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Technical Director – File Reference No. 1025-300
Financial Accounting Standards Board
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LETTER OF COMMENT NO. 142

File Reference No. 1025-300
Proposed Statement of Financial Accounting Standards: *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans – an amendment of FASB Statements No. 87, 88, 106, and 132(R)*

WellPoint, Inc. (“WellPoint”) is the largest health benefits company in terms of commercial membership in the United States, serving over 34 million members as of March 31, 2006 and with total revenues of \$45.1 billion for the year ended December 31, 2005. WellPoint appreciates the opportunity to comment on the exposure draft (the “Exposure Draft”) of the FASB’s (the “Board”) proposed Statement of Financial Accounting Standards, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans – an amendment of FASB Statements No. 87, 88, 106, and 132(R)*.

Our response is organized as follows:

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Summary

We commend the Board in its continuous effort to improve accounting and financial reporting in the complex area of pension accounting. We generally concur with the Board's intent of the Exposure Draft to require companies to fully recognize its obligations under the benefit plans in the financial statements and to provide greater transparency in accounting and financial reporting. However, we disagree that such recognition should occur before the Board has concluded Phase 2 of its comprehensive review of accounting and reporting for benefit plans, and we disagree with proposed changes to the measurement date. We outline our basis for this opinion below.

We have also responded to the specific issues raised in the Exposure Draft for which the Board requested comments. We have arranged our responses to those items in the order provided in the Exposure Draft.

Concerns over Certain Concepts in Exposure Draft

Recognition of the Funded Status of Benefit Plans

Paragraph 4.a. of the Exposure Draft states that a benefit plan sponsor shall recognize the overfunded or underfunded status of the plan as the difference between the fair value of plan assets and the benefit obligation. The benefit obligation for a pension plan shall be the projected benefit obligation ("PBO"). The PBO, unlike the accumulated benefit obligation ("ABO"), contains provisions for future salary increases of the plan participants. This concept causes several issues:

1. *We believe that recognition of the funded status of pension benefit plans based on the PBO is inconsistent with the true measure of a liability as of the financial statement date.* Paragraph 36 of FASB Statement of Financial Accounting Concepts No. 6, *Elements of Financial Statements* ("CON 6"), provides the following as the definition of a liability:

"A liability has three essential characteristics: (a) it embodies a present duty or responsibility to one or more other entities that entails settlement by probable future transfer or use of assets at a specified or determinable date, on occurrence of a specified event, or on demand, (b) the duty or responsibility obligates a particular entity, leaving it little or no discretion to avoid the future sacrifice, and (c) the transaction or other event obligating the entity has already happened."

With respect to the portion of the PBO represented by the estimate of future salary increases, we do not believe that the definition of a liability is met, because the company has not incurred an obligation to increase the salaries of plan participants in the future. Salary increases are generally driven by market conditions and the company's overall compensation package. Future compensation increases could be made in the form of increased equity compensation (a concept often seen in compensation packages of technology companies) or increased incentive compensation rather than base salary. If the pension benefit formula does not consider equity compensation or incentive

compensation, the future benefit calculation should theoretically be based on the current salary level, even though the employee is receiving increases in total compensation in future periods.

2. *The PBO does not represent the amount at which the pension liability would currently be settled.* When an employer freezes a defined benefit plan, the liability for future benefits does not contain any provision for future salary increases. Similarly, if an employer settles a current pension liability through a third party (e.g., an insurance company), the determination of the settlement amount would not contain a provision for future salary increases since the third party would not be obligated for such increases.
3. *Use of the PBO is inconsistent with the current concept for pension accounting.* Statement of Financial Accounting Standards No. 87, *Employers' Accounting for Pensions* ("SFAS 87"), already requires the partial recognition of the funded status of a pension plan if the ABO exceeds the fair value of the plan assets. Until a more comprehensive review of pension accounting issues is completed during Phase 2, including reconsideration of the valuation of these obligations, we believe that the ABO should be used to measure recognition of the funded status of the pension plan, which continues with the current concepts outlined in SFAS 87.

In light of the issues discussed above, we believe that the proposed requirement to recognize the funded status of a pension plan based on the PBO would result in the recognition of an overstated liability if the Exposure Draft is finalized without a more comprehensive review of pension accounting issues during Phase 2 of the Board's project.

We do not believe it is appropriate to separate the pension accounting project into two phases whereby Phase 1 would require the recognition of liabilities that are reasonably expected to be changed in Phase 2 of the project. Given the increased disclosure requirements related to pension plans, all of the information necessary for a financial statement user to make an informed decision is already contained within the footnotes to the financial statements.

Accordingly, we request the Board reconsider the issuance of the proposed standard until a more comprehensive review of pension and other postretirement benefit plan accounting has been completed.

Measurement Date

The valuation of benefit plan obligations involves a complex analysis of various factors including the demographics of the participants, estimation of timing and extent of future events (e.g., benefit payments and turnover) and evaluation of the impact of internal and external factors on valuation assumptions. In addition, benefit plan valuations are dependent on the interplay of potentially large asset portfolios (if the plan is funded) and related liabilities. The requirement to measure benefit plans as of the date of the

statement of financial position creates additional burden for asset custodians, actuarial firms, and financial statement preparers, without providing significant additional value to the fair reporting and disclosure of the company's financial position in all material respects.

Impact on Benefit Plan Assets

Benefit plan assets are generally held by custodial firms who use sophisticated systems to administer their clients' investment portfolios. Despite these sophisticated systems, the valuation of large or complex investment portfolios generally requires between a few days to several weeks to complete due to the sequence of events that is involved in the valuation:

- The custodial firms are often dependent on valuations of publicly traded securities from independent pricing services or brokers. These automated feeds are then subjected to several controls to ensure their accuracy.
- Securities that are not publicly traded must be valued using a number of valuation tools. While a majority of these tools are also automated, certain of them require manual intervention.
- Once all securities have been valued, the portfolio's total asset value is then transmitted to the actuarial firm for inclusion in the valuation of the benefit plan (the benefit plan valuation requires the comparison of the actual return on plan assets to the expected return on plan assets to determine the amount of deferral of asset gains/losses).
- The actuarial firm in turn will also require a certain amount of time to perform and validate the overall benefit plan valuation.

As a result of this sequence of valuation steps, even under optimal circumstances, it is impractical for the valuation of a large or complex benefit plan to be completed in less than one to two weeks without having significant non-value added costs. For companies such as WellPoint that sponsor various funded benefit plans, this process must be repeated multiple times.

Many companies report their earnings and financial condition within two or three weeks after their fiscal year end. That means that if the measurement date provisions of the Exposure Draft are retained in the final standard, many companies would possibly have to delay the reporting of their earnings and financial position to allow sufficient time to receive the valuation results, record them in the general ledger, subject them to their normal financial control procedures, and aggregate and analyze the data for external reporting. This delay in external financial reporting is contrary to the U.S. Securities and Exchange Commission's attempts to encourage companies to accelerate external reporting to provide investors with more timely information.

In addition to possibly causing delays in reporting, the measurement date requirement could also result in reporting inaccurate or incomplete information. Due to the complexity involved in valuing large, complex portfolios, asset managers sometimes revise the valuations subsequent to the initial reporting. Plan sponsors have very limited

ability to validate the reported amounts within the compressed timeframe. Allowing for the measurement date to precede the fiscal year end by up to 90 days provides all parties involved the ability to properly perform all required controls to ensure accurate financial reporting.

Impact on Benefit Obligations

The benefit obligations are impacted by a number of variables including the selection of the discount rate and the analysis of the demographic data of the plan participants. The Exposure Draft requires the discount rate to be selected as of the measurement date, but the aggregation of the demographic data of the participants can occur at an earlier date (often a full year earlier on January 1). That means that companies will be required to use a discount rate as of the measurement date, but can continue to use potentially outdated demographic data. We do not mean to underemphasize the importance of using a current discount rate, or to suggest that the final standard should also require using demographic data as of the fiscal year end, but it appears that the requirement to use a discount rate as of the fiscal year end rather than up to 90 days earlier suggests that this will result in a more precise calculation of the benefit obligations. This might erroneously imply to the users of financial statements that the estimated obligations more closely approximate the ultimate actual obligations and, thus, that the financial statements contain less risk. We believe that the estimation of the benefit plan obligations is just that, an estimation, and the accuracy of the estimate is only as accurate as all of the factors taken as a whole. Changing the timing of one of the factors, in our opinion, will not result in better data if the timing of other critical factors is left unchanged.

Furthermore, many companies, including WellPoint, use a yield curve approach to determine the appropriate discount rate at the measurement date. The yield curve analysis typically is not available until one or two weeks after the measurement date and must then be matched against projected cash flows to determine the appropriate discount rate. Due to varying cash flows for different benefit plans, this process must be performed for each plan separately, which can take several days to complete.

As a result of the above issues, we urge the Board to reconsider the requirement in the Exposure Draft that the measurement date must coincide with the employer's fiscal year end. We believe that the consistent use of a measurement date no more than 90 days prior to fiscal year end will continue to provide materially accurate accounting and financial reporting.

Other Considerations Related to the Measurement Date Concept

1. The Board requested information from companies on the expected cost of implementing the Exposure Draft in *Issue 1*, above. The requirement to measure benefit plans as of the financial statement date rather than allowing a measurement date of up to 90 days prior will result in a significantly increased volume of benefit plan valuations in January due to the fact that most companies' fiscal year ends on December 31. This will primarily cause a burden on actuarial

firms, which will possibly need to change their staffing levels to accommodate this peak demand. We anticipate that actuarial firms will increase their fees for valuations of benefit plans as of December 31. We cannot estimate the magnitude of such fee increases, but we urge the Board to obtain additional information on this issue during the roundtable discussions on the Exposure Draft to evaluate all costs of implementation of this new standard.

2. Paragraph 5 of the Exposure Draft states “An employer that is a business entity that sponsors a defined benefit pension plan or other postretirement benefit plan shall measure plan assets and benefit obligations as of the date of the employer’s statement of financial position...” Given that companies report their financial position at various dates during the year (i.e., in interim financial reports) and, thus, have various “dates of statements of financial positions,” the requirement could be interpreted that a valuation of the benefit plan must be performed at each interim reporting date. If the Board maintains the proposed measurement date concept in the final standard, we suggest that the wording in paragraph 5 of the Exposure Draft be changed to indicate that employers shall measure their benefit plans as of the date of their fiscal year end.

Tax Effects of the Exposure Draft

In situations where the balance sheet recognition provisions of the Exposure Draft result in the recognition of additional deferred tax assets and the company determines that a valuation allowance should be recorded for those incremental deferred tax assets, we believe the applicable accounting guidance requires that this valuation allowance be recorded through other comprehensive income. However, in future periods, potential changes in the valuation allowance would be required to be recognized through income tax expense in the income statement and no “backward tracing” would be allowed. Because of the inherent uncertainty related to the level of the actual benefit liability, we believe that an exception should be allowed such that changes in the valuation allowance on a deferred tax asset related to the initial adoption of the proposed standard should be recognized in the same manner it was established (i.e., by an adjustment to other comprehensive income).

Specific Issues Identified by the Board

With respect to the specific issues raised in the Exposure Draft, we provide the following responses for the Board’s consideration.

Costs of Implementing the Proposed Statement’s Requirement to Recognize a Plan’s Overfunded or Underfunded Status in the Employer’s Statement of Financial Position

Issue 1: Do you agree that implementation of this proposed Statement would not require information (other than that related to income tax effects) that is not already available, and, therefore, the costs of implementation would not be significant? Why or why not?

We believe that most of the information required for implementation of the Exposure Draft is generally readily available. However, for calendar year-end companies whose measurement date is currently prior to December 31, to estimate net periodic benefit cost for 2007 recognition purposes, an additional valuation will be required as of December 31, 2006. While some of the data used in the valuation can be projected forward to December 31 (see paragraph B40 in the Exposure Draft), we believe that the change in measurement date will require incremental costs that would not otherwise be incurred.

We also refer you to the discussion of expected incremental costs under the heading "Measurement Date" above.

The Employer's Measurement Date

Issue 2: Are there any specific implementation issues associated with this requirement that differ significantly from the issues that apply to other assets and liabilities that are recognized as of the date of the statement of financial position?

See the discussion above under the heading "Measurement Date."

Effective Dates and Transition

Recognition of the Overfunded or Underfunded Status

Issue 3(a): Should the Board provide an impracticability exemption related to the assessment of the realizability of deferred tax assets? Why or why not? Are there other reasons that retrospective application might be impracticable that the Board should be aware of?

We concur with the Board that the final standard should contain an impracticability exemption related to the assessment of the realizability of deferred tax assets. The concept of valuation allowances on deferred tax assets includes a significant degree of judgment at the reporting date. This judgment could not be replicated at periods subsequent to the reporting date without the influence of hindsight. Accordingly, we believe that management of a company would not be able to determine today, with the benefit of hindsight, whether a valuation allowance would have been recorded at an earlier period.

We do not believe that other situations exist that would require an impracticability exemption.

Issue 3(b): The Board is interested in gathering information for use in determining the time required to implement this proposed Statement by entities that have arrangements other than debt covenants that reference metrics based on financial statement amounts, such as book value, return-on-equity, and debt-to-equity. That information includes (a) the types of contractual arrangements that would be affected and what changes to those arrangements, if any, would need to be considered, (b) how the economic status of postretirement plans that is presently included in note disclosures is currently considered in those arrangements, and (c) how the effects of the current requirement in Statement 87

to recognize a minimum pension liability previously were addressed for those contractual arrangements.

We do not have any relevant information to contribute for the Board's consideration of this issue.

Measurement Date

Issue 4: Are there any specific impediments to implementation that would make the proposed effective date impracticable for a public entity? How would a delay in implementation to fiscal years ending after December 15, 2007, alleviate those impediments?

WellPoint is a calendar year-end company and currently uses a September 30 measurement date. As discussed above, we do not believe the requirements in the Exposure Draft with respect to the change in measurement date add significant value in financial reporting that would justify such a change. Furthermore, the requirement to apply this provision to fiscal years beginning after December 15, 2006 (i.e., 2007 in our case) would cause significant burden on our financial reporting personnel and our actuarial firm.

The Board stated in the Exposure Draft that it intends to issue a final standard in September 2006. The requirement to change our measurement date to December 31 would require us to perform a valuation as of December 31, 2006, to determine the amount of net periodic benefit cost for 2007. We currently sponsor almost 20 benefit plans for which we would have to coordinate obtaining a December 31 valuation after the final standard has been issued. Similarly, our actuarial firm would also need to prepare for these additional valuations, in addition to new valuations for their other clients who currently use a measurement date other than December 31. We believe the three-month period between the anticipated issuance of the final standard and December 31, 2006 is not sufficient to properly plan for and perform the additional valuations that would be required as of that date.

A delay in implementation to fiscal years ending after December 15, 2007 would not alleviate this problem for calendar year-end companies, because the net periodic benefit cost for 2007 would still have to be based on a December 31, 2006 valuation. If the Board maintains the measurement date concept in the final standard, we urge the Board to consider requiring the implementation of such concept in the fiscal year beginning after December 15, 2007 (i.e., 2008 for calendar year-end companies) to allow all parties involved sufficient time to plan for this change.

Not-for-Profit Organizations and Other Entities That Do Not Report Other Comprehensive Income

Issue 5: Do you agree that those standards provide appropriate guidance for such entities? If not, what additional guidance should be provided?

While *Issue 5* is not applicable to WellPoint, we believe the proposed Exposure Draft

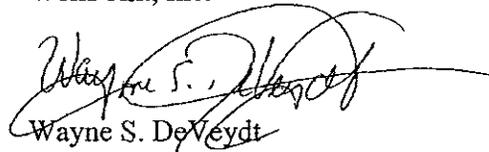
does provide sufficient information for not-for-profit organizations and other entities that do not report other comprehensive income.

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We appreciate the opportunity to comment on this proposed standard and hope the Board finds our responses helpful. Should you have any questions on our comments or wish to discuss any of our responses with us directly, please contact Wayne DeVeydt directly at 317/488-6770.

Very truly yours,

WellPoint, Inc.

A handwritten signature in black ink, appearing to read "Wayne S. DeVeydt", written over a horizontal line.

Wayne S. DeVeydt
Senior Vice President
and Chief Accounting Officer

Copy to: Mr. David C. Colby
Executive Vice President
and Chief Financial Officer