



Altria

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October 27, 2003

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

Re: Comments on the Exposure Draft
Employers' Disclosures about Pensions and Other Postretirement Benefits
File Reference Number 1025-200

Dear Mr. Smith:

We appreciate the opportunity to comment on the FASB's Exposure Draft, "Employers' Disclosures about Pensions and Other Postretirement Benefits – an amendment of FASB Statements No. 87, 88 and 106 and a replacement of FASB Statement No. 132" (the "proposed Statement"). We commend the Board's efforts to address pension disclosures.

This letter summarizes our positions and comments on the issues that have been raised in the proposed Statement.

Plan Assets

Issue 1: This proposed Statement would require disclosure of information for each major category of plan assets. The broadest categories of assets for which this information would be required are equity securities, debt securities, real estate, and all other assets. Disclosure by narrower asset categories and additional information about specific assets within a category would be encouraged if that information is expected to be useful in understanding the investment risks or expected long-term rate of return on assets.

The following information would be required to be presented for each major asset category:

- a) Percentage of the fair value of total plan assets as of the date of each statement of financial position presented.*
- b) Target allocation percentage or range of percentages, presented on a weighted-average basis.*
- c) Expected long-term rate of return, presented on a weighted-average basis.*

In addition, this proposed Statement would require disclosure of the range and weighted average of the contractual maturities, or term, of all debt securities.

Additional disclosures about investment strategies and policies, including the degree to which contractual maturities of plan assets align with the amount and timing of benefit payments, would be encouraged.

We believe these additional disclosures will prove onerous to provide for companies that offer pension plans in multiple countries and jurisdictions. Obtaining detailed fair value information and maturity information from overseas and multiple domestic plan trustees on a timely basis will be difficult, especially in light of the accelerated SEC filing requirements for annual reports. Instead of the proposed disclosures, we believe it would be useful for a company to disclose its general investment strategy by the types of broad asset categories suggested. Also, since pension obligations are long-term in nature, we believe that disclosure of historical returns for the assets would be more meaningful.

We also do not believe providing the expected rate of return by broad asset category is meaningful to financial statement users. Development of the expected long-term rate of return on plan assets requires assessing numerous factors for a broad range of plans and assets. These factors include the level of active management, the degree to which the asset allocations operate within a range (as compared with ongoing rebalancing), the extent of asset allocation decisions to outperform the rate that would be expected if one were to maintain a static asset mix, whether asset management fees or other administrative costs are explicitly included or excluded from the rate of return and the asset risk within each asset category (e.g., large capitalization vs. small capitalization equities, domestic vs. international equities or bonds, etc.). As a result of such decisions and other factors, two companies that had identical asset return expectations for each investment category within the broad asset categories could have different expected rates of return. We believe the current disclosure of the expected long-term rate of return for the entire amount of plan assets is sufficient to provide users information regarding this assumption. Any attempt to "disaggregate" an estimate into a specific asset category would serve only to confuse rather than to inform financial statement users.

However, should the Board require disclosure of expected long-term rate of return on assets, guidance should be given on the long-term horizon (e.g., 10 years or more) and clearly state whether the return should be computed on a geometric (i.e., compounded) or arithmetic (i.e., not compounded) basis. We presume a geometric basis would be preferable. In addition, guidance should be provided as to whether the expected long-term rate of return should be based on the year-end asset mix or target asset mix ranges.

Also, we believe disclosure of the range and weighted average of contractual maturities or term of all debt securities is not a useful measure. Since a significant portion of a plan's assets may be invested in equity securities, we question the usefulness of this information to enable the financial statement user to assess how well the plan assets align with the timing of benefit payments. However, we believe the duration of debt securities should be required. Duration is a measure of a security's sensitivity to changes in interest rates.

Defined Benefit Pension Plan Accumulated Benefit Obligation

Issue 2: This proposed Statement would require disclosure of the defined benefit pension plan accumulated benefit obligation. The accumulated benefit obligation is the measure of the pension obligation used to determine the amount of the minimum liability, when the accumulated benefit obligation exceeds the fair value of plan assets.

We believe the accumulated benefit obligation is a useful measure of the employer's pension benefit obligation. The accumulated benefit obligation is measured in connection with the actuarial valuation of a pension plan and therefore should be available at minimal additional cost.

We would prefer to disclose the ABO in a table much like the original funded status tables of SFAS No. 87, detailing ABO in context of salary progression, PBO and funded status. We believe that disclosure of funded status, followed by the reconciliation of funded status, would enhance an understanding of the financial position of a company's pension plans.

Cash Flow Information

Issue 3: This proposed Statement would require disclosure of:

- a) A schedule of estimated future benefit payments included in the determination of the benefit obligation, as of the date of the latest statement of financial position presented, for each of the five succeeding fiscal years, and the total amount thereafter, with separate deduction from the total for the amount representing interest necessary to reduce the estimated future payments to present value.*
- b) The employer's contributions expected to be paid to the plan during the next fiscal year beginning after the date of the latest statement of financial position, showing separately:*
 - 1) Contributions required by funding regulations or laws.*
 - 2) Additional discretionary contributions.*
 - 3) The aggregate amount and description of any non-cash contributions.*

We do not believe the proposed disclosure to provide information about the amount and timing of benefit payments provides useful information. If the purpose of this disclosure is to assess future cash flows, we believe that disclosing future benefits that represent only a portion of the benefits actually expected to be paid, is misleading. For example, the PBO is calculated based on an employee's service to date, and a projection of salary growth to an expected retirement date. This generates an expected pension amount to be paid throughout retirement. However, the employee's pension payment will be larger since the actual pension payment will also include credit for additional years of service. The PBO does not recognize the additional years of service, only the additional growth in salary. Also, for fully funded plans, all benefit payments would be made only from the plan's assets, rather than from the employer.

The proposed disclosure of expected benefit payouts, coupled with the proposed disclosure on the maturity characteristics of fixed income securities, would not provide a complete picture of the amount and timing of future funding requirements. We believe the current disclosures of the funded status of the plan (i.e., fair value of assets compared with the projected benefit obligation), combined with the current requirement for providing the amount of benefits actually paid, provide appropriate information for a reader to assess asset coverage of liabilities. As an alternative, we suggest that the duration of the PBO be disclosed. The reader of the statements could compare the duration of the PBO and judge how well assets and liabilities are matched relative to interest rate changes.

Also, the expected benefits payment disclosure discussed above would not meet the stated objective of providing a measurement of a company's future cash flow requirements as it has little correlation to minimum funding requirements. We believe users would benefit from increased disclosure of a pension plan's minimum funding requirements required by regulatory requirements (e.g., ERISA, etc.) as further discussed below.

The Board's proposed disclosure requirements of management's best estimate of contributions to be made to a pension plan over the next year should be limited to the minimum funding requirements required by local regulation (e.g., ERISA, etc.) based on the most recent information available. Expected voluntary contributions should not be required to be disclosed since a company's use of capital varies depending on a number of factors (e.g., tax considerations, investment market conditions, availability of capital and other capital requirements). Further, this information may be considered forward-looking and better located in the liquidity section of the Management's Discussion and Analysis, and therefore would be appropriately covered by safe-harbor provisions.

Assumptions

Issue 4: This proposed Statement would require use of a tabular format for disclosure of the following key assumptions (separately identifying the assumptions used to measure benefit obligations as of the plan's measurement date and those used to measure net benefit cost or income for the period): the assumed discount rates, rates of compensation increase (for pay-related plans), and expected long-term rates of return on plan assets. Those disclosures would be reported on a weighted-average basis. This proposed Statement would not change the information presently required to be disclosed but would seek to improve the clarity of the information.

We believe the proposed tables describing the key assumptions used to determine pension costs and obligations enhance the understandability of the disclosure.

Measurement Date(s)

Issue 7: Should disclosure of the measurement date(s) be required and why?

We believe financial statement users can reasonably be expected to be aware of changes in the capital markets. Therefore, if measurement dates are disclosed, then financial statement users should be able to reasonably assess the likely effect on plan assets and benefit obligations of changes in economic conditions, without requiring companies to incur the additional cost of more precisely measuring those effects.

Reconciliations of Beginning and Ending Balances of Plan Assets and Benefit Obligations

Issue 8: This proposed Statement would eliminate the requirement in Statement 132 to provide reconciliations of beginning and ending balances of the fair value of plan assets and benefit obligations. This proposed Statement would instead require disclosure of ending balances and would retain key elements of the reconciliations that are not disclosed elsewhere, such as actual return on assets, benefit payments, employer contributions, and participant contributions. As such, this proposed Statement would provide a more focused approach for key items previously included in the reconciliations.

Should the reconciliations, as required by Statement 132, be eliminated or retained and why?

The proposed Statement eliminates the reconciliation of beginning and ending balances. We feel that this is useful information to readers and should not be eliminated.

Disclosures in Interim Financial Reports

Issue 10: Are the proposed interim disclosures needed for users to understand the financial condition, results, and cash flows associated with pension and other postretirement benefits? Should additional interim disclosures be required? Should either of the proposed interim period disclosures be eliminated?

We believe that it would not be practical for companies to update net periodic pension and other postretirement benefit costs on an interim basis given the costs involved and the timing of the availability of certain information. Accordingly, we believe that no additional interim disclosures should be required.

Effective Date and Transition

Issue 11: Are the proposed effective date provisions and transition appropriate? If not, what alternative effective dates and transition would you suggest and why? If individual disclosures require additional time to compile, please describe the nature and extent of the effort required.

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Given the large volume of data that multi-national companies will be required to collect and consolidate, issuance of a final standard in December 2003 that would be effective for companies with December 31 fiscal year-end filings is burdensome especially in light of the SEC's accelerated filing deadlines. It took the FASB quite some time to issue this proposal and accordingly, companies would need more than one month to implement. The proposed Statement would require actuaries to calculate and provide data that is not routinely provided as part of a standard valuation. Calendar year-end companies with plans that have measurement dates prior to the issuance of a final Statement may have to re-perform actuarial work in order to comply with the proposed year-end disclosures. The Board should also allow implementation of the standard prospectively so that companies will not have to incur additional expense to gather and calculate data for prior years. For these reasons, we believe the Board should delay the effective date of any final rules for one year. However, if implementation is required for the December 31, 2003 fiscal year, then consideration should be given to postpone the effective date for a company's non-U.S. plans as more time will be needed to gather the necessary information.

We believe the issue with pensions is not just disclosure, but rather the current accounting model. We will be sending a separate letter outlining our comments on pension accounting.

If you have any questions, or would like to discuss further, please do not hesitate to contact me.

Very truly yours,

Joseph A. Tiesi
Vice President and Controller

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