



AMERICAN ACADEMY
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NEWS RELEASE

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Actuaries Raise Concerns with FASB Draft Guidance

American Academy of Actuaries Responds to Postretirement Benefits Accounting Draft with Letters to FASB

WASHINGTON – 7 June 2006 – Two committees of the **American Academy of Actuaries** have recently sent letters to the Financial Accounting Standards Board (FASB) expressing concerns with its proposal to amend the financial accounting standards (FAS) governing accounting for defined benefit pension and other postretirement benefit plans.

The Academy's Committee on Pension Accounting welcomed the FASB's project to revisit pension accounting but disagreed with its proposal to include an allowance for future salary inflation in the balance sheet liability for pensions.

“Including an allowance for future salary growth is inappropriate in a balance sheet liability and is likely to lead to an unwarranted cutback in defined benefit plan sponsorship,” Chairperson **William Sohn** said. “Pending a comprehensive review of the measurement issues, it would be more appropriate to use a measure of the pension obligation that does not include an assumption about future salary growth. Such a measure is already available in the footnotes to the financial statements.”

A second letter from the Academy's Joint Committee on Retiree Health urges FASB to revise its methodology for measuring the accumulated postretirement benefit obligation before bringing into the balance sheet a measure that now only appears in the footnotes to the financial statements.

“Our committee is extremely concerned with the exposure draft,” said **Adam Reese**, a co-chairperson of the Academy's Joint Committee on Retiree Health. “Placing the existing measure of the accumulated postretirement benefit obligation on corporate balance sheet threatens to distort financial statements rather than make them more transparent.”

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The proposed measure of the obligation ignores the non-vested, terminable nature of the benefit and thereby overstates its value in many instances. Reese said that it would be more appropriate to review and revise the methodology used to determine the postretirement benefit obligation before bringing it into the balance sheet. The FASB guidance needs to distinguish between benefits that are legally binding and those that are not, he said.

The FASB proposal is the result of the first phase of a two-phase project. The first phase primarily addresses balance sheet presentation, while phase two will address measurement and income statement issues.

To view the Academy letters to FASB, visit www.actuary.org. For more information or to schedule an interview with a spokesperson, contact Andrew Simonelli, media relations manager for the American Academy of Actuaries, at 202.785.7872.

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The American Academy of Actuaries is the public information organization for the U.S. actuarial profession. Academy committees, task forces and work groups regularly prepare testimony and provide information to Congress and senior federal policy-makers, comment on proposed federal and state regulations, and work closely with the National Association of Insurance Commissioners and state officials on issues related to insurance, pensions and other forms of risk financing.