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FAS 87, 88 AND 96

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Has the FASB accomplished its conceptual framework?
- o Are the results reliable?
- o Are the results comparable?
- o Are the perceived benefits worth the reported compliance costs?

Practical problems with the implementation of FAS 87, 88 and 96 also will be addressed.

MS. JUDY A. KOCH: Our speakers are focusing primarily on Statements 87 and 88. Statement 96 deals with accounting for income taxes. As actuaries we're normally not required to deal with this statement on a day-to-day basis. The statement requires that deferred tax liabilities and deferred tax assets are set up on the financial statement when there is a temporary difference that arises between the tax basis of an asset or a liability and the amount that's reported on the financial statement. For example, a transaction that occurs during a fiscal year might be recognized immediately on the financial statement, but for tax purposes the company may defer that tax liability or tax asset into a future year. That's when Statement 96 comes into play. The only time that pension actuaries normally will even hear about this statement is when an alternative minimum tax situation arises with an employer. The alternative minimum tax deals with tax and book differences, so it may be important that the accountant knows what the accrued and/or prepaid pension cost is and when it's expected to be reduced to zero and turn to the other side. Mr. Searfoss will be discussing an example of that to let you know how that affects these calculations.

We are very fortunate to have with us Mr. Gerry Searfoss, who is an audit partner with Deloitte & Touche in the national office in Wilton, Connecticut. Mr. Searfoss is a CPA, and holds a Ph.D. in accounting from Indiana University. He also taught accounting for 13 years before joining Touche Ross, which now is Deloitte & Touche, and is currently the National Director of Accounting Standards for Deloitte & Touche. He worked extensively with the Financial Accounting Standards Board during the development of FAS 87. Mr. Searfoss is going to address Statements 87 and 88 on basically a conceptual level from an accountant's perspective. Our other panelist is Mr. Mark Cavazos, who is an actuary with William Mercer in Dallas. He will be discussing some of the practical problems that actuaries have encountered as they've tried to implement some of these statements.

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PANEL DISCUSSION

MR. D. GERALD SEARFOSS: I am concerned about some of the issues that I am seeing in practice regarding the implementation of Statements 87 and 88. The first thing I will do is give you a disclaimer about Statement 96. We have another partner in the national office who is very expert on Statement 96, and that is not me. Therefore, what I will do is try to give you just a very fundamental example of what causes the problem and why you as actuaries are being asked to assist us. I'd like to lean back on my 13 years as a Professor and try to give you an introduction to how the FASB got where it is with Statements 87 and 88. The other thing I will also do is give another disclaimer -- I did not work with the FASB in developing Statements 87 and 88 -- nobody works with the FASB.

The FASB does seek input and to that extent we as a firm, work with it. I did serve on the implementation task force that was subsequently formed after the issuance of 87 and 88 to help to figure out how to implement the statements. So to that extent, I worked with the FASB. Coming back to accounting, I'd like to just lay a little bit of a basis for you that will lead into how the FASB did what it did.

Accounting, in essence as I used to teach my students, is applied microeconomics. Microeconomics is the economics of a firm. And you're looking at a firm with regard to its specific set of revenues and expenses, marginal revenues, marginal costs and all those kinds of things. If you've ever had an economics class, you know that economists really don't have to get down to the nitty gritty of putting that on a piece of paper called the "Income Statement" or the "Balance Sheet." They talk in theory. Accounting takes economics past theory to the point of implementing, these concepts, and converting them into numbers that you then put on a set of financial statements. But we very much look to economics when we look at what a transaction is or how to report a particular transaction.

In implementing the microeconomics, we do have this set of financial statements: the income statement and the balance sheet. The problem is that if you do one right, you do the other one wrong. So over the years it has evolved that in accounting you either take an income statement emphasis or you take a balance sheet emphasis. For example: Accounting Principles Board (APB) Opinion No. 8 on pension accounting took an income statement emphasis, so it simply looked at the expense that ought to fall in the income statement. That was the primary focus and whatever happened to the balance sheet happened. The FASB over the past five years or so has shifted that. It came out with its conceptual framework a number of years ago, and the emphasis of that framework is on the balance sheet. It says, "Let's get the balance sheet correct and whatever falls under the income statement, falls there." Now, primarily preparers of financial statements aren't very happy about that because to be honest with you, their feeling is that the balance sheet is something that a lot of people ignore to a great extent because they know that it is, as I used to tell my students, measured using "hysterical" costs, because the costs don't mean anything. If I bought a piece of machinery 10 years ago and I depreciate it 5% a year because it's going to have a 20 year life, of what relevance is that to me as a user of the financial statement? So to companies, by and large, the balance sheet doesn't mean a lot, but that income statement means a lot, because when the investors look at earnings per share, price earnings ratios, and so on they're looking right at the income statement.

Companies are very concerned about the FASB shifting emphasis to the balance sheet, and the Statement 87 is a reflection of that emphasis. It says, "Let's get the liability right and whatever happens to fall over to the income statement, so be it." And there was a lot of compromise that took place in the development of Statement 87, in particular, because of the concern of a lot of people in making that balance sheet emphasis. So what I'll do is talk about what it is the FASB was attempting to do. It was saying that there is a stream of benefits to be received, and what we as accountants want to do is know how those years and benefits to be built up match together. What we want to do is discount that stream of benefits to measure the liability, because the definition of a liability in financial accounting is "the present value of a future stream of resources, an outgoing future stream of resources." That's how we conceptually define it. That matched up very nicely with the benefits approaches used by actuaries, and that's why the FASB made the determination that it was going to change from the APB Opinion No. 8 method which allowed a number -- at least seven or eight -- of different actuarial approaches and narrowed them down to the benefits approaches. That's how we got to the benefits approach, because that is the best reflection of the liability in the balance sheet.

Future compensation levels do not seem to be a major issue. We don't get a lot of questions on them -- that's pretty much a carry-over under APB Opinion No. 8. It never raised much of an issue there; it's not raising much of an issue now. However, when we go to the rates -- what I call the two rate approach -- and the rate of return issue and the value of assets, that changes things significantly. Because in terms of measuring a liability, you would have to determine an appropriate discount rate to discount that future stream of resource outflows. When you take a balance sheet emphasis, you have to remember that a balance sheet is a "point-in-time" measurement. If you ever took accounting, your professor might have said it's a "snapshot," so it reflects the financial position of the company at that moment in time. The income statement, on the other hand, measures the performance of a company from the beginning of a period to the end of a period, and measures that change in wealth to the company. How has it grown? What's happened? Has it gone up? Has its wealth gone up? Has it gone down? If you look at the balance sheet as a point in time measurement, then you say, "I want a discount rate that will allow me to get the best measure of the liability at that moment in time." That's how FASB got to the settlement rate. It said the only way you can really value a liability is to go out and find out whether somebody would take that liability from you for x amount of money, for an annuity in essence.

So the FASB got into this concept of a settlement rate -- the settlement rate is a "point-in-time" number. What is that rate that would yield a number that you would be able to settle that pension liability today? That's, of course, where we got into a lot of problems. The preparers were very concerned about that because every year as that rate changes, that can cause, as we know, extreme volatility in the measures that have to be reported in the financial statements. So a bunch of people said, "Well, how are we going to get these settlement rates? If it's really the rate that's inherent in annuity rates that we would purchase to relieve us of the obligation, how are we going to determine that? Are all of the insurance companies all of a sudden going to be very willing to tell us what their inherent rates are in those annuities?" And, of course, that became a major problem -- "How am I going to get that number?" Then, as a backup approach, as you know in the statement, the board said, "Well, you could use as a reference point the PBGC rates, which we know are quite low. You could go out there and develop a hypothetical portfolio of long-term fixed-return investments of high quality, and you could match up the kinds of securities that you would have to match up by period." So, if you had a $5 million payment in benefits scheduled next year, what type of security would match up exactly $5 million a year from now to pay off that one, and so on, and so on, and so on. You'd have to match up year by year, so you develop this hypothetical portfolio. That was another approach that the FASB permitted.

I would expect, and I think the FASB would expect, that the discount rate would change every year, or at least there would be a high probability that it would change every year, because if you're using a hypothetically matched portfolio, that portfolio is made up of a number of securities that are impacted by the marketplace and the current cost of money in the marketplace. Therefore, generally you would see some volatility, some shifting in that from year to year. So generally we would expect that it would change, and we would be concerned if it is not changing. The thing that I found very interesting was looking at a 1989 Wyatt report on Statements 87 and 88. It says that from the year 1987-1988 in financial statements of a group of companies that it surveyed, only 34% of the industrial companies that responded changed their rate from 1987-1988. That's curious to me because I find it improbable that the rates for 66% of the companies out there that did not respond to the survey did not have some sort of a shift in the discount rate from one year to the next, and we know that even a relatively small percentage change in the discount rate can result in a significant effect on the measurement of the liability. I'm not sure why this is happening, to be very frank with you, but I hear about this situation from our actuaries who are reviewing actuarial valuation reports of our clients because we as auditors have to attest to the fairness of their financial statements and the extent to which they're in compliance with Statement 87. I'm starting to get worried about that and I'm not sure again, what the explanation is. The only explanation as an auditor that I would accept is if the change is so small as to be immaterial with respect to its impact on the financial statements, but that has to be demonstrated to me that change was so small. That means that there's got to be something in the work papers provided by the client that indicates that a full analysis has been made and no change is justified. Now we do have a number of clients, and I will admit it's some of our very largest clients that do the hypothetical portfolio approach. Each year they come out with a change that is exactly what I would have expected. It seems hard to believe that if you were using the annuity rate approach that an insurance company year to year would lock in that rate. It seems to me if you could get it, that it would be shifting, which then by definition says to me that if I'm using a settlement rate or a surrogate for a settlement rate that the discount rate then should be changing from year to year.

The expected long-term rate of return on plan assets was a real compromise on the part of the FASB. Because it got so much grief about the volatility and the ability to measure the settlement rate, it came off of its position of using the actual return. It wanted to use actual rather than expected. Again, if you take a volatile settlement rate and then you've got an actual rate of return, which again is going to change from year to year, you've got a compounding effect, in essence, of volatility, or at least some offsetting that could happen. But, it would be very confusing, so the FASB said, "All right, we'll back off of that one. We want the settlement rate, but we'll give up on the actual return rate." Generally, I would expect that the expected long-term rate of return on plan assets would be higher than the discount rate, and conceptually I'd get there because if it's lower then why wouldn't I settle it and get rid of it? Unless I can earn more by managing it, why wouldn't I get rid of it if I can settle it for less? So again, conceptually it says to me that generally that would be higher. The only thing that I think might cause that is that for some temporary period of time a client has all of its plan assets in very low return items, and it expects to turn the return around by changing the mix of assets in its portfolio. But generally I would expect again, that the long-term rate of return would be higher than the discount rate.

In pension accounting we have the issue of attempting to measure a liability. This is really no different than what we had under APB No. 8. If a company, in a particular period, funds more than it expenses, it is going to build up a prepaid asset. If on the other hand, it does the opposite, we have the accrued liability. What we have differently now under Statement 87 is the balance sheet emphasis that I was talking about. You want to measure the liability correctly and whatever happens to the income statement happens. Here's another area where the FASB compromised. It came up with a concept of the additional liability which just rolled to this year's financial statement. Basically, what it said was, "If the accumulated benefit obligation (ABO) is greater than the fair value of plan assets, you have an additional liability that would need to be recognized in this year." The FASB had given companies a grace period. On the other hand it also said that companies would have to recognize an intangible asset to offset the recognition of that additional liability in the balance sheet.

Now let's come back to the concept a moment. If I am looking at it from an economics point of view and I really want to measure what I believe is the true liability, I would recognize it as the projected benefit obligation (PBO) minus the fair value of plan assets. I would not have used the ABO. This is another area of compromise that the FASB took. Because the number would have been so large, FASB came under tremendous fire, backed off and said, "Okay, we'll live with the ABO minus the fair value of plan assets in determining whether you have an additional liability." I can tell you that I have seen recently issued earnings reports and financial statements that are showing very, very large additional liabilities, some in the excess of $2.5 billion, so we're talking about some very large numbers for some very large companies. Of course, those numbers are typically related to those companies that have been more in the smokestack industries with very sweetened benefit plans through unions. Now they're getting hit for that charge. Interestingly, in at least a few cases, the $2.5 billion are not material with respect to the financial statements because these companies are so big. That all has to be disclosed in any case.

The area of purchase business combinations is one that I am also seeing some problems occurring in practice. Our actuarial group was asked to do reviews of transactions by some of our clients. Basically the accounting rules say that when I buy a company in a purchase transaction, I will have to recognize any previously unrecognized assets or liabilities. A previously unrecognized liability would be the pension liability to the extent that it exceeded our previous requirement. Under the old rules you would take the vested benefit obligation (VBO) minus the fair value of plan assets, and book the difference in the acquisition. Statement 87 changed that and said, "No, you would take the PBO minus the fair value of plan assets, and that's what you would book." What we have seen in a number of cases is that it is not being recognized, and that really distorts the financial statements where the liability is large. Under accounting rules, if you make an error of estimation at the time of the acquisition, because sometimes some of these things happen pretty quickly and you don't have a lot of time to get the estimates made, you have a year to true it up without having to do anything significant to the financial statements. Once you've passed that grace period of one year, if there were errors made in the actuarial calculations or the assumptions, it becomes a significant issue if it's a material number. It becomes a significant issue in terms of the effect on the financial statements, and if you missed it completely that's even worse because that's what we call a correction of an error. That becomes very visible in the financial statements, and I can tell you your clients would be very upset if that number had been either seriously misstated or not reported or computed at all. If it didn't get computed at all, then they're as much at fault, because they should have recognized the need to do that, and so should their auditor.

The other thing I would mention is that we keep getting questions as to what you do with that difference when you do recognize that in a purchase business combination. You've taken the difference between PBO and fair value of plan assets. You've now booked the number. What do you do with it? The answer is "nothing." You do not amortize it. A lot of people are getting calls -- questions to our auditors from other actuaries -- not our actuaries -- saying, "Gee, this gets amortized, right?" And the answer is, "No, it does not get amortized. It becomes in essence the prepaid pension asset or accrued pension liability which is only going to go up and down to the extent that you have a difference between funding and expensing, so it does not get amortized." You have got to be very clear about that because some of our clients were under the presumption from information from their actuaries that they could do that and they had based some of their decisions on that fact. That is not the case. The other thing I will point out here is a lot of people think that this reflects a real inconsistency at the FASB. That is, if you remember, I said the additional minimum liability is the difference between ABO and fair value of plan assets. But when you come to this equation, it's the difference between PBO and fair value of plan assets. I think it was one of those cases where the FASB went, "Whew, we have some precedent in our literature that allows us to get the full liability up under a purchase business combination but we had to compromise on the other side when we're dealing with the additional minimum liability." So, if you really ask the FASB what it would have liked to have on the balance sheet it definitely would have been PBO minus fair value of plan assets. It didn't get that in a non-purchase situation, but it did get it in this situation.

Moving on to Statement 88, I'm going to deal with "the criteria for a settlement," because we still seem to be getting questions. Let's take a look at the three criteria that the FASB established. It's got to be an irrevocable action. Now, what does that mean? In accounting "irrevocable" can mean a lot of things. It can be a legal definition of irrevocable. It can be a definition that simply says the board of directors has voted to do this and it cannot be changed. You could construe that as being irrevocable although that's pretty tenuous. The FASB took a very, very hard line on that, and said, "Irrevocable means cash has changed hands. You have written a check to the insurer to buy the annuities and until the cash changes hands you do not have a settlement." Now, of course, why would this question even come up? The question comes up because you cannot recognize a settlement gain until the transaction is completed. Let's say we have a company that's structuring a settlement, and it wants to get that gain in a particular year when it is having a bad year otherwise. So, it wants to use some of that settlement gain to offset some other losses. So it goes through the settlement, it does everything necessary, it applies to PBGC for approval and so on, but the money hasn't changed hands. The company then cannot recognize the gain in that year. It would have to wait until the cash changes hands, which may not be until the next fiscal year. That has made a number of clients very unhappy when they discovered that and had already started through the process of affecting a settlement. The next criterion is that the settlement relieves a plan of primary responsibility for the PBO. That's not a major issue. The only time you might have a major issue with that is if a company is using its own captive insurance subsidiary to provide the annuities. Then you have somewhat of a question because you have a related party transaction. How independent is the subsidiary of the parent corporation? If it is consolidated, how do you have a consolidation which treats the two as if they're one in the same? So you basically have the right pocket writing annuities for the left pocket. There is some concern about that, and you have to be careful about that situation. You've got to look to Statement 87 and the questions and answers (Q&As) where the FASB gets into more detail about that situation. The third criterion is that the settlement eliminates significant risk. If you have a standard type of annuity there's not much of an issue. You walk away, you have the annuities, the insurer now bears all the risks and rewards of what it has. That raises the issue of participating annuities. I can remember the mad flurry of insurers attempting to develop some form of participating annuity that would be not only attractive to employers but would also meet the criteria that the FASB established which said, "Eliminate significant risks." Well, I don't know how you feel, but what we're seeing is very few participating annuities being created out there, which indicates to me that by and large the criteria established by the FASB has in essence wiped out a lot of that demand, or never let the demand grow for participating annuities.

There are two criteria for a curtailment. One is that it reduces expected years of future service. Now how does that happen? That means you lay off people, and there's no longer a future service to be provided. Therefore you have a curtailment of benefits, or it eliminates an accrual of defined benefits. Now how could you do that? You could do that by terminating the plan or doing something else really significant to the plan to so totally change it that the level of benefit accruals changes significantly. By and large, I think where you fall under "eliminates accrual" is almost to the stage of a termination because you have a question of, "Where's the borderline between a curtailment and an amendment?" If I have a negative plan amendment, how big must it be before it's considered a curtailment? Now why is that a question? Well, it's a question because you could have a curtailment gain, and the client would like a curtailment gain. But if it's an amendment, you don't get to recognize the gain -- you have to amortize that. So is it a curtailment or is it an amendment? By and large the FASB says, "Well, you have to use your best judgment." We as auditors are very concerned about how large is large. When do you cross that line? That's a very gray area, and now of course, a lot of it's going to be dependent upon how the curtailment is structured or how the change is structured. The clearest case is where you terminate the plan. That is a curtailment -- no question about that one. Now when do you recognize gains or losses? You have to remember that accountants by nature are supposed to be very conservative. So the FASB said, "Well, we have to use different criteria for whether it's a loss or a gain. If it's a loss then you recognize a curtailment loss as soon as the decision is made to curtail." So let's say the members of the board of directors take an action, they vote on it, they've approved it, it's in the minutes. You should recognize the loss at that point. However if it's a gain you don't recognize the gain until the curtailment is absolutely done. Every action has been taken to put the curtailment into effect. Again, you have accounting conservatism -- you'd rather accelerate losses than defer, you'd rather defer gains than accelerate, so that's how they came up with that split criteria.

One other very interesting question about a curtailment we had not too long ago was a situation where there was going to be a curtailment and it was going to primarily affect the younger employees. If you measured the amount of gain or loss to be recognized, you'd do it as a percentage of reduction of either expected future years of service or accrual reductions. In this particular situation, as you can imagine, when it primarily affected the young workers, it had tremendous reduction in years of future service. If you took that as a percentage of total years of future service, it was a curtailment loss. The client would have recognized a huge curtailment loss. But if you looked at the amount of PBO reduction, or PBO change, it was very small because it was a young population, so I thought, "Uh, oh, we've got a bit of a problem here." So I talked to the FASB, and it said, "Yeah, I can see what you're saying. It's a real problem, use what makes most sense." Well, it wasn't hard. We felt that because it was a young employee group, it was much less of a commitment made to those people in terms of the measurement of the obligation. It made sense to look at the reduction of the obligation as the ratio and that's what we did.

The last thing in Statement 88 is the criteria for termination benefits. You have to look at what they are. Are they what the FASB called "Special Termination Benefits" or are they "Contractual Termination Benefits"? "Special" means, of course, you've opened up a window, and if you accept the offer during that window you will get enhanced benefits if you retire early. "Contractual" means something has happened. It's already been in an employment contract and something happened that triggers that. You don't have to wait for somebody to accept because it's automatic. For example, it might be a contractual termination. It might say that the company has the right to, at any point in time, ask people over a certain age to retire, but if they do that they will get x, y, and z, and that's contractual. So no acceptance is necessary. The FASB set two different criteria for recognizing the loss on the termination according to what kind of benefit it was -- a termination benefit. If it was a "special" where you have a window, then FASB said, "Well, you recognize the loss when the employee accepts the offer. If on the other hand it's a contractual benefit where there's no acceptance necessary, then you recognize it as soon as the decision is made to exercise the contractual benefit. The company makes that choice." Now if there was no contractual termination criteria, and the company has the ability to say, "Everybody over 55 will go," it's a decision. It's made. Then that's another issue. You don't have to wait for acceptance at that point because the employee is gone. If you have a cutback, for example, and just make that decision, then you'd recognize it at the point of the decision. Now let me give you another question that's been coming in recently. This one scares me a little bit. The FASB criterion says, "Benefits offered only for a short period." Question -- what is short? I had someone ask me on the telephone the other day and say, "Is five years short? The five year window?" I said, "What! A five year window for a special termination benefit? Tell me more." And the issue was that the company wanted to do some downsizing but it wanted to spread that out so it was going to give a five-year window of opportunity. People could make up their mind anytime during that period -- five years. And so the next question is, "Is that a termination benefit where you wait until they accept, or has the decision been made already, or is it a plan amendment of some sort?" Obviously what the company wants to do is treat the offer as a plan amendment so that it could spread the cost as opposed to booking loss. So we have a question there. I talked to the FASB and said, "What's short, what were you thinking about?" and the people there said, "Ummm," sort of scratched their heads and said, "Well, we had never seen anything back then that was more, generally, than a few months. You know, 90 days, six months or something like that, and hadn't thought about anybody thinking about five years." I, as an auditor, would be very concerned if you start to think more than a year in terms of short. I think you just have to use some good judgment, and if your clients are starting to talk about that and they're starting to jig around a little bit with these numbers, I think you may want to have them be a bit conservative on that because especially if they're an SEC registrant, I don't think the SEC is going to believe that five years is short. I think it would chafe at that, so I think you just really need to use some good judgment there.

Now let me mention one last thing before I wrap it up. When a company has a downsizing, we have been seeing that you can get settlements, curtailments, and special termination benefits all in the same decision. Now what I was just telling you was that even though these things are wrapped up into the same transaction, the FASB has established different recognition points for each of these things, so you can't just lump the effect of that decision to downsize all together. What you've got to do is start to disaggregate into, What was the effect of the settlement? What was the effect of the curtailment? What was the curtailment loss or gain? What's the effect of the special termination benefits? Have they been accepted or not? So you really have a big disaggregation job to deal with. You can't just lump this whole thing together. I'm not an actuary, so I don't know whether you actually wind up doing it in a disaggregated sense anyway, and then you put it together, or whether you do it in a lump sum and then would have to disaggregate. All I'm saying is that if you do it in an aggregate sense you are going to have to pull it all into one period unless all things happened within that same period. So if, in a particular year, you've paid for the annuities, you have met the criteria to recognize the curtailment gain or loss in that period, and for the special termination benefits, they have all been accepted in that period, then it's no problem. Then you don't have to disaggregate. But if it splits periods as to when you expect those things to happen, then you've got a measurement issue that you have to deal with, unless it's not significant. The part that might have to branch into a next year may not be a significant number.

Now for Statement 96 -- I don't know how to do this exactly because this is very much more an accounting issue than it is an actuarial issue, except you've been asked to provide some numbers. Let me try to give you an example. Of course, being an accountant I'm going to try to use some numbers here, but some small ones. Let's say in a particular year you make a pension contribution of $30 and you book a pension expense under Statement 87 of $50. So your cash flow and therefore your deduction for tax purposes is $30, but your expense on that income statement is $50. Now what I'm going to do is offset my debits and credits. I'm going to have to set up an accrued pension liability of $20. What does that mean? That means that in some future period I'm going to have to pay those expenses, those taxes. They're going to come up at some point in time because at some point in time I'm going to have to pay out more or less. So my problem is that I have net income. Let's say I had revenues of $100 and the only expense I had was my pension expense. That's all I had, and that was $50 on the books. I have a net income of $50 on the books, so I have a smaller tax expense to be recognized on the books at $20, let's say at 40%. So I had net income of $50, with a 40% tax rate, to come up with $20 of tax expense. But because I have $70 of taxable income on the tax return, because I only had a deduction of $30, I wind up with $70 and let's say at a 40% rate, I wind up with a tax liability of $28. So I have a tax liability of $28 and I have a book tax expense of $20. So I have a liability at $28, and an expense at $20, so I have a difference of $8.

In time that's going to become deductible. As I pay out more cash it's going to become deductible to me. Now under Statement 96, here's the FASB's balance sheet approach again. Statement 96 said, "Get the balance sheet correct from a tax perspective." In other words, measure the liability, forget about the income statement. That's a residual, so I've got a difference between my book and tax numbers, like in this case, I have a liability -- a tax liability of $28 and a book tax expense of $20. When I have that difference, what I've got to do is schedule out into the future when I expect that $8 to turn around, and I start to take a deduction for that. So Statement 96 requires this scheduling, and what I understand is that you have been asked in some cases to provide information as to when you believe the point might hit when the contributions will start to exceed the expense. That's the only time when the $8 will start to turn around. And that's the reason you're being asked for that information. Because from a Statement 96 perspective, to get the tax liability correct on the balance sheet, we have to schedule these things out and know when they're going to turn around. I've tried to give you a very basic rationale as to why you're being asked to provide this information -- sort of projecting out when this thing will start to turn around and contributions would exceed pension expense versus what's happening now in a particular client.

MR. MARK A. CAVAZOS: I'm discussing the practical problems that we've encountered as actuaries with FASB, so I did a poll in my office and said, "Well, what have you run into?" And I got two or three responses, so either my office knows everything there is or we haven't got a clue as to what's going on. So I also looked at other items, such as at an enrolled actuaries meeting, what people asked about. There were some issues that were brought up. For instance, determination of the settlement rate. Whose responsibility is it? That issue was not brought up in conversations with the actuaries I normally deal with, so it seems to be some people's problems other people take for granted. Perhaps at the end if you have any questions, or you have particular problems that aren't mentioned, maybe you can bring them up. Getting back to fill out the discussion about the interest rate, or the settlement rate -- who selects it? Actuaries have certainly taken a position now that is ultimately left up to the company and its auditor. The actuary does not determine the rate. I've always thought that as actuaries we should take at least somewhat of an aggressive approach and suggest a rate, and say that it's not completely out of our hands. We'll give an estimated range of what we think it might be. The auditor may disagree with us, and he may establish a rate separate from that, but I've always felt that we should at least take the stand that we would like to influence it a little bit.

Another issue is a mid-year plan amendment (Table 1). We have a company that has a union plan. It negotiated a new contract in the middle of the year. What we want to find out is how that would affect the cost. The contract was signed in August 1989, although increased benefits didn't actually impact until the beginning of January of the next year. Now, being conservative under FAS 87, we established a measurement date on September 1 because, even though the increases in benefits were not yet payable, there was the contractual obligation to provide those benefits. As a result we had taken our initial calculations that we had made as of the beginning of the year, and we prorated them for the portion of the year that had already elapsed. This is in column 3. Those were now the expenses that a company books, a credit actually, of $605,000 for those eight months. Then at that point, we brought up our liabilities. With our new measurement date of September 1, we found that our settlement rate had changed, dropping from 9.5-9%. So as you can see, we had a bit of a loss with our change. There had been a change in settlement rates. The methodology that was used on this case was long-term bonds, and they had changed in those eight months. So we recognized the change in the interest rate.

We then measured the new plan amendment, and determined what the cost would be on an annual basis, if those plan amendments had been effective all year. We then prorate it for the remaining four months to determine the cost. One of the things that I liked about this is that our market-related value is based on a moving market average. We're phasing it in over five years. And we came up with a question, "What do you do in the middle of the year?" "How would you recognize the amortization period?" I dreamed up one way, and another actuary who was working on it dreamed up another way, and happily they resulted in the same numbers (Table 2). My approach, which I labeled as Method One, basically said, on a regular basis, from your market value you would subtract 80% of the market change in the prior year and 60% the year before that and on back. So I thought, "Well, we'll do it for the twelve months beforehand." So I took the 1989 market change for eight months and I subtracted 80% of that and 80% of one-third of the 1988 market change, which would be saying that one-third of the 1988 market change occurred in the last four months of the year, and on back that way and came up with our market-related value. The other actuary said, "You go from market-related to market-related by recognizing actual disbursements and contributions and 20% of the changes that occurred in the last five years. Since we'd only gone a portion of the year, you should only recognize a portion of that amount." What she argued was that for 1989, since it was a portion of the year, you would recognize 20% of that change and for the prior years you would recognize two thirds of the 20% for that year. Fortunately, all these numbers worked out to be mathematically the same, so we have some confidence in the results. Once we had determined the expense for the two portions of the year, we simply summed them up and said, "This is your expense for this year." In some instances we have had situations where a gain/loss amortization has been only for a portion of the year -- maybe the first half, and in the second half the corridor was large enough that no portion needed to be recognized. All of that didn't occur here.

TABLE 1

FAS87 PROBLEMS

Mid-year Plan Amendment

	Expense Before Amendment				Effect of Amendment		Expense After Amendment			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
	1/1/89 9.5%	Full Year	Partial Year	9/1/89 9.5%	9/1/89 9.0%	New Actual 9/1/89 9.0%	Full Year	Partial Year	New Expected 12/31/89 9.0%	1989 Expense
PBO	($25,755)			($26,483)	($27,877)	($29,999)			($30,463)	
MV Assets	36,205			37,114	37,460	37,460			37,895	
Funded Status	10,450			10,631	9,583	7,461			7,432	
Unrec. Net Obligation	(10,132)			(9,569)	(9,569)	(9,569)			(9,288)	
Unrec. PSC	2,094			1,955	1,955	4,077			3,947	
Unrec. (Gain)/Loss	1,314			1,314	2,362	2,362			2,362	
(Accrued)/Prepaid	3,726			4,331	4,331	4,331			4,453	
Service Cost		$ 549	$ 366				703	234		600
Interest Cost		2,366	1,578				2,613	870		2,488
Asset Return		(3,185)	(2,125)				(3,229)	(1,075)		(3,200)
Amortization										
Net Obligation		(844)	(563)				(844)	(281)		(844)
PSC		209	139				391	130		269
G/L		0	0				0	0		0
Net Cost		(905)	(605)				(366)	(122)		(727)
Benefit Payments		1,708	1,216				1,921	640		
Contributions		0	0				0	0		

N086

TABLE 2

FAS 87 Problems
Mid-Year Plan Amendments
Development of Market-Related Value

Method I

MRV @ 9/1/89	=	MV @ 9/1/89
	-	80% of 1989 market change
	-	[.333 * 80% + .667 * 60%] of 1988 market change
	-	[.333 * 60% + .667 * 40%] of 1987 market change
	-	[.333 * 40% + .667 * 20%] of 1986 market change
	=	37,460
	-	.8 * 824
	-	.667 * 750
	-	.467 * (1,677)
	-	.267 * 915
	=	36,839

Method II

MRV @ 9/1/89	=	MRV @ 1/1/89
	-	disbursements + receipts + income
	+	20% of 1989 market change
	+	.667 * 20% of 1986 through 1988 market change
	=	36,245
	+	431
	+	.2 * 824
	+	.667 * .2 * (750 - 1,677 + 915)
	=	36,839

Another question I had received was one on secular trusts (Table 3) -- What do we do with a secular trust? A secular trust is generally set up for a nonqualified plan. A nonqualified plan has generally been on a book reserve basis, where there are no assets to offset the expense and the total of your expense over the life of a plan is going to be equal to benefits you actually pay out. Your expensing method is a matter of allocating those benefit payments. One variation was to set up a rabbi trust, which would provide some assets. But the rabbi trust itself is part of the corporate assets so it never affected a nonqualified plan's expense. Another step was to take a secular trust and actually give money to the employees. Set up a fund, and say, "This is the employees' money." If you give them money and set up a trust fund for them, the IRS will construe that as constructive receipt, and the employees have to pay taxes, even though they do not have the money in their hands. What companies have done then is to provide employees with a smaller benefit out of the secular trust and pay the taxes for the employees that would be payable both on the contributions and on the investment return in the trust. For instance, if you were to provide a $10,000 benefit under a regular unfunded plan, for a secular trust, you may provide $7,200. The employee would receive the same after-tax benefit in both situations. What the employee now has to pay is the tax, and employers

TABLE 3

FAS 87 Problems
Secular Trusts

Development of PBO

Age	Actual Payments	Interest Discount	Pro-ration	Liability
55	$ 7,899	0.91743	15/15	$ 7,247
56	1,249	0.84168	15/16	986
57	1,410	0.77218	15/17	961
58	1,589	0.70843	15/18	938
59	1,790	0.64993	15/19	918
60	2,014	0.59627	15/20	901
61	2,264	0.54703	15/21	885
62	2,542	0.50187	15/22	870
63	2,852	0.46043	15/23	856
64	3,197	0.42241	15/24	844
65+	15,946	0.42241	15/25	4,041
				$19,447

Development of Service Cost

Age	Actual Payments	Interest Discount	Pro-ration	Liability
55	$ 7,899	1.00000	0	$ 0
56	1,249	0.91743	1/16	72
57	1,410	0.84168	1/17	70
58	1,589	0.77218	1/18	68
59	1,790	0.70843	1/19	67
60	2,014	0.64993	1/20	65
61	2,264	0.59627	1/21	64
62	2,542	0.54703	1/22	63
63	2,852	0.50187	1/23	62
64	3,197	0.46043	1/24	61
65+	15,946	0.46043	1/25	294
				$886

say, "Well, we'll pay the tax for you." So the employer will write out a check to pay the taxes on the contributions that it has made and the income that the secular trust has earned. But then, of course, that's a payment to the employees, and the IRS says, "That's money to them; we have to tax them on that, too." So you gross it up so that the amount you give them pays off the taxes that they owe through constructive receipt and the taxes on the taxes, and the taxes on the taxes.

Then this is a matter of how you expense this tax payment and the gross up on it. There are two methods: One is to expense it entirely outside of your supplemental plan, just expensing it on a pay-as-you-go method as they are incurred. Another way is to put it into your secular trust, and expense it out of the secular trust. We have a chart of how you determine the projected benefit obligation and the service cost for that. What we have here is for an individual who's currently age 55, and has 15 years of service. We have a payment stream from age 55 through age 64 of how much we expect to pay for his taxes. The value at age 65 is the present value of all his payments after he retires. The value before age 65 is preretirement disbursement. We'd consider it as an ancillary benefit, and take the present value by prorating the benefit payment that he'd receive by his service, over service at the date he would receive that payment. The present value of the benefit at 65 would be considered a retirement benefit, and we would prorate it the same as you would prorate a lump-sum retirement benefit. In this case, since he is not eligible for this benefit until age 65, it would get prorated by his 15 years currently, to his date at first age eligible, which is 65. Similarly, the service cost would be done using the one-year recognition. For instance, the actual payment at age 55 for this year is no service cost. It's fully recognized in his projected benefit obligation. The two methods, either expensing pay as you go or expensing through the trust itself, yield equivalent long-term expense. The only difference is when you pay. If you were to pay it as a pay-as-you-go plan, your actual payments would be very large in the first year and would tend to drop off as the employee grows older. Whereas if you were to expense it though the trust itself, you would have much smoother costs -- a lower expense in the first few years. Of course, as he ages it will not drop off as much. These were really the only questions I got out of my group of actuaries, so unfortunately maybe we haven't run into the problems that other people have. I was unlike many actuaries. I did not take an accounting class in college. I have no idea of what accountants do, so every time I hear accountants describe their end of it, I'm curious to see what these numbers are used for and how our problems, or our solutions to them are handled or interpreted by the accounting professionals, the auditors.

MR. JERRY D. ALLEN: This is a good question for Gerry. I have a client who adopted FAS 87 for 1986 and set up the policies using as the settlement rate PBGC plus .5%. As the years followed, the client felt that the PBGC was getting more and more conservative in setting its rates, so at the end of 1989 the client decided to go to PBGC plus 1%. Do you feel that is a change in accounting procedure, or a change in estimation?

MR. SEARFOSS: That's a change in estimation. The FASB did deal with that and at first there was a leaning to a change in accounting, which, as you know, would have a significantly different impact on the financial statements, and so it said that it would treat these as a change in estimate.

MR. ALLEN: Did FASB deal with that in public statements?

MR. SEARFOSS: It was dealt with at one of the implementation task force meetings.

MR. ALLEN: Was it part of the Q&As that came out after?

MR. SEARFOSS: That's what I was just trying to remember, I'm not sure. I think so but I'm not sure. I don't have a copy with me.

MR. CAVAZOS: I've just been studying for the exam, and it is a question in the Q&A, and it is answered there. Yes, it is an estimation.

MR. DANIEL P. NICHOLS: If an employer merges two plans in 1989 or 1990 because of participation requirements, and both plans had been accounted for under FAS 87 for several years how are the past amortization amounts for two separate plans that were merged handled?

MR. SEARFOSS: Good question, and I guess I should have given a disclaimer. Any question or answer I give you is off the cuff because I really will not have a lot of time to study the thing. I guess the implication is that there are substantial differences in the periods over which they're being amortized. That's the only reason there would be a question. Of course, what would you have done had both plans been one at the time that you applied 87? You would have taken the average, so I guess my initial leaning would be to just continue using them differently as opposed to trying to make any changes at this point and just reflect that in a disclosure. That's just an off-the-cuff leaning at this point.

MR. RIAN M. YAFFE: I believe that is addressed in the Q&As.

MR. SEARFOSS: Okay.

MR. YAFFE: I have a question for Mr. Searfoss that was raised by something that I heard in an earlier session on asset and liability matching in pension plans. With all of the auditing firms with which we and our clients have worked, we have followed an approach where we established some long-term inflation assumption and then added a real return expectation over and above that to get a long-term rate of return. We've done the same sort of thing with the salary scale, and then we use Treasury bonds or something like that for the fluctuating discount rate. So in effect, we've had the discount rate fluctuating from year to year, but the salary assumption, and the long-term rate of return fixed. The chairman of American Airlines said that it uses a different approach. In effect it assumes that the real rate of returns are fixed and that inflation is fluctuated, so that when American has year to year changes in the discount rate, it interprets that as a change in inflation expectations, and therefore it fluctuates the salary assumption along with the discount rate. The obvious effect is that American dampens the volatility of the service cost. The chairman had said American had arrived at this with the help of its actuaries and presumably the concurrence of its auditors. I was wondering if you would comment on that approach. It's an interesting one that I hadn't thought of. Well actually, I had thought of it, and the auditors I was working with rejected it.

MR. SEARFOSS: One thing that you are starting to step into where I start to get weak is the interrelationships on a conceptual basis between these different rates. But what concerns me about either approach is that the FASB said you have to have free-standing assumptions. Explicit assumptions. You shouldn't be netting one against the other I get concerned. I don't have a direct answer for your question.

MR. YAFFE: I don't think this is netting one against another.

MR. SEARFOSS: It is not. Okay, well it sounds almost like it's tending towards what I would look or think of as implicit. When I get those kinds of questions the first thing I do is pick up the phone and call my actuary friends to advise me. So I'm afraid that I'd be stepping a little bit out of my turf to deal with that one.

MR. YAFFE: Well, if any of my colleagues have something to say about it, I'd love to hear it.

MR. S. KRISHNAMURTHY: I imagine that FAS 35 and 36 are still in operation, and most plans will require the disclosure of the accumulated plan benefits. Do you see any conceptual problem because accumulated plan benefits will have a number that is different from the ABO? They're being disclosed at very different values along side 87. I don't know -- that's why I'm asking.

MR. SEARFOSS: That's interesting. Yes, it does seem to me that would be a contradiction or a conflict at least. I hadn't realized until this until you mentioned it. I had assumed that it was the ABO that was under plan disclosures.

MR. CAVAZOS: It is.

MR. ROBERT SAMUEL HAWS: I guess the comment I would make is that the criteria on the two statements, 35 and 87, for selecting the interest rate and discounting the liability are different.

MR. SEARFOSS: They're different, that's correct.

MR. HAWS: And you know in 35 it gives you a criterion for selecting an interest rate being a realistic measure, and in 87 it talks about the varying discount rate for the period. I guess we've seen a lot of cases where the ABO in sponsors' financial statements are different from the FAS 35 values.

MR. SEARFOSS: Well, let it never be contended that the FASB sets one standard in consideration of one that already exists.

MR. KRISHNAMURTHY: Well, my question was that in FAS 36 you are required to have the plan sponsors acknowledging a footnote on what is stated in FAS 35.

MR. SEARFOSS: Right.

MR. CAVAZOS: No, 36 has been rescinded.

MR. SEARFOSS: It's superseded under 87. I thought it was the ABO that was being presented now under those conditions. No?

MR. MARK S. SWOTINSKY: I followed the example of the mid-year plan amendment and how you remeasure on a pro-rata basis and tend to agree with the analysis. This may be more a comment or to get some reaction. If you were in a period of rising interest rates or you had exceptional market return, what I could see happening and I've seen happening is that, for an amendment or a curtailment gain or loss, we'll see an amendment that positively increases your liabilities so that you could actually end up in the position where your expense for the year drops as a result of the remeasuring in the middle of the year based on a higher discount rate. Any reaction to that? I mean I've actually seen cases where the overall expense for the year is now lower because instead of using an 8.5% beginning of the year rate I've now remeasured at July 1, using 9.5% because interest rates have risen.

MR. CAVAZOS: Well, in doing your mid-year expensing for the plan amendment, you would have to recognize that change. For instance a gain/loss could appear. You might have a credit there and then disappear, even if there is no change in your settlement rate. You could have changes just because liabilities go up. I have seen instances of it going up and down like that.

MR. SWOTINSKY: It just seems to me a contradiction to say I had a plan amendment, yet it dropped my expense for the year as a result, because I'm remeasuring that one on a different interest rate midway through the period.

MR. SEARFOSS: Let me comment on that. I wish I had statement 87 with me. I forgot it when I was running out of the office to catch a plane the other day, but my concern is that when you're measuring the effect of an amendment, I'm not sure that statement 87 says to go through a full remeasurement of the entire obligation but rather to look at the incremental effect of the amendment itself. I'm not sure about that, but I'd have to go back and look at the words. There is a paragraph in there that talks about when you might have a remeasurement as the result of a significant change such as a plan amendment and then you might at that point adjust your other measurement. That's an intriguing one, I've made a note to that effect. I need to go back and take a look at that.

MR. HAWS: I have a question. You made a point that you can have situations where a plan may have an additional minimum liability that might be large but also not material to the sponsor's financial statements. However, it may require disclosure. There's also a comment in FAS 87 that this does not apply to immaterial items.

MR. SEARFOSS: Right.

MR. HAWS: Now I realize working in an accounting firm that materiality is a very nebulous and sensitive issue, but have you seen situations where a company might have additional minimum liability that because of the materiality reasons might not be disclosed in the financial statements?

MR. SEARFOSS: I have not run into that situation but I can conceive of it.

MR. HAWS: Okay. Another question I had is that sometimes there is debate about whether the plan you're looking at will fall under FAS 87 or Opinion 12.

MR. SEARFOSS: Excuse me, my mind's still turning on your first question. Although you would not necessarily separately disclose the additional minimum liability since you already have the ABO disclosed, it seems to me that people would be able to compare what you have on the balance sheet relative to what you have in the disclosure, so the information is there, it seems to me, even if you don't have the additional minimum. I have to think that one through -- that's interesting, I'm sorry.

MR. HAWS: Let's take your point a step further. I agree that you are disclosing in that case as opposed to you not actually creating the other entry to book.

MR. SEARFOSS: Right, the intangible, yes I understand.

MR. HAWS: Getting back to my other question. Sometimes we get into a discussion as to whether you have an FAS 87 plan or Opinion 12 type plan and I guess the difference that we get into is that you have different balance sheet effects between the two types of arrangements.

MR. SEARFOSS: Right.

MR. HAWS: Do you have any rule of thumb that you apply when you're trying to figure out if something actually is a plan or not a plan? I guess usually this comes up with nonqualified arrangements, and you might have a select group of executives covered by something but maybe with the intention of a plan and maybe not. Have you had any thoughts in mind to differentiate plans versus nonplans?

MR. SEARFOSS: No, no rule of thumb. Basically the FASB says that, if it looks like, smells like, walks like a defined benefit plan, it is one and account for it that way. And by and large we just look at the agreement and make a decision each time we have to face that issue that it's sufficiently material to worry about. So, no, we don't have a rule of thumb.

MR. HAWS: Okay. Let me ask one other question. My understanding about the selection of discount rates and whose responsibility it is, is that it rests firmly on the plan sponsor.

MR. SEARFOSS: Yes.

MR. HAWS: And that the auditor and the actuary can give input, which they might be expected to do, but it's the management people of the company that's actually issuing the financial statements and they're saying, "These are our statements." Is that your understanding?

MR. SEARFOSS: Absolutely. Unfortunately though, I think if we're being realistic and you've got a small company with a pension plan, and the sponsor hires you as the actuary to go in and do the thing, often it will just take what you tell it. And that's being very realistic. I mean that's what it is. So the sponsor here agreed to it, therefore the assumption is theirs, but that's what often happens. You're right though. It is the sponsor's responsibility to establish the assumptions.

MR. ROBERT E. DOUGAN, JR.: I'd like to comment on that also. I think the flip side of that issue is, at what point do we as actuaries have an ethical responsibility not to perform calculations at an interest rate that we feel is not reasonable? Just because the client thinks we could use a 15% discount rate and the auditor's willing to go along with it, do we have any kind of an ethical responsibility not to do those calculations, and I think we do. I guess I can't cite you anything in the Academy guidelines.

MR. SEARFOSS: I wrote a note to myself when that question was mentioned, or alluded to here by Mark. He said his company thinks it's the plan sponsor's and the auditor's responsibility. I wrote it down -- it is the actuary and the sponsor's responsibility.

MR. DOUGAN: I'd like to ask you some questions on the subject of changing measurement dates, which as far as I can tell is not addressed either in FAS 87 or in FASB's questions and answers. I've had it come up in two separate situations. In one case, the client had a calendar year fiscal year, and we had previously been using a measurement date of September 30. So we're going from September 30, to September 30. The client changed its fiscal year to June 30, and so we made the corresponding change in measurement date from September 30-March 31, so we were still getting six months of pension expense. That seemed to go very smoothly, and we didn't get any questions from the auditor on that issue. However we had another client that had a calendar year fiscal year where we had started out complying with FAS 87 using a December 31 measurement date and have since discovered real problems in getting the necessary asset information at the end of the year. The client says, we'd really rather go to a September 30 measurement date so we have a 12-month fiscal year but a nine-month measurement period, and the question is how do you calculate pension expense with that fiscal year? Do you really get just a nine-month pension expense? Is that a change in accounting methods? What do you do?

MR. SEARFOSS: Well, you know that is a sensitive issue, and we do have a concern about change in the measurement date. No, you're not going to have a nine-month expense. You're going to have a nine and a three basically, it seems to me. You're going to have a nine in one and a three in the other so you get an expense, but it's blended for the two periods that you would have had. You know, those split periods.

MS. SUSAN M. SMITH: You don't get a nine and a three, you change the measurement date to the fiscal year that now begins three months later, so you go twelve months on the old one.

MR. SEARFOSS: Okay, I see what you're saying.

MS. SMITH: You have an adjustment because you have three months of normal cost. It's just that it gets backed out of the PBO, but what happens there is a change in estimate.

MR. SEARFOSS: But you're going to have 12 months.

MS. SMITH: Yes.

MR. SEARFOSS: The point is you're not going to have nine months. But that is a concern because FASB was very strong if you read Statement 87 that once you lock in on that measurement date that should be it. So, you know, there certainly would have to be a lot of disclosure about the impact of the shift and so on.

MR. CHRISTOPHER M. BONE: As a preface, this is a question on significance and materiality. A Q&A from FAS 87, question 81, talks about the way to allocate bases, unrecognized prior service cost, accumulated gains and losses, etcetera, when the plan has spun off from a parent, and the rationale under question 81 is taken from FAS 88, on settlements and curtailments. The question is, to what extent should you follow that guidance if it will be neither a settlement nor a curtailment? Is it necessary to follow that guidance, or do you treat it as a de minimus operation with a gain/loss in a large plan and a plan assumption in a small plan?

MR. SEARFOSS: You've lost me. You shifted between two pieces here and you've lost me in the switch. What was the first part?

MR. BONE: The question is, you have guidance, in the Q&A on FAS 87 which is based on statement 88, and it's based on the settlement/curtailment provisions of FAS 88.

MR. SEARFOSS: But it relates to what now? You said a spinoff? Okay.

MR. BONE: If you had not met the requirements for recognition of the settlement or curtailment, should you be bound by that title?

Would you recognize it if you would not need to recognize the curtailment because it didn't exist?

MR. SEARFOSS: I have not faced that question or dealt with that issue in the Q&A. It seems like the FASB made a link between a spinoff and a settlement/curtailment and so I guess my first question would be, are they normally related? Would that normally happen?

MR. BONE: Well, if you take liabilities from one plan and set up a new plan, then clearly you've transferred the liabilities but you can transfer assets with it. So you can say that you had settled to some extent the liability of the plan and transferred it into this new plan, and as a curtailment you've taken people out of the big plan and put them into another plan.

MR. SEARFOSS: Okay, I see. My inclination at that point would be to look at it then as the FASB had done. Whether you had a settlement or not but look at it in that concept, because that is in essence in concept what you're accomplishing by the spinoff. I didn't understand how that spinoff worked -- but that would be my leaning.

MR. MICHAEL L. PISULA: I'm going to get real original with a question here. Has the FASB accomplished its conceptual framework? Are the results reliable and are the results comparable?

MR. SEARFOSS: Yes, and when I saw that question, which I had not suggested anybody put out, I circled it and put a big question mark. In terms of reliable, I think we're finding a sufficient degree of reliability. We only see a few instances where we have concern about changes that are being made, or the measurements that are being made and the softness of that information. It seems to be getting there and getting there in a reliable way. In terms of comparable we believe it's more comparable than it had been.

MR. PISULA: Comparable to what?

MR. SEARFOSS: Company to company. In terms of, if companies have similar benefits under certain similar circumstances, with similar competing in the same market for the same types of employees, therefore providing similar benefits, that it is more comparable. In terms of the perceived benefits, I don't know. The perceived benefits I believe are a function of the users of the financial statements and the extent to which they believe it tells them something different than they had before, and I don't know how you measure that exactly. That's a problem we've struggled with in the accounting profession as long as we've been in existence.