

20 George Matray
06-16-2010

**To: Office of Federal Procurement Policy
725 17th Street, NW
Room 9013
Washington, DC 20503**

Attn: Mr. J. M. Wong

Subject: CAS Harmonization NPRM Comments

Dear Mr. Wong;

I have reviewed the CAS Board Staff released Papers— **Cost Accounting Standards 412 and 413 Harmonized with the Pension Protection Act of 2006.**

I am submitting the attached comments as a practicing Enrolled Actuary not representing any Government agency and these comments are my own not a submission from my current employer.

CAS 412

Comment 1. I wish to reference the following proposed harmonization (“PH”) paragraph annotated in red:

9904.412-50: Techniques for application.

(a) Components of pension cost.

PH (5) Pension cost shall be based on provisions of existing pension plans. This shall not preclude contractors from making salary projections for plans whose benefits are based on salaries and wages, or from considering improved benefits for plans which provides that such improved benefits must be made. **For qualified defined benefit plans that ERISA permits recognition of historical patterns of benefit improvements under a plan covered by a collectively bargained agreement, the contractor may recognize the same benefit improvements.**

In my opinion, the reference above to “ERISA” is tied to the current ERISA Tax Deductible Limit as defined in the Pension Protection Act of 2006. The Act Title VIII, Pension Related Revenue Provisions, added section 801 which amended Internal Revenue Code Section 404 to increase the Tax Deductible Limit for Single Employer plans. These rules became effective in 2008. The above ERISA reference should be clarified to my interpretation since ERISA also has numerous provisions tied to Minimum Funding rules.

Comment 2. I wish to reference the following proposed harmonization (“PH”) paragraph annotated in red:

9904.412-60 Illustrations.

(b) Measurement of pension cost.

PH (3) Contractor I has two qualified defined-benefit pension plans that provide for fixed dollar payments to hourly employees. Under the first plan, the contractor's actuary believes that the contractor will be required to increase the level of benefits by specified percentages over the next several years **based on an established pattern of benefit improvements**. In calculating pension costs, the contractor may not assume future benefits greater than that currently required by the plan. **However, if ERISA permits the recognition of the established pattern of benefit improvements, 9904.412-50(b)(5) permits the contractor to include the same recognition of expected benefit improvements in computing the pension cost for contract costing purposes.** With regard to the second plan, a collective bargaining agreement negotiated with the employees' labor union provides that pension benefits will increase by specified percentages over the next several years. Because the improved benefits are required to be made, the contractor can consider such increased benefits in computing pension costs for the current cost accounting period in accordance with 9904.412-50(b)(5).

In my opinion, the reference above to “ERISA” is tied to the current ERISA Tax Deductible Limit as defined in the Pension Protection Act of 2006 and should be clarified as in Comment 1.

CAS 413

Comment 3. I wish to reference the following proposed harmonization (“PH”) paragraphs (viii) and (ix) annotated in red:

9904.413-50 Techniques for application.

(c) Allocation of pension cost to segments.

(12) If a segment is closed, if there is a pension plan termination, or if there is a curtailment of benefits, the contractor shall determine the difference between the actuarial accrued liability for the segment and the market value of the assets allocated to the segment, irrespective of whether or not the pension plan is terminated. The difference between the market value of the assets and the actuarial accrued liability for the segment represents an adjustment of previously-determined pension costs.

PH (viii) If a benefit curtailment is caused by a cessation of benefit accrual mandated by ERISA based on the plan’s funding level, and it is expected that such accruals will recommence in a later period, then no adjustment amount for the curtailment of benefit pursuant to this paragraph (c)(12) is required. Instead, the curtailment of benefits shall be recognized as an actuarial gain or loss for the period. Likewise the recommencement of benefit accruals shall be recognized as an actuarial gain or loss in the period in which benefits recommenced. If the written plan document provides that benefit accruals will be retroactively restored, then the intervening valuations shall continue to recognize the accruals in the actuarial accrued liability and normal cost during the period of cessation.

PH (ix) Once determined, any adjustment credit shall be first used to reduce the accumulated value of permitted unfunded accruals. After the accumulated value of permitted unfunded accruals has been fully reduced, any remaining adjustment amount shall be accounted for as a prepayment credit. Any adjustment charge shall be accounted for as a permitted unfunded accrual to the extent that funds are not added to the fair value of assets. All unamortized balances maintained in accordance with 9904.412-50(a)(1) and 9904.413-50(a)(1) and (2) shall be deemed immediately recognized and eliminated as part of the adjustment charge or credit. If the segment no longer exists, the accumulated value of prepayment credits, the accumulated value of permitted unfunded accruals and the balance separately identified under 9904.412-50(a)(2) shall be transferred to the former segment’s immediate home office.

Under (viii), in my opinion the requirement is tied to the new Internal Revenue Code Section 436 mandated cessation of benefit accruals due to funding target attainment percentage. This section was created by the Pension Protection act of 2006 and should be clarified.

Under (ix), the term "adjustment", I believe is meant to be tied to the entire (c) (12) paragraph not just (viii). The term "permitted unfunded accruals" from what I read is defined in CAS 413 as:

Permitted unfunded accruals means the amount of pension cost for nonqualified defined-benefit pension plans that is not required to be funded under 9904.412-50(d)(2). The Accumulated Value of Permitted Unfunded Accruals means the value, as of the measurement date, of the permitted unfunded accruals adjusted for imputed earnings and for benefits paid by the contractor.

In my opinion, paragraph (ix) is not clear on what the process is and what type of plan it is applicable to and the use of a specific term unique to nonqualified plans already defined in CAS 413.

In my opinion, based on personal experience with CAS 413 segment closing events, the intent here is to create a "sidebar" CAS accounting entry in all cases of a CAS (c) (12) event where the pension plan is on-going and the contractual arrangement exists between the Contractor and the Government. I would express it as follows:

The CAS 413 (c)(12) adjustment amount is to be "defined" as a **CAS 413 Segment Closing Adjustment Balance**; a Surplus is treated as a positive amount to be subtracted from CAS assets (following the methodology of a CAS Prepayment Credit) and a Deficit becomes a negative amount to be added to CAS assets (following the methodology of a Forever Unallowable Cost balance).

Respectfully submitted;

/s/

(SIGNED)

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16 June 2010