

FSP FAS-106-a

This email contains Hewitt Associates' comments on proposed FSP FAS 106-a as issued on December 11, 2003. Hewitt Associates is a global management consulting firm assisting large and small employers in all aspects of employee benefit and compensation programs. Our actuaries and consultants have a great deal of experience in the subject area of Medicare and Statement 106.

We understand and see the reason in not allowing FAS 106 accounting recognition of impact of the Medicare Act until more is known about the issues it presents. We have input to offer the Board on both the Medicare Act and how it should be reflected under Statement 106; however, we believe such input is beyond the scope of the proposed FSP. Thus, we have not included those comments here, but we are hopeful that the Board will create a separate opportunity for comments on those issues.

We have just one comment about the proposed FSP itself. We believe that it would be helpful to clarify what is and what is not appropriate disclosure with respect to the potential economic impact of the Medicare Act on plan sponsors. Based on the language in the proposed FSP, we believe that there is an opportunity for confusion. The proposed FSP encourages a plan sponsor to describe the potential economic impact, which seems to suggest that plan sponsors are allowed to quantify and disclose the potential impact of the Act. However, other language indicates that "it would be premature for plan sponsors to disclose any anticipated effects regarding the accounting in subsequent periods." These two requirements appear to be in conflict. Thus, the final FSP should include a better description of the types of statements that are anticipated and/or some examples of such statements, which would help to narrow the range of possible interpretations.

Finally, we wanted to explicitly state something that we believe the Board is aware of: Plan sponsors are eager for further accounting guidance on this matter. Plan sponsors are telling us that the ultimate accounting requirements will be a key factor in their decision-making about how the Medicare Act will impact their programs and the employees/retirees participating in them. They would like to move forward with the process of modifying their benefit programs as quickly as possible -- but need the missing accounting guidance. We encourage the Board and staff to provide guidance as soon as possible.

Curt Cartolano