

May 30, 2006



LETTER OF COMMENT NO. 74

Allina Health System
P. O. Box 43, MR 10805
Minneapolis, MN 55440

Technical Director
Financial Accounting Standards Board
Via email director@fasb.org

Re: Comments on Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans Exposure Draft, File Reference No. 1025-300

Dear Technical Director:

Allina Health System (Allina) is a not-for-profit corporation with revenues of \$2.2 billion and assets of \$2 billion. The System is located in Minneapolis, Minnesota and consists of 10 hospitals, physician clinics and various other health-related entities and five foundations supporting health-related services. We employ over 23,000 employees.

Allina has a defined benefit cash balance pension plan which has been in existence since 1989 and covers substantially all of its employees. At December 31, 2005, the projected benefit obligation was \$360,085,000 and the fair value of plan assets was \$241,497,000. This results in a funded status of (\$118,588,000). We have recorded \$40,679,000 as net amount recognized and \$21,338,000 as an additional minimum pension liability. Our policy is to fund 100% of the current liability.

Having recently been through our 2005 external audit report discussion with the Finance and Audit Committees of our Board of Directors, we believe that pension accounting and disclosures are confusing and easily misunderstood. We would support any accounting and disclosure changes to simplify the ability to communicate the status of the pension plan.

We have the following additional matters that we believe should be brought to the attention of the Financial Accounting Standards Board on the Exposure Draft:

Issue A – Allina does not agree that the projected benefit obligation (PBO) is the correct benefit obligation to use for a cash balance pension plan. A cash balance pension plan maintains an account balance for each participant and most of our participants elect a lump sum payment option. The PBO is the present value of the future benefit payments accrued to-date and includes expected future salary increases. This is a significant mismatch of obligation/liability for a cash balance pension plan. The future salary increase component is simply not applicable for a cash balance pension plan and will result in the recording of additional liability that is not consistent with the true obligation of the organization.

Issue B – Allina does not agree that the projected benefit obligation is the correct benefit obligation to use for recording liabilities. The PBO includes expected future salary increases which represents a conservative measure of future risk, is larger than fair value and includes amounts that are not yet liabilities of the company. FAS 133 defines fair value as the amount at which a liability can be settled in a current transaction between willing parties. Thus the Accumulated Benefit Obligation (ABO), not the PBO, represents fair value and would be a more

appropriate measure if a liability is going to be recorded on the balance sheet. Thus we strongly believe that the ABO, not the PBO, is the proper measure to be used for pension liabilities.

Issue C – Allina does not agree that the PBO should be used as an obligation as it introduces significant volatility into the financial statements based on future assumptions. At Allina, a change of 1% in the discount rate used to determine the present value of the PBO would increase/decrease the PBO by \$41,000,000. The discount rates used to calculate the PBO have declined from the 7 – 7.5% used in 2001-2002 to cost determinations of 5.75 – 6% in 2003-2005. This introduces significant volatility into the financial statements.

Issue D – Allina does not agree that the PBO should be used as an obligation as it may impact our credit rating. As a non-profit organization, we issue tax-exempt bonds and are rated by Fitch, Moodys and Standard and Poors. Rating criteria include liquidity, capital structure and profitability. The impact of recording the PBO on our balance sheet would increase our debt and decrease our unrestricted net assets by \$56,571,000 which would significantly impact our credit profile. Coupled with the volatility discussed in Issue C above, this could impact our credit rating.

Our comments on issues raised in the Exposure Draft are as follows:

Issue 1 – Allina does not agree that implementation costs of this proposed Statement would not require information that is not already available and, therefore, the costs of implementation would not be significant. Given the impact of the Issues A – D discussed above, the costs to Allina would include significant discussions with Board and credit agencies and the need to review the pension plan to determine if it should be continued. The recording of the PBO could cause our Board to conclude we should freeze or terminate our plan which would result in significant costs to the organization. Additionally, it could result in a change to a benefit plan that is less beneficial to employees, causing them to stay in the workforce longer and potentially impacting our workforce strategy and increasing our employee healthcare costs. The Board needs to take into consideration “unintended consequences” like this on the organizations and individuals.

No other comments are deemed necessary on the issues identified in the Exposure Draft. We hope these comments are considered by the Board and result in revision of the Exposure Draft.

Yours truly,

Mark Harrison
EVP, Finance & Treasury, CFO

Laurie Lafontaine
VP, Finance & Treasury