August 10, 2026

Mr. Jackson M. Day
Technical Director
Financial Accounting Standards Board
File Reference No. 2026-ED100
801 Main Avenue
PO Box 5116
Norwalk, CT 06856-5116

RE: Proposed Revisions to Accounting Standards Codification Topic 715

Mr. Day:

On behalf of the Retirement Practice Council's Pension Committee (Committee) of the American Academy of Actuaries[1], we offer the following comments to the proposed revisions to Accounting Standards Codification Topic 715, as issued in the exposure draft on June 10, 2026.

Our September 2025 letter encouraged the Emerging Issues Task Force to move forward with the project and supported the general approach now reflected in the exposure draft. We believe the proposed approach to selecting the discount rate will much more accurately capture the economics of these plan designs than a "traditional" approach that does not reflect the market-return nature of the interest crediting rate.

One important note to make is that, if adopted as currently drafted, the proposed revisions would address the majority of U.S. tax-qualified market-return cash balance (MRCB) plans sponsored by employers subject to US GAAP accounting in a way that would enhance accuracy and comparability. Our comments propose incremental adjustments which could further capture the economics of these designs and remove potential ambiguity. We are aware that a number of employers are currently considering the adoption of an MRCB plan and that the accounting for these obligations will influence plan design decisions. Our recommended modifications are intended to avoid limiting design options based solely on accounting considerations.

The Committee greatly appreciates the work that the Board has done to this point, and the opportunity to offer feedback on this important revision. If you have any questions or would like to discuss these comments further, please contact Janae Nelson, the Academy's policy project manager, retirement (nelson@actuary.org).

[1] The American Academy of Actuaries is a 21,000-member professional association whose mission is to serve the public and the U.S. actuarial profession. For 60 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.

Sincerely,

Grace Lattyak, MAAA, EA, FCA, FSA
Chairperson, Pension Committee

Question 1: Is the scope of the amendments in this proposed Update described in paragraph 715-30-35-43A clear and operable? Do you anticipate any auditing challenges? Please explain why or why not.

Yes, we believe the scope of the proposed amendments is both clear and operable.

However, we believe the proposed amendments as written may introduce an interpretive question for plans that include other benefit structures (e.g., a frozen traditional defined benefit formula component) in addition to a Market-Return Cash Balance (MRCB) formula or that include retirees receiving annuity benefits, which must be offered in U.S. qualified plans. To meet the objective of reflecting the economics of the MRCB promise, while also remaining consistent with existing liability measurement principles for other types of pension promises, we believe the amendments should clarify that the portion of a plan that is not an MRCB promise should be accounted for in the traditional manner – i.e., a plan should use different discount rate bases for the MRCB and non-MRCB portions. With this clarification, the underlying principle of a discount rate that could effectively settle obligations would be applied separately to each benefit type within a plan, rather than uniformly across the entire plan, resulting in an appropriate measurement of the obligation for the plan as a whole.

We suggest a potential revision to the proposed language of paragraph 715-30-35-43 to address this, changing the word "plan" in the current proposal to the word "benefits" as follows:

> **715-30-35-43** Assumed discount rates shall reflect the rates at which the pension benefits could be effectively settled (see paragraph 715-30-35-43A for guidance on determining the assumed discount rate for certain market-return cash balance ~~plan~~ benefits). It is appropriate in estimating those rates to look to available information about rates implicit in current prices of **annuity contracts** that could be used to effect **settlement** of the obligation (including information about available annuity rates published by the Pension Benefit Guaranty Corporation). In making those estimates, employers may also look to rates of return on high-quality fixed-income investments currently available and expected to be available during the period to maturity of the pension benefits. Assumed discount rates are used in measurements of the projected, accumulated, and vested benefit obligations and the service and interest cost components of net periodic pension cost.

Similarly, we would suggest adjusting the proposed language in paragraph 715-30-35-43A to refer to "market-return cash balance benefits" rather than "a market-return cash balance plan." We believe the application of this guidance, as modified above and as further proposed in our response to Question 4, would be clear and operable to plan sponsors, to actuaries, and to other practitioners.

Question 2: Would the proposed amendments, which would require the assumed interest crediting rate to be used as the discount rate to measure the benefit obligation of in-scope market-return cash balance plans, provide decision-useful information and improve comparability? Are the proposed amendments clear and operable? Do you anticipate any auditing challenges? Please explain why or why not.

Yes, we believe the proposed amendments would provide decision-useful information, improve comparability, and be clear and operable, subject to the possible clarification described in our response to Question 3 below. As noted in our response to Question 1 above, we believe clarification that the proposed amendments apply to market-return cash balance *benefits*, rather than *plans*, would be helpful to minimize potential interpretive disputes. In many cases, plans with market-return cash balance benefits may have other, non-market-return components (e.g., a plan may have a frozen traditional defined benefit component or retirees receiving annuity benefits).

Question 3: Do you agree that the assumed interest crediting rate should be used as the discount rate in all circumstances for in-scope market-return cash balance plans? If not, under what circumstances would it be appropriate to use a different discount rate? Please explain your reasoning.

We generally agree that the assumed interest crediting rate should be used as the discount rate for in-scope MRCB plans, with one possible exception discussed below. For the vast majority of existing U.S. MRCB plans subject to U.S. GAAP, as well as those currently being designed, using the assumed interest crediting rate as the discount rate will yield the economically correct result. This is because, in our experience, most MRCB plans use the return on the pension trust, or a subset of the trust, as the interest crediting rate.

However, for some plans, the interest crediting rate is based on the rate of return on reference assets, with an adjustment to net out administrative expenses, or with a modest explicit "haircut" meant to cover such costs and potentially establish a modest reserve to cover the potential cost of the downside protection of the capital preservation floor. For example, a plan might provide an interest credit equal to the rate of return minus one half of one percent. Such features can be assessed and valued using actuarial assumptions.

The economics of such a plan would be almost identical to those of a plan that credits 100% of the return on assets, but the promise would be slightly less valuable to participants and less costly to plan sponsors. The assumed interest crediting rate would reflect any plan-specified adjustment to the return used to credit interest to participant accounts. For such a plan, if the assumed interest crediting rate is used as the discount rate, the benefit obligation as of any given measurement date would essentially equal the account balance, just as for a plan that credits

100% of the expected return. The difference in cost for these two plans would emerge over time, as assets would grow at a slightly higher rate than liabilities for the plan with the haircut.

An alternative approach would be to reflect the lower value of the promise in the benefit obligation by using the expected return on reference assets as the discount rate, rather than using the assumed interest crediting rate. Such an approach would also be reasonable from an actuarial perspective, as it would reflect the lower expected value of the promise up-front in the liability, rather than reflecting it over time through a slightly lower interest cost component of expense. This approach would produce a benefit obligation that would be lower than the MRCB account balance for participants expected to take their benefit in the future, rather than an obligation equal to the account balance.

For example, if a plan provides an interest credit equal to the return on assets less 0.5%, and a participant with a $100,000 balance is assumed to take their benefit 10 years in the future, the true cost of settling the obligation for this benefit would be closer to $95,000 than $100,000. Using the expected return on assets as the discount rate would result in an obligation of approximately $95,000, while using the expected interest crediting rate as the discount rate would produce an obligation equal to the $100,000 account balance. The interest cost under the former approach would be slightly higher than under the latter approach, so that the liability under either approach would converge to the same amount when measured as of the expected payment date 10 years in the future.

For plans with a haircut or expense-adjustment feature, we believe that either approach would be reasonable from an actuarial perspective, but the reference return approach would be an incrementally better economic measurement of the current settlement cost. We raise the latter approach as an alternative primarily because it more closely reflects the cost of effectively settling the benefit obligation, and we anticipate that others may comment on this issue as well. While we do not believe that it is necessary to change the proposed guidance on this point, we would support an approach that uses the expected return on the underlying reference assets as the discount rate if the standard were updated to reflect such a change.

Question 4: Should the proposed amendments be applied to other defined benefit plans that are economically similar to in-scope market-return cash balance plans? If so, please describe the nature of those other defined benefit plans, how they would be defined, and how pervasive they are. If the proposed amendments are expanded to other defined benefit plans, are there any changes that would need to be made to the proposed amendments? If so, please explain why and describe the changes that you would recommend.

Yes, we believe the proposed amendments should be applied to other economically similar plans. In addition to plans described in the proposed paragraph 715-30-35-43A, there are other plans for which the asset portfolio used to determine interest credits or other benefit adjustments is a much better measure of the cost of effectively settling the benefit obligation than a portfolio of high-quality fixed income securities. For any such plan, where the benefits vary based on the

return of the referenced asset portfolio, the expected return on the underlying assets is an appropriate discount rate.

Most importantly, we strongly recommend that all market-return cash balance benefits receive this treatment, even when participants do not have a lump sum option. We do not believe such plans should have to offer lump sums to meet the requirements for the discount rate treatment.[2]

The absence of a lump sum option should not change the valuation of such a benefit. That is because for these plans, the value of the annuity, as of the date of benefit commencement, is based on and will vary in direct proportion to the account balance. In fact, all U.S. qualified plans must offer an annuity form of payment based on the account balance on the date of conversion. After conversion to a fixed annuity upon commencement, if applicable, the benefit should be valued using a traditional bond-based discount rate.

We appreciate that the drafting team pointed to the definition used by the IRS for the crediting rate for these plans, and that for the vast majority of such plans, lump sum options will likely exist. However, Internal Revenue Code section 411(a)(13)[3] and the associated regulations do not require that a plan offer a lump sum form of payment to be an "applicable defined benefit plan" (that is, an MRCB plan). To preserve the ability to offer a plan without a lump sum option and use the proposed accounting, we suggest this lump sum requirement be dropped. Given the IRS's acknowledgement of the principle of annuity substitution and lump sum substitution in section 1.430(d)-1(f)[4] regulations when determining a present value calculation, the suggestion to not require an optional lump form of payment seems reasonable.

By way of a very simplified example, consider a hypothetical account balance for an MRCB that has an assumed interest crediting rate matching the expected return on plan assets of 7%. Assume that the discount rate is 5% and that a similar rate would apply at the date of future annuity conversion. If the plan pays a lump sum and uses the proposed approach in the exposure draft, it would both project balances out and discount them back at 7%. In this case, the PBO would equal the account balance. If the plan pays the benefits in annuity form, then the projected cash balance would be converted to an annuity using the plan's basis (referencing high-quality fixed-income rates). If the participant is assumed to take the benefit as an annuity immediately as of the valuation date, the annuity would be converted using the current high-quality fixed-income rates (5%) and the future payments are discounted back using the same high-quality fixed-income rates (also 5%). If the plan's mortality conversion basis is the same as the assumption used to value annuity benefits, the resulting PBO will equal the account balance. If the mortality bases are different, then there will be a small, but consistent difference between the value of the

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[2] A full discussion of this topic can be found in the cash balance section of the American Academy of Actuaries Pension Committee Practice Note *Valuing Benefits Payable as a Lump Sum*, especially examples 15-17.
[3] Internal Revenue Code. 26 USC 411. 26 USC 411: Minimum vesting standards
[4] Internal Revenue Code. 26 USC 430. 26 USC Subtitle A, CHAPTER 1, Subchapter D, PART III, Subpart A: Minimum Funding Standards for Pension Plans

annuity and the account balance that will be reflected in the PBO through the use of reasonable actuarial assumptions.

For conversions assumed to take place in the future, an assumption must be made for the conversion basis. However, as discussed in the previous paragraph, the present value at the point of annuity conversion will always be closely tied to the account balance.

We can further illustrate this point by using a 5-year certain-only annuity, which eliminates any minor differences attributable to mortality. In this case, the value of the annuity at benefit commencement will always be exactly equal to the account balance as of the annuity commencement date. If the account balance is expected to grow at a rate of 7% until the annuity commencement date, then using 7% as the pre-commencement discount rate is appropriate, regardless of the assumed form of payment. As we can see in the table below with a $10,000 starting account balance, using a traditional bond-based discount rate prior to benefit commencement for benefits assumed to be paid in annuity form would produce a PBO that doesn't match the economics of the benefit promise. Similarly, using the interest crediting rate as the discount rate after benefit commencement would also provide a distorted value.

Time	Account balance	Conversion factor at time 5 (using 5%)	Annuity payment (converted at 5%)	Present Value of Payments discounted to commencement date at 5% and to measurement date at 7%	Present Value of Payments discounted at 5%	Present Value of Payments discounted at 7%
0	$10,000					
1	$10,700					
2	$11,449					
3	$12,250					
4	$13,108					
5	$14,026	4.545951	$3,085	$2,200	$2,417	$2,200
6			$3,085	$2,095	$2,302	$2,056
7			$3,085	$1,995	$2,193	$1,921
8			$3,085	$1,900	$2,088	$1,796
9			$3,085	$1,810	$1,989	$1,678
Total				**$10,000**	**$10,989**	**$9,651**

While it is uncommon to have a cash balance plan without a lump sum option, we could anticipate some plan sponsors wanting to adopt such a plan to pool mortality risk and provide lifetime income. The ability to offer, or require, payments in annuity form is one of the main features that distinguish MRCBs from defined contribution plans. If the proposed accounting treatment is not available to plans that require some portion of the benefit to be paid in annuity form, it is likely to discourage employers from providing this type of design.

To accomplish our suggestions laid out above, we suggest the following revisions to the newly proposed 715-30-35-43A:

> **715-30-35-43A** For a market-return cash balance ~~plan~~ benefit formula that meets both of the following conditions, the benefit formula's ~~plan's~~ assumed interest crediting rate shall be used as the assumed discount rate:
>
> a. Pension benefits are communicated to employees in the form of an account balance that comprises principal credits and interest credits based on an investable market return in any of the following forms:
>
> 1. The return on plan assets
>
> 2. The return on a subset of plan assets that approximates the associated cash balance liabilities
>
> 3. The return on a regulated investment company.
>
> b. ~~Participants have the option to elect lump-sum payments.~~ All optional forms of payment are based on the account balance.

Additionally, if FASB is open to expanding this treatment to other designs beyond cash balance, we recommend that this approach apply to any benefit structure that has market-return characteristics. This would include variable annuity benefit formulas, both for pre-retirement accumulation of the benefit as well as post-retirement annuity adjustments.

We note that a similar measure of the benefit obligation for MRCB plans would result from using a traditional bond-based discount rate, both as the expected return for purposes of projecting benefits as well as for discounting the resulting benefit cash flows to the valuation date. Some actuaries and plan sponsors believe that this approach would be more appropriate because it would be easier to extend this approach to other types of benefits, such as variable annuity benefits. Thus better reflecting the underlying economics of a wider range of potential plan designs and allowing for better comparability of results for financial statement users. We would support this alternative approach, but believe that it would be preferable to defer consideration of this alternative to the future if it would otherwise delay the adoption of these important updates to measuring MRCB obligations.

Question 5: Do you agree with the proposed consequential amendments to the guidance on cash balance plans in paragraph 715-20-25-3 and the guidance on the measurement of accumulated benefit obligations for plan reporting in paragraph 960-20-35-1B? Please explain why or why not.

Yes, we agree with these proposed amendments. With respect to the proposed amendments in paragraph 960-20-35-1B, we would suggest a similar clarification as described in our response to

Question 1, to refer to “market-return cash balance benefits” rather than “a market return cash balance plan.”

Question 6: The proposed transition requirements require that entities apply the proposed amendments on a prospective basis and disclose the nature of and reason for the change in accounting principle. Are the proposed transition requirements operable? If not, why not, and what transition method would be more appropriate and why? Would the proposed transition disclosures provide decision-useful information? Please explain why or why not.

Yes, we believe that these transition requirements are operable and that they would provide decision-useful information. We agree that investors and other users of financial statements should have this change explained to them when made.

Question 7: How much time would be needed to implement the proposed amendments? Should the effective date for entities other than public business entities be different from the effective date for public business entities? Please explain why or why not. If so, how much additional time would you recommend for entities other than public business entities?

From an actuarial perspective, we believe implementation of the proposed amendments to measure a plan’s benefit obligation would be relatively straightforward. However, we recognize that employers and auditors will require time to understand the impact of the amendments and develop and review appropriate disclosures. We would defer to the plan sponsors and audit firms that will need to prepare and audit financial statements regarding the most appropriate implementation timing.

Question 8: The proposed amendments would permit early adoption. Do you agree that early adoption should be permitted at any time prior to the effective date? Please explain why or why not.

Yes, we believe early adoption should be permitted at any time prior to the effective date. As the proposed amendments would better reflect the economics of MRCB benefits, we believe that employer sponsors of plans providing these benefits, or employers considering adoption of such plans, may prefer to apply the amendments as soon as possible, and find the flexibility to apply the amendments prior to the required effective date to be helpful.