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Phoenix Life Insurance Company A member of The Phoenix Companies, Inc.

Technical Director Financial Accounting Standards Board 401 Merritt 7 P.O. Box 5116 Norwalk, CT 06856-5116 Re: File Reference No. 1025-300

LETTER OF COMMENT NO. 195

Dear Technical Director:

The Phoenix Companies Inc. would like to offer our comments on the current FASB exposure draft, Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans.

The Phoenix Companies Inc. is a leading provider of life insurance, annuity and asset management products for the accumulation, preservation and transfer of wealth. Through a variety of advisors and financial services firms, the company provides products and services to affluent and high-net-worth individuals and to institutions. With a history dating to 1851, The Phoenix Companies, Inc. has two principal operating subsidiaries, Phoenix Life Insurance Company and Phoenix Investment Partners, Ltd. The company also offers private placement insurance products through Philadelphia Financial Group, a wholly owned subsidiary. Phoenix has corporate offices in Hartford, Connecticut.

Our comments are presented below:

#### **General Comments**

We support the FASB's objective of improving transparency and agree with the objective of improving understandability and representational faithfulness of amounts reported on the balance sheet. We also agree that the current accounting models for defined benefit pension and other postretirement benefit plans ("OPEB") do not accurately reflect the economic value underlying employer-sponsored defined benefit plans.

We acknowledge that the FASB's proposal to recognize the funded status of the plan on the balance sheet provides a better representation of the current economic status of the plan as compared to the current accounting model. However, we do not necessarily feel that this treatment represents the most accurate economic picture of the plan.

We believe that the accumulated benefit obligation ("ABO") may represent a better measure of the value of employee benefits as of the measurement date than the projected benefit obligation ("PBO") currently used in the funded status calculation. The PBO overstates the company's liability at the balance sheet date by including the effect of salary growth that is earned only if the employee renders future service.

The ABO is a better measure of a financial statement liability under paragraph 36 of FASB Concept Statement No. 6. ("CON 6") because it excludes the impact of future salary and service benefits. Paragraph 36 states the following:

A liability has three essential characteristics:...(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."

By including assumptions for future employee salaries and benefits, the PBO conflicts with CON 6 because these amounts do not represent obligations that employers have little discretion to avoid in the future, and because the event causing the liability (i.e., salary increase) has not yet happened.

While we acknowledge that reporting the funded status is an improvement over the current accounting model, we feel that it is premature for the FASB to conclude that the funded status is the economic measure of the plan.

The Phoenix would like to offer our comments on certain specific issues raised by the Board in the exposure draft, as follows:

## Issue #1:

Do you agree that the cost of implementing this standard would not be significant because the information required to be presented is largely available?

## Response:

We agree that there will be very little implementation cost to companies associated with adopting this guidance on a go-forward basis. However, we feel that requiring restatement will be burdensome from a cost and effort standpoint. For instance, restating prior year earnings to charge the unamortized transition asset or obligation to beginning retained earnings will have companies incur significant costs because other balances would have to be restated (i.e., DAC amortization). We recommend that the FASB should consider permitting the unamortized transition asset or liability to be charged against other comprehensive income in a manner consistent with the treatment of actuarial gains/losses and prior service cost.

### Issue #2:

Are there specific implementation issues associated with the requirement to align the plan's measurement date with the financial statement date?

# Response:

The insurance industry is a heavily regulated industry, and as such, companies have short timeframes to complete both statutory compliance reporting and GAAP financial statements. The earlier measurement date affords companies the ability to produce timely financial data. Changing the measurement date would be burdensome because of the additional work involved in gathering accurate information in finalizing actuarial computations. Also, changing the measurement date would likely provide little

improvement in the outcome of the calculation in the company's financial statements given the fact that the determination of both the ABO and PBO is statistical in nature and relies heavily upon estimates and assumptions. Therefore, we recommend that the FASB reconsider the requirement to align the measurement date with the financial statement date. If the earlier measurement date is used, the requirement should be to adjust the discount rate and long-term asset return rate if current market conditions at financial statement date has significantly changed from the measurement date.

#### Issue #3a:

Should the Board provide an impracticability exemption related to the assessment of the realizability of deferred tax assets? Are there other reasons that retrospective application might be impracticable?

### Response:

The assessment of the realizability of deferred tax assets is not a significant issue for us and therefore have no comment. However, as we stated above, we believe that there are other reasons that could make the retrospective application impracticable. Specifically, prior year restatements of curtailments and settlements may become impracticable in cases where DAC amortization becomes affected by the restatement.

#### **Issue #4:**

Are there specific impediments to implementation that would make the proposed effective date impracticable? How would a delay alleviate those impediments?

# Response:

As stated previously, significant cost and time would be expended due to the retrospective requirement for specific transactions such as settlements and curtailments as well as the impact on other financial statement calculations due to the restatement of prior year earnings. Additionally, changing the measurement date for the 2007 net periodic benefit cost calculation so late into the current year will require significant work because two measurement calculations must be made. There will be a significant increase in third party consultant costs. Therefore, we recommend that the effective date for the proposed standard be delayed to fiscal years ending after December 15, 2007 in order to allow companies sufficient time to address all of the issues with the implementation of this standard.

#### Recommendations

First, we recommend that the FASB consider the use of the ABO in the funded status calculation to be recognized on the balance sheet in lieu of the PBO. We feel that the ABO is a better measure of a company's current obligation because it is a better measure of a liability under CON 6 as compared to the PBO.

Second we believe that the FASB should eliminate the requirement to align the measurement date of the plans with the financial statement date. We do not believe that changing the measurement date will significantly improve the data used.

Third, we believe that the effective date of the guidance should be delayed to fiscal years ending after December 15, 2007 in order to allow companies adequate time to implement this standard, especially if restatements to prior years have to be made.

We appreciate your consideration for these comments. Should you have any questions or wish to discuss our concerns in greater detail, please feel free to contact us.

Sincerely,

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