

Stacey Sutay

From: Chris_Bone@aconcons.com
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To: Director - FASB
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Sirs,

The following provides comments from Aon Consulting's US Retirement practice on the September 12, 2003 exposure draft of proposed changes to Employers' Disclosures about Pensions and Other Postretirement Benefits. Aon Consulting is the third largest global benefits consulting firm and provides actuarial consulting services to a broad range of employers, funds and other entities.

We support the Board's ongoing efforts to provide better information to financial statement users regarding both assets and liabilities of retirement programs sponsored by employers. The relevance and importance of improved information regarding sponsors' obligations has been repeatedly demonstrated in the recent past. Many of the proposed disclosures make specific improvements in the information provided to financial statement users that are both helpful and readily available. However, we do have concerns with certain specific proposals. Our comments on areas of concern are as follows:

1) Overall Timing and Proposed Implementation Process

We believe that the Board needs to carefully balance responsiveness to current issues in the marketplace with the principles of due process in the issuance of standards. Undue acceleration of process can result in standards that are inconsistently applied, increase compliance costs and provide information of little value or which may be misleading to investors. In the exposure draft, the Board indicated that prior revisions to disclosure standards were not entirely successful -- removing important and useful information such as the disclosure of the accumulated benefit obligation, and requiring information of little value which was already available in other form such as the reconciliation of the beginning and ending value of the liabilities. In this context, we would expect the Board to provide a timetable for additional disclosure changes which allows for additional comment and consideration compared with the prior process. Instead, the period for providing comments to the Board has been cut in half, as has the duration from the issuance of the draft revisions to their proposed effective date. The current exposure draft proposes additional new disclosures which may be costly to prepare; not all of the disclosures are well defined; and certain disclosures may be misleading in the context of the proposed explanation of their use. We believe the Board should immediately act to extend the comment period and to postpone the proposed effective date of the new standard.

2) Additional Disclosure of Projected Future Benefit Payments

The exposure draft calls for the disclosure of estimated future benefit payments included in the determination of the benefit obligation, with a separate disclosure of the discount to present value. We do not believe that this proposed disclosure provides useful information. The proposed statement reads that: "The Board decided to require disclosure . . . [to] enable financial statement users to assess the amounts, timing, and pattern of cash flows and how well asset maturities align with benefit payments." Viewed in conjunction with the above explanation, we believe that the proposed disclosures are inappropriate and could serve to mislead investors regarding these issues in many common types of plans.

(a) The proposed disclosures do not allow users to assess the timing, amount and pattern of cash flows from the plan. This is because the disclosed amounts only represent the portion of the future benefit amounts that are attributable to prior service. Thus, the disclosed amounts understate anticipated cash flows. The degree of understatement increases by year for each future year that is disclosed.

(b) The proposed schedule of cash flows from the plan does not provide useful information to investors that are attempting to compare how well

asset maturities align with benefit payments. For a limited universe of pension plans, which provide only life annuity amounts to retirees, the proposed information could be useful. But many plans today include a variety of features that are dependent on current interest rates at the time of payment of benefits. For instance, a common feature is a provision that allows a participant to collect a pension as a lump sum, where the lump sum is determined as the discounted value of future annuity payments that would otherwise have been received. As interest rates change in future years, the amounts of these lump sum benefit payments change from current estimates. Thus, for the portion of benefit payment amounts assumed to be lump sums, investors interested in the duration of the benefit liabilities should not be matching to the anticipated year of payment of the estimated lump sum benefit amount, but rather looking at the duration of the underlying stream of annuity payments which the pension plan participant is expected to exchange for the lump sum benefit payment amount. As an analogy, consider the valuation of a 10 year bond, which the owner intends to sell in three years. The projected cash flow of the owner will be three years of bond coupons plus the lump sum value of the remaining coupons and final principal. The asset that best matches the owner's cash flow should not be determined based on the estimated cash flow to the owner, because the ultimate lump sum value payable three years hence is only an estimate under current interest rates, not a fixed amount. The best asset to match a 10 year bond is a 10 year bond, not a 3 year bond plus a 3 year strip. The owner's right to sell a bond at its future market value does not change the bond's duration; a plan participant's right to receive the lump sum value of her pension does not necessarily change the duration of the pension obligation. The common presence of lump sums and other interest sensitive optional forms of benefit in pension plans makes the proposed disclosure potentially very misleading for purposes of matching liabilities to assets.

(c) The separation of the projected cash flow amounts into benefit payments and a separate discount for interest appears unnecessary. Readers of financial statements should be expected to have fundamental knowledge of the process of discounting a series of cash flows to determine a present value; those who do not can be referred to basic financial texts rather than educated in the context of pension finance.

(d) The proposed requirement to show the sum total amount of cash flows requires data that is not material to the valuation, of no particular use to users, and may require significant effort to prepare. The sum total of proposed cash flows will depend to a great extent on the differing elections of future plan participants. For instance, plan participants in certain plans may elect between lump sums, life annuities, joint and survivor benefits or other forms of benefits. Plans often provide these benefits on the basis of equivalent present value cost. Thus, the particular election rates for these benefit options are generally not material to determination of liabilities under the plan. However, each of these options has a different anticipated cash flow and thus would generate different total cash flow amounts even if generating identical liabilities to the sponsor. The effort required to fully refine the expected cash flow amounts, which do not materially affect liabilities, would be substantial. These refinements and related system changes would increase costs at no value to investors.

3) Additional Disclosure of Future Employer Contributions in Next Year

The disclosure of the amount of employer contributions expected to be paid during the following plan year calls for separation of the amount into required contributions, additional discretionary contributions and non-cash amounts.

(a) Pension Plans -- Under US law, for an employer with a calendar fiscal year and calendar pension plan, the amount of contribution to be required for a year need not be determined until 8 and one-half months following the year in question. Thus, at the time of filing the annual report, the sponsor may well have not determined the final contribution amount which was required for the prior year and which is to be contributed in the coming year. Additional requirements apply to underfunded US plans, which require the payment of "required" quarterly contributions. As these amounts are not yet fully determined at the time of payment, it is common for sponsors to redesignate contributions as "required" or "not required" as the year progresses. As a result, the proposed segregation of contributions into required amounts has already generated a number of questions which would require resolution to avoid inconsistent application. We recommend that the Board drop the requirement to differentiate between required and expected contribution amounts.

(b) Other Benefit Programs -- We note that this portion of the statement applies to non-

pension plans as well. Some postretirement medical and life programs are funded through a trust such as a VEBA or retired life reserve, with annual funding to such trust provided on a discretionary basis. In some cases, with bargained plans, a negotiated amount of trust contribution might be a known funding amount. However, unlike pensions, the actual date of such contributions can vary significantly from year to year and may or may not be an item that can be readily forecast at the time of disclosure for the next year. Given the general lack of legal requirements to contribute in excess of benefit amounts for these plans, we suggest that any contribution disclosures be limited to pension plans.

4) Accumulated Benefit Obligation

We support the reinclusion of the accumulated benefit obligation in the list of required disclosures. Inclusion of this information will enhance investors' ability to predict corporate funding activity and plan sponsors' ability to educate their own investors on other plans that may or may not be comparable.

5) Major Asset Categories and Target Allocation by Investment Class

We applaud the efforts to include more information on the allocation of assets by major investment class. However, we note that the proposed requirements to disclose information regarding major asset categories requests certain information that may not be readily available to plan sponsors. In particular, plans which hold mutual fund investments may not readily be able to supply information on the range and weighted average of the contractual maturities of debt securities in those funds. Furthermore it may be preferable for staff to issue guidance on the treatment of certain types of securities (e.g. preference shares) to ensure that company disclosures regarding asset allocation are made on a comparable basis.

We are also concerned by the requirement to disclose the target allocation of assets by asset class. This target allocation is generally determined by each Plan's Investment Committee and for each plan. Companies with global operations will need to gather data on multiple plans, some of which may be jointly trustee with member or union representatives and not under the employer's control. Often committees are in the process of evaluating target allocations or of gradually implementing changes in targets. Thus many entities may find it difficult to gather accurate information from all plans on target allocations. This is particularly true in the short timeframe for implementation. We suggest that the Board either defer the effective date of this provision for an additional year beyond the general effective date to enable employers to gather such information on an accurate and meaningful basis, or eliminate this additional information on target allocations.

We appreciate the opportunity to offer comments. If you would like to discuss these comments in greater detail, please do not hesitate to call.

Sincere regards,

Christopher M. Bone, FSA, MAAA
Executive Vice President, Chief Actuary
Aon Consulting
270 Davidson Ave.
Somerset, NJ 08873

chris_bone@aoncons.com

phone (732)-302-2124
fax (732)-302-2194