The ERISA Industry Committee
1400 L Street, N.W., Suite 350
Washington, D.C. 20003

May 23, 2003

Financial Accounting Standards Board
402 Merritt 7
P.O. Box 5116
Norwalk, Connecticut 06856-5116

Re: EITF Decisions Regarding Issue 03-4, "Determining the Classification and Benefit Attribution Method for a 'Cash Balance' Pension Plan"

Ladies and Gentlemen:

I am writing on behalf of The ERISA Industry Committee ("ERIC")[1] to express ERIC's profound concern regarding an issue that may be included in the minutes of the May 15th EITF meeting that are now scheduled to be presented to the Board for ratification on May 28th.

The issue relates to the discount rate used to value the liabilities under cash balance plans that credit participants' accounts with a market-related interest rate. We understand that, at the end of the EITF's May 15th meeting, a member of the FASB staff commented that, in the case of a cash balance plan that credits participants' cash balance accounts with a market-related interest rate, the plan's liabilities must be valued using that same interest rate. We understand that the EITF's minutes are likely to include this comment.

We urge the FASB not to address the discount rate issue at this time. This was not one of the issues identified for consideration by the EITF. According to the EITF's description of the issues, the only issues were:

> "whether a cash balance plan should be accounted for as a defined benefit plan or a defined contribution plan, and if a cash balance plan should be accounted for as a defined benefit

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[1] ERIC is a nonprofit association committed to the advancement of the employee retirement, health, incentive, and welfare benefit plans of America's largest employers. ERIC's members provide comprehensive retirement, health care coverage, incentive, and other economic security benefits directly to some 25 million active and retired workers and their families. ERIC has a strong interest in proposals affecting its members' ability to deliver those benefits, their costs and effectiveness, and the role of those benefits in the American economy.

> plan, what the appropriate pattern of benefit accruals is for a cash balance plan."

The appropriate discount was not identified as an issue, and public comment was not invited regarding the discount rate issue.

The staff comment at the EITF meeting on May 15th -- that in the case of a cash balance plan that credits participants' accounts with a market-related interest rate, the plan's liabilities must be valued using that same interest rate -- is contrary to prevailing practice and takes employers entirely by surprise. Currently, the liabilities under defined benefit plans are calculated using a discount rate based on the yields for high-quality, long-term corporate bonds. Requiring cash balance liabilities to be accounted for using the plan's market-related interest rate will substantially increase the value of plan liabilities. It has been estimated that, for a cash balance plan with a low interest crediting rate, the change in the discount rate could increase the value of the plan's liabilities by 20% to 40% or more. The approach endorsed at the EITF meeting also would require companies with cash balance plans to value their pension liabilities on the basis of assumptions that are significantly more conservative than the assumptions used by companies that sponsor other types of pension plans.

The FASB should not make a decision of this magnitude without giving all interested parties, including the employers that sponsor cash balance plans, an opportunity to submit comments on the issue. By giving the public adequate advance notice and an opportunity to comment, the FASB will be able to assure that this issue receives the thorough attention and analysis it deserves.

We will be happy to help the FASB and the EITF to address the discount rate issue. Please let me know if we can provide any additional information or analysis regarding this extremely important issue.

Very truly yours,

Mark J. Ugoretz
President

cc: See attached list

cc: **Board Members**

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