1997

Comment letters on Employers' disclosures about pensions and other postretirement benefits : an amendment of FASB statements no. 87, 88, and 106

American Institute of Certified Public Accountants. Accounting Standards Executive Committee

AICPA

October 9, 1997

What: AcSEC's Comment letters
Why: FOR YOUR INFORMATION

To the Accounting Standards Executive Committee:

File Reference No. 174-F and File 2285

Please find attached AcSEC's final comment letters to the FASB on it's June 1997 documents, *Employers' Disclosures about Pensions and Other Postretirement Benefits* (ED) and Special Report, Issues Associated with the FASB Project on *Business Combinations*.

Sincerely,

Liz Fender

Elizabeth Fender, CPA
Director
Accounting Standards

Enclosure

EF:sm

October 7, 1997

Mr. Timothy S. Lucas
Director of Research and Technical Activities
Financial Accounting Standards Board
Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

File Reference No. 174-F

Dear Mr. Lucas:

The Accounting Standards Executive Committee (AcSEC) of the American Institute of Certified Public Accountants appreciates the opportunity to comment on the FASB's June 1997 Exposure Draft of its proposed Statement, *Employers' Disclosures about Pensions and Other Postretirement Benefits* (ED). We support the Board's efforts to improve disclosure effectiveness by eliminating less relevant disclosures and adding disclosures, as appropriate, of more important, useful and relevant information.

Following are our comments to the questions raised in the Notice for Recipients of the ED, and other observations.

Issue 1: Revised Disclosure Requirements

1.1 Elimination of certain descriptive information

We agree that, because employers often sponsor a number of pension and other postretirement benefit plans, the employers' note disclosures providing general descriptive information disclosed about the plans often are of limited usefulness. As pointed out in the Basis for Conclusions, more detailed information about benefit plans generally is available to interested users through other sources. Consequently, we agree with the proposal to eliminate certain descriptive information about the plans.

1.2 Elimination of disaggregated disclosures for underfunded plans

We agree with the proposal to combine disclosures for over- and underfunded pension plans, consistent with the current disclosure requirements for over- and underfunded postretirement benefit plans.

1.3 Elimination of disaggregated disclosure of contributions to multi-employer plans

We agree with the proposal to allow employers to disclose the total contribution to multiemployer plans that is to be used to provide benefits. However, we recommend the Standard clarify that the disclosed cost should be the required contribution for the period as opposed to the amount actually contributed during the period, which may be different.

1.4 Elimination of alternative measures of the benefit obligation

We agree with the proposed elimination of disclosure of the vested benefit obligation and, for pension plans whose assets exceed the accumulated benefit obligation, the accumulated benefit obligation. We also agree with elimination of the requirement to disclose the allocation of the postretirement benefit obligation among participant groups.

1.5 Addition of changes in the benefit obligation

We believe the proposed disclosure of changes in the benefit obligation provides more useful information in an easy-to-understand format. We recommend, however, that the Board clarify that preparers need not present a laundry list of factors causing a change in the benefit obligation and plan assets, but only those factors with a material effect. (Presumably preparers may combine immaterial effects and report them as "other.") This could be accomplished by adding the word "significant" before the word "effects" in paragraphs 5.a. and 5.b.

1.6 Addition of contributions by employers and participants

While we are not troubled by the proposed disclosure of contributions, we observe that qualitative, rather than quantitative, information may be more relevant. We recognize, however, the need for disclosing employer and participant contributions to enable a reconciliation of changes in the plans' assets. The Board may wish to seek more input from financial statement users on the usefulness of providing more direct information about how plan costs are to be shared.

As discussed in our comments on Illustration 1, we believe the accounting for and related disclosure of the receipt of participant contributions is unclear and possibly incorrect.

1.7 Addition of amounts recognized

We believe the proposed disclosure about amounts recognized on the statement of financial position is excessive. The prepaid and accrued benefit costs already should be reflected in the statement of financial position on a plan-by-plan basis as an [prepaid] asset or [accrued] liability; the unrecognized benefit cost included in other comprehensive income is separately presented elsewhere in the financial statements. Consequently, we recommend eliminating the proposed disclosure of the net periodic benefit cost recognized in other comprehensive income (included in paragraph 5.d.) and the proposed disclosure of any intangible asset or accumulated other comprehensive income recognized in connection with an additional minimum liability pursuant to Statement 87 (included in paragraph 5.c.(4)).

1.8 Change in assumed health care cost trend rate disclosure

We believe the proposed disclosure of a weighted-average assumed health care cost trend rate may be less useful and more costly to provide than the existing disclosure of the assumed health care cost trend rate for the next year and the direction and pattern of change thereafter, together with the ultimate trend rate. It is unclear what basis is to be used for weighting. However, a basis that requires deriving the single equivalent assumed health care cost trend rate (that is, a weighting based on the amount and timing of expected benefit payments) that would produce the accumulated postretirement benefit obligation is an iterative process that would require several additional valuation runs, at added cost to the employer.. In addition, employers with very different views of the future of health care costs could have the same single equivalent assumed health care cost trend rate. We therefore recommend the Board retain the existing disclosure of the assumed health care cost trend rates.

1.9 Change in sensitivity disclosure

We do not support the proposed disclosure of two-directional sensitivity of postretirement benefit measurements to changes in the assumed health care cost trend rates. The Board's argument that eliminating sensitivity-analysis-type disclosure would set an unfavorable precedent is not compelling. Sensitivity disclosure about the assumed health care cost trend rate fails to consider the interplay of the discount rate and health care cost trend rate assumptions, both of which consider future inflationary expectations. We therefore recommend the Board eliminate, rather than expand, the sensitivity disclosure under Statement 106.

If the Board chooses to retain the current sensitivity disclosure, we recommend it not be expanded to become two-directional. In most cases, the effect of a one-percentage-point increase in assumed health care cost trend rates is relatively symmetrical to the effect of a one-percentage-point decrease. In fact, there generally is less symmetry with multiples of a one-percentage-point change than with a two-directional change (such as a one-percentage-point increase and decrease). For example, a two-percentage-point increase is not two times a one-percentage-point increase. Thus, instead of two-directional sensitivity disclosure, we recommend qualitative disclosures consistent with those required under the AICPA's SOP 94-6, *Disclosure of Certain Significant Risks and Uncertainties*.

1.10 Optional reduction in disclosures by nonpublic employers

We favor streamlined disclosures for certain employers, but believe they should apply to both public and nonpublic employers. AcSEC is concerned that prescribing 5% of equity as the criteria will serve as a "bright line" for determining materiality. We believe the preparer's and auditor's judgment should be used in assessing materiality.

Issue 2: Sensitivity Analysis

We recommend elimination of the sensitivity disclosures about the assumed health care cost trend rate for the reasons stated in our response to Issue 1.9. We also do not support sensitivity disclosures related to other assumptions.

Issue 3: Nonpublic Entities

Please refer to our response to Issue 1.10. We also recommend paragraph 8 be more explicit about the need to provide disclosures about significant matters affecting comparability.

Other Comments:

Paragraph 4, footnote 2. It may avoid confusion to state that the accumulated benefit obligation for a defined benefit postretirement plan is the actuarial present value of benefits attributed to employee service rendered *to the measurement date* (rather than "to a particular date").

Paragraph 5. It would be helpful to clarify whether each of the disclosures listed in 5.a. through 5.l. is a balance sheet or income statement disclosure, to assist preparers in determining the number of years' information to be presented.

Paragraph 5.a. Changes in the benefit obligation also could arise from special or contractual termination benefits providing pension or other postretirement benefit improvements.

Paragraph 5.b. The reconciliation of changes in plan assets should not include curtailments, since curtailments do not affect plan assets. In addition, we recommend that "contributions by employees or retirees" be referred to as *contributions from participants*, since surviving spouses may make contributions to the plan. (Similar changes should be made throughout the document, including the reference to employee contributions in paragraph 8.b.)

Paragraph 5.c. Because "funded status" is not a defined term in Statement 87 or Statement 106 and is defined differently for funding purposes, it may be more clear to substitute the term *unfunded benefit obligation*. (Similar changes should be made throughout the document.)

Paragraph 5.c.(4) The "or" after the term "any intangible asset" should be changed to *and any*.

Paragraph 5.d. It is incorrect to refer to net periodic cost recognized in other comprehensive income since the amounts recognized in other comprehensive income are not components of net periodic cost. (Also in paragraph 8.d.)

Paragraph 5.h. The alternative amortization periods appear in paragraph*s* 26 *and* 33 of Statement 87 and paragraph*s* 53 *and* 60 of Statement 106.

Paragraph 6. The third sentence should refer to situations in which the *disclosures* (not the "plans") are combined. In addition, it is somewhat redundant to refer to the accumulated pension benefit obligation for pension plans, particularly since the accumulated benefit obligation (a.k.a. "ABO") is a defined term in Statement 87 and the accumulated postretirement benefit obligation (a.k.a. "APBO") is a defined term in Statement 106. (Similar references appear throughout the document.)

Illustrations. It would be helpful to the reader (and the preparer) to identify the dates to which the sensitivity disclosures apply, that is, the "effect on total of *1999* service and interest cost components" and the "effect on the *December 31, 1998* postretirement benefit obligation." The specific amounts to which the disclosed assumptions relate are frequently misunderstood.

Similarly, while the illustrated disclosure of other assumptions is simplified, it adds to the confusion and misunderstanding of the amounts to which the assumptions relate. For example, presentation of the expected return on plan assets at December 31, 1998 leaves one wondering whether that is the assumption that will be used in determining net periodic cost for 1999 or if it was used to develop net periodic cost for 1998. Rather than reducing the confusion that already exists, the proposed disclosure requirement (paragraph 5.e.) and related illustrations add confusion. In addition, since the expected return on plan assets relates to the statement of income, three years' information should be presented.

Illustration 1. It appears that receipt of participant contributions and forwarding those amounts to the trust are not properly reflected in the change in benefit obligation and accrued/prepaid postretirement benefit cost. In reconciling the accrued/prepaid postretirement benefit cost from December 31, 1997 to December 31, 1998, one must reduce the December 31, 1997 prepaid cost by 1998 net periodic cost and the net benefit obligation assumed in the acquisition, and increase the prepaid cost by 1998 employer *and participant contributions*, to arrive at the December 31, 1998 accrued cost. However, the employer's receipt of the participant contributions (prior to forwarding those amounts to the trust) does not appear to have been properly considered as reducing the prepaid cost.

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We appreciate the opportunity to comment on this proposed Statement. Representatives of AcSEC will be pleased to discuss these comments with the Board members or staff.

Sincerely,

David Kaplan (SM)

David Kaplan, CPA
Chair
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Diana Scott (SM)

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