AMERICAN ACADEMY *of* ACTUARIES

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April 25, 2016

Technical Director
File Reference No. 2016-210
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

Re: Comments on Exposure Draft of Compensation – Retirement Benefits – Defined Benefit Plans – General (Subtopic 715-20), *Changes to the Disclosure Requirements for Defined Benefit Plans*

Members of the Financial Accounting Standards Board:

On behalf of the American Academy of Actuaries'[1] Pension Accounting Committee, I am pleased to present the following comments to the Financial Accounting Standards Board (FASB) regarding this exposure draft. The committee's mission is to bring to the public and to the United States actuarial profession expertise regarding financial reporting for retirement plans. We appreciate the hard work of the FASB on the development and continuous improvement of accounting standards.

The exposure draft identifies seven disclosure requirements that would be removed from Subtopic 715-20 and five to be added. The summary contains six questions for respondents. Our comments are limited in scope to actuarial concepts and principles. Therefore, we address two questions, both from an actuarial standpoint only. We are not addressing the other questions, as they are beyond the purview of this committee.

Question 1: Providing Effective Decision-Useful Information

In general, we believe that the amendments would result in improved decision-useful information, with the following exception relating to elimination of the accumulated benefit obligation (listed as item 2 to be removed).

[1] The American Academy of Actuaries is an 18,500+ member professional association whose mission is to serve the public and the U.S. actuarial profession. For more than 50 years, the Academy has assisted public policymakers on all levels by providing leadership, objective expertise, and actuarial advice on risk and financial security issues. The Academy also sets qualification, practice, and professionalism standards for actuaries in the United States.

For certain plans, the projected benefit obligation (PBO) can be significantly higher than the accumulated benefit obligation (ABO), which represents the value of the benefits attributed by the pension benefit formula to employee service as of a measurement date, based on employee service and compensation (if applicable) prior to such measurement date. For example, this mismatch could occur for a pension plan that offers benefits based on compensation, in which a significant portion of the plan's total obligation is attributable to future compensation levels for active employees accruing benefits. For such plans, the PBO may overstate the current value of the benefits earned by plan participants. Future pay increases for an individual employee are inherently uncertain, and such increases may not actually occur (e.g., due to a freeze in compensation or benefit accruals by the employer, or due to the employee's separation from service). The difference between the PBO and ABO provides a quantitative measure of this uncertainty, and the continued disclosure of the ABO as a measure of benefits currently accrued may, therefore, provide decision-useful information for some financial statement users.

We acknowledge that this type of plan is not as common as it was in the past, so the elimination of the ABO may not greatly affect most pension plan sponsors. However, we expect that the cost of continuing to disclose this item would be minimal, as this information is typically a standard output item from most actuarial valuation systems.

Continuing to include both the ABO and PBO in the disclosures in the notes to financial statements could give readers a better understanding of both the maturity of the pension plan obligation and the potential volatility of future results attributable to future salary increases. If the ABO and PBO are close or the same, the plan could be mature (though it could still be a growing plan but with a unit benefit formula not based on compensation). If the PBO is much greater than ABO, it is likely a growing plan, with greater sensitivity to future economic and demographic changes. Also, the ABO is useful to companies as they evaluate potential situations that could trigger a curtailment, either for their own plans or in an acquisition environment.

Question 3: Incremental Cost

There may be some additional cost for the actuary to include the additional information in the actuary's report to the plan sponsor. For many plan sponsors, we do not anticipate that this additional cost will be significant. However, for employers who sponsor many pension and postretirement plans, even the small incremental costs for each plan could accumulate into a significant cost (though possibly still not significant relative to the overall cost of actuarial services).

We are only commenting on additional costs specifically related to actuarial work. We are not commenting on additional costs to the plan sponsor to include this information in the financial statements, for the auditor to review this additional information, or any other source of additional cost.

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Additions to the Disclosure Requirements

We believe the following four items listed in the exposure draft can provide decision-useful information for users of a plan sponsor's financial statements:

- Description of benefits;
- Weighted-average interest crediting rate for cash balance plans;
- Narrative description of reasons for significant gains and losses; and
- Disclosure of the impact of a 1-percentage-point change in health care trend rates for nonpublic entities.

These items provide information that could enhance a user's understanding of how pension and postretirement plans affect a sponsor's financial statements, including the key changes in funded status and sensitivity of those results to future changes. Also, these elements are sometimes provided by the actuary already, either in the report to the plan sponsor or through follow-up communication with the plan sponsor or reviewing auditor.

We are not commenting on the other additional item mentioned in the exposure draft, quantitative and qualitative disclosures from Topic 820, as this subject is beyond the purview of this committee.

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The Pension Accounting Committee appreciates the opportunity to comment on this matter and would be happy to discuss any of these items with you at your convenience. Please contact Matthew Mulling, pension policy analyst (mulling@actuary.org; 202-223-8196) if you have any questions or would like to discuss these items further.

Sincerely,

Francis Ratna, MAAA, FSA, FIAA
Chairperson, Pension Accounting Committee
American Academy of Actuaries