May 16, 2006

Technical Director
Financial Accounting Standards Board
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By email to director@fasb.org, File Reference No. 1025-300


Dear Sir or Madam:

Buck Consultants, an ACS Company (“Buck”), is pleased to submit these comments on the subject proposed standard, the first phase of a proposed two-phase project to reexamine all aspects of pension and other postretirement benefit (OPEB) accounting. Buck is a leading global employee benefits and human resources consulting firm that provides assistance to many employers that sponsor retirement and OPEB plans. Many of our clients would be significantly affected by the proposed changes to FASB Statements No. 87, 88, 106, and 132(R).

In brief, we strongly disagree with FASB’s two-phase approach to amending pension and OPEB standards because it could significantly distort the pension and OPEB obligations presented in the balance sheet. We limit our comments primarily to this central issue.

The Board undertook this project to address the dissatisfaction of many statement users with current standards and to converge U.S. standards with international standards. Phase 1 addresses balance sheet issues while Phase 2 will address income statement and measurement issues. The Proposed Standard calls for reporting as balance sheet assets and liabilities items that now appear in the footnotes. However, the Board has not yet studied the suitability of that information for presentation in financial statements.

From our perspective as actuaries and benefit plan consultants, inclusion in the balance sheet of liabilities as required under the Proposed Standard would overstate the value of the obligation in many instances, and would thereby be likely to generate unwarranted adverse effects on employees, employers, investors, and other users of the financial statements.
We urge the Board to withdraw the Proposed Standard and readdress all pension and OPEB issues in a comprehensive manner, taking into account the conceptual framework that the FASB and IASB are developing.

On another note, we believe that the proposal to eliminate early measurement dates poses practical difficulties. We address both concerns below.

**Discussion**

*The Proposed Standard would not improve, and could actually worsen, reporting in many instances because it does not address serious measurement issues that the Board will only consider in Phase 2 of the project.*

By mandating balance sheet changes before the Board considers the measurement issues, preparers would bring into the balance sheet numbers of doubtful value. As a consequence, transparency would not be improved and could actually be worsened.

The Proposed Standard would measure the pension liability as the projected benefit obligation (PBO) and the OPEB liability as the accumulated postretirement benefit obligation (APBO). We believe that neither is an appropriate measure for a liability in a market-value-oriented balance sheet. Although the use of inappropriate measures might be corrected in Phase 2, needless damage to employers and employees will already have occurred.

**Using the PBO to measure the pension obligation**

The PBO is an intermediate result in the determination of net periodic pension cost. It arises from an actuarial funding technique that long predates SFAS No. 87 and was intended to generate company contributions that were smooth and stable, as a percentage of payroll, over time. It was not designed to be a measure of liability in a legal or accounting sense. In developing SFAS No. 87, FASB embraced the PBO primarily as an intermediate step in developing net periodic pension cost, and not as a measure of a balance sheet liability.

The inclusion in a balance sheet liability of an allowance for future salary growth appears to be in violation of Paragraph 36 of Concept Statement 6. Furthermore, inclusion of salary growth

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1 The ABO or accumulated benefit obligation is the value of pension benefits accrued to date. The PBO or projected benefit obligation is the value of benefits accrued to date with an allowance for future salary growth if the benefit is pay-related. The APBO or accumulated postretirement benefit obligation is the value of benefits including an allowance for future salary growth in pay-related benefits and future health care cost inflation in post-retirement medical benefits.

2 Paragraph 36 of Concept Statement 6 provides –
“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.”
does not accurately reflect the terms of the employment agreement between employer and employee, nor does it provide shareholders with the best representation of their obligation.

We believe that the Board may reasonably conclude, in its Phase 2 deliberations, that the PBO is inappropriate and may substitute the ABO, the vested benefit obligation, or some other measure that will differ significantly from the PBO in many situations.

Measuring the OPEB obligation

Unlike most U.S. funded pension plans, retiree health and life insurance benefits are usually rescindable, in whole or in part, by the employer. Evidence of unilateral cutbacks in OPEB obligations is all around us. Yet the APBO includes an allowance for future medical cost inflation on current benefit promises and it discounts the projected benefits at high-quality-bond rates as if they had the same guarantees as ERISA-funded pensions. We understand that analysts reflect OPEB obligations that may differ from the accrued liabilities on the balance sheet, but they do not necessarily include the full value of the unfunded APBO as it appears in the footnotes. Under the proposed standard, those analysts presumably would subtract some part of the APBO to reflect the economic reality of the employer’s limited promise.

Thus the Proposed Standard’s changes to the balance sheet would not improve transparency; they would merely change the adjustments analysts have to make. To the extent that unsophisticated investors are ill served by the current standard, their situation would be no better, and might even be worse, under the Proposed Standard. We recommend that the Board consider approaches to reflecting the rescindable nature of OPEB promises, as for example by using a discount rate higher than a rate representative of the market for high-quality corporate bonds.

Discounting the PBO and APBO obligations at high-quality-bond rates

We mentioned that the APBO now appearing in the footnotes to financial statements is probably too conservative a measure of a rescindable OPEB obligation, and that one method of correcting for that conservatism would be to re-measure the APBO using a higher discount rate. The use of a high-quality-corporate-bond rate to discount OPEB benefits (and certain pension benefits) is often unduly conservative for another reason: the benefit promises are less secure than high-quality corporate debt.

In the case of funded and guaranteed pension benefits, high-quality-bond rates may be appropriate (assuming the obligation itself is defined properly to exclude future salary growth) because the obligation is usually backed by substantial assets and, ultimately, by the Pension Benefit Guaranty Corporation in the event of employer default. However, in the case of unfunded pension and OPEB benefits, high-quality-bond rates are only appropriate if the company’s unsecured debt is similarly rated and the benefits are not rescindable.
Elimination of measurement dates in advance of the statement date poses practical problems.

Some preparers will have difficulty complying with the measurement date change, typically because of difficulties obtaining some or all of the required asset information promptly after the statement date. We are aware of situations in which there have been delays obtaining information with respect to assets held by insurance companies, assets held overseas, and plans whose reporting period differs from the fiscal year of the employer. In some instances, there may also be practical problems that pertain to the determination of plan obligations.

Under the Proposed Standard, an employer that measures assets and liabilities in advance of its statement date would have to perform measurements at both the beginning and end of the interim transition period. We believe the transition could be simplified - with minimal impact on financial results - if assets and liabilities could be measured at the statement date (say December 31) without requiring a measurement at the earlier measurement date (the immediately preceding September 30).

Whether or not the Board withdraws the Proposed Standard and instead takes up a comprehensive one-phase pension and OPEB project, as we suggest, these measurement issues need to be addressed.

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We are pleased to offer these comments on the Exposure Draft and are prepared to respond to any questions you may have with respect to them.

Sincerely,

Lawrence Sher, F.S.A.
Principal, Director of Retirement Policy