

Stacey Sutay

Subject: FW: Exposure Draft Comments -- File Ref. No. 1025-200

-----Original Message-----

From: Joseph Penick [mailto:jpenick@curciowebb.com]

Sent: Thursday, October 23, 2003 4:42 PM

To: Director - FASB

Cc: jerbi@actuary.org

Subject: Exposure Draft Comments -- File Ref. No. 1025-200

Dear FASB:

I hereby submit comments on FASB's Exposure Draft to replace SFAS 132 -- File Reference No. 1025-200. I have arranged my comments by issue number as they appear in the *Notes for Recipients of This Exposure Draft*, and have attempted where possible to address the specific questions posed.

The concerns I have regarding the Exposure Draft are as follows:

- o **Issue #1:** This new disclosure requirement does not seem to require that the *aggregate* weighted-average long-term rate of return be derived from the actual and/or target allocations as of the current and/or prior statement dates. However, the disclosed (aggregate) rates in Illustration 1 seem to match (after rounding) the prior fiscal year-end (20X2) weights multiplied by the expected returns by category, and the aggregate return assumption is shown as a "Total" in the new "Plan Assets" disclosure layout. Please clarify whether the aggregate rates should be explicitly derived from the expectations by category. Please also clarify whether the newly required asset information can or must be disclosed for each plan separately.
- o **Issue #3a:** Projected benefit-payment streams on a PBO basis do not accurately represent future cash flow -- the stated objective. More importantly, generating these numbers will be very problematic (i.e., costly). Many valuation systems provide benefit payment projections on an EBO (expected benefit obligation -- present value of benefits including future service accruals) basis. While the additional programming required for beginning-of-year PBO-basis projections wouldn't be onerous, year-end disclosures are typically roll-forwards -- and the beginning-of-year PBO-basis projections could not be used. The additional programming required for a valuation to roll beginning-of-year results forward to year-end and then recompute year-end-based PBO-basis benefit projections would be onerous indeed. I suggest using EBO-basis projections instead. For the first 5 years of projection, the EBO-basis amounts don't differ much from the PBO-basis amounts, for a typical plan. However, I also suggest summing to the EBO rather than the PBO. The EBO benefit payment stream is a more accurate expectation of cash flow -- satisfying your stated objective.
- o **Issue #3b:** Estimates of next year's minimum required and discretionary additional contributions will be of limited value in meeting the cash-flow objective, and to the contrary, will be misleading. While minimum required contribution amounts can sometimes be very telling (in distress situations, for example), discretionary contributions are often impossible to predict at the beginning of the year. And while the estimate would get progressively better throughout the year, via quarterly reporting, not all employers report quarterly. Therefore, at a minimum, nonpublic entities should be exempt from the discretionary contributions estimate. Furthermore, estimated contribution levels will be extremely misleading if viewed by users as a "typical" representation of future contribution

- levels -- because contribution levels can vary greatly from year to year. I suggest that requiring disclosure of the EBO (expected benefit obligation -- present value of benefits including future service accruals) compared to assets would result in a better understanding of required future funding (although even this measure ignores future plan entrants). This unfunded EBO (required future funding) could, if desired, be converted to an annual representative contribution estimate or schedule, such as by dividing it by average future service (or some other factor which results in increasing contributions over time).
- o **Issue #5:** Many smaller nonpublic entities complain that the amount of disclosure required is *already* too costly, and more than users of their financial statements want or need. *If* these new disclosures are necessary for large nonpublic entities, I suggest that nonpublic entities with fewer than 100 participants in each plan not be required to comply with any onerous new requirements -- particularly the contribution estimates. Small businesses should not have to comply with the stringent accounting requirements of large corporations!
 - o **Issue #7:** Coincident with the requirement to disclose changes between the measurement date and the fiscal year-end, the FASB should allow a one-time change to a fiscal-year-end measurement date without any cumulative catch-up adjustment or assessment of preferability. Employers who have elected an earlier measurement date have likely done so to *simplify* their compliance. Suddenly, not only will the practical benefit of using an earlier measurement date be negated, but using the earlier measurement date will actually result in *more* work -- disclosing post-measurement-date changes. Employers should be allowed to change to a year-end measurement date without penalty.
 - o **Issue #10:** Paragraph 11 of SFAS 88 compares "the cost of all settlements in a year" to "the sum of the service cost and interest cost components of net periodic pension cost for the plan for the year" to determine whether settlement accounting is required. The Exposure Draft requires quarterly recognition of settlements. Because settlement accounting requires actuarial expertise and is therefore costly, I believe that an ongoing plan with optional lump sums should not be required to account for such settlements at each quarter-end (in the absence of an event or an employer action that causes increased lump sum payments) but rather should be allowed to make the comparison to service cost and interest cost at year-end. Please clarify whether you agree and, if not, what rules must be followed.

Thank you for your thoughtful consideration.

Sincerely,

Joseph L. Penick, ASA, EA, MAAA

cc: American Academy of Actuaries