CAS Pension Harmonization Rule (76 FR 81296, December 27, 2011)
Technical Corrections Amendment (77 FR 43542, July 25, 2012)
Frequently Asked Questions (FAQs)
Revised as of August 12, 2013

FAQs About the Cost Accounting Standards Pension Harmonization Rule.

Set out below are some Frequently Asked Questions (FAQs) regarding the "Cost Accounting Standards (CAS) Pension Harmonization Rule" and other amendments to CAS 412 and 413 that were published on December 27, 2011 (76 FR 81296) and amended for technical corrections on July 25, 2012 (77 FR 43542). The FAQs have been prepared by the CAS Board's Staff to answer questions about the implementation of the CAS Pension Harmonization Rule from users of these Standards and to help users better understand the Rule. The FAQs are the work product of the Staff and do not represent the opinions or conclusions of the CAS Board.

The Staff will consider future amendments to the FAQs as additional questions arise. The public may submit questions for consideration as part of any future amendments to the FAQs by contacting Eric Shipley, Project Director, by e-mail (Eric.Shipley@cms.hhs.gov) or phone (410-786-6381). The public is always welcome to send correspondence on CAS to the CAS Board by email (raymond_wong@omb.eop.gov or casb2@omb.eop.gov).

Disclaimer: This document is only provided as an aid for interested parties. The CAS Pension Harmonization Rule was published as a Final Rule in the Federal Register (FR) at 76 FR 81296 and amended for technical corrections at 77 FR 43542. The Final Rule as published, and as amended, in the FR is the official promulgation and is the controlling instrument in the event of any discrepancies between the Final Rule, as published and amended in the FR, and any other document.

Other Aids regarding CAS Pension Harmonization Rule.

The CASB Board has made available on its website copies of CAS 412 and CAS 413 in a line-in/ line-out format showing the changes from the existing Standards to the Standards as amended by the final rule published on December 27, 2011) and the technical corrections published on July 25, 2012. These versions of the Rule and the FAQs can be found under the heading "Harmonization of Cost Accounting Standards 412 and 413 with the Pension Protection Act of 2006" at: http://www.whitehouse.gov/omb/procurement_casb_index_fedreg/.

Outstanding Technical Corrections.

The second sentence of illustration 9904.413-60(b)(3) cites 9904.412-40(b)(2) and 9904.412-50(b)(5) as the provisions governing the selection of actuarial assumptions. The correct reference is 9904.412-40(b)(2) and 9904.412-50(b)**(4)**.

FAQs

Q1. What is the "CAS Pension Harmonization Rule?"

The "CAS Pension Harmonization Rule" refers to paragraph 9904.412-50(b)(7) of CAS 412. It was added to the CAS by a final rule published at 76 FR 81296 on December 27, 2011. The final rule also amended or added other provisions to CAS 412 and 413. The CAS Board has promulgated these amendments and additions to CAS 412 and 413 to implement the requirements of paragraph (d) of section 106 of the Pension Protection Act (PPA) of 2006 (Pub. L. 109-280, 120 Stat. 780). Specifically, the PPA required that the Board reconcile (a) the pension costs allocated to Federal contracts that are subject to CAS 412 and 413 and (b) the minimum required contribution under Title 1 of the Employee Retirement Income Security Act (ERISA) of 1974, as amended. Generally, these changes to CAS 412 and 413 are referred to as "harmonization."

Besides the amendments required by Section 106(d) of the PPA, the final rule included a number of technical corrections unrelated to harmonization. The technical corrections for CAS 412 were made to paragraphs 9904.412-30(a)(1), (8) and (9); 9904.412-50(a)(6); 9904.412-50(c)(1), (2) and (5); and 9904.412-60(c)(13). In CAS 413, the technical corrections were made to paragraph 9904.413-30(a)(1); subsection 9904.413-40(c); subparagraph 9904.413-50(c)(1)(i); and paragraphs 9904.413-60(c)(12) and (18).

The Federal Register Notice published on July 25, 2012 made technical corrections to paragraphs 9904.412-63(b) and 9904.413-63(b); and the illustrations at subparagraphs 9904.412-60.1(b)(2)(i) – Table 3, and 9904.412-60.1(c)(3)(ii); and at paragraphs 9904.412-64.1(c)(1), and 9904.413-60(b)(3).

Q2. Under harmonization, is the pension cost[1] allocable to Government contracts equal to the minimum required contribution[2] under ERISA?

No. The Board was concerned with the potential for volatility due to changing yield rates on corporate bonds and the relatively shorter 7-year amortization period used to compute the minimum required contribution under ERISA.

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[1] The term "pension cost" as used herein refers to pension cost computed in accordance with CAS.
[2] The term "minimum required contribution" or "MRC" refers to the amount of the pension contribution computed in accordance with ERISA/PPA.

Q3. Has the Board adopted the mark-to-market concept that is used by some modern pension accounting rules, i.e., the Internal Revenue Code (IRC) 430 minimum required funding rules and U.S. GAAP?

No. IRC 430 and U.S. GAAP address the minimum required funding and net period pension expense that is necessary to recognize the current period's pension benefits accrued to date if liquidated at the prevailing yield rates on corporate bonds. The CAS develops cost data to negotiate cost-based contract rates for fixed-price and flexibly priced Government contracts that span multiple years. The Board has concluded that the final rule would retain the current requirement that actuarial assumptions used to value pension costs must "reflect long-term trends so as to avoid distortions caused by short-term fluctuations" and "represent the contractor's best estimates of anticipated experience under the plan, taking into account past experience and reasonable expectations." (See 9904.412-40(b)(2) and 9904.412-50(b)(4).)

The only exception that is based on the mark-to-market concept in CAS is under 9904.412-50(b)(7), CAS Pension Harmonization Rule, which measures a minimum actuarial liability and minimum normal cost based on the yield of investment grade corporate bonds with varying maturities (a mark-to-market concept) and that are in the top 3 quality levels available, such as Moody's' single 'A' rated or higher.

Q4. How are the pension costs allocable to Government contracts and the IRC 430 minimum required contribution being reconciled?

The CAS Pension Harmonization final rule accomplishes this by ensuring that the normal cost and 10-year amortization of the unfunded liability are sufficient to liquidate the PPA target normal cost and funding target within the amortization period. Depending upon prevailing yield rates on corporate bonds, the pension cost allocable to Government contracts may be greater than the amount needed to liquidate the PPA target normal cost and funding target within the 10-year amortization period for gains and losses under the CAS.

Q5. What are the additions and changes to CAS 412 and 413?

The following chart summarizes the additions and changes under the CAS Pension Harmonization final rule. (Changes and additions are highlighted in **bold**.)

Change / Addition	**CAS 412 & 413 as of May 1, 2008**	**CAS Pension Harmonization Final Rule**
1) Measurement of Actuarial Liability and Normal Cost	Actuarial Liability and Normal Cost equal Actuarial Accrued Liability and Normal Cost measured using assumptions based on long-term expectations	Actuarial Liability and Normal Cost equal to **greater of (a)** Actuarial Accrued Liability and Normal Cost measured using assumptions based on long-term expectations **or (b) Minimum Actuarial Liability and Minimum Normal Cost based on current yield rates on investment grade corporate bonds.**
2) Amortization Periods: (i) Experience Gains and Losses ………………… (ii) Other changes in Unfunded Actuarial Liability ……………….	 (i) 15 Years (ii) 10 to 30 Years following established practice	 (i) **10 Years** (ii) 10 to 30 Years following established practice
3) Benefit Projections: (i) Salary Related Benefits (ii) Dollar per Year Benefits ………………..	 (i) Expected Salary Increases (ii) No Projection Permitted	 (i) Expected Salary Increases (ii) **If benefits are based on a collective bargaining agreement, then may elect to project future benefits based upon average benefit increase during last 6 years.**
4) Accumulated Value of Prepayment Credits	Adjust using assumed interest rate based on long-term expectations.	**Adjust using actual rate of return on investments**
5) Present Value of Contributions Made After Valuation Date	No specific guidance. Typically either discounted using assumed interest rate or else not discounted following pre-PPA ERISA practice.	**Must discount using assumed interest rate based on long-term expectations.**
6) Mandatory Cessation of Benefit Accruals	Must recognize immediate adjustment equal to actuarial liability minus market value of assets.	**Exempt from immediate recognition if mandated by ERISA (IRC 436(e)). Treat as plan amendment unless plan provides that benefit accruals will be restored and contractor elects to recognize the restored benefit accruals.**

Change / Addition	CAS 412 & 413 as of May 1, 2008	CAS Pension Harmonization Final Rule
7) CAS Pension Harmonization Transition		**All changes and additions immediately recognized except minimum actuarial liability and minimum normal cost. Minimum actuarial liability and minimum normal cost are phased-in as follows: 0% Year 1, 25% Year Two, 50% Year Three, 75% Year Four, and 100% Year 5 and later. Years are measured based on Implementation Date of Final Rule regardless of any CAS-covered contract awards. See Qs14 and 15, and Appendix A.**

Q6. When is the computation of the pension cost based on the minimum actuarial liability and minimum normal cost?

The actuarial accrued liability and normal cost are initially valued using actuarial assumptions that are separately identified and "represent the contractor's best estimates of anticipated experience under the plan," and "reflect long-term trends so as to avoid distortions caused by short-term fluctuations." Under the CAS Pension Harmonization Rule, if the sum of the minimum actuarial liability and the minimum normal cost exceeds the actuarial accrued liability and normal cost, then the values of the minimum actuarial liability and minimum normal cost are generally used as the values for the actuarial accrued liability and normal cost in the computation of that period's pension cost. The exceptions are that the minimum actuarial liability and minimum normal cost are not used to determining the amount of assets to be transferred between active or inactive segments, and are not used to measure the adjustment due for a segment closing, benefit curtailment or plan termination.

Q7. What is the relationship of the minimum actuarial liability and minimum normal cost used by the CAS to the funding target and target normal cost used by IRC 430?

The CAS Pension Harmonization Rule specifies that the minimum actuarial liability and minimum normal cost must be computed using an interest rate assumption that reflects "the contractor's best estimate of rates [of return] at which the pension benefits could effectively be settled based on the current period rates of return on investment grade fixed-income investments of similar duration to the pension benefits and that are in the top 3 quality levels available, e.g., Moody's' single 'A' rated or higher." So, the basis for the interest rate assumption(s) set by the contractor for CAS 412-50(b)(7)(iii)(A) purposes is consistent with the basis for durational interest rate assumptions that would be established by an Enrolled Actuary for compliance with the Internal Revenue Code. Moreover, the rule permits the contractor to elect to base its interest rate assumptions on the same basis as the interest rate assumptions used for compliance with the requirements of the PPA. If all other assumptions are the same, then the minimum actuarial liability and minimum normal cost may equal the funding target and target normal cost, respectively.

Under the PPA, the funding target and target normal cost are determined for the plan as a whole. If for CAS purposes the contractor uses the same assumptions for the plan as a whole, then the CAS minimum actuarial liability will be the same as the PPA funding target, and CAS minimum normal cost will be the same as the PPA target normal cost. However, if under 9904.413-50(c)(2) the contractor must use, or contractor elects to use, different actuarial assumptions, i.e. termination of employment, disability, retirement, etc., for one or more segments covered by the pension plan, then there will be a difference between (i) the 9904.412-50(b)(7)(ii) minimum actuarial liability and minimum normal, and (ii) the PPA funding target and target normal cost.

Q7(a). Under the CAS Pension Harmonization Rule, can a contractor use a published interest rate table the basis of which differ from the basis for the interest rate table used for determination of the ERISA/PPA minimum required contribution?

Yes**.** The CAS Board included 9904.412-50(b)(7)(iii)(B) in response to public comments that requested a "safe harbor" wherein use of the same interest rates, the basis of which is the same as the basis for the interest rates used to compute the minimum required contribution under the ERISA/PPA, would comply with the provisions of the CAS Pension Harmonization Rule. The use of any durational interest rates based on the corporate bond rates of return published by the IRS for determination of the minimum required contribution would meet the 9904.412-50(b)(7)(iii)(A) requirement for "current period rates of return on investment grade fixed-income investments of similar duration to the pension benefits and that are in the top 3 quality levels available, e.g., Moody's' single 'A' rated or higher." For example, a contractor may use the full yield curve as of 3 months before the valuation date for IRC 430 purposes, and elect to use the 24-month average segment rates as of the valuation date for 9904.412-50(b)(7)(iii)(A) purposes. However, the contractor's selection of two different bases for determining the interest rates for separate CAS and ERISA purposes, although permissible under 9904.412-50(b)(7)(iii)(A), will not meet the "safe-harbor" criteria in 9904.412-50(b)(7)(iii)(B).

Q7(b). What documentation/disclosure is required concerning the interest rates selected for 9904.412-50(b)(7)(iii) purposes?

Regardless of whether the contractor intends to comply with the general criteria of 9904.412-50(b)(7)(iii)(A) or the "safe harbor" criteria of 9904.412-50(b)(7)(iii)(B), the basis for the interest rates used for measuring the minimum normal cost and minimum actuarial liability under the 9904.412-50(b)(7) CAS Pension Harmonization Rule should be disclosed as part of the contractor's cost accounting practice in response to DS-1 Question 7.1.3.B, "*Actuarial Assumptions.*" The contractor may wish to specify whether the assumption basis is intended to satisfy general criteria of 9904.412-50(b)(7)(iii)(A) or the "safe harbor" criteria of 9904.412-50(b)(7)(iii)(B). Note that it is the basis for determining the interest rates that is disclosed, and not the current values for the interest rates themselves. Two examples of bases that might be used for determining the interest rates are (i) IRS Table for the Funding Yield Curve (24 month average segment rate) as of the September preceding the valuation date or (ii) the CitiGroup Pension Liability Index – Standard Version as of the valuation date.

Q7(c). Once the basis for a set of interest rates have been selected for CAS 412 purposes, will subsequent changes to the basis for determining the interest rates automatically apply for CAS purposes?

No. While the IRS has specific rules governing when its approval to change the basis for determining interest rates is automatic and when its approval must be requested specifically, there is no analogous requirement under the CAS to obtain approval for a change in the basis for determining the interest rates. As discussed above, the basis selected for determining the 9904.412-50(b)(7)(iii) interest rates is a cost accounting practice that should be disclosed in the DS-1. The contractor may make a change from any acceptable basis for determining the interest rates to another acceptable basis, i.e., from one acceptable accounting practice to another acceptable accounting practice, but the contractor must notify the Contracting Officer of the change in cost accounting practice in accordance with the CAS clauses in the contracts. Year to year changes in the numeric values of the interest rates per the selected basis for determining the interest rates, without a change in the underlying basis for determining the interest rates, are not changes in cost accounting practice.

However, also see **Q18** for additional information regarding the effects of the pension stabilization provisions under the Moving Ahead for Progress in the 21st Century (MAP-21) amendments to the PPA (Pub. L. 112-141 signed July 6, 2012). Note that the change to the segment interest rates published by the IRS that were caused by MAP-21 are not changes to the contractor's disclosed basis for determining the 9904.412-50(b)(7)(iii) interest rates because the MAP-21 limitation of interest rates is required for the determination of the ERISA/PPA minimum required contribution.

Q8. What about "At Risk " Plans?

CAS 412 and 413 are based on the pension costs of going concerns. All actuarial assumptions, other than the special criteria for the interest rate assumption for determining minimum actuarial liability and minimum normal cost, are based on long term expectations. The use of the conservative assumptions regarding retirement, form of payment, etc., that are mandated for pension plans deemed to be "at risk" would normally not satisfy the requirements of paragraphs 9904.412-40(b)(2) and 9904.412-50(b)(4). However, changed conditions for the pension plan or plan sponsor may require or permit the contractor/plan sponsor to change the value or basis for making its actuarial assumptions. The causes or source of such change in assumptions should be supported by adequate and persuasive documentation, which may include an experience study by the plan's Enrolled Actuary.

Q9. Have the rules governing the actuarial value of assets been amended to permit the use of the actuarial value of assets used for IRC 430 purposes?

No. Other than the specific accounting required for contribution made after the end of the plan year, 9904.413-40(b) and 9904.413-50(b) have not been amended. The CAS continues to permit the use of any recognized asset valuation method which provides "equivalent recognition of appreciation and depreciation of the market value of the assets of the pension plan" that falls "within a corridor from 80 to 120 percent of the market value of the assets."

Under the PPA, the determination of the average asset value, the expected rate of return on assets is limited to the lower of the assumed rate of return on assets or the published PPA interest rate for the third segment. Because of this limitation, the average asset value used for IRC 430 purposes will not always satisfy the requirement for equivalent recognition of appreciation and depreciation, and therefore, may not be used for CAS 413 purposes.

Q9(a) What interest rate is used to discount contributions made after the valuation date?

Pursuant to 9904.413-50(b)(6)(i), the contribution is discounted using the long-term assumed interest rate that complies with 9904.412-40(b)(2) and 9904.412-50(b)(4). The long term interest rate used to discount the contribution should be the one used for the Plan Year to which the contribution applies. For example, when valuing the plan assets at January 1, 2014, the contribution made on July 1, 2014 that will be applied towards 2013 funding will be discounted for six months at the 2013 long-term interest rate assumption. Note that this is consistent with the PPA. (Also see Q10(f) regarding when the new CAS Pension Harmonization Rule applies to prepayments and contributions made after the end of the Plan Year.)

Q10. What interest rate(s) is used for the various interest adjustments required under CAS 412 and 413?

There are several interest adjustments required by CAS 412. The basic concept adopted by the CAS Pension Harmonization Rule is that interest adjustments to funds that are invested shall be adjusted based on the actual rate of return on the investments. Similarly, adjustments on amounts that are not funded shall be adjusted based on an assumed rate of interest that complies with 9904.412-40(b)(2) and 9904.412-50(b)(4), i.e., a long-term interest rate assumption, until the unfunded amount and accrued interest are paid.

Q10(a). Interest adjustments to prepayment credits – Prepayment credits represent funds that have been deposited into the funding agency in excess of the pension cost assigned to the period. These funds are commingled with the other invested funds (which are all fungible), and are adjusted based on the actual rate of return on investments for the period.

Q10(b). Interest adjustments included in amortization installments – In accordance with 9904.412-50(a)(1), the amortization installments are computed as a level annual amount and "each installment shall consist of an amortized portion of the unfunded actuarial liability plus an interest equivalent on the unamortized portion of such liability." Except for the current installment, amortization installments are components of pension cost that will be funded in future periods. Therefore, the amortization installments are computed using the long-term interest rate assumption, regardless of whether the pension cost was computed using the going-concern actuarial accrued liability and normal cost or the minimum actuarial liability and minimum normal cost.

Q10(c) Interest adjustment on receivable contributions – Contributions made after the date of the current actuarial valuation towards the contract pension cost for the prior period) are recognized as plan assets on a discounted basis. Because the receivable contributions represent monies that have not yet been deposited, receivable contributions are discounted from the date of deposit back to the valuation date using the long-term interest rate assumption. Note that this differs from the discounting of the receivable contributions under the PPA, which are discounted based on the assumed effective interest rate of return on corporate bonds.

Q10(d) Interest adjustment on pension costs funded after valuation date – Pension costs computed in accordance with CAS 412 and 413 represent the portion of the pension liability assigned to the current cost accounting period as measured on the date of the actuarial valuation. Frequently, the assigned pension cost is funded in several installments after the valuation date. Standard actuarial practice requires that the pension costs be adjusted for the time value of money until the date it is funded. Because the pension cost will be funded by the contributions made after the valuation date, the pension cost must be adjusted on the same basis as the receivable contributions. Thus, pension costs are adjusted for interest accrued from the valuation date to the date of deposit using the long-term interest rate assumption, regardless of whether the pension cost was computed using the going-concern actuarial accrued liability and normal cost, or the minimum actuarial liability and minimum normal cost.

Q10(e) Interest adjustments to unfunded pension costs – As discussed immediately above, contract pension costs represent the portion of the pension liability assigned to the current cost accounting period as measured on the date of the actuarial valuation. Under standard actuarial practice, pension costs are adjusted for the time value of money until funded. Unfunded pension costs are therefore adjusted for interest accrued from the valuation date to the next valuation date or date of funding, whichever is earlier, using the long-term interest rate assumption.

Q10(f) When do these new rules for interest adjustments to prepayments and accrued contributions apply? The question has arisen concerning how the CAS Pension Harmonization Rule interest adjustments apply for 2013 as they relate to applying actual asset returns to prepayment credits and discounting receivable contributions at the long-term interest rate assumption. The rules governing interest adjustments are those that were applicable on the date of the underlying actuarial valuation for that year. This may be best explained through an illustration.

> For simplicity, assume that the contractor's fiscal year is the calendar year, and that the contractor received a new contract subject to the CAS Harmonization Rule after February 27, 2012 so that the CAS Pension Harmonization Rule is first applicable beginning January 1, 2013. In preparing the actuarial valuation for the Plan Year starting January 1, 2013, the January 1, 2012 Accumulated Value of Prepayment Credits and any newly created prepayments are adjusted at the long-term interest rate assumption used for the 2012 Plan Year. Similarly, any contribution made after December 31, 2012 for the 2012

Plan Year is recognized using the accounting practice established for Plan Years prior to 2012. This means that contractors should not discount their receivable contributions related to Plan Year 2012 that are paid in 2013 (unless they have already been doing so prior to the CAS Pension Harmonization Rule).

Note that when PPA came into effect for ERISA for most plans in 2008, the 2007 credit balances were rolled forward to 2008 using valuation interest rates (and not actual investment returns for 2007), and similarly receivable contributions from the 2007 plan year were not discounted for 2008 valuation purposes. So these aspects of PPA first took effect in 2009, for amounts attributable to 2008.

Note that the corporate bond yield rate is never used for any of these interest adjustments, even in periods when the pension cost is based on the minimum actuarial liability and minimum normal cost.

Q11. What Corporate Bond Yield Rate(s) Is Used For Forward Pricing?

The CAS Pension Harmonization Rule, subparagraph 9904.412-50(b)(7)(iii)(A), specifies that "the interest assumption used to measure the pension cost for the current period shall reflect the contractor's best estimate of rates at which the pension benefits could effectively be settled based on the current period rates of return on investment grade fixed-income investments of similar duration to the pension benefits and that are in the top 3 quality levels available, e.g., Moody's' single 'A' rated or higher." Alternatively, subparagraph 9904.412-50(b)(7)(iii)(B) permits the contractor to use "the same rate or set of rates, for investment grade corporate bonds of similar duration to the pension benefits, as may be published by the Secretary of the Treasury and used for determination of the minimum contribution required by ERISA." Discounting pension liabilities using interest rates determined for the current period pursuant to either of these subparagraphs results in a settlement-based liability.

These current, bond yield-based discount rates are exempted by subparagraph 9904.412-50(b)(7)(iii)(C) from two provisions: (i) the 9904.412-40(b)(2) requirement that the same actuarial assumptions shall be used for computing the unfunded actuarial liability and other components of pension costs, and (ii) the 9904.412-50(b)(4)requirement that actuarial assumptions reflect long-term trends. Accordingly, projections or estimates of the rates of return on investment grade corporate bonds in future periods must "reflect long-term trends so as to avoid distortions caused by short-term fluctuations" and "represent the contractor's best estimates of anticipated experience under the plan, taking into account past experience and reasonable expectations."

This means that the contractor cannot simply presume that the use of current rates of return on corporate bonds is a valid basis for future periods. In projecting the rate of return on corporate bonds during the years considered by the projections, the contractor must instead examine the historical average rates of return on corporate bonds by duration tempered with the recent past and anticipated future rates. It is important that the projected rates of return do reflect long-term trends given the potential for short-term volatility in corporate bond rates during some market cycles.

Standard actuarial practice considers an assumption, other than assumptions mandated by law or other outside authority, to be reasonable if it is equally likely to produce gains and losses over time. This concept of equivalent expectations of gains and losses is found at 9904.413-50(b)(2) regarding asset valuation methods. Projections of future rates of return on corporate bonds used in discounting the pension liabilities should not be biased towards either party, and this is best accomplished by forecasting future rates that have an equal probability of being higher or lower than the actual rate of return.

Also see **Q18** for additional information regarding the effects of the pension stabilization provisions under the "*Moving Ahead for Progress in the 21st Century*" (MAP-21) amendments to the PPA (Pub. L. 112-141 signed July 6, 2012). The 25-year historical averages of the segmented rates of return on corporate bonds published by the IRS under MAP-21 will provide readily available data on long term averages and trends that contractors can consider when projecting future rates of return for forward pricing purposes.

Q12 Does the CAS Pension Harmonization Rule address how equitable adjustments are to be determined?

No. The measurement of the cost impact for the required changes to cost accounting practices and the processing of equitable adjustments are CAS administration issues. It is expected that guidance related to equitable adjustments will be issued by DOD or other cognizant agencies.

Q13. After the initial year of the CAS Pension Harmonization Rule, when the annual pension cost measurement basis changes from the actuarial accrued liability and normal cost basis to the minimum actuarial liability and minimum normal cost basis, or vice-versa, is the change treated as a change in cost accounting practice or an actuarial gain or loss?

Such changes are a function of the CAS Pension Harmonization Rule and shall be treated as an actuarial gain or loss in accordance with 9904.412-50(a)(1)(v). See Illustration 9904.412-60.1(d) for an example.

Q14. What cost accounting periods are subject to the 9904.412-64.1 Transition Provisions?

The transition provisions phase-in the Minimum Actuarial Liability and Minimum Normal Cost during the first 5 cost accounting periods after June 30, 2012, the Implementation Date of the CAS Pension Harmonization Rule without regard to the award of a contract subject to CAS 412 and 413. The transition provisions, as well as the rest of the CAS Pension Harmonization Rule, do not apply until and unless the contractor accepts a new contract subject to CAS 412 and 413 on or after February 27, 2012, the Effective Date of the CAS Pension Harmonization Rule.

Appendix A is a chart that illustrates how the transition provisions will apply depending upon the date of contract award.

Q15. How does the phase-in for the 9904.412-64.1 Transition Provisions work?

The following chart summarizes which provisions of the CAS Pension Harmonization Rule apply based on the CAS Pension Harmonization Transition Year (which is measured based on the Implementation Date of the Final Rule, without regard to the award of any contract).

Cost Accounting Period after June 30, 2012*	10 Year Amortization of Gains and Losses	Elective Projection of Flat Dollar Benefits	Prepayments Adjusted Using Return on Investment	Receivable Contributions Discounted at Assumed Interest Rate	Exemption of Mandatory Benefit Curtailment	Phase-In of Minimum Liability and Minimum Normal Cost
Period 1	**YES**	**YES**	**YES**	**YES**	**YES**	**0%**
Period 2	**YES**	**YES**	**YES**	**YES**	**YES**	**25%**
Period 3	**YES**	**YES**	**YES**	**YES**	**YES**	**50%**
Period 4	**YES**	**YES**	**YES**	**YES**	**YES**	**75%**
Period 5	**YES**	**YES**	**YES**	**YES**	**YES**	**100%**
* CAS Pension Harmonization Rule does not apply unless a new contract subject to CAS 412 and 413 is accepted after Effective Date.						

Q16. If the Minimum Actuarial Liability is less than the Actuarial Accrued Liability and/or the Minimum Normal Cost is less than the Normal Cost, should a Transitional Minimum Actuarial Liability or Transitional Minimum Normal Cost be computed?

The practical answer is yes. The phase-in applies to the difference between the Actuarial Accrued Liability and the Minimum Actuarial Liability, and the difference between the Normal Cost and the Minimum Normal Cost. Because the test required by the CAS Pension Harmonization Rule is based on the sum of the Actuarial Accrued Liability and the Normal Cost compared to the sum of the Transitional Minimum Actuarial Liability and the Transitional Minimum Normal Cost, the results using the transitional values might differ from the results using the full Minimum Actuarial Liability and the Minimum Normal Cost values. Once the Actuarial Accrued Liability, Normal Cost, Minimum Actuarial Liability and Minimum Normal Cost are produced by the actuarial valuation, measurement of the Transitional Minimum Actuarial Liability and the Transitional Minimum Normal Cost and performance of the CAS Pension Harmonization Test is fairly easy. Accordingly, the answer is "yes." Performing the test each time ensures that the proper results are achieved and the measurement is compliant with the CAS Pension Harmonization Rule.

Appendix B illustrates the CAS Pension Harmonization Test during the transition period.

Q17. Does the phase-in apply to the Expense Load on the Minimum Normal Cost?

Yes. Expected expenses may be explicitly or implicitly recognized in the measurement of the Actuarial Accrued Liability or Normal Cost. If expenses are implicitly recognized, it is difficult or impossible to separately identify the built-in expense load. Also, the explicit or implicit expense load might be based on a different measurement basis. Therefore, including the expense load in the phase-in of the Minimum Normal Cost ensures that all elements used for the test required by the CAS Pension Harmonization Rule are considered on a consistent basis.

Q18. The effect of the pension stabilization provisions under the "*Moving Ahead for Progress in the 21st Century*" (MAP-21) act on the measurement of pension costs under CAS 412 and 413.

MAP-21 amended the provisions of IRC 430(h)(2)(C) related to the segment interest rates used for measuring the minimum required contribution. MAP-21 did not modify the Cost Accounting Standards. However, contractors who elected to use the same set of interest rates for CAS purposes as those used for determining the minimum required contribution by ERISA, as provided for in 9904.412-50(b)(7)(iii)(B), will be affected by this change in ERISA

The pension stabilization relief of MAP-21 only applies to 24-month average segmented rates of return used to measure the minimum required contribution. The relief is achieved by limiting the segment interest rates to a corridor based on a 25-year average of the corporate bond yields of similar duration. MAP-21 does not apply to the rates of return under the full yield curve.

During periods when the segmented yield curve rate would be limited by the 25-year corporate bond rate corridor, the limited interest rate might appear to fail 9904.412-50(b)(7)(iii)(A), which requires the interest assumption reflect "rates at which the pension benefits could effectively be settled based on the current period rates of return on investment grade fixed-income investments of similar duration to the pension benefits." To promote close reconciliation of the measurement of contract pension and the minimum required contribution, the CAS Board added 9904.412-50(b)(7)(iii)(B) to permit contract pension costs to be measured using the interest rates published by the IRS for measuring the minimum required contribution. Since the application of the corridor on the segmented corporate bond rates is required for computation of the minimum required contribution, use of the segmented rates limited by the corridor is consistent with 9904.412-50(b)(7)(iii)(B) and the harmonization of CAS 412 and 413 with the minimum required contribution provisions of the PPA.

Q19. At what level is the 9904.412-50(b)(7)(i) CAS Pension Harmonization Test measured?
The normal cost and actuarial accrued liability are compared to the minimum normal cost and actuarial liability at the same level as costs are computed. That is, if pension costs are determined on a composite basis for the plan as a whole, then the comparison is performed using values measured for the pension plan as a whole. If pension costs are separately calculated for a segment, or group of segments, then the comparison is performed based on the values of the normal cost, actuarial accrued liability, minimum normal cost and actuarial liability for that segment or group of segments.

Appendix A - Illustration of Phase-in Provisions Based on Contract Award Date

Publication Date 12/27/2011 **Effective Date** 2/27/2012 **Implementation Date** 6/30/2012

Case	Contractor Fiscal Year Begins	New Contract Awarded	CAS Harmonization Applicable Date	0% Phase-In (rest of rule applies)	20% Phase-In	50% Phase-In	75% Phase-In	100% Phase-In

The CAS Pension Harmonization Rule has no applicability until and unless a contract is awarded on or after February 27, 2012.

Case	Contractor Fiscal Year Begins	New Contract Awarded	CAS Harmonization Applicable Date	0% Phase-In (rest of rule applies)	20% Phase-In	50% Phase-In	75% Phase-In	100% Phase-In
1	1/1/2012	**2/27/2012**	1/1/2013	1/1/2013	1/1/2014	1/1/2015	1/1/2016	1/1/2017
2	2/1/2012	2/27/2012	2/1/2013	2/1/2013	2/1/2014	2/1/2015	2/1/2016	2/1/2017
3	3/1/2012	2/27/2012	3/1/2013	3/1/2013	3/1/2014	3/1/2015	3/1/2016	3/1/2017
4	4/1/2012	2/27/2012	4/1/2013	4/1/2013	4/1/2014	4/1/2015	4/1/2016	4/1/2017
5	5/1/2012	2/27/2012	5/1/2013	5/1/2013	5/1/2014	5/1/2015	5/1/2016	5/1/2017
6	6/1/2012	2/27/2012	6/1/2013	6/1/2013	6/1/2014	6/1/2015	6/1/2016	6/1/2017
7	7/1/2012	2/27/2012	7/1/2012	7/1/2012	7/1/2013	7/1/2014	7/1/2015	7/1/2016
8	8/1/2012	2/27/2012	8/1/2012	8/1/2012	8/1/2013	8/1/2014	8/1/2015	8/1/2016
9	9/1/2012	2/27/2012	9/1/2012	9/1/2012	9/1/2013	9/1/2014	9/1/2015	9/1/2016
10	10/1/2012	2/27/2012	10/1/2012	10/1/2012	10/1/2013	10/1/2014	10/1/2015	10/1/2016
11	11/1/2012	2/27/2012	11/1/2012	11/1/2012	11/1/2013	11/1/2014	11/1/2015	11/1/2016
12	12/1/2012	2/27/2012	12/1/2012	12/1/2012	12/1/2013	12/1/2014	12/1/2015	12/1/2016
13	1/1/2012	**7/6/2012**	1/1/2013	1/1/2013	1/1/2014	1/1/2015	1/1/2016	1/1/2017
14	2/1/2012	7/6/2012	2/1/2013	2/1/2013	2/1/2014	2/1/2015	2/1/2016	2/1/2017
15	3/1/2012	7/6/2012	3/1/2013	3/1/2013	3/1/2014	3/1/2015	3/1/2016	3/1/2017
16	4/1/2012	7/6/2012	4/1/2013	4/1/2013	4/1/2014	4/1/2015	4/1/2016	4/1/2017
17	5/1/2012	7/6/2012	5/1/2013	5/1/2013	5/1/2014	5/1/2015	5/1/2016	5/1/2017
18	6/1/2012	7/6/2012	6/1/2013	6/1/2013	6/1/2014	6/1/2015	6/1/2016	6/1/2017
19	7/1/2012	7/6/2012	7/1/2013	n/a	7/1/2013	7/1/2014	7/1/2015	7/1/2016
20	8/1/2012	7/6/2012	8/1/2012	8/1/2012	8/1/2013	8/1/2014	8/1/2015	8/1/2016
21	9/1/2012	7/6/2012	9/1/2012	9/1/2012	9/1/2013	9/1/2014	9/1/2015	9/1/2016
22	10/1/2012	7/6/2012	10/1/2012	10/1/2012	10/1/2013	10/1/2014	10/1/2015	10/1/2016
23	11/1/2012	7/6/2012	11/1/2012	11/1/2012	11/1/2013	11/1/2014	11/1/2015	11/1/2016
24	12/1/2012	7/6/2012	12/1/2012	12/1/2012	12/1/2013	12/1/2014	12/1/2015	12/1/2016
25	1/1/2012	**4/14/2013**	1/1/2014	n/a	1/1/2014	1/1/2015	1/1/2016	1/1/2017
26	2/1/2012	4/14/2013	2/1/2014	n/a	2/1/2014	2/1/2015	2/1/2016	2/1/2017
27	3/1/2012	4/14/2013	3/1/2014	n/a	3/1/2014	3/1/2015	3/1/2016	3/1/2017
28	4/1/2012	4/14/2013	4/1/2014	n/a	4/1/2014	4/1/2015	4/1/2016	4/1/2017
29	5/1/2012	4/14/2013	5/1/2013	5/1/2013	5/1/2014	5/1/2015	5/1/2016	5/1/2017
30	6/1/2012	4/14/2013	6/1/2013	6/1/2013	6/1/2014	6/1/2015	6/1/2016	6/1/2017
31	7/1/2012	4/14/2013	7/1/2013	n/a	7/1/2013	7/1/2014	7/1/2015	7/1/2016
32	8/1/2012	4/14/2013	8/1/2013	n/a	8/1/2013	8/1/2014	8/1/2015	8/1/2016
33	9/1/2012	4/14/2013	9/1/2013	n/a	9/1/2013	9/1/2014	9/1/2015	9/1/2016
34	10/1/2012	4/14/2013	10/1/2013	n/a	10/1/2013	10/1/2014	10/1/2015	10/1/2016
35	11/1/2012	4/14/2013	11/1/2013	n/a	11/1/2013	11/1/2014	11/1/2015	11/1/2016
36	12/1/2012	4/14/2013	12/1/2013	n/a	12/1/2013	12/1/2014	12/1/2015	12/1/2016
37	1/1/2012	**9/21/2013**	1/1/2014	n/a	1/1/2014	1/1/2015	1/1/2016	1/1/2017
38	2/1/2012	9/21/2013	2/1/2014	n/a	2/1/2014	2/1/2015	2/1/2016	2/1/2017
39	3/1/2012	9/21/2013	3/1/2014	n/a	3/1/2014	3/1/2015	3/1/2016	3/1/2017
40	4/1/2012	9/21/2013	4/1/2014	n/a	4/1/2014	4/1/2015	4/1/2016	4/1/2017
41	5/1/2012	9/21/2013	5/1/2014	n/a	5/1/2014	5/1/2015	5/1/2016	5/1/2017
42	6/1/2012	9/21/2013	6/1/2014	n/a	6/1/2014	6/1/2015	6/1/2016	6/1/2017
43	7/1/2012	9/21/2013	7/1/2014	n/a	n/a	7/1/2014	7/1/2015	7/1/2016
44	8/1/2012	9/21/2013	8/1/2014	n/a	n/a	8/1/2014	8/1/2015	8/1/2016
45	9/1/2012	9/21/2013	9/1/2014	n/a	n/a	9/1/2014	9/1/2015	9/1/2016
46	10/1/2012	9/21/2013	10/1/2013	n/a	10/1/2013	10/1/2014	10/1/2015	10/1/2016
47	11/1/2012	9/21/2013	11/1/2013	n/a	11/1/2013	11/1/2014	11/1/2015	11/1/2016
48	12/1/2012	9/21/2013	12/1/2013	n/a	12/1/2013	12/1/2014	12/1/2015	12/1/2016

CAS Pension Harmonization Rule (76 FR 81296, December 27, 2011)
Technical Corrections Amendment (77 FR 43542, July 25, 2012)
Frequently Asked Questions (FAQs)
Revised as of August 12, 2013
Appendix A - Illustration of Phase-in Provisions Based on Contract Award Date

Publication Date 12/27/2011 **Effective Date** 2/27/2012 **Implementation Date** 6/30/2012

Case	Contractor Fiscal Year Begins	New Contract Awarded	CAS Harmonization Applicable Date	0% Phase-In (rest of rule applies)	20% Phase-In	50% Phase-In	75% Phase-In	100% Phase-In
49	1/1/2012	**12/28/2013**	1/1/2014	n/a	1/1/2014	1/1/2015	1/1/2016	1/1/2017
50	2/1/2012	12/28/2013	2/1/2014	n/a	2/1/2014	2/1/2015	2/1/2016	2/1/2017
51	3/1/2012	12/28/2013	3/1/2014	n/a	3/1/2014	3/1/2015	3/1/2016	3/1/2017
52	4/1/2012	12/28/2013	4/1/2014	n/a	4/1/2014	4/1/2015	4/1/2016	4/1/2017
53	5/1/2012	12/28/2013	5/1/2014	n/a	5/1/2014	5/1/2015	5/1/2016	5/1/2017
54	6/1/2012	12/28/2013	6/1/2014	n/a	6/1/2014	6/1/2015	6/1/2016	6/1/2017
55	7/1/2012	12/28/2013	7/1/2014	n/a	n/a	7/1/2014	7/1/2015	7/1/2016
56	8/1/2012	12/28/2013	8/1/2014	n/a	n/a	8/1/2014	8/1/2015	8/1/2016
57	9/1/2012	12/28/2013	9/1/2014	n/a	n/a	9/1/2014	9/1/2015	9/1/2016
58	10/1/2012	12/28/2013	10/1/2014	n/a	n/a	10/1/2014	10/1/2015	10/1/2016
59	11/1/2012	12/28/2013	11/1/2014	n/a	n/a	11/1/2014	11/1/2015	11/1/2016
60	12/1/2012	12/28/2013	12/1/2014	n/a	n/a	12/1/2014	12/1/2015	12/1/2016
61	1/1/2012	**5/27/2014**	1/1/2015	n/a	n/a	1/1/2015	1/1/2016	1/1/2017
62	2/1/2012	5/27/2014	2/1/2015	n/a	n/a	2/1/2015	2/1/2016	2/1/2017
63	3/1/2012	5/27/2014	3/1/2015	n/a	n/a	3/1/2015	3/1/2016	3/1/2017
64	4/1/2012	5/27/2014	4/1/2015	n/a	n/a	4/1/2015	4/1/2016	4/1/2017
65	5/1/2012	5/27/2014	5/1/2015	n/a	n/a	5/1/2015	5/1/2016	5/1/2017
66	6/1/2012	5/27/2014	6/1/2014	n/a	6/1/2014	6/1/2015	6/1/2016	6/1/2017
67	7/1/2012	5/27/2014	7/1/2014	n/a	n/a	7/1/2014	7/1/2015	7/1/2016
68	8/1/2012	5/27/2014	8/1/2014	n/a	n/a	8/1/2014	8/1/2015	8/1/2016
69	9/1/2012	5/27/2014	9/1/2014	n/a	n/a	9/1/2014	9/1/2015	9/1/2016
70	10/1/2012	5/27/2014	10/1/2014	n/a	n/a	10/1/2014	10/1/2015	10/1/2016
71	11/1/2012	5/27/2014	11/1/2014	n/a	n/a	11/1/2014	11/1/2015	11/1/2016
72	12/1/2012	5/27/2014	12/1/2014	n/a	n/a	12/1/2014	12/1/2015	12/1/2016
73	1/1/2012	**4/10/2015**	1/1/2016	n/a	n/a	n/a	1/1/2016	1/1/2017
74	2/1/2012	4/10/2015	2/1/2016	n/a	n/a	n/a	2/1/2016	2/1/2017
75	3/1/2012	4/10/2015	3/1/2016	n/a	n/a	n/a	3/1/2016	3/1/2017
76	4/1/2012	4/10/2015	4/1/2016	n/a	n/a	n/a	4/1/2016	4/1/2017
77	5/1/2012	4/10/2015	5/1/2015	n/a	n/a	5/1/2015	5/1/2016	5/1/2017
78	6/1/2012	4/10/2015	6/1/2015	n/a	n/a	6/1/2015	6/1/2016	6/1/2017
79	7/1/2012	4/10/2015	7/1/2015	n/a	n/a	n/a	7/1/2015	7/1/2016
80	8/1/2012	4/10/2015	8/1/2015	n/a	n/a	n/a	8/1/2015	8/1/2016
81	9/1/2012	4/10/2015	9/1/2015	n/a	n/a	n/a	9/1/2015	9/1/2016
82	10/1/2012	4/10/2015	10/1/2015	n/a	n/a	n/a	10/1/2015	10/1/2016
83	11/1/2012	4/10/2015	11/1/2015	n/a	n/a	n/a	11/1/2015	11/1/2016
84	12/1/2012	4/10/2015	12/1/2015	n/a	n/a	n/a	12/1/2015	12/1/2016
85	1/1/2012	**9/27/2016**	1/1/2017	n/a	n/a	n/a	n/a	1/1/2017
86	2/1/2012	9/27/2016	2/1/2017	n/a	n/a	n/a	n/a	2/1/2017
87	3/1/2012	9/27/2016	3/1/2017	n/a	n/a	n/a	n/a	3/1/2017
88	4/1/2012	9/27/2016	4/1/2017	n/a	n/a	n/a	n/a	4/1/2017
89	5/1/2012	9/27/2016	5/1/2017	n/a	n/a	n/a	n/a	5/1/2017
90	6/1/2012	9/27/2016	6/1/2017	n/a	n/a	n/a	n/a	6/1/2017
91	7/1/2012	9/27/2016	7/1/2017	n/a	n/a	n/a	n/a	See Note 1
92	8/1/2012	9/27/2016	8/1/2017	n/a	n/a	n/a	n/a	See Note 1
93	9/1/2012	9/27/2016	9/1/2017	n/a	n/a	n/a	n/a	See Note 1
94	10/1/2012	9/27/2016	10/1/2016	n/a	n/a	n/a	n/a	10/1/2016
95	11/1/2012	9/27/2016	11/1/2016	n/a	n/a	n/a	n/a	11/1/2016
96	12/1/2012	9/27/2016	12/1/2016	n/a	n/a	n/a	n/a	12/1/2016

Note 1: The transition requirements are phased out and not applicable as of the sixth year after the implementation date.

Appendix B - CAS Pension Harmonization Test during the Transition Period

Chart 1: CAS 412-50(b)(7)(i) Comparison During the CAS 412.64.1 Transition Period

		2013	2014	2015	2016	2017	
CAS 412-50(b)(4) Going Concern Liability							
1.	Actuarial Accrued Liability (AAL)	$ 1,000	$ 1,100	$ 1,200	$ 1,400	$ 1,500	
2.	Normal Cost (NC)	100	110	130	140	150	*
3.	Total Going Concern Liability	$ 1,100	$ 1,210	$ 1,330	$ 1,540	$ 1,650	
CAS 412-64.1(b) Minimum Liability							
4.	Transitional MAL - Chart 2	$ 1,000	$ 1,150	$ 1,300	$ 1,325	$ 1,550	
5.	Transitional MNC - Chart 3	100	118	125	148	170	*
6.	Total Transitional Liability	$ 1,100	$ 1,268	$ 1,425	$ 1,473	$ 1,720	
Pension Costs Are Measured Using:		Going Concern Values	Transitional Minimum Values**	Transitional Minimum Values**	Going Concern Values	Transitional Minimum Values**	
7	Value of CAS Pension AAL	$ 1,000	$ 1,150	$ 1,300	$ 1,400	$ 1,550	
8	Value of the CAS Pension NC	$ 100	$ 118	$ 125	$ 140	$ 170	

** Includes expense load, if applicable*
*** Transitional Minimum Values used when Line 6 is Greater Than Line 3*

Chart 2: Calculation of Transitional Minimum Actuarial Liability

		2013	2014	2015	2016	2017
1.	Minimum Actuarial Liability (MAL)	$ 1,250	$ 1,300	$ 1,400	$ 1,300	$ 1,550
2.	Actuarial Accrued Liability (AAL)	(1,000)	(1,100)	(1,200)	(1,400)	(1,500)
3.	Difference	$ 250	$ 200	$ 200	$ (100)	$ 50
4.	Phase-In Percentage	0%	25%	50%	75%	100%
5.	Phase-In of Liability Difference	$ -	$ 50	$ 100	$ (75)	$ 50
6.	Actuarial Accrued Liability	1,000	1,100	1,200	1,400	1,500
7.	Transitional MAL	$ 1,000	$ 1,150	$ 1,300	$ 1,325	$ 1,550

Chart 3: Calculation of Transitional Minimum Normal Cost

		2013	2014	2015	2016	2017	
1.	Minimum Normal Cost (MNC)	$ 130	$ 140	$ 120	$ 150	$ 170	*
2.	Normal Cost (NC)	(100)	(110)	(130)	(140)	(150)	*
3.	Difference	$ 30	$ 30	$ (10)	$ 10	$ 20	
4.	Phase-In Percentage	0%	25%	50%	75%	100%	
5.	Phase-In of NC Difference	$ -	$ 8	$ (5)	$ 8	$ 20	
6.	Normal Cost	100	110	130	140	150	*
7.	Transitional MNC	$ 100	$ 118	$ 125	$ 148	$ 170	*

** Includes expense load, if applicable*