Dear Sir or Madam,

This letter is the response of Watson Wyatt & Co. to the July 21, 2006, request for comments on proposed revisions of Annual Information Return/Reports by the Employee Benefits Security Administration, Labor Department, Internal Revenue Service, Treasury Department and Pension Benefit Guaranty Corporation. Watson Wyatt employs approximately 6,000 associates on a worldwide basis; with about 350 being Enrolled Actuaries under ERISA. As the company’s Resource Actuary in the United States, I have prepared our response with input from others in the firm.

Our response concerns the proposed changes to the actuarial information contained in Schedule B of Form 5500. Under the proposal, plans with 1,000 or more participants would have to answer additional questions regarding the allocation of plan assets and the “Macaulay duration” of bonds held in the trust.

We question both the placement of the information and the necessity of the new reporting obligation. We see no compelling purpose to the additional information, believe the timing of the change is inappropriate given the recent enactment of the Pension Protection Act and, above all, see no reason to request the information on Schedule B. Schedule B is designed to contain actuarial information. Since Schedule H already includes much of this asset information, any additional information about plan assets should be reported either in Schedule H itself or in an attachment to Schedule H.

Although the proposal follows fast on the heels of the Pension Protection Act, the additional information does not relate to any of the act’s new funding or other standards. It may be argued that, under current law, the actuary must be aware of the allocation of investment assets to determine an appropriate investment return assumption. However, under the Pension Protection Act, this will not be the case. In fact, preparing the additional information would place unnecessary burdens on Enrolled Actuaries that could impair the ability of plans to file a timely annual report, particularly when added to the general transition burden and the significantly faster actuarial valuation timing requirements imposed by the new law.

The only practical value of the new information would be to enhance the PBGC’s ability to model the effects of changing economic environments on plans’ funded status. However, the increased focus on short-term funded status under the new pension law should alleviate potential funding shortfalls and reduce claims on the PBGC. In that case, the additional modeling capability may not be worth the additional burden on sponsors to
collect and report the information. Further, the new information may not always enhance the PBGC's ability to model the impact of changing economic environments. For example, some pension funds currently use derivatives to match interest rate risks. What would a plan with 100 percent cash and a fully immunizing swaps overlay report as its duration?

Under §103(a)(4) of ERISA, the plan administrator engages an enrolled actuary “who shall be responsible for the preparation of the materials comprising the actuarial statement required under subsection (d) of this section.” In making the actuarial certification, the actuary may rely on the correctness of the required accounting information. And while the actuarial statement required under §103(d) of ERISA may include “such other information regarding the plan as the Secretary may by regulation require,” it is unreasonable to require the actuary to certify the asset information, which is normally audited by the plan’s accountant for accuracy and relied on by the plan’s actuary.

The actuarial statement on Schedule B requires the actuary to certify that “the information supplied in this schedule ... is complete and accurate.” Since the actuary relies on the plan’s accountant with respect to asset information, he or she cannot sign the current version of Schedule B without qualification of the certification or a statement of reliance from the auditor or bond manager who calculates the Macaulay duration of the bonds. As noted in the proposal, the new asset information may be readily available because of new FASB requirements and calculating the Macaulay duration should be relatively simple for managers of bond portfolios, but, in both cases, the plan’s actuary is not generally involved in the preparation of these materials and therefore cannot certify their accuracy.

In summary, we encourage the adopting agencies to revise this section of the proposed regulations and either eliminate the new questions altogether or move them to Schedule H (or attachments thereto).

Thank you for this opportunity to comment on the proposed revisions. If your staff has any questions concerning this comment, please contact me directly at (703) 258-7626.

Sincerely,

Kenneth A. Steiner, F.S.A.
Resource Actuary