

FASB Pension Issues

American Benefits Council

December 5, 2013



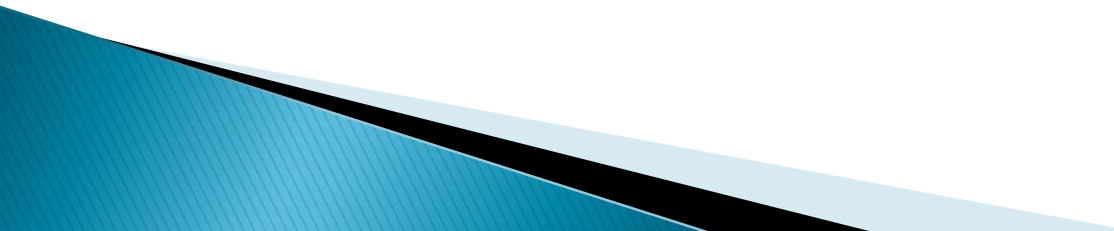
High Quality Bonds & DB Plan Obligations

- ▶ FAS 87 – In making those estimates (Obligation), 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. ...
- ▶ 1993 – SEC Staff “suggests” that bonds that receive one of the two highest ratings be considered high quality. AA or Higher

High Quality Bonds & DB Plan Obligations

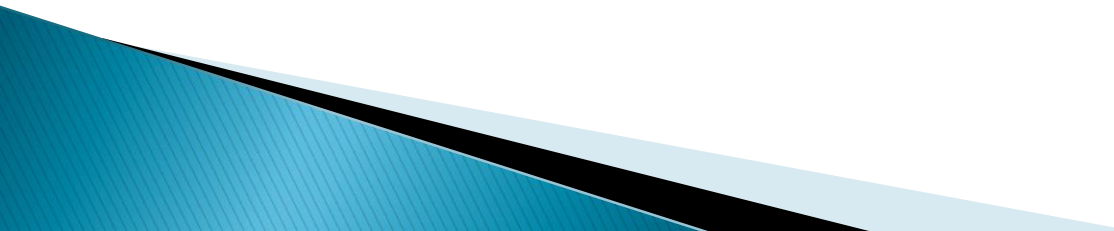
SEC Guidance

“Notionally, that single amount, the projected benefit obligation, would equal the current market value of a portfolio of high quality zero coupon bonds whose maturity dates and amounts would be the same as the timing and amount of the expected future benefit payments.”



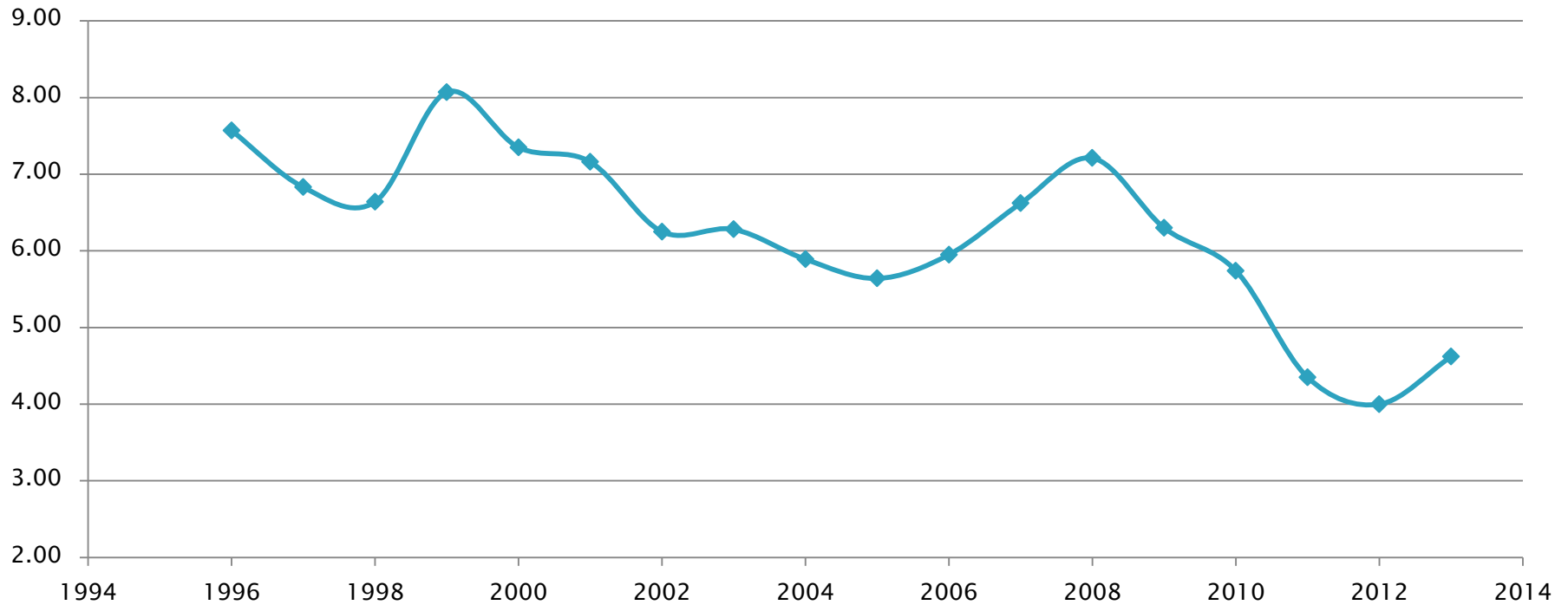
High Quality Bonds & DB Plan Obligations

From Theory to Practice

- ▶ The current universe of AA and AAA rated bonds is limited and do not accurately reflect a plan's true Obligation.
 - ▶ Current practices are overstating obligations on plan sponsor balance sheets and are increasing annual carrying costs.
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AA Bond Trends

Citigroup Pension Curve AA Bond Discount Rate Based on a 18 year Duration



High Quality Bonds & DB Plan Obligations

It is time for the SEC to relook at the definition of
“High Quality”

- ▶ Plan Sponsors and investors want to record a plans true liabilities.
- ▶ AA and AAA bonds do not allow plans sponsors to meet these goals.
- ▶ A much broader portfolio of bonds needs to be used to truly and accurately match plan assets and liabilities

Thank you

