DEPARTMENT OF THE AIR FORCE
WASHINGTON DC

OFFICE OF THE ASSISTANT SECRETARY

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MEMORANDUM FOR MS. WENDY M. COMES
Executive Director
Federal Accounting Standards Advisory Board
Mailstop 6K17V
441 G Street NW, Suite 6814
Washington, DC 20548

FROM: SAF/FMC
1130 Air Force Pentagon
Washington DC 20330-1130

SUBJECT: Exposure Draft, *Reporting Gains and Losses from Changes in Assumptions and Selecting Discount Rates and Valuation Dates, August 3, 2007*

As the Chairman of the Air Force Nonappropriated Fund Investment Subcommittee of the Air Force Morale, Welfare, and Recreation Board, I welcome the opportunity to provide comments on the subject Exposure Draft (ED). As noted in the ED on page 1, "…The devised standard will result in more transparent and useful information prepared in a more consistent manner that will improve the ability of readers to assess operating performance and stewardship…"

My first comment supports the inclusion of data which shows impact of changes in assumptions, as reflected in Appendix B (page 28) of the ED. I recommend adding to the example in Appendix B the specifics of those changes. These are not currently in the Appendix B example, it includes only the results of those changes. If actuarial assumptions change, the discount rate changes, etc., those changes should be cited. As an example, the statement "Adoption of New Mortality Tables increasing life expectancy from age 86 to age 88" would help to provide better transparency when included with the financial data.

Second, I believe the example in Appendix D (page 31) should also include the assumed rate of return on the assets, not just the rate of return on U.S. Treasury Securities. Since a pension plan would often include a certain percentage of its portfolio in equities, corporate bonds, etc., the rate of return reflecting that asset allocation should be provided. Otherwise, there may be a disconnect from what the plan is actually earning on its assets if only the interest rate on U.S. Treasury Securities is included. This would mean two estimates of pension liability and the related expense: one based on U.S. Treasury Securities and one based on the assumed rate of return on the plan's actual assets. In addition, the specific maturity should be included for the U.S. Treasury Securities.

Third, and consistent with the second comment, the allocation of the fund's assets, by general category, should be included in Appendix D. For example, Equities 55%, Fixed Income 45%. This would provide added transparency based on the allocation used for the assumed rate of return.

The following table reflects our proposed changes to Appendix D (page 31) as noted by the blue italics.

Significant Long-Term Economic Assumptions Used in Determining Pension Liability and the Related Expense

(in percentages)	Civilian 2006	Civilian 2005	Military 2006	Military 2005
Rate of Interest *U.S. Treasury Securities (1)*	6.25%	6.25%	6.00%	6.25%
Rate of Return on Assets (2)	*8.00%*	*8.00%*	*8.00%*	*8.00%*
Rate of Inflation	3.50%	3.25%	3.00%	3.00%
Projected Salary Increase	4.25%	4.00%	3.75%	3.75%

Notes:
(1) Weighted Average Maturity 9.3 years as of December 31, XXXX
(2) Asset Allocation: Equities 55%, Fixed Income 45% as of December 31, XXXX

Finally, a comparison of a fund's financial position, using both the discount rate on U.S. Treasury Securities and the discount rate on the actual assets of the fund would clearly indicate the impact of these different discount rates. As the ED is currently structured, only the U.S. Treasury rate would be used. This does not provide an adequate view of the fund's overall financial position and its sensitivity to different discount rates.

I think these recommendations will help to achieve better transparency and an improved ability to "...assess operating performance and stewardship..."

Please direct any questions to Mr. Wally Erck, SAF/FMCEB, (703) 695-4730 or at wally.erck@pentagon.af.mil.

RICHARD K. HARTLEY
Deputy Assistant Secretary
(Cost and Economics)