

July 8, 2010

Submitted Electronically

Office of Federal Procurement Policy  
Cost Accounting Standards Board  
725 17<sup>th</sup> Street, NW  
Room 9013  
Washington, DC 20503

RE: CAS Pension Harmonization NPRM

We appreciate the opportunity to comment on the Notice of Proposed Rulemaking (NPRM) titled "Harmonization of Cost Accounting Standards (CAS) 412 and 413 with the Pension Protection Act of 2006 (PPA)."

As pension actuaries for the Centers for Medicare & Medicaid Services (CMS), we provide technical support to the auditors who review pension costs claimed by CMS contractors. Prior to joining CMS, we were employed as consulting actuaries and worked on matters pertaining to compliance, plan administration, actuarial funding, and financial accounting for employee benefits. Our comments represent our personal views and do not necessarily reflect those of our employer or of any other agency of the Federal Government.

We acknowledge the complexity of the task and the level of effort put forth by the Board. However, we do not believe that the Board has accomplished its mission to achieve harmonization with minimal changes and user-friendliness and in a manner consistent with the primary objectives of the CAS. The primary objectives of the CAS are to ensure uniformity of cost accounting between Government Contractors, and consistency in cost accounting practices of individual Government Contractors over time. Other considerations are equity or fairness between the contracting parties, the costs and benefits of the standard, and verifiability of cost accounting data.

While the CAS objectives clearly differ from those of ERISA and financial reporting, accomplishing them does not require the use of a long-term liability measurement. In fact, requiring Contractors to continue to compute such a liability solely for government cost-accounting purposes would add a layer of complexity and expense that is not warranted. Moreover, such a requirement for government contract purposes only would likely result in a bias toward higher costs that could not be easily verified, and it would support the premise that the Federal Government should blindly accept and share in costs resulting from the investment decisions made by a Contractor.

Under the proposed rule, the cost computed for a segment may be calculated on a long-term projected basis in one period and on a settlement basis (with no recognition of future salary increases) in the following period. Furthermore, the costs of individual segments within a single plan may be determined using different assumptions and methods for a particular period. The inconsistency, complexity, and

potential volatility introduced by the harmonization provision of the proposed rule would make forward pricing difficult.

We recommend that the CAS eliminate the long-term measurements (which are no longer required for any other purpose) and adopt the liability and asset valuation measures to be computed on a basis consistent with those used for ERISA and financial reporting. This basis should be applicable for both cost-assignment purposes and segment-closing adjustments. For ongoing costs, we recommend that Contractors have the option to reflect a more conservative funding policy by electing to include the additional liability attributable to future projected salary or benefit levels – specifically, the method used for ERISA maximum deductible calculations but without the cushion amount.

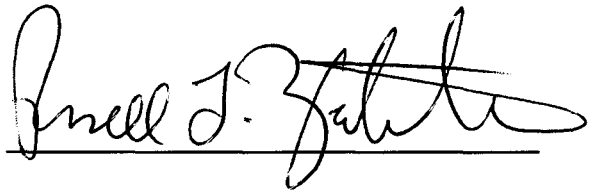
These changes could be accomplished without any direct reference to ERISA or GAAP accounting rules and with minimal changes to the existing CAS. The only added volatility from the use of these measurements would stem from annual changes in market interest rates. This volatility could be adequately addressed by existing provisions for amortization of gains and losses, and/or by implementing a gain and loss amortization corridor similar to that used for pension expense under FASB. The proposed phase-in rule would allow for a smooth transition.

\*\*\*\*\*

Thank you for the opportunity to comment on the NPRM on CAS Harmonization. We would be pleased to answer any questions relating to our comments or recommendations.



Veda D. Wild, FSA  
Pension Actuary  
Centers for Medicare & Medicaid Services  
7500 Security Blvd., N3-01-21  
Baltimore, MD 21244-1850  
410-786-6626  
[Veda.Wild@cms.hhs.gov](mailto:Veda.Wild@cms.hhs.gov)



Russell L. Weatherholtz, FSA  
Pension Actuary  
Centers for Medicare & Medicaid Services  
7500 Security Blvd., N3-01-21  
Baltimore, MD 21244-1850  
410-786-6396  
[Russell.Weatherholtz@cms.hhs.gov](mailto:Russell.Weatherholtz@cms.hhs.gov)