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Raytheon

Raytheon Company
Corporate Government Accounting
870 Winter Street
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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:

Raytheon Company wishes to thank the Cost Accounting Standards Board (CASB) for inviting comments from interested parties relating to the Advance Notice of Proposed Rulemaking (ANPRM) for the harmonization of the Pension Protection Act (PPA) of 2006 with Cost Accounting Standards (CAS) 412 and 413. Raytheon Company, with 2007 sales of $21.3 Billion, employs approximately 72,000 people worldwide, the majority of whom are covered by defined benefit pension plans.

Raytheon Company has contributed to the joint Aerospace Industry Association/National Defense Industry Association (AIA/NDIA) industry comment letter and supports the ideas and commentary forwarded for the board's consideration in that communication.

There are items included in the industry letter that Raytheon would like to call for particular attention by the board in crafting the revised rules. First, our comments regard the Interest Rate used for the Minimum Actuarial Liability (MAL) and Minimum Normal Cost (MNC). 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 MAL and MNC 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 adopt the industry recommendation of 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."

Second, we support the industry suggested solution for the CAS Board 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. If the final CAS rule is published late in 2009 with an immediate effective date, our Company would be required by law to begin funding under PPA requirements in 2010 but would almost certainly have delayed cost recovery until 2011. Therefore, if publication of the final rule occurs in the fourth quarter of 2009, we encourage the CAS Board to recognize the dilemma for eligible contractors such as Raytheon Company and address this concern. We believe the PPA funding requirement of Section 106 needs to coincide with the CAS harmonized rules for eligible contractors. Our understanding is that this delay in the effective date would not preclude contractors from pricing under the new CAS rules for 2011 forward as we do anticipate receiving a new CAS covered contracts and subcontracts during 2010.

Finally, Raytheon Company supports the two suggested revisions by the AIA/NDIA letter relating to the treatment of ERISA pre-funding credits and their CAS kin, voluntary prepayment credits. As part of the industry group data modeling it was discovered that as currently written, the ANPRM results in inequitable and inconsistent cost treatment for contractors with the same funding requirements but different funding patterns. The AIA/NDIA suggested revisions will result in a more equitable and consistent cost treatment.

Sincerely,

John G. Panetta

John G. Panetta, Director
Corporate Government Accounting

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