



Letter of Comment No: 33
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Financial Accounting Standards Board
401 Merritt 7, P.O. Box 5116
Norwalk, CT 06856-5116

RE: File Reference No. 1025-200
Exposure Draft – Employers’ Disclosures about Pensions and Other Postretirement Benefits

We, Principal Financial Group as an employer sponsoring pension plans and other postretirement benefits, would like to thank the Financial Accounting Standards Board for allowing us the opportunity to comment on this Exposure Draft.

We are responding to the issues outlined at the beginning of the exposure draft.

- Issue 1 – We agree with the Board’s conclusions that this information would be of value to financial statement users.
 - We ask for clarification on whether the plan’s expected long-term rate of return should be based on the plan’s target allocation or its actual allocation as of the measurement date. We believe it should be based on the target allocation due to its long-term perspective.
 - Also, we ask for clarification as to what date the percentage mix of actual assets be disclosed. Is it the measurement date or fiscal year end? If the measurement date shall be used, do companies need to consider material asset allocation shifts between the measurement date and the fiscal year end?
 - The Board has requested comments regarding the maturities of debt securities so that users can assess the degree to which investment cash flows are aligned with benefit payments. For many sponsors, their assets represent a diversified portfolio of equities and debt. Because of this, we question this disclosure’s value.
 - Lastly, some of our plan’s assets are invested within the general account of an insurance company funding agreement. It may be cumbersome and costly for the insurance company to provide the range and weighted average of the contractual maturities of the specific general account assets for our plans. We ask that either some type of relief be granted such as allowing for the reporting of the aggregate range and weighted average maturities of the entire general account (rather than just the plan’s specific investments within the general account). If this is not a feasible approach, we would ask that the implementation date for this item be postponed until late next year to allow insurance companies time to program their systems for this disclosure requirement.

- Issue 2 – We agree with the Board’s proposal to require disclosure of the plan’s accumulated benefit obligation.
- Issue 3
 - Issue 3a- We have concerns regarding the calculation of the expected future benefit payments included in the determination of the benefit obligation. As defined, the benefit payments would be based on service earned to date and expected future pay levels, which is a calculation not currently provided by our actuarial software. This calculation would be complex and would require additional programming changes, which would in turn result in additional cost to plan sponsors. We also question the value of this information to users as it doesn’t represent the true expected benefit payments of the plan (which reflects future service accruals and future pay levels.)

We instead recommend disclosure of the projected benefit payments reflecting future service and pay levels at the expected benefit distribution date for a certain period of years, such as 10 years. There would no longer be a need to tie it back to the calculation of the benefit obligation, as these benefit cash flows are not determined on the same basis as the benefit obligation. However, we believe this information would be of more value to financial statement users as it reflects the true expected cash flows from the plans.

- Issue 3b – Our concern regarding the expected contributions is that companies will not know the amount required by funding regulations until well into the following year when the qualified pension plan actuarial valuation is completed. As of the measurement date, the expected contributions are, at best, only an educated guess. Additionally, the minimum funding standards for qualified pension plans are uncertain right now as Congress is looking to grant pension relief for the 30-year Treasury rate (a rate that is used in many pension calculations). Also, companies may be teetering on being fully funded, so they may not have a good idea of the minimum funding requirement until the valuation is complete. Therefore, we recommend that companies be allowed to disclose their expected contributions using a range, rather than specific dollar amounts. We also recommend that the contributions not be broken down by required versus discretionary contributions due to the issues described above.

We believe it is common to adjust decisions regarding plan contributions throughout the year. This would require adjustments in the interim disclosures, which may result in confusion to the financial statement user who may not be familiar with the complex funding rules under ERISA.

- Issue 4 – We support the tabular disclosure format for the key assumptions.
- Issue 5 – No comment as we are not a nonpublic entity.

- Issue 6 – We agree with the Board’s determination that disclosure of hypothetical changes may not provide useful information because the economic changes often affect multiple assumptions.
- Issue 7 – We believe the measurement date should always be disclosed. This would allow the financial statement user to understand differences due to economic conditions or changes among company comparisons. If the measurement date is always disclosed, the financial statement user should be able to ascertain the impact due to economic conditions/changes. The financial statement users could request additional information as needed.

FASB issued a Frequently Asked Questions document responding to questions about this exposure draft. The response to Question 17 outlines that the proposed Statement does not require quantification of the effects of economic condition or changes. It only requires a general description of the nature of the economic change, and the fact that the measurement date precedes the change in conditions. We agree with this approach. We believe it would have been costly and burdensome if the proposed Statement would have required companies to recalculate the impact on the benefit obligations and upcoming year’s net periodic cost. We ask that the Statement clarify that quantification is not required.

- Issue 8 – We feel the reconciliation of assets and obligations should be retained. It’s an extremely valuable tool to analyze the plan’s financial information over the past 2 years. While the Board believes its new formatted disclosures represent a more focused approach, we feel the reconciliation format is more complete and easy to understand.
- Issue 9 – We are comfortable with the Board’s decision to not require these additional disclosures. One suggestion may be to allow users to request a short one-page summary of the actuarial valuation results of the pension plan. Plan sponsors could summarize the pension benefit obligations and funded status as determined under ERISA or some other regulatory basis. This may assist users in understanding the contribution requirements.
- Issue 10 – We are comfortable with the Board’s decision to disclose the net periodic cost, by components, on an interim basis. Please see Issue 3b above for comments on the contributions. The interim disclosures will include updated estimates of expected cash contributions to the plan as we adjust our decisions throughout the year. This may lead to user confusion, as they may not be familiar with the complex ERISA funding rules.

- Issue 11 – We feel that making the Exposure Draft effective for fiscal years ending after 12/15/2003 may be difficult for a few of the disclosure items. Items such as the projected benefit cash flow, as currently defined, and the range and average weighted maturities of general account assets held in an insurance company funding agreement may need additional time to get system changes in place.
- Materiality – We strongly encourage the Board to provide comments on materiality. The Board had considered whether the statement should include a materiality threshold and decided not to address the issue. The Board has stated that it does not intend for the provisions of this statement to be applied to immaterial amounts based on relevant facts and circumstances. We ask that the Board clarify in the Statement that it does not apply to immaterial amounts based on an evaluation of all relevant facts and circumstances.

We appreciate the Board's review and consideration of our comments. We'd be happy to discuss our comments further.

Sincerely,

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