benefit plans. In a nutshell, a defined benefit plan collects the cash, grows the cash, and pays the cash (contributions, investments and benefits). A multi-step cash flow statement is the most fundamental financial statement and would be of enormous benefit in assessing the financial condition of defined benefit plan. I can supply interested parties with a model cash flow statement upon request.

The following point is worth mentioning, although it is outside the realm of the FASB. In California, the participants in a public defined benefit plan have a right to an "actuarially sound" retirement plan [*Board of Administration, et al. v. Wilson, et al. (1997)*]. This essential principle should be applied to other defined benefit plans, both public and private. If this principle had to be followed, the current debate over financial reporting would not be so intense.

osing, I wish the FASB well in the difficult tasks ahead. The quotation, "Falsehoods not only disagree with truths, but usually quarrel among themselves" (Daniel Webster) will likely describe some of the debates.

If I can be of assistance, please contact me.

Sincerely,

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