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May 31, 2006

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LETTER OF COMMENT NO. 138

Technical Director
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

Subject: File Reference No. 1025-300
Proposed Statement of Financial Accounting Standards: Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans

Dear Ms. Bielstein:

On behalf of Public Service Enterprise Group Incorporated (PSEG) we appreciate the opportunity to comment on this exposure draft (ED). We support the FASB's intention to readdress accounting for pensions and other postemployment benefits (OPEB) in an effort to improve the understandability and representational faithfulness of financial statements. However, we have significant concerns about the proposed changes and the effective dates of the changes.

EXECUTIVE SUMMARY

The pension and OPEB issues are complex, and resolving them will require substantial deliberation. In its present form, the ED will have a significant impact on companies' financial statements. The significant impact results from the presumption that certain pension and OPEB measures, like the projected benefit obligation (PBO) and the accumulated postretirement benefit obligation (APBO), represent fair market value of a company's obligations at the balance sheet date. The FASB indicates that the measurement of the benefit obligations, as well as other issues, will be debated after issuance of this standard in the Phase II project. Therefore, the FASB is essentially proposing that companies implement a standard that may result in incorrect financial statements in the interim.

While we understand that proper accounting takes precedence over the public policy impacts of new standards, we cannot ignore the potential impact to employees resulting from moving quickly rather than prudently, especially if the issuance of this ED results in incorrect financial reporting. This standard will not cause employers to fund pension and OPEB plans, but rather to reduce plan benefits in order to alleviate the impact to their balance sheets.

We do not agree that the underfunded PBO and the underfunded APBO are the appropriate fair market value measures of a company's liabilities at the financial statement date. Because they are based on assumptions of future costs that have not been incurred, these measures do not meet the definition of a liability under the GAAP conceptual framework. For pensions, we believe the accumulated benefit obligation (ABO) represents the most relevant measure for use in determining a company's liability at the balance sheet date, and meets the definition of a liability under GAAP.

For the reasons noted above, the FASB should delay issuance of this standard, and take the time to fully deliberate all of the issues in a single, comprehensive project. We believe that issuance of this ED will create incorrect financial statements, and will have a negative impact on employees, and the overall credibility and integrity of financial statements.

TWO PHASED PROJECT APPROACH

How can the FASB propose a change in accounting for pension and OPEB costs and obligations if the measurement and recognition of such items is not being deliberated until Phase II? By requiring this change in accounting in advance of Phase II, the Board is either deciding that the underfunded PBO and APBO are the appropriate measures of a company's pension and OPEB liabilities at the balance sheet date, or is willing to accept that financial statements may be incorrect in the interim. Both of these conclusions are problematic because such a piecemeal GAAP approach could have negative consequences for employees and the credibility and integrity of financial statements.

In paragraph B17, the Board discusses the factors it considered in deciding to change the accounting and rely on the PBO as the appropriate measure of the benefit obligation before deliberation of the issue in phase II. The five factors presented are not persuasive, and have been at issue since the implementation of FAS 87 for pension accounting.

The FASB should consider the implications the financial statement impact may have on commitments made to employees under benefit plans. Because it is presumed that the PBO and APBO are the appropriate for measuring the benefit obligations, and the amount of unrecognized costs is based on these measures, companies will incur an equity charge at adoption that is based on measurements of obligations that do not meet the definition of a liability under GAAP. This will likely cause a reaction that is in direct conflict with the public policy issue around plan underfunding. The PBO and APBO are impacted by plan amendments, assumption changes such as plan discount rates, and plan asset performance. The only factor impacting the PBO and APBO, within a company's control, is the ability to amend plans. Therefore, while Congress intends to protect employees by developing legislation to mandate funding, companies may instead implement plan reductions to lower their PBOs and APBOs to protect their balance sheets. This ED will have a very real economic impact on companies and their employees. The FASB should delay the issuance of this standard to assure the accuracy of the financial statement result. Accuracy should take precedence over speed.

We believe that understandability of pensions and OPEB accounting is an issue that is not fully addressed by this ED. The existing and proposed accounting standards do not sufficiently help the financial statement users understand pension and OPEB measures such as ABO, PBO and the APBO. There is very little explanation of how these items impact the derivation of current period pension and OPEB expense. Financial statement disclosure should be enhanced to explain these concepts for the financial statement user. Moving these elements to the balance sheet prematurely will not improve understandability.

MEASUREMENT OF THE BENEFIT OBLIGATIONS

For pensions, the underfunded PBO does not meet the definition of a liability under GAAP. Concept Statement No. 6 states that, "Liabilities are probable future sacrifices of economic benefits arising from present obligations of a particular entity to transfer assets or provide services to other entities in the future as a result of past transactions or events."

Because the underfunded PBO incorporates assumptions about projected future salary levels, there is no current commitment to transfer assets as a result of past transaction or events in this measurement. Providing a defined benefit plan does not commit an employer to salary increases in an at-will employer/employee arrangement. Salary increases are discretionary, and result in increased costs and liabilities at the time they are granted, not at the time they are anticipated or projected. A company is under no obligation to transfer assets to settle the PBO as of the balance sheet date. Requiring recognition of a liability based on the PBO would overstate the fair value of a company's pension obligation.

Paragraph B17 of the Exposure Draft states, "The Board concluded in Statement 87 that the projected benefit obligation is the most relevant measure of the benefit obligation." We do not agree with this interpretation of FAS 87. In paragraph 143 of FAS 87, The Board concluded that, although the obligation created when an employee renders service *is a liability, Concept Statement No. 3, which was superseded by Concept Statement No.* 6, did not resolve the issue of whether the measurement of that liability should consider future compensation levels. Although the Board concluded, at the time, that estimated future compensation levels should be considered in measuring the service cost component and the projected benefit obligation, they also concluded that the ABO should be the basis on which to record a minimum pension liability. We do not believe that the PBO meets the Concept Statement No. 6 definition of a liability.

The ABO measurement does meet the definition of a liability. It is also a more faithful representation of real-world economic value because at the financial statement date, only the ABO could be settled in an exchange with an insurance company. That exchange value would represent the fair value of the liability at any particular date. This concept is supported in paragraph 117 of FAS 87 which states that "Fair value provides the most relevant information that can be provided for assessing both the plan's ability to pay benefits as they come due without further contributions from the employer and the future contributions necessary to provide for benefits already promised to employees." We support the continued use of the ABO to determine the minimum pension liability until a full deliberation of the measures.

With regard to OPEB, the APBO is not a relevant measure because, like the PBO, it contains assumptions about future cost escalation that has not been incurred. Additionally, the postretirement benefits are readily cancelable by the company at any time. There is no contract to provide such future benefits further supporting the argument that the projected obligation should not be used to measure the current liability. As noted in the ED, there is no equivalent measure for OPEB equivalent to the ABO. The FASB should not simply default to the APBO as the most appropriate measure of the current liability, but should instead focus its efforts on developing the appropriate measure that would become the basis for recording postretirement costs and obligations.

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In conclusion, we believe that the FASB should delay issuance of this standard because it will initially result in incorrect financial statements. This piecemeal GAAP approach may have a negative impact on employees via a reduction in plan benefits and ultimately confuse financial statement users thereby undermining the credibility and integrity of financial reporting. We urge the FASB to consider guidance to expand and improve financial statement disclosure of pension and OPEB measures, and how these measures impact the derivation of period costs and obligations.

Thank you for considering our comments.

Sincerely,

Thomas M. O' Flynn
Executive Vice President and Chief Financial Officer

Patricia A. Rado
Vice President and Controller