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October 29, 2010

Mr. Russell Golden Technical Director File Reference No. 1860-100 FASB 401 Merritt 7 P.O. Box 5116 Norwalk, Connecticut 06856-5116

Re: File Reference No. 1860-100

Dear Mr. Golden:

Thank you for the opportunity to submit comments regarding the Disclosure about an Employer's Participation in a Multiemployer Plan ("Multiemployer Proposal"). Our comments focus on the pension plan portion of the proposed changes.

We believe that the proposed disclosure requirements will result in the dissemination of information that is not only costly and onerous to gather, but will be misinterpreted and misunderstood by the users. It is our view that if enacted, the current FASB proposal will likely have some consequences that jeopardize the health of the impacted plans and the benefits of the participants that depend on them.

We have seen this occur in the past when FAS 87 and FAS 106 changed the financial statement reporting for single employer plans. In the case of single employer plans, they are indeed obligations of the employer. Multiemployer plans are different from their single employer counterparts and the nature of the obligation and how it is paid (including the assessment of withdrawal liability) is different as well. In our view, the FASB proposal falls short of recognizing and accounting for these important differences.

About Rael & Letson

Rael & Letson is a consulting firm that has been providing actuarial and benefits consulting advice to jointly represented union/management multiemployer Boards of Trustees in the Western US for nearly 50 years. Our multiemployer defined benefit clients span all industries in the multiemployer arena with more than 2,000 employers participating in these plans. These employers, some small, are able to deliver adequate and stable retirement income to relatively mobile workers largely because of the multiemployer pension plan vehicle which offers economies of scale and portability. Available alternatives to multiemployer defined benefit pension plans have higher employer costs, produce lower participant retirement benefits and/or transfer mortality risk to the participant.

Rael & Letson's View of FASB's Proposed Changes

Rael & Letson has no disagreement with FASB's goal to improve the transparency of financial statements and financial reporting to the readers and users of this information. We acknowledge that the role of the multiemployer defined benefit pension plan can be material to the understanding of the true net worth of a business now and in the future. As a result, we respect the view that change is needed to improve transparency.

At the heart of the issue, requiring more information on multiemployer pension plans, is when and how should employer withdrawal liability be disclosed? Currently, the employer's liability is disclosed when a company has withdrawn from a plan or it is probable that the employer will withdraw from a plan in the near future. Probable happens when there is an agreement to withdraw¹ because only then is withdrawal timing known and only then can the withdrawal liability assessment be determined with some accuracy. Until it is at least probable, the liability cannot be estimated with any accuracy. This is because withdrawal liability amounts are very sensitive to timing. Results can change significantly from one plan year to the next given asset volatility and liability volatility (many plans use market based interest rates).

For a construction industry employer, it would also need to be probable that the employer continue covered work in the same jurisdiction during the five years following withdrawal without resuming contributions to the plan. There are also other limits for other industries like entertainment.



It is also important to note that the default payment scheme for satisfying a withdrawal liability assessment is accomplished by a continuation of contributions for a period of time, with the length of that period dependent upon a known payment level and the employer's allocated withdrawal liability. Thus, what is predictable, available and comparable is the payment amount; what is not, is the liability and the payment period.

While with the right intentions, the current FASB proposal needs to be modified because it contains elements that are:

- Inconsistent
- Misleading
- Speculative
- Overbearing

FASB's Multiemployer Proposal appears to clearly require withdrawal liability disclosure regardless of the probability. On the other hand, FASB's Disclosure of Certain Loss Contingencies proposal is not clear as to whether the standard for reporting has been lowered to situations where only a remote possibility of withdrawal occurs. This inconsistency needs to be resolved.

FASB's requirement to report withdrawal liability **for all plans** will mislead analysts and lead to speculation. This is because:

- 1. There is no way to accurately forecast the probability of withdrawal when it is subject to collective bargaining and many other decision criteria
- 2. There is volatility in the underlying assets and liabilities resulting from timing differences (plan years are not the same and calculations are not processed with the same timing)
- 3. There is no withdrawal liability obligation for an employer until withdrawal occurs. Furthermore, for construction industry employers, there is no obligation unless and until an employer does work within the jurisdiction of the plan within a five-year period following withdrawal without resuming contributions to the plan.



There is also speculation involved in the required reporting under the Multiemployer Proposal when the potential obligations of withdrawn employers are reallocated to remaining employers. Again, there is no amount of data that will help assess risk with any accuracy as it relates to the occurrence of this event.

Finally, most all of the data that is requested is intended to assist the user with an assessment of the probability of a change in the fringe obligation resulting from withdrawal from multiemployer pension plans. Collection and cost of producing this information is significant and has no value if sound conclusions cannot be drawn from the data. As a result, we think it is important to eliminate:

Proposed Requirement	Rationale
Withdrawal liability estimate for each plan	See above
Total assets and accumulated benefit obligations of plans	Not relevant, overbearing
Narrative of how benefits are determined	Not relevant, overbearing
Whether the employer is represented on plan Boards of Trustees	Trustees have a fiduciary duty to act in the best interest of participants, overbearing, speculative
Narrative descriptions of any funding improvement or rehabilitation plans	No conclusions can be drawn from plans that have yet to be acted upon in bargaining, overbearing, speculative
Contributions as a percentage of total plan contributions	No value, overbearing
Information about the employer's participation in the plans	No value, overbearing



How Should the Proposal be Changed?

Rael & Letson believes that the following tenets should guide financial statement disclosure of multiemployer pension plan participation:

- 1. Help the reader understand the magnitude and relevance of the current obligation to multiemployer pension plans
- 2. Help the reader understand how these obligations are projected to change given reasonably estimable factors

The current obligation an employer has to a multiemployer pension plan is contractual. For union employees that participate in these plans, pension contributions are part of a wage package dictated by union/management negotiations that can only be changed through bargaining. For non-union employees that occasionally participate, a participation contract is present that can be changed prospectively by the employer as long as it meets Board directed rules (which are designed to avoid discrimination issues but permit contract cessation by the employer on relatively short notice).

What Rael & Letson believes is relevant to the financial statement reader regarding contractual obligations is the total cost of compensation (including fringes) and the employer's ability to handle these negotiated cash obligations. Not only is the magnitude of the total obligation important, but also the relationship of the fringe element to the total wage package.

As a result, Rael & Letson agrees that the contributions to these multiemployer pension funds should be disclosed for the current reporting period. We also think that this disclosure should be segregated between plans in which the employer is actively participating and plans from which the employer has withdrawn to establish the baseline for potential changes to this split. Finally, we suggest showing the percentage of the total wage package that the pension obligations represents in order to establish a baseline for understanding the potential effects of future multiemployer pension obligation changes.



Factors potentially influencing future pension obligation changes include:

- Projected work patterns
- Scheduled contribution rate changes
- Board adopted Funding Improvement Plans ("FIP") or Funding Rehabilitation Plans ("FRP")
- Future collective bargaining negotiations.

What is known or reasonably estimable are the first two items above, along with **implemented** Funding Improvement or Funding Rehabilitation Plans. FIPs and FRPs that have been adopted by the Board but not yet addressed in collective bargaining establish a range of pension outcomes with effects that cannot be measured. For example, most FIPs and FRPs include multiple recovery alternatives from which the bargaining parties can select. In such cases, the range of pension contribution increases can be highly variable. Furthermore, it is not possible to predict the extent to which wage or other fringe concessions will cover the funding of the required increases.

As a result, Rael & Letson suggests that the same information we recommended for the current reporting period be estimated for the next reporting period, recognizing only changes in projected work patterns, scheduled contribution rates¹, and bargaining implemented FIPs and FRPs. Where it is probable that an employer would withdraw, this amount would be shown under the withdrawn employers group.

To support these obligations, the user will find it important to know:

- Narrative including:
 - What current obligations are
 - Risks inherent in multiemployer pension plans
 - Contingent obligation from withdrawal and how it would arise
 - Possibility for assuming other employers obligations

Fringe increases that have not yet been allocated should not be reflected.



- Potential effects from Funding Improvement Plans and Funding Rehabilitation Plans
- How many multiemployer plans the employer is involved with including the number from which the employer has withdrawn and the number in which it is probable that a withdrawal will occur
- The number of plans in which the Board has adopted a Funding Improvement Plan or a Funding Rehabilitation Plan, segregating the number of these plans in which the employer has implemented the plan's requirements
- The annual payments that would be required in the event of withdrawal from all plans in which a complete withdrawal has not occurred or is not probable

Collectively, we believe this information will allow the user to discern any cash flow risks when it is reasonably estimable that the cost of fringes has increased or will be escalating. It will also alert the reader to potential fringe inflation trends by increases in the number of plans that will need to address funding shortfalls and/or withdrawal liability (once it is probable).

Finally, collecting this information will be relatively easy and information display will be manageable and fairly easy to standardize.

Conclusions

Our fear is that if subjected to the proposed reporting requirements, employers participating in multiemployer plans will be faced with bonding and surety challenges and these businesses will be unfairly judged. These business challenges will likely lead to multiemployer pension plan withdrawals and business closures. These closures in turn will likely result in plan insolvencies, participant benefit cuts (even for retirees) and the need for additional government and taxpayer help. These fears have been routinely and continuously voiced by employer Trustees over the last few months during our 30 presentations of this proposal to multiemployer Boards of Trustees.



The FASB proposal needs to be modified to resolve the inconsistencies with the Disclosure of Certain Loss Contingencies proposal. We believe the current standard for withdrawal liability reporting is appropriate and suggest that the proposed requirement to disclose estimated withdrawal liability amounts be replaced with a reporting of the withdrawal liability payment amount. In connection with the above change, much of the pension disclosure can be simplified or eliminated as much of the significant proposed pension detail will not improve the analytical quality of forecasts for those trying to assess and compare employer business health.

Sincerely,

Michael Clark, ASA, EA, MAAA

Michael R. Colock

President

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Consulting Actuary