



Letter of Comment No: 31  
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October 24, 2003

Lawrence Smith  
Director of Technical Application and Implementation Activities  
Financial Accounting Standards Board  
401 Merritt 7  
P.O. Box 5116  
Norwalk, CT 06856-5116

Re: **File Reference No. 1025-200**

Dear Mr. Smith:

The Segal Company appreciates the opportunity to provide comments on the Financial Accounting Standards Board's recent exposure draft, Employer's Disclosure about Pensions and Other Postretirement Benefits, an amendment to FASB Statements No. 87, 88, and 106 and a replacement of FASB Statement No. 132. The Segal Company serves as employee benefits, actuarial, compensation, and human resources consultants to corporations, non-profit organizations, and professional service firms nationwide, as well as to the full range of public sector clients: state and local governments, statewide retirement systems and health plans, and federal government agencies. The Segal Company also serves as consultants and actuaries to more multiemployer benefit plans than any other firm.

Our comments, detailed below, focus primarily on two of the issues raised in the exposure draft -- the effective date (issue 11) and certain cash flow items (issue 3) -- and the relevance of potential interest rate relief legislation. We also wanted to highlight certain decisions identified in the exposure draft that we strongly support.

## **A. Major Observations**

### **1. Effective Date and Transition**

The exposure draft indicates that the provisions of the proposed Statement would be effective for fiscal years ending after December 15, 2003. It is our belief that there is significant work and development time involved for the plan sponsor, the investment advisors, and the actuary to gather, prepare, and consolidate the information required in the exposure draft. As such, it would be highly challenging to complete 2003 year-end disclosure in a timely manner. In order to develop some of the information required in the exposure draft, actuaries will need to do additional calculations, which will entail modification of their actuarial software. Further, this rush-to-compliance may lead to quality problems that would create inconsistencies between the disclosure statements of various plan sponsors.

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The exposure draft requires the disclosure of numerous items of information that are not currently disclosed under FASB Statement No. 132. Plan sponsors will need to collect and process all of this information. While each of these new items individually may not add significant work to preparing year-end disclosure, when considered as a group, we feel it will involve significant time, particularly in the initial transition years. This issue is further complicated for plan sponsors with multiple plans and/or international plans.

Another significant concern is for plan sponsors that use a measurement date prior to their fiscal year-end date. As you know, one of the primary reasons a plan sponsor does that is to be able to complete year-end disclosure shortly after the close of its fiscal year. For example, a plan sponsor with a calendar year fiscal year will use an early measurement date in order to complete year-end disclosure by early-to-mid January. Since the provisions of the final Statement may not be known until early December, if the effective date of the proposed Statement remains unchanged, the additional preparation time may delay the completion of disclosure. Further, the plan sponsor will need to gather the additional asset information described in the proposed Statement based on a measurement date that is in the past and that data may no longer be readily available.

Based on these issues and concerns, we recommend delaying the effective date to allow for sufficient transition time. We feel that, given the huge number of companies that have their fiscal year coincide with the calendar year, it would be prudent not to launch a new Standard at a time when the largest cohort needs to rush implementation. Perhaps the Board would consider encouraging, as opposed to requiring, the use of the new rules for any year-end disclosures in 2003, or perhaps making only certain of the changes required for 2003 with the others becoming effective for 2004.

## **2. Cash Flow – Expected Benefit Payments**

The proposed Statement requires the disclosure of a schedule of estimated future benefit payments included in the determination of the benefit obligation. However, annual benefit disbursement projections as described in the exposure draft are not normally calculated by the actuary. As a result, these projections would involve significant modification (and testing) of actuarial software. Mandating this schedule for 2003 year-end disclosure would require the actuary to not only develop the software, but also to redo the 2003 valuation using the modified software, both at additional cost to the plan sponsor.

Further, we are not convinced that this schedule will add sufficient value to the disclosure because it relates to benefits that are only based on service accrued as of the measurement date and, in certain cases, future salary growth. A much more meaningful measure of future benefit payments would be based on projected benefits (i.e., recognizing future service), which is something that is normally calculated by the actuary, is more reflective of future cash flow, and is often requested by the investment manager.

## **3. Cash Flow – Expected Contributions**

The proposed Statement requires the disclosure of the employer's contributions expected to be paid to the plan during the next fiscal year, and that the contributions be separated between those required by funding regulations or law from those that are discretionary. We believe that only those contributions required by funding regulations or law should be reported. Disclosing discretionary contributions may require plan sponsors to declare their preliminary contribution intentions before the plan year valuation is completed or before cash flow needs and other environmental factors (such as tax concerns, alternate uses and costs of capital, minimum liability concerns, PBGC premium avoidance, etc.) are known. Since this could easily change as the year progresses, the disclosure could be subject to frequent and significant mid-year adjustments.

#### 4. Potential Interest Rate Relief Legislation

Another concern is the issue of potential legislative interest rate relief and its impact on the level of expected contributions. There has been much discussion in Congress and the media about funding of defined benefit plans and the interest rate used to discount liabilities to determine current liability for purposes of computing minimum funding costs. Congress enacted temporary interest rate relief for 2002 and 2003. If no action is taken by Congress to provide continued interest rate relief, minimum cash funding costs for 2004 will have to be determined using the rules that were in effect prior to 2002.

In the absence of additional relief measures, to determine whether or not quarterly contributions are required for 2004, as well as the amount of each quarterly contribution, the Internal Revenue Code would require the plan actuary to perform the calculations as if the temporary relief now in place did not exist. This could result in quarterly contributions considerably higher than what would have been expected based on 2003 valuation results. Furthermore, some of the legislative proposals would require recalculation of the quarterly contribution requirements for 2004. This may result in further volatility as described above. In any event, the uncertainty of the legal environment means that the funding requirements cannot be forecast for 2004 within the acceptable range of accounting estimates. Even if Congress does enact interest rates relief, the IRS will then have to issue guidance on its application. The result will be an extremely short timeframe in which to produce the required funding estimates.

It is our recommendation that the final Standard address the legislative uncertainty and timing constraints either by postponing the requirement to disclose future contributions or by stating whether any such relief can be reflected in the disclosure as well as how it should be reflected. If the latter approach is taken, we recommend that the interest rate relief be allowed to be recognized, as long as it is disclosed and that a standard approach be promulgated. We feel it is very likely that Congress will enact some sort of temporary relief because there is widespread and bipartisan agreement that it is urgently needed. As such, if the final Statement is written such that interest rate relief cannot be assumed, then any contribution amounts disclosed may be overstated in the event that relief is subsequently passed. We feel that if the proper accounting treatment is not made clear, companies will take inconsistent approaches, making the results more difficult to compare.

#### **B. Other Comments**

##### 1. Multiemployer Plans

The Board considered expanding the disclosures that would be called for regarding multiemployer plans to which companies contribute, but decided that the incremental cost would outweigh any added usefulness (paragraph A21). We agree with that conclusion. The existing disclosures alert the users of financial statements to the fact that companies contribute to multiemployer plans and, when the possibility of liability is ripening into a probability, to its existence and possible dimensions. For most companies, that is close to the limit of what they know about the multiemployer plans to which they contribute. Requiring them to assemble and disclose additional data would yield little more than widespread confusion.

##### 2. Defined Benefit Pension Plan Accumulated Benefit Obligation

The proposed Statement requires the disclosure of the defined benefit pension plan accumulated benefit obligation. We feel that ABO is an important measure, particularly due to its use in determining the additional minimum liability. Therefore, we feel this is a positive change and agree with it.

3. Assumptions

The proposed Statement requires new tabular formats for disclosure of key assumptions. It is our understanding that the new format is an attempt to clarify the reported information. As such, we feel this is a positive change and agree with it.

Thank you for considering our comments. If you have any questions, or require further information, please contact me at (212) 251-5424 or Michael Marks at (212) 251-5075.

Sincerely,

A handwritten signature in cursive script that reads "Alexander Sussman". The signature is written in black ink and is positioned to the left of the typed name.

Alexander Sussman, F.S.A.  
Senior Vice President  
National Director, Retirement Practice