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.”
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.
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 plan's 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