August 7, 1989

Ms. Diana J. Scott
Project Manager
Financial Accounting Standards Board
File Reference 078 - Issues 6 and 7
401 Merrit 7
P.O. Box 5116
Norwalk, CT 06856-5116

Dear Ms. Scott:

The enclosed material is addressed as directed in the Exposure Draft on the proposed FAS on Employers Accounting for Postretirement Benefits Other Than Pensions.

I am sending it to you and to Tim Lucas today by FAX in order to comply with your deadline. I will also mail it today.

Very truly yours,

Jeremy Gold

August 7, 1989

Director of Research and Technical Activities
Financial Accounting Standards Board
File Reference 078 - Issues 6 and 7
401 Merrit 7
P.O. Box 5116
Norwalk, CT 06856-5116

Dear Sir:

I am writing to comment on Issues 6 and 7 defined in the proposed Statement of Financial Accounting Standards on Employers' Accounting for Postretirement Benefits Other Than Pensions.

Issue 6

The proposed FAS uses a discount rate (paragraph 24) based on the same "settlement rate" concept used in Financial Accounting Statement 87.

Unlike most domestic U.S. qualified pension plans (wherein lie most of the liabilities covered by FAS 87), Other Postretirement Benefits are either not funded or are poorly funded, are not subject to the insurance and lien procedures of the Pension Benefit Guaranty Corporation, and are not subject to the minimum funding requirements of ERISA.

The impact that these differences have in reality, and should have upon the proposed FAS, are enormous. The financial and valuation characteristics of these Other Benefit liabilities are substantially more like unsecured corporate debt than they are like funded pensions or annuity contracts not yet purchased or high quality corporate and government bonds.

Those companies whose unsecured credit ratings are anything but very high will find, under the proposed statement, that future monies promised to their retirees appear to be much more valuable than future monies promised to their lenders. Presently, these liabilities for benefit promises are no better secured, no more legally protected, no more valuable, than are the liabilities owed to lenders.

There is an opportunity, however, to create better accounting for users of financial statements with respect to unfunded benefit liabilities of all sorts (including unfunded, uninsured pension plans). A consistent framework based on the familiar indebtedness model of accounting is outlined in the attached material. The outlined approach would treat unfunded plans like debentures issued by the employer for similar maturities and would treat the liabilities of fully funded plans as secured, or collateralized, senior debt.

This would provide a consistent treatment of the major deferred liabilities on corporate balance sheets. It would also do minimal damage to the history of

FAS 87. The settlement rate defined in FAS 87 would, for funded plans, be a reasonable proxy for the fully collateralized rate (both are essentially risk-free) which is suggested by the enclosed material.

Consistency and comparability of items shown on the same balance sheet must be a higher priority than comparability between firms. The familiarity of the indebtedness model to users of financial statements should carry more weight than the erroneous idea that $1,000 promised in the year 2000 has the same value regardless of the quality of the promise maker.

Issue 7

The expected long-term rate of return on plan assets (Paragraph 25) is essentially the same (except for the proposed tax treatment) as the corresponding item in FAS 87. This return is used in each of the statements to create a division of asset returns into a currently recognized piece (the expected return) and a deferred piece (the difference between the actual and the expected). This division, which occurs on top of the asset averaging technique (the market-related value of plan assets), is designed to spread out the impact of variable investment returns.

The proposed FAS says that the expected return shall reflect average rates of return expected on plan assets and new contributions. Most preparers of financial statements subject to FAS 87 have reflected such average returns after giving consideration to the mix of assets invested or expected to be invested on average. Thus those who assume significant equity investments tend to use higher expected rates than those who expect to invest heavily in government bonds.

This implies that an investment made in equities for their superior expected future returns should result in a reduction in current expense as compared with an investment in bonds. This process illogically anticipates greater current value in a dollar's worth of equity than in a dollar's worth of bonds. Such an approach may be appropriate for the long-range planning of the plan sponsor and may be the preferred approach when adopting a funding policy, but it cannot be logically defended in the context of accrual accounting.

An expected return based on a risk-free rate could be used to help smooth expense without adding the anticipatory return for risk into the current period's investment income.

Thank you for the opportunity to present my views now and for the additional opportunity to present orally in October.

Very truly yours,

Jeremy Gold