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Director of Technical Application and Implementation Activities  
File Reference No. 1025-200  
Financial Accounting Standards Board  
401 Merritt 7  
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RE: Proposed Statement of Financial Accounting Standards, *Employers' Disclosures about Pensions and Other Postretirement Benefits*

To Whom It May Concern:

The Society for Human Resource Management (SHRM) is pleased to prepare this response to the Financial Accounting Standards Board (FASB) request for comments on its proposed statement of financial accounting standards, *Employers' Disclosures about Pensions and Other Postretirement Benefits*.

The Society for Human Resource Management (SHRM) is the world's largest association devoted to human resource management. Representing more than 175,000 individual members, the Society's mission is to serve the needs of HR professionals by providing the most essential and comprehensive resources available. As an influential voice, the Society's mission is also to advance the human resource profession to ensure that HR is recognized as an essential partner in developing and executing organizational strategy. Founded in 1948, SHRM currently has more than 500 affiliated chapters within the United States and members in more than 100 countries.

#### **STATEMENT OF INTEREST**

SHRM's membership is comprised of HR professionals who have the responsibility to research, develop, and implement pension and other post retirement benefits that best fit the needs of both the employer and employee. SHRM's 2003 Benefits Survey reveals that 42% SHRM members represent employers that offer defined benefit retirement plans. These members are responsible for collecting and compiling participant and financial data related to their employers retirement plans, and work closely with finance professionals, actuaries, and auditors in preparing year-end disclosures. SHRM members will therefore be involved in preparing the additional disclosures required by the proposed statement.

## **INTRODUCTION**

SHRM welcomes this opportunity to present comments to FASB about the proposed statement of financial accounting standards, *Employers' Disclosures about Pensions and Other Postretirement Benefits*. As HR professionals, SHRM members are well aware of the impact retirement plans have on an organization's financial results. SHRM understands the need for transparent accounting, and supports FASB's efforts to provide financial-statement users with the information they need to assess the effect of retirement benefits on employers' results of operations, future earnings, and cash flows.

SHRM believes an appropriate balance must be struck between meeting financial-statement users' needs and the cost of preparing the financial statements. An additional item of information should be required to be disclosed only if the added value to financial-statement users clearly justifies the cost of obtaining and compiling that information. SHRM and its members are concerned that several of the new information items in the proposed statement do not pass this test. Some items would be of only limited value to financial statement users, but compiling them would substantially increase the time and cost of preparing year-end disclosures, and would require significant efforts from HR professionals and their staff. Other items could be misleading to financial-statement users. SHRM is particularly concerned with the additional cost and time required to compile the new disclosure items for 2003 calendar year-end financial statements – especially when combined with the SEC's accelerated 10-K filing deadline affecting many of our members this year – and believe it is essential that FASB delay the effective date.

## **EFFECTIVE DATE**

The proposed effective date – fiscal years ending after December 15, 2003 – is much too aggressive – especially when combined with the SEC's accelerated 10-K filing deadline affecting many SHRM members this year. It takes time to gather newly required information, often from multiple sources in different countries. To enable employers to arrange for the collection and compilation of the new information, SHRM believes a minimum of three months is needed between the publication of the final statement and the earliest measurement date for which it could be effective. Because the measurement date may be as early as three months before fiscal year-end, the statement should be effective no earlier than fiscal years ending six months after the date the final statement is published.

## **BOND MATURITY INFORMATION**

Information about the range and weighted-average period to maturity of bond securities is not readily available from many bond managers and trustees. Compiling this information for all plans and calculating the weighted-average period to maturity will increase the cost of preparing our year-end disclosures and will require significant efforts from our staff. SHRM believes the additional cost to collect this information is not justified because this information does not achieve your stated objective of enabling financial-statement users to assess the degree to which investment cash flows are aligned with benefit payments. Bond maturities are only one source of funds to pay benefits. Contributions and asset sales are also important (for some plans, primary) sources of funds to pay benefits. Furthermore, bond maturities are not the same as bond cash flows. For example, a 10-year coupon-paying bond and a 10-year zero-coupon bond will have the same maturity, but different cash flows and durations.

## **ESTIMATED FUTURE BENEFIT PAYMENTS**

A schedule of estimated future benefit payments included in the determination of the benefit obligation is not currently available unless organization's actuaries perform additional computer runs and analysis, at significant additional cost. SHRM and its members would expect their organization's actuaries to reprogram their valuation systems to automatically produce this information more cost effectively in future years. However, more refined actuarial assumptions would be required to accurately project cash flows, materially increasing the cost of ongoing valuations.

Again, SHRM does not believe the additional cost to obtain this information is justified because the proposed benefit payment projection does not achieve your stated objective of enabling financial-statement users to assess the amounts, timing, and pattern of cash flows and how well asset maturities align with benefit payments. Projecting only the portion of expected future benefits that is included in the obligations (PBO/APBO) understates the total cash flows. Combining funded and unfunded plans in the disclosure, together with the shortcomings of the bond maturity information discussed above, makes it impossible to draw conclusions about the alignment of asset maturities and benefit payments. Finally, no meaningful conclusions can be drawn from the disclosure of total undiscounted benefit payments from years 6 through 100 (when the youngest current participant's pension payments are expected to end), and the discount for interest.

SHRM believes the disclosure of the past two years' actual benefit payments is sufficient to give the users of financial statements a good idea of what the near-term benefit payments will be. Thus the schedule of estimated future benefit payments is of very little added value, does not warrant the substantial additional cost to produce it, and should be eliminated from the disclosures.

## ESTIMATED CONTRIBUTION BREAKDOWN

SHRM believes disclosing the next fiscal year's expected contributions may provide valuable information to financial-statement users about cash flows between the employer and its plans. However, in many cases, such as when the employer wishes to maintain a fully funded accumulated benefit obligation (ABO) to avoid an additional minimum liability, the contribution amount might not be known until late in the fiscal year, limiting the usefulness of advance disclosure.

While information about total expected contributions is useful, the breakdown between required and discretionary contributions is arbitrary, misleading and subject to manipulation, and should be eliminated. For US qualified pension plans, discretionary contributions made for one plan year (up to 8½ months *after* the end of the year) can prepay, reduce, or, in some cases eliminate required contributions for a subsequent year. A plan sponsor has until the end of the 8½-month period to decide whether a particular contribution is discretionary for the prior year or required for the current year. This can lead to very inconsistent and therefore misleading disclosures. For example, assume the 2004 minimum required contribution for a calendar-year plan will be \$1 million if the employer makes no discretionary contribution for 2003. The employer intends to contribute \$1 million on or before September 15, 2004 to satisfy the funding requirement. If the employer allocates the \$1 million contribution to the 2004 plan year, the employer would disclose that "the entire \$1 million expected to be contributed to the pension plans during 2004 is estimated to be needed to satisfy minimum funding requirements." But the employer may instead allocate the \$1 million contribution to the 2003 plan year, prepaying and reducing the 2004 minimum required contribution to \$0. In this case, the employer would disclose that "of the \$1 million expected to be contributed to the pension plans during 2004, the entire contribution is discretionary, as the plans' ERISA minimum funding requirement is \$0." The fact that the same cash flows to the same plan can result in very different disclosures depending on the employer's allocation decision illustrates that the proposed disclosure would be subject to manipulation and potentially very misleading.

Eliminating the breakdown between required and discretionary contributions will resolve another major problem with the proposed disclosure – the distinction between *required* and *discretionary* contributions is unclear and possibly misleading. For example, it is unclear from the proposed statement whether benefit payments from unfunded plans are required or discretionary. The illustration in appendix C appears to imply such contributions would be discretionary, even though they would be required under contract law. Similar concerns arise with respect to plans with negotiated

contribution rates and to certain non-US plans where contributions are set by trust agreement. SHRM believes it is misleading to characterize as “discretionary” contributions that are required to pay benefits from unfunded plans or that are required by a legally binding contract, including a collective bargaining agreement or trust agreement.

### **MEASUREMENT DATE(S)**

One reason SHRM members use measurement dated prior to fiscal year-end is that it facilitates timely completion of year-end financial statements. But the proposed disclosure of significant economic events or changes between the measurement date and fiscal year-end would mean that they could not complete the disclosures until after fiscal year-end. Furthermore, this requirement would substantially increase the cost to prepare year-end disclosures. Additional work would be required every year to identify potential economic events or changes occurring between the measurement date and fiscal year-end and determine whether they are significant. Although the *Frequently Asked Questions* on the proposed statement indicate that the effect of the economic event or change is not required to be quantified in the disclosure, in practice SHRM believes the effect generally will need to be quantified to support the determination of whether it is significant. In years when an economic event or change is significant – which SHRM believes will be most years – further work would be required to prepare the disclosures.

It would be far more cost effective to annually disclose the measurement date used and, if different measurement dates are used for different plans, the benefit obligation and fair value of plan assets associated with each measurement date. This information is readily available and will improve comparability among employers. Furthermore, SHRM believes this information is sufficient to enable financial-statement users to determine whether a significant economic event or change has occurred between the measurement date and fiscal year end, based on the user’s knowledge of changes in broad market indices and economic conditions between the measurement date(s) disclosed and fiscal year-end.

### **RECONCILIATIONS OF ASSETS AND OBLIGATIONS**

The current reconciliations of beginning and ending balances of plan assets and benefit obligations provide a complete and straightforward explanation of changes, which helps users of financial statements understand the various elements that affect retirement plans. Eliminating the reconciliation would not reduce our members’ cost to prepare the disclosures. Most of the reconciliation elements are still required to be disclosed – the proposed statement simply moves them elsewhere in the disclosure. In addition, the proposed statement requires the disclosure of “any significant change in the benefit obligation or plan assets not otherwise apparent in the other disclosures required by this

Statement.” This means the few items that are not automatically required to be disclosed – such as obligation gains and losses, asset gains and losses, and currency exchange rate changes – would still have to be tracked and disclosed if they are significant.

If the final statement eliminates the reconciliations, many SHRM members would continue to disclose them because they have value and maintain comparability with prior years. The statement should clarify that continuing to provide the reconciliations will satisfy the requirements to disclose the actual return on assets, employer contributions, participant contributions, and benefits paid.

## **SUMMARY OF RECOMMENDATIONS**

As mentioned above, additional information should be required to be disclosed only if the added value to financial-statement users clearly justifies the cost of obtaining and compiling that information. To meet this test, the following changes should be made in the proposed statement for the reasons given above:

- The statement should be effective no earlier than fiscal years ending six months after the date the final statement is published.
- The requirement to disclose the range and weighted-average period to maturity of bond securities should be eliminated.
- The requirement to disclose a schedule of estimated future benefit payments included in the determination of the benefit obligation should be eliminated.
- The requirement to disclose the breakdown between required and discretionary contributions expected to be paid in the next fiscal year should be eliminated.
- The requirement to disclose significant economic events or changes between the measurement date and fiscal year-end should be replaced by a requirement to disclose the measurement date.
- The reconciliations of assets and obligations should be retained.

## **CONCLUSION**

SHRM appreciates the opportunity to submit these comments. We would be happy to provide you with additional information or clarification of our concerns.

Respectfully,

Society for Human Resource Management  
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