Aerospace Industries Association
National Defense Industrial Association

November 3, 2008

Cost Accounting Standards Board
Attention: Raymond Wong
Office of Federal Procurement Policy
725 17th Street, NW, Room 9013
Washington, DC 20503
Via e-mail to casb2@omb.eop.gov

Reference: CAS Pension Harmonization ANPRM, CAS-2007-02S

Dear Mr. Wong:

Members of the Aerospace Industries Association (AIA) and the National Defense Industrial Association (NDIA) want to thank the Cost Accounting Standards Board for recognizing the value of industry comments at this point in the process for harmonizing CAS 412 and 413 with the Pension Protection Act (PPA). Our comments on the CAS Board's Advance Notice of Proposed Rulemaking (ANPRM) issued in the Federal Register of September 2, 2008 are included below and in the attachment to this letter.

We commend the CAS Board for the quality of this ANPRM. We recognize the considerable challenge the complexities in these rules involve as well as the constraints of the timeframe in which the PPA required this rulemaking effort be completed. We acknowledge this ANPRM is evidence the CAS Board has made significant progress towards achieving harmonization of CAS with PPA.

Mechanisms for Harmonization Provided
We strongly support several provisions of this ANPRM which provide for a fair and equitable harmonization. First, the introduction of a new liability measure, the minimum actuarial liability (MAL), in conjunction with the existing actuarial accrued liability (AAL) provides for a balanced liability measurement despite varying economic circumstances, such as movement between very high or very low interest rates, as well as a balance between long term and short term approaches. Second, the new concept of mandatory prepayments provides for cost recovery of the PPA minimum required contributions without reconstructing fully the mathematical mechanics of the pension calculations within CAS, which would likely require significantly more time than allotted by Congress for this harmonization effort. Additionally, we believe the five year amortization period for these mandatory prepayments is a reasonable balance between timely cost recovery and an acceptable level of volatility. Third, we believe the change in the amortization period for actuarial gains or losses from 15 years to 10 years, while longer than the 7

year amortization period used by the PPA, provides a reasonable balance between timely cost recovery and an acceptable level of volatility.

ANPRM Refinements Recommended

In our review and data modeling of the ANPRM, we have identified only a few areas of significant concern that we believe should be refined. These areas are described below with supporting details provided in the attachment to this letter. In addition to these concerns, we have provided comments in the attachment to various other provisions of the ANPRM of lesser significance, but we believe these may be useful to the CAS Board in improving the clarity of these rules.

1. Discretionary and Required Funding

First, we understand that the intention of the ANPRM approach is to limit the pension costs recovered to the contractors' cash contributions to trusts that have been required to either fund a CAS pension liability or to fund a PPA minimum required contribution for ERISA. Thus, for Government contracting, the cash outlays the contractor has been required to make by PPA are recoverable, while those cash outlays made wholly at the discretion of the contractor are not recoverable until such time as they are no longer discretionary (e.g., they are used to fund CAS pension cost or minimum funding requirements). We believe this approach to limit cost recovery is fair and equitable and support this concept. Fairness and equity might not prevail in some instances if discretionary amounts were immediately recoverable as contractor could influence from one accounting period to the next the amount of pension cost simply by its funding patterns. In addition, we believe this treatment intends to yield consistent cost recovery for contractors with the same funding requirements but different funding patterns over time. However, during our data modeling, we discovered that as currently written, the ANPRM can result in inequitable and inconsistent cost treatment for contractors with the same funding requirements but different funding patterns over time (refer to Illustration 1 in attachment). We believe this to be an unintended consequence that may be corrected with two revisions to the ANPRM.

The two revisions recommended are related to ERISA pre-funding credits and its analogous CAS concept, voluntary prepayment credits. When a contractor voluntarily contributes discretionary funds to the pension trust, these funds create or add to a pre-funding credit for ERISA purposes, because that contribution was not yet required to be made. Such discretionary funding, to the extent it exceeds assignable CAS costs for the period, would be classified as a voluntary prepayment under the ANPRM. In subsequent periods, a minimum required contribution amount is calculated for ERISA without regard to the ERISA credits, and the contractor has the choice to apply a portion of the ERISA credits to fund the requirement or to fund the requirement through new contributions. If the contractor chooses to make a new contribution, the balance of the ERISA credit is unaffected (i.e., continues to be treated as discretionary funding) and the new contribution is applied to satisfy the minimum required funding as if the ERISA credit did not exist. Unfortunately, in defining the "minimum required funding", the ANPRM mixes the concepts of required and discretionary funding of both ERISA and CAS. The ANPRM defines the "minimum required funding" as the amount determined in accordance with ERISA, however the ANPRM reduces that amount by the ERISA credits, effectively assuming they are used to fund the required amount. Essentially, this means that for determining the baseline funding required for identifying mandatory prepayments, the ANPRM treats the ERISA credit as if it were applied to fund the minimum requirement regardless of whether it actually is applied for ERISA funding or not. Conversely, the ANPRM continues to treat the voluntary prepayment credit that corresponds with the ERISA credit as unapplied, discretionary funding. Clearly, these treatments in the ANPRM are contradictory to each other. Thus to address this, we recommend a revision to the ANPRM to remove the requirement to reduce the "minimum required funding" by the ERISA credits. This would align CAS with the ERISA calculation for the minimum required funding before the course of funding is applied (e.g., contributions, ERISA credits). We have provided recommended language for this revision in the attachment in the section labeled CAS 412-30(a)(18).

The second revision related to the ERISA credits and voluntary prepayment credits that is necessary for a consistent and equitable result is the provision of a mechanism in CAS to address ERISA credits that are applied to meet the minimum required funding. If the contractor chooses to apply a portion of the ERISA credit to fund the minimum required contribution, that portion is subtracted from the ERISA credits and included with pension assets. The portion of the ERISA credit applied to fund the minimum required contribution is no longer discretionary but is part of required cash outlays by the contractor. Thus, a process exists for ERISA to convert discretionary to required funding. An analogous concept in current CAS is when a portion of the prepayment credit is used to fund CAS pension costs; the prepayment credit is no longer discretionary funding but is required. With the establishment of two different types of prepayments in the ANPRM, there are now two paths to convert discretionary funding to required funding that need to be reflected in the rule. One is the application of voluntary prepayments to fund pension cost. The second is the application of discretionary funding to meet the minimum required contribution, as occurs when ERISA credits are applied. However, as the ANPRM is currently written, the cash outlays originally classified as voluntary prepayment credits when contributed can be converted from discretionary to required only when funding CAS pension cost. In fact, these credits may be used to fund the PPA minimum required funding first. If cash outlays that were previously recorded as voluntary prepayments are subsequently used to fund the minimum required by PPA, by definition these cash outlays are no longer discretionary but have become required and should be treated as mandatory prepayments. Illustration 1 in the attachment demonstrates the unintended consequences of inequitable and inconsistent cost treatment for contractors with the same funding requirements but different funding patterns. Illustration 2 in the attachment demonstrates the equitable and consistent treatment that would result from our two recommended revisions regarding ERISA credits and voluntary prepayments. We have also provided recommended language for this second revision in the attachment in the section labeled CAS 412-50(a)(4)(ii)(E).

2. Assignable Cost Limitation

The second area with which we have a concern is the new assignable cost limit (ACL) calculation. While we appreciate the intent of the CAS Board to revise this calculation to reduce the frequency with which plans enter and exit full funding and impact pension costs significantly as a result, we do not believe the ANPRM achieves the desired result nor is aligned with the overarching purpose of this limitation. First, we understand the purpose of the ACL is to prevent an excessive buildup of CAS assets that have funded CAS pension cost. Since pension costs calculated under the ANPRM are based on the greater of the AAL or MAL, it follows that if the ACL is to prevent a buildup of assets that have funded pension cost it too should consider both the AAL and the MAL. We recognize consideration of the MAL would allow for a higher level of assets, but we believe this is acceptable given that the ANPRM provides for a higher pension cost as well. If the ACL considers only the AAL, as the ANPRM is written, we do not believe that the calculation is aligned with its intended purpose.

We worked with Watson Wyatt to support us in gathering contractor data estimates to develop a practical assessment of the materiality of the liabilities and normal costs anticipated to consider the affects on ACL results. A total of 13 contractors participated in this survey. Eleven of the survey participants are in the top 100 Department of Defense contractors for 2007. Of the top 100 contractors, many do not have defined benefit pension plans. Based on a data survey (refer to Illustration 3) and modeling by Watson Wyatt, it is the normal cost that will drive the pension cost going forward and accordingly should be more determinative in the ACL calculation to provide for the desired result of reducing the frequency of plans entering and exiting full funding. For these reasons, we recommend revising the calculation of the ACL to include the greater of 125% of the AAL or 100% of the MAL as measured at the end of the year when the respective normal costs would be part of each liability measure. We have provided recommended language for this revision in the attachment in the section labeled CAS 412-30(a)(9).

The supplementary information with the ANPRM also asked for comments on whether volatility might be better controlled if amortization bases always continue unabated even if the assets exceed the ACL limitation. We believe that allowing the amortization bases to continue unabated could introduce undesirable problems, for example where amortization bases are for negative amounts. We recommend that this concept of unabated bases not be pursued.

3. Interest Rate for Minimum Actuarial Liability and Minimum Normal Cost

Our third area of significant concern is with the interest rate used for the minimum actuarial liability and minimum normal cost. We believe the flexibility provided by using "the contractors' best estimate" for selecting the source of the interest rate used in the calculation of the minimum actuarial liability and minimum normal cost is desirable to achieve a meaningful measure of the resulting pension cost for each contractor. However, we have concerns that the criteria for the acceptable rates as written are sufficiently unclear as to create a significant exposure for interpretive disagreements. For example, we believe that the ANPRM criteria as written allows for the use of a very short term rate or a very long term rate, since either may reflect the rate at which pension benefits could be effectively settled at a current or future period, respectively. We encourage the CAS Board to consider providing additional criteria in the rule for selection of these rates. In the attachment, we have provided a recommendation for the additional language to CAS 412-40(b)(3)(ii) that we believe would clarify the acceptable interest rates for this purpose.

4. Transition Rules

We understand that the lengthy transition rules are intended to provide for smoothing of the substantial increases in pension costs likely to result from the final rules and the backlog of prepayment credits from funding PPA minimum requirements prior to the harmonization. Again, we worked with Watson Wyatt to gather contractor data estimates to develop a practical measure of the materiality of the increases anticipated to consider whether such an extended and complex transition seemed justified. The same 13 contractors participated in this data survey. The survey considered the effects of mandatory prepayments expected to be amortized under the transition rules and the effects on pension cost of using the higher of the AAL or MAL during the transition period. Watson Wyatt shared with us our combined data results (refer to Illustration 3). We believe that considering the data results in the context of the challenging financial conditions likely to affect Government contracting now and in the near future, the lengthy transition rules are generally appropriate. Though from a contractor's perspective more immediate cost recovery of cash outlays made as a result of PPA funding would be desirable, there clearly are other more significant competing considerations.

There are, however, two recommendations regarding the transition rules we believe will be useful to the CAS Board. First, the transition rules must be clear on the method for determining the accumulated value of mandatory prepayment credits from prior years, but the ANPRM did not address this. It is desirable for both the Government and contractors to have a simple, practical method that is readily auditable to avoid any disputes over this one time calculation. We recommend that the accumulated value of mandatory prepayment credits from prior years be measured as the balance of CAS prepayments (amounts contributed in excess of CAS pension cost) as of January 1, 2010 less ERISA credits (amounts funded in excess of ERISA requirements) as of January 1, 2010. Thus, the ERISA credits, which represent discretionary amounts funded in excess of ERISA requirements, are a proxy for voluntary prepayments for CAS. We believe this method is equitable to contractors that have maintained well funded pensions as good corporate citizens prior to or in anticipation of PPA funding mandates. We provided recommended language to add to CAS 412-64.1(c) in the attachment.

Our second recommendation for the transition rules is that they should not be applicable for segment closings. We recognize the transition rules to be a generally acceptable solution that provides for full recovery of cost increases over a reasonable future period, however if a segment closing occurs during the transition period, there is no future period during which to recover the segment's remaining costs. We recommend that for segment closings that occur during the transition period, the segment closing adjustments should be calculated fully under the final rules rather than be subject to the transition provisions. We have provided recommended language to revise CAS 413-64.1 in the attachment.

Effective Date and Applicability

We understand that based on the ANPRM, contractors will need to change their cost accounting practices to comply with the final rule for this harmonization (i.e., using the higher of the AAL or MAL, amortizing actuarial gains/losses over 10 years, etc.), and we understand those changes will by CAS definition in 9903.201-6(a)(2) be required changes. Accordingly, contractors have started to consider the practical issues associated with implementation of this rule, such as the timing of incorporating the new rule into forward pricing rates and computing equitable adjustments subsequent to publication. The PPA (Section 106) mandates that the CAS Board must publish the final harmonized rule by January 1, 2010 and the rule must be effective no later then January 1, 2011. Given the trajectory of the promulgation process, we anticipate the final rule will be published well into 2009. The ANPRM reads that the rule will be effective immediately upon publication, so publication in 2009 would satisfy the PPA mandated deadlines for publication and effectivity. However, the rule is not applicable for contractors until receipt of a new contract or subcontract to which the Standard applies, according to the ANPRM (CAS 412-63(c) and 413-63(c)) which is consistent with CAS 9903.201-4 (a)(2)(a)(3). In addition, once the new contract or subcontract is received, the applicability of the new rule occurs at the start of the next cost accounting period, not the period in which the contract is received, according to the ANPRM (CAS 412-63(b) and 413-63(b)) which is consistent with the prospective applicability described in CAS 9903-201-4(a)(2)(a)(3). For example, if the final rule is published August 25, 2009 and is effective immediately and a contractor receives a new CAS-covered contract on October 10, 2009, the new harmonized rules would be applicable to all the contractor's CAS covered contracts as of January 1, 2010 (assuming the contractor's cost accounting periods are calendar years).

If the final rule is published sufficiently before the end of 2009 that a new contract may be received, the timing as described is ideal. However, we believe there could be an unintended consequence to eligible contractors, as defined by PPA, if publication of the final rule occurs late in 2009. For example, if the final rule is published December 1, 2009 with an immediate effective date and an eligible contractor does not receive a new CAS-covered contract or subcontract until the following year (2010), the new harmonized rules would not be applicable to all the contractor's CAS covered contracts until January 1, 2011. Unfortunately, Section 106(a) of the PPA mandates that eligible contractors must begin funding under the PPA requirements by the earlier of January 1, 2011 or the plan year beginning on or after the effective date of the CAS harmonization rule.

Section 106(a) of the PPA reads:

(a) General Rule – Except as provided in this section, if a plan is an eligible government contractor plan, this subtitle and subtitle B shall not apply to plan years beginning before the earliest of –

   (1) the first plan year for which the plan ceased to be an eligible government contractor plan,
   (2) the effective date of the Cost Accounting Standards Pension Harmonization Rule, or
   (3) January 1, 2011.

Thus, if the final CAS rule is published very late in 2009 with an immediate effective date, an eligible contractor would be required by law to begin funding under PPA requirements in 2010 but would almost certainly have delayed cost recovery until 2011. We believe this provision of PPA Section 106 intended for applicability of the PPA funding requirements and the CAS harmonized rules to coincide for eligible contractors. Therefore, if publication of the final rule is likely to occur in the fourth quarter of 2009, we encourage the CAS Board to recognize the dilemma for eligible contractors and address this concern. We recognize one possible solution for the CAS Board is to revise the effective date of the final rule to be January 2, 2010, which delays triggering the PPA funding requirements for eligible contractors until January 1, 2011. Our understanding is that this delay in the effective date would not preclude contractors from pricing under the new CAS rules for 2011 forward so long as they reasonably anticipate receiving a new CAS covered contract or subcontract during 2010.

In addition, we do recommend that the language in the ANPRM be clarified to clearly address that the final rules will be applicable prospectively to both existing and new CAS covered contracts performed on or after the applicability date. This avoids any misinterpretation that the final rule is applicable only to new CAS covered contracts of the contractor. We have provided recommended language in the attachment for CAS 412-63 and CAS 413-63 to address this concern.

Additional Opportunities for Public Comment
We are concerned that given the complexities involved in these rules, it would be desirable for the public to have another opportunity to review revisions the CAS Board makes to this ANPRM. We believe that public comments can provide the CAS Board insight into the clarity of the language by those responsible for the practical application of the rules and alert the CAS Board to any unintended consequences identified through extensive data modeling before a final rule is issued. We believe it is mutually beneficial to both the public and the CAS Board that the final rule issued is essentially unchanged from the NPRM which precedes it. Therefore, we encourage the CAS Board to consider issuing another ANPRM before proceeding to a NPRM. However, if this is unacceptable due to concerns about meeting the PPA deadline for publication of the final rule, we encourage the CAS Board to consider the public comments received from the NPRM and if significant revisions will be made to the NPRM, issue another NPRM before proceeding to a final rule.

Conclusion
The comprehensive comments by CAS subsection are included in the attachment. Thank you for the opportunity to support the Board in this important undertaking. We look forward to additional opportunities in the future. If you have any questions or need additional information, please contact Dick Powers of AIA at (703) 358-1042 or at dick.powers@aia-aerospace.org or Ruth Franklin of NDIA at (703) 247-2598 or at rfranklin@ndia.org.

Sincerely,

Elaine J. Guth
Vice President, Acquisition Policy
Aerospace Industries Association

Peter M. Steffes
Vice President, Government Policy
National Defense Industrial Association

Attachment

1. **CAS 412-50(c)(2)(i)** As we understand the ANPRM, when the computed CAS pension cost is less than zero, the assigned pension cost for the period would be zero, but the amortization amount of the mandatory prepayment credit assignable to the period is unaffected and is still separately allocated to cost objectives in that period. We believe additional clarity is necessary in the proposed rule to prevent confusion in interpretation. We recommend adding the following sentence at the end of CAS 412-50(c)(2)(i), "Any amount of mandatory prepayment credit assignable to the period is unaffected by computed pension cost that is less than zero."

2. **CAS 412-30(a)(2)** As we understand the ANPRM, if the Minimum Actuarial Liability (MAL) is used as the actuarial liability when computing the CAS pension cost, the MAL is taken into consideration for determining the unfunded actuarial liability for the balance test in CAS 412-40(c). In addition, we understand that changes in the unfunded actuarial liability due to fluctuations between using the MAL or Actuarial Accrued Liability (AAL) from year to year are considered part of the period's experience gain or loss. We believe additional clarity is necessary in the proposed rule to prevent confusion in interpretation. We recommend deleting the last two sentences in 412-30(a)(2) within the definition of Actuarial Accrued Liability which actually defines the Unfunded Actuarial Liability and add a separate definition for Unfunded Actuarial Liability as "The excess of the greater of the Actuarial accrued liability or the Minimum actuarial liability over the actuarial value of the assets of the pension plan is the unfunded actuarial liability. The excess of the actuarial value of the assets of a pension plan over the greater of the actuarial accrued liability or the minimum actuarial liability is an actuarial surplus and is treated as a negative unfunded actuarial liability."

3. **CAS 412-50(a)(4)(i)(B)** As we understand the ANPRM regardless of whether the MAL or the AAL is used to compute the CAS pension cost, the assumed long term interest rate is used to compute the amortization amounts for the mandatory prepayments. We believe additional clarity is necessary in the proposed rule to prevent confusion in interpretation. We recommend adding language to CAS 412-50(a)(4)(i)(B) as follows, "The value of the mandatory prepayment account shall be adjusted for interest at the assumed long-term rate of interest, regardless of whether the minimum actuarial liability or the actuarial accrued liability is used to compute the pension cost for the period."

4. **CAS 412-40(b)(3)** The ANPRM requires two separate comparisons for the greater of (1) the minimum actuarial liability and the actuarial liability, and (2) the minimum normal cost and the normal cost. In certain circumstances, these two comparisons may yield contrary results, i.e. the actuarial accrued liability is greater that the minimum actuarial liability, but the minimum normal cost is greater that the normal cost. We believe such a result is an unintended

consequence of the separate comparisons. We recommend revising CAS 412-40(b)(3)(i) as shown below and deleting subsections (A) and (B).

(i) In any period that the sum of the minimum actuarial liability plus the minimum normal cost exceeds the sum of the actuarial accrued liability plus the normal cost, the contractor shall adjust the actuarial accrued liability and the normal cost used to compute the pension cost for the period to equal the minimum actuarial liability and the minimum normal cost, respectively.

5. **CAS 412-40(b)(3)** As we understand the ANPRM the comparisons of the minimum actuarial liability with the actuarial accrued liability and the minimum normal cost with the normal cost are to be performed at the segment level for contractors who calculate pension costs separately for one or more segments. We do not believe this level of application is clear in the ANPRM language. We recommend clarifying this by adding the following sentence to CAS 412-40(b)(3)(i), "If pension costs are separately calculated for one or more segments, the contractor shall make a separate determination of which of these sums is greater for each segment."

6. **CAS 413-40(c)** A revision is recommended to clarify that the comparisons of the minimum actuarial liability with the actuarial accrued liability and the minimum normal cost with the normal cost are to be performed at the segment level for contractors who calculate pension costs separately for one or more segments. This corresponds to the similar recommendation to revise CAS 412-40(b)(3). We recommend inserting a sentence at the end of CAS 413-40(c) that reads, "If pension costs are separately calculated for one or more segments, the contractor shall make a separate determination required by 9904.412-40(b)(3)(i) for each segment."

7. **CAS 412-50(c)(1)(i)** The ANPRM Supplementary Information (pages 20-21) asked for comments regarding whether mandatory prepayments below a certain threshold should be recognized immediately rather than amortized. Immediate recognition of immaterial amounts seems reasonable, especially for small contractors. We note that a similar provision exists regarding the amortization of actuarial gains and losses in CAS 413-50(a)(2), so we recommend using similar language. The additional sentence added at the end of CAS 412-50(c)(1)(i) would read, "If the mandatory prepayment credit determined for a cost accounting period is not material, the entire mandatory prepayment credit may be charged to cost objectives in the current or ensuing year."

8. **CAS 412-30(a)(28)** The first sentence of the definition of voluntary prepayment credit incorrectly reads "...the amount of the minimum required funding in excess of pension cost assigned to a cost accounting period." This language describes a mandatory prepayment credit, not a voluntary prepayment. We recommend revising the first sentence of CAS 412-30(a)(28) to read, "Voluntary prepayment credit means the amount of funding in excess of the greater of the minimum

required funding for pension cost assigned to a cost accounting period or the minimum funding required by ERISA."

9. **CAS 413-60(c)(8)** In the fourth sentence of the illustration, the reference to CAS 9904.413-30(a)(20)(iii) needs to be revised to CAS 9904.413-30(a)(21)(iii).

10. **CAS 413-60(c)(9)** In the tenth sentence of the illustration, the reference to CAS 9904.413-30(a)(20(i) needs to be revised to CAS 9904.413-30(a)(21)(i). In the eleventh sentence of the same illustration, the reference to 9904.413-30(a)(10) needs to be revised to CAS 9904.413-30(a)(11).

11. **CAS 413-60(c)(13)** In the fourth sentence of the illustration, the reference to CAS 9904.413-30(a)(20)(ii) needs to be revised to CAS 9904.413-30(a)(21)(ii).

12. **CAS 413-60(c)(14)** In the third sentence of the illustration, the reference to CAS 9904.413-30(a)(20)(iii) needs to be revised to CAS 9904.413-30 (a)(21)(iii).

13. **CAS 413-64.1(a)** In the first sentence of the transition rule, we believe the reference to CAS 9904.413-40(a) should be revised to CAS 9904.413-50(a).

14. **CAS 412-64.1(c)** The ANPRM does not include a method for determining the amount of CAS prepayments that are mandatory prepayment credits. Based on our understanding of the definition of mandatory prepayment credits in CAS 412-30(a)(15) of the ANPRM, we believe that the accumulated mandatory prepayment credits from prior years means the cumulative funding amounts up to but not in excess of ERISA requirements. We recommend that the accumulated value of mandatory prepayment credits from prior years be measured as the balance of CAS prepayments (amounts contributed in excess of CAS pension cost) as of the date of transition less ERISA credits (amounts funded in excess of ERISA requirements) as of the date of transition. Thus, the ERISA credits, which represent discretionary amounts funded in excess of ERISA requirements, are a proxy for voluntary prepayments for CAS. We believe that this method is simple, practical, and readily auditable. In addition, this method yields an equitable result for contractors who have maintained well funded pensions as good corporate citizens prior to or in anticipation of PPA funding mandates. We recommend language be added to CAS 412-64.1(c) that reads, "The accumulated value of mandatory prepayment credits from prior years as of the date of transition is determined by the contractor's CAS prepayments as of the date of transition less the contractor's ERISA credits as of date of transition. All other CAS prepayments will be the voluntary prepayment account balance for CAS as of the date of transition."

15. **CAS 412-30(a)(17)** In the first sentence of the definition, the reference to CAS 9904.412-50(b)(3)(ii) needs to be revised to CAS 9904.412-40(b)(3)(ii).

16. **CAS 413-30(a)(12)** In the first sentence of the definition, the reference to CAS 9904.412-50(b)(3)(ii) needs to be revised to CAS 9904.412-40(b)(3)(ii).

17. **CAS 412-60(c)(15)** It would be helpful in this illustration to add language that clarifies the resulting CAS treatment of the $750,000 funding amount. We recommend adding language at the end of CAS 412-60(c)(15) that reads, "Pursuant to 9904.412-50(a)(4)(i), the excess of the minimum funding required over the assigned pension cost creates a mandatory prepayment credit of $150,000 ($750,000 - $600,000) as of the first day of the plan year."

18. **CAS 412-30(a)(9)** We understand the purpose of the ACL is to prevent an excessive buildup over time of CAS assets that have funded pension cost. Since pension costs are based on the greater of the AAL or MAL, it follows that if the ACL is to prevent a buildup of assets that have funded pension cost it too should consider the AAL and the MAL. In addition, based on a data survey and modeling by Watson Wyatt, the normal cost will drive the pension cost going forward and must be included more closely in the ACL calculation to reduce the frequency of plans entering and exiting full funding. For both of these reasons, we believe the ACL should include the greater of 125% of the AAL or 100% of the MAL as measured at the end of the year when the normal cost would be part of each liability measure. We recommend the language in CAS 412-30(a)(9) be revised to read, "Assignable cost limitation means the excess, if any, of the greater of 125% of the actuarial accrued liability, as measured at the end of the plan year, or 100% of the minimum actuarial liability, as measured at the end of the plan year, over the actuarial value of the assets of the pension plan, as measured at the end of the plan year."

19. **CAS 412-50(a)(4)(i)(A)** The last sentence of this subsection reads, "The applied mandatory prepayment shall be used before any portion of the voluntary prepayment account..." We believe for clarity, the word "account" should be inserted, so this reads, "The mandatory prepayment *account* shall be used before any portion of the voluntary prepayment account..."

20. **CAS 412-50(a)(4)** We understand that the ANPRM uses the actual rate of return for assets in the voluntary prepayment account, and the assumed long-term rate of interest for assets in the mandatory prepayment account. In addition, the ANPRM requires that the prepayment accounts be excluded from both the market and actuarial values used to compute pension costs. The market value of assets, for plans without permitted unfunded accruals, continues to be defined as equal to the funding agency balance. However, there are practical problems with this approach that we believe should be considered. For example, if the funding agency balance at the beginning of the year is $100, the mandatory prepayment account is $10, and for simplicity let the voluntary prepayment account be $0. The market value of CAS assets at the beginning of the year is $100-10=$90. If the long-term rate of return for the mandatory prepayment account is 10%, then at the end of the year the mandatory prepayment account is $10+($10x10%)=$11, disregarding amortization for simplicity. If the actual rate of return is a loss of 25%, then the funding agency balance at the end of the year is $100x(-25%)=$75. The market value of assets that would be used for computing pension cost for the following year would be the plan's market value

less the prepayment accounts ($75-$11=$64). Thus, isolated cost treatment (e.g. CAS assets, mandatory prepayments, and voluntary prepayments) of the pension assets for market value under different rates of returns, as required in the ANPRM, results in a variance amount for which there is no cost treatment provision in the draft rule. We encourage the CAS Board to consider this issue that we believe is an unintended consequence of the new provisions in CAS 412-50(a)(4).

21. **CAS 412-50(a)(4)(ii)(D)** We understand the hierarchy of the order in which funding sources are used for the assignable CAS pension costs is (1) cash contributions up to the minimum required funding amount, (2) mandatory prepayment credits, (3) voluntary prepayment credits, and (4) cash contributions in excess of the minimum required funding amount. We recognize this order establishes that funding required by ERISA will be used for CAS pension costs before discretionary funding amounts are used. This order also appropriately prevents contractors from cost recovery of discretionary funding (voluntary prepayments) while simultaneously recognizing amortization of unused mandatory prepayments, which we recognize would essentially be duplicative and accelerated cost recovery. This prescribed order of funding sources used is clearly stated in the ANPRM in the supplementary information on page 9 and in CAS 412-50(a)(4)(i)(A). However, CAS 412-50(a)(4)(ii)(D) of the ANPRM contradicts this order of funding, stating, "The accumulated value of voluntary prepayments credits shall be applied first to fund the pension cost assigned to the period before contributions made to the funding agency are recognized for funding requirements of CAS 412-50(d)(1)." The application of voluntary prepayment credits "first" would seem to defer the use of even mandatory prepayment credits in funding CAS pension costs, which we believe to be inconsistent with the concept that required funding for ERISA be used before any discretionary funding became a part of costs recovered. We recommend that the language in subsection CAS 412-50(a)(4)(ii)(D) be revised for consistency with CAS 412-50(a)(4)(i)(A) to read, "In any period that the assigned pension cost exceeds the minimum required funding amount, voluntary prepayment credits shall be applied towards the funding of such excess for purposes of 9904.412-50(d)(1) only after all mandatory prepayment credits have been applied."

22. **CAS 412-60(c)(17)** The last sentence of the illustration reads, "…is deducted from the mandatory prepayment and the balance of the mandatory prepayment account …" We believe for clarity, the word "account" should be inserted, so this portion of the illustration reads, "…is deducted from the mandatory prepayment *account* and the balance of the mandatory prepayment account…"

23. **CAS 412-60(c)(16)** The third sentence of the illustration reads, "Pursuant to 9904.412-50(a)(4)(i), the entire mandatory prepayment account balance of $72,000 is applied towards the $100,000 ($600,000-$500,000) of assigned cost in excess of the minimum required funding amount in accordance with 9904.412-50(a)(4)(i)." This should be revised to remove either the beginning "Pursuant to

9904.412-50(a)(4)(i)," or the ending "in accordance with 9904.412-50(a)(4)(i)" which are duplicative of each other.

24. **CAS 413-30(a)(2)** We understand that if the Minimum Actuarial Liability (MAL) is used in determining the actuarial liability to compute the CAS pension cost, the MAL is taken into consideration for determining the unfunded actuarial liability for the balance test in CAS 412-40(c). In addition, we understand that changes in the unfunded actuarial liability due to fluctuations between using the MAL or Actuarial Accrued Liability (AAL) from year to year are considered part of the period's experience gain or loss. We believe additional clarity is necessary in the proposed rule to prevent confusion in interpretation. We recommend deleting the last two sentences in 413-30(a)(2) within the definition for Actuarial accrued liability which actually defines the Unfunded Actuarial Liability and established a separate definition for Unfunded Actuarial Liability as "The excess of the greater of the Actuarial accrued liability or the Minimum actuarial liability over the actuarial value of the assets of the pension plan is the unfunded actuarial liability. The excess of the actuarial value of the assets of a pension plan over the greater of the actuarial accrued liability or the minimum actuarial liability is an actuarial surplus and is treated as a negative unfunded actuarial liability."

25. **CAS 413-30(a)(23)** The first sentence of the definition of voluntary prepayment credit incorrectly reads "...the amount of the minimum required funding in excess of pension cost assigned to a cost accounting period." This language defines a mandatory prepayment credit, not a voluntary prepayment. We recommend revising the first sentence of CAS 413-30(a)(23) to read, "Voluntary prepayment credit means the amount of funding in excess of the minimum required funding for pension cost assigned to a cost accounting period."

26. **CAS 412-30(a)(18)** We understand the minimum required funding calculation is determined in accordance with ERISA, but then reduced by any ERISA pre-funding credits. We believe this approach to have unintended consequences. First, reducing the minimum required funding amount by ERISA pre-funding credits results in inconsistent cost treatment of contractors with the same total contributions required and paid over the same period of time, depending on the pattern of contributions (i.e. earlier funding vs. later funding) and when the ERISA credits are applied to satisfy the PPA minimum funding required. This result is shown by comparing Contractor 2 and Contractor 3 in our illustration table within this attachment. We believe that preferential cost recovery contingent on a specific funding pattern is an inequitable and unintended consequence of the existing language in the ANPRM. Second, including the ERISA pre-funding credits in this calculation allows a contractor to manipulate the amount of the "minimum required funding" in subsequent cost accounting periods thereby undermining the uniformity and consistency in the pension calculations by influencing the baseline amount used for determining mandatory prepayment credits from voluntary prepayment credits. Third, we are concerned that the approach of the ANPRM could incentivize contractors to avoid generating ERISA pre-funding credits, which may have potential risks for the financial capability of

contractors in performing on Government contracts. Pre-funding ERISA credits should be available without negative CAS cost recovery implications as it provides a funding flexibility for contractors against the unpredictability and volatility of the market on the asset measurement date (when funding requirements are calculated). For example, given the current environment in 2008 of the investment market where asset values have unexpectedly plummeted in a short period of time and significant recovery is unlikely by the pension asset measurement dates, it may be desirable for a contractor to have an ERISA pre-funding credit from which to mitigate the immediate cash flow necessary to meet ERISA funding requirements. In such circumstances as currently exist in the investment and credit markets, a contractor without an ERISA pre-funding credit may be at risk of inadequate cash flow to meet ERISA funding requirements as well as business operational needs to perform on contracts without disruption. We note that in the supplemental information with the ANPRM, the CAS Board includes in their Harmonization Goals on page 7, "Permit reasonable surplus assets and voluntary prepayments as a "stability reserve". We recommend that ERISA pre-funding credits not be considered in the calculation of the minimum required funding and revise the second sentence in CAS 412-30(a)(18) to read, "The contribution amount shall not be reduced by any ERISA pre-funding credits (e.g. credit balances, carry-over balances, prefunding balances)." In addition to the illustration that demonstrates the unintended consequences of inequitable and inconsistent cost treatment for contractors with the same funding requirements but different funding patterns, we have included a second illustration in the attachment that demonstrates the equitable and consistent treatment that results from our two revisions regarding ERISA credits to CAS 412-30(a)(18) and CAS 412-50(a)(4)(ii)(E) (New subsection).

27. **CAS 412-50(a)(4)(ii)(E) (New subsection)** Based on our review of the ANPRM, there is inconsistent cost treatment of contractors with the same total contributions required and paid over the same period of time, depending on the pattern of contributions (i.e. earlier funding vs. later funding) and when the ERISA credits are applied to satisfy the PPA minimum funding required. This result is shown by comparing the contractors' cost treatments in Illustration 1 within this attachment. We believe that preferential cost recovery contingent on a specific funding pattern is an inequitable and unintended consequence of the existing language in the ANPRM. These unintended consequences are, in part, due to the lack of a mechanism for accounting for voluntary prepayments that are subsequently used to fund minimum required contributions. When cash outlays originally classified as voluntary prepayments are used to satisfy the minimum required funding, those cash outlays are no longer discretionary but are required. Accordingly, we recommend a mechanism be added to the rule to account for such conversions from voluntary prepayments to mandatory prepayments. This concept is analogous to when ERISA credits are applied to fund the minimum required contribution for PPA; those amounts contributed have been converted from discretionary funding to required (mandatory) funding. We note that a conversion mechanism already exists for voluntary prepayments used to fund

pension costs, so such a concept is not new to CAS. We recommend adding a new subsection CAS 412-50(a)(4)(ii)(E) that reads, "The value of the voluntary prepayment account shall be reduced for portions of the accumulated value of voluntary prepayment credits used to fund the minimum required funding as determined by the application of ERISA credits to fund the minimum required funding during the period. The value by which the voluntary prepayment account is reduced shall be added to the mandatory prepayment account and accounted for in accordance with 9904.412-50(a)(4)(i)." In addition to the illustration that demonstrates the unintended consequences of inequitable and inconsistent cost treatment for contractors with the same funding requirements but different funding patterns, we have included Illustration 2 in the attachment that demonstrates the equitable and consistent treatment that results from our two revisions regarding ERISA credits to CAS 412-30(a)(18) and CAS 412-50(a)(4)(ii)(E) (New subsection).

28. **CAS 413-40(c)** We understand this subsection provides for a test requiring certain distributions to segments when the sum of the pension costs assignable to segments exceeds the sum of (1) the maximum tax-deductible amount for the plan as a whole plus (2) the balance in the mandatory prepayment account for the plan as a whole plus (3) the balance in the voluntary prepayment account for the plan as a whole. This is consistent with the requirement in the last sentence of CAS 412-50(c)(2)(iii) which applies this test at the plan level not the segment level. We understand that if the assignable pension costs are not in excess of the sum of these amounts (i.e. the condition being tested for does not exist), the distribution to the segments is of the assignable pension cost as computed. However, if the assignable pension costs are in excess of the sum of these amounts (i.e. the condition is met), then instead of the assignable pension cost as computed, the amount of pension costs that is distributed to segments is limited to the maximum tax-deductible amount plus the prepayment accounts. As CAS413-40(c) currently reads, it seems to require distribution of the prepayment accounts regardless of whether the condition is met with the resulting apportioned prepayment accounts possibly remaining at the segment level going forward. For clarity, we recommend revising the last sentence in CAS 413-40(c) to read, "In addition, for purposes of 9904.412-50(c)(2)(iii), the sum of pension cost amounts assignable and apportioned to a segment or segments shall not exceed the sum of (i) the maximum tax-deductible amount computed for the plan as a whole plus (ii) the value of the mandatory prepayment account for the plan as a whole and (iii) the value of the voluntary prepayment account for the plan as a whole."

29. **CAS 413-50(c)(1)** Related to our concern about clarity in CAS 413-40(c), CAS 413-50(c)(1) provides the requirements contractors must follow when the condition tested for in CAS 413-40(c) exists (i.e. that assignable pension costs exceed the sum of the maximum tax-deductible amount plus mandatory prepayments plus voluntary prepayments). The last sentence in this subsection reads, "If pension costs are separately calculated for one of more segments, the contractor shall make a distribution among the segments for the maximum tax-

deductible amount, the accumulated value of voluntary and mandatory prepayment credits and the contribution to the funding agency as follows:..." Again, this provision seems to require a distribution to segments regardless of whether the condition tested for actually exists. However, as we understand the ANPRM, the distribution described is only required when the condition tested for is met. Accordingly, for clarity, we recommend revising the last sentence in CAS 413-50(c) to read, "If pension costs are separately calculated for one or more segments the contractor shall make a distribution among the segments as follows:..." In addition, we recommend adding as the first sentence of CAS 413-50(c)(1)(i) the following, "When the computed amount of pension cost assignable to the current period exceeds the sum of the maximum tax-deductible amount plus the value of prepayment credits, as described in 9904.413-40(c), instead of distributing the computed pension cost, the amount distributed is limited to the sum of the maximum tax-deductible amount plus the value of the mandatory prepayment account and the voluntary prepayment account."

30. **CAS 412-64.1** We understand the purpose of the transition rules is to provide for a gradual recognition of the higher amount of pension costs anticipated to be assignable as a result of this new rule, with full cost recovery under the new rule over time. Although this approach delays the cost recovery for contractors subject to the immediate funding requirements of PPA, we recognize the transition rules to be a generally acceptable solution that balances the full recovery of these costs by contractors over a reasonable future period without adding a material burden for congressional appropriations during a period of challenging economic conditions. However, if a segment closing occurs during the transition period, there is no future period during which to recover the segment's remaining costs, so we recommend that for segment closings that occur during the transition period, the segment closing adjustments should be calculated fully under the new rules rather than under the transition provisions. Accordingly, we recommend the first sentence in CAS 412-64.1 be revised to exclude segment closing adjustments to read, "Contractors that were subject to this Standard prior to [Insert Date published in the Federal Register] shall recognize the change in cost accounting method due to this amendment over the initial five-years of applicability, determined in accordance with 9904.412-63(c), as follows, except with regard to segment closing calculations pursuant to 9904.413-50(c)(12) to which these transition rules are not applicable."

31. **CAS 413-64.1** We understand the purpose of the transition rules is to provide for a gradual recognition of the higher amount of pension costs anticipated to be assignable as a result of this new rule, with full cost recovery under the new rule over time. Although this approach delays the cost recovery for contractors subject to the immediate funding requirements of PPA, we recognize the transition rules to be a generally acceptable solution that balances the full recovery of these costs by contractors over a reasonable future period without adding a material burden for congressional appropriations during a period of challenging economic conditions. However, if a segment closing occurs during the transition period, there is no future period during which to recover the

segment's remaining costs. Accordingly, we recommend that for segment closings that occur during the transition period, the segment closing adjustments should be calculated fully under the new rules rather than under the transition provisions. Accordingly, we recommend the first sentence in CAS 413-64.1 be revised to exclude segment closing adjustments to read, "Contractors that were subject to this Standard prior to [Insert Date published in the Federal Register] shall recognize the change in contract costs due to this amendment over a period of five years as follows, except with regard to segment closing calculations pursuant to 9904.413-50(c)(12) to which these transition rules are not applicable."

32. **CAS 412-40(b)(3)(ii)** This subsection requires an interest rate assumption be made for calculating the minimum actuarial liability (MAL) and the minimum normal cost (MNC). This rate is described in the ANPRM as "the contractors' best estimate of rates at which the pension benefits could effectively be settled based on the rates of return on high-quality fixed-income investments of similar duration to the pension benefits." While we believe that providing flexibility in the rule so contractors can use a rate appropriate for their own circumstances is desirable to achieve a meaningful measure of the resulting pension cost, we believe the proposed language should have clearer criteria for contractors in determining this rate. In addition, we understand that the basis chosen for the rate used (e.g. the PPA funding target interest rate) is a one time election of a cost accounting practice that must be consistently followed in future years, but this is not clear in the rule as written. We note that such language is found in CAS 412-50(a)(3). We believe language should be added to this rule to minimize the exposure for disagreements in interpretation. We recommend inserting two new sentences after the first sentence in CAS 412-40(b)(3)(ii) to read, "Acceptable interest rates selected by the contractor are those used for the PPA funding target, FASB 87 discount rate, long term bond rate, or another such reasonable measure. A contractor shall select and consistently follow a policy for the source of the interest rate used for the calculation of the minimum actuarial liability and minimum normal cost."

33. **CAS 412-63(c)** The ANPRM is unclear as to the prospective applicability of the final rule is to new CAS covered contracts or those in existence prior to the applicability date. Lack of clarity could result in contractors mistakenly keeping duplicate pension costs under the old and new CAS rules and attempts to match the proper rates dependent upon contracts dated before or after the final rule applicability. Such a misguided implementation of the rules could be a cost accounting disaster. Accordingly, we recommend revising CAS 412-63(c) to read, "Contractors with prior CAS-covered contracts with full coverage shall continue to follow the Standard 9904.412 in effect prior to [Date published in the Federal Register], 2009, until this Standard, effective [Date published in the Federal Register], 2009, becomes applicable prospectively to all CAS covered contracts and subcontracts following receipt of a contract or subcontract to which this Standard applies."

34. **CAS 413-63(c)** The ANPRM is unclear as to the prospective applicability of the final rule is to new CAS covered contracts or those in existence prior to the applicability date. Lack of clarity could result in contractors mistakenly keeping duplicate pension costs under the old and new CAS rules and attempts to match the proper rates dependent upon contracts dated before or after the final rule applicability. Such a misguided implementation of the rules could be a cost accounting disaster. Accordingly, we recommend revising CAS 413-63(c) to read, "Contractors with prior CAS-covered contracts with full coverage shall continue to follow the Standard 9904.413 in effect prior to [Date published in the Federal Register], 2009, until this Standard, effective [Date published in the Federal Register], 2009, becomes applicable prospectively to all CAS covered contracts and subcontracts following receipt of a contract or subcontract to which this Standard applies"

Illustration 1: ANPRM treatment dependent on contractor funding patterns

ANPRM Treatment of contractors with different funding patterns	Contractor 1 Early Funding	Contractor 2 Med Fund Early ERISA Cr use	Contractor 3 Med Fund Later ERISA Cr use	Contractor 4 Later Funding
Year 1 PPA Min Req Fund $100 (before ERISA Cr)	Contributes $600 ERISA Cr $0 Man PP $100 Vol PP $500	Contributes $300 ERISA Cr $0 Man PP $100 Vol PP $200	Contributes $300 ERISA Cr $0 Man PP $100 Vol PP $200	Contributes $100 ERISA Cr $0 Man PP $100 Vol PP $0
Year 2 PPA Min Req Fund $200 (before ERISA Cr)	Contributes $0 ERISA Cr $500 $200 applied to fund Man PP $100 Vol PP $500	Contributes $200 ERISA Cr $200 None applied to fund Man PP $100 Vol PP $200+200=400	Contributes $0 ERISA Cr $200 $200 applied to fund Man PP $100 Vol PP $200	Contributes $200 ERISA Cr $0 Man PP $100+200=300 Vol PP $0
Year 3 PPA Min Req Fund $300 (before ERISA Cr)	Contributes $0 ERISA Cr $300 $300 applied to fund Man PP $100 Vol PP $500	Contributes $100 ERISA Cr $200 $200 applied to fund Man PP $100+100=200 Vol $400	Contributes $300 ERISA Cr $0 Man PP $100+300=400 Vol PP $200	Contributes $300 ERISA Cr $0 Man PP $300+300=600 Vol PP $0
Total PPA Min Req $600 (excluding ERISA CR) for all contractors All contractors contributed $600 All contractors end Year 3 with ERISA Cr of $0	Contractor who funds early has almost all contributions classified as voluntary prepayments	Contractor who contributes additional funds rather than immediately applying ERISA Cr has more contributions classified as voluntary	Contractor who applies ERISA Cr immediately has more contributions classified as mandatory	Contractor who limits contributions to PPA min has all classified as mandatory prepayments with recovery within 5 years and no voluntary prepayments

Note: CAS Pension costs assumed to be zero each year. The amortization calculations for the mandatory prepayment credits are ignored for simplicity of the illustration. Interest/return on prepayment credits has been similarly ignored.

Illustration 2: Proposed CAS treatment providing for consistent cost recovery for different contractor funding patterns

Treatment of contractors with different funding patterns under recommended revisions	Contractor 1 Early Funding	Contractor 2 Med Fund Early ERISA Cr use	Contractor 3 Med Fund Later ERISA Cr use	Contractor 4 Later Funding
Year 1 PPA Min Req Fund $100	Contributes $600 ERISA Cr $0 Man PP $100 Vol PP $500	Contributes $300 ERISA Cr $0 Man PP $100 Vol PP $200	Contributes $300 ERISA Cr $0 Man PP $100 Vol PP $200	Contributes $100 ERISA Cr $0 Man PP $100 Vol PP $0
Year 2 PPA Min Req Fund $200	Contributes $0 ERISA Cr $500 $200 of 500 applied to fund Man PP $100+200=300 Vol PP $500-200=300	Contributes $200 ERISA Cr $200 None applied to fund Man PP $100+200=300 Vol PP $200	Contributes $0 ERISA Cr $200 $200 applied to fund Man PP $100+200=300 Vol PP $200-200=0	Contributes $200 ERISA Cr $0 Man PP $100+200=300 Vol PP $0
Year 3 PPA Min Req Fund $300	Contributes $0 ERISA Cr $300 $300 applied to fund Man PP $300+300=600 Vol PP $300-300=0	Contributes $100 ERISA Cr $200 $200 applied to fund Man PP $300+100+200=600 Vol $200-200=0	Contributes $300 ERISA Cr $0 Man PP $300+300=600 Vol PP $0	Contributes $300 ERISA Cr $0 Man PP $300+300=600 Vol PP $0
Total PPA Min Req $600 (excluding ERISA CR) for all contractors All contractors contributed $600 All contractors end Year 3 with ERISA Cr of $0				

Note: CAS Pension costs assumed to be zero each year. The amortization calculations for the mandatory prepayment credits are ignored for simplicity of the illustration. Interest/return on prepayment credits has been similarly ignored.

Illustration 3: Industry Data Survey (Facilitated by Watson Wyatt)

For purposes of this survey, the following were assumed:

- The new CAS rules will be effective in the 2010 fiscal year. The choice of 2010 is merely for illustrative purposes and should not be construed as indicative of the preferred effective date of the survey respondents.
- The ANPRM defines a new concept, the Mandatory Prepayment Credit (MPC). For purposes of this survey, the MPC balance at transition was measured as the excess, if any, of the CAS Prepayment Credit over the ERISA Credit Balance (including both carryover and prefunding balances) as of the assumed effective date of the new CAS rules.

Information about the survey participants and their plans:

1. Number of government contractors: 13 companies

2. Range of approximate dollar value of contract awards: $0.5 billion to well over $5 billion (that is, this survey includes both PPA Section 106 "eligible" and ineligible contractors)

3. Number of defined benefit plans: 31 plans

Of the top 100 Government contractors, most do not have defined benefit pension plans. We believe participation of 13 contractors, 11 that are in the top 100, substantial enough from which to support modeling conclusions.

Harmonized values:

4. Total CAS Accrued Liability in 2010, at long-term interest rate: $149.8 billion

5. Total Normal Cost in 2010, at long-term interest rate: $2.6 billion

6. Number of plans with Minimum Actuarial Liability>Actuarial Accrued Liability: 25 plans, i.e., 81% of all plans

7. Number of plans with Minimum Normal Cost>Normal Cost: 30 plans, i.e., 97% of all plans

The data shows that in the current economic environment, the MAL measurement generally exceeds the AAL and the MNC generally exceeds the NC, as we would expect and believe the ANPRM intended. Based on the new provision in the ANPRM to use the greater of the AAL or MAL, the rule does generally allow greater pension cost recovery.

Harmonization Trigger:

8. Number of plans where MAL<AAL: 6 plans, i.e., 19% of all plans

9. Number of plans where MNC>NC: 6 plans, i.e., 19% of all plans

10. Number of plans where (MAL+MNC)<(AAL+NC): 3 plans, i.e., 10% of all plans

In the current economic environment, we believe the goal of the new harmonization rule would expect pension costs to rely on the MAL (i.e. MAL and MNC are greater than the AAL, NC). However, we found that using comparisons between liabilities and normal costs separately, as currently provided for in the ANPRM, yields a rate of harmonization success of about 80%. Our recommended revision to consider both the liability and normal cost combined in a single comparison increases the success rate of harmonization to 90%.

Assignable Cost Limitation (ACL):

11. Highest ratio of MAL to AL: 125.4%

12. Number of plans where [100%x(MAL+MNC)]>[125%x(AAL+NC)]: None

The new provision for the ACL in the ANPRM is not triggered for the plans in the survey, however the data does indicate that some are close to this limit. We note that incorporating our recommendations to the calculation of the ACL would have no impact in triggering the limitation cap at this time.

Mandatory Prepayment Credit (MPC) Balance at Transition:

13. Number of plans with an MPC balance at transition: 6 plans, i.e., 19% of all plans

14. Amortization of total MPC balance at transition in 2010 and 2021, as % of total 2010 NC for all plans: 1%

15. Amortization of total MPC balance at transition for 2014-2018, as % of NC for all plans: 12%

Several plans expect to have mandatory prepayment credits at the transition. As a result of the phased in transition rules for amortizing these credits, they are minimally recognized in relation to normal cost in the earlier and later years (2010 and 2021), with the majority of the amortization of multiple layers during 2014-2018. The transition rules mitigate the impact of the amortization of these credits.