#04 Watson-Wyatt
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Sent via e-mail to casb2@omb.eop.gov

Cost Accounting Standards Board
Attention: Raymond Wong
Office of Federal Procurement Policy
725 17th Street, NW, Room 9013
Washington, DC 20503

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

We have prepared this letter in response to the request for public comments by the Cost Accounting Standards Board ("the Board") as posted in the *Federal Register* on September 2, 2008.[1] We appreciate the opportunity to provide comments to the Board as it reviews and revises the current Cost Accounting Standards ("CAS") 412 and 413 to develop the CAS Pension Harmonization Rule required under the Pension Protection Act of 2006 ("PPA").

Watson Wyatt Worldwide is a global human capital and financial management consulting firm specializing in employee benefits, human capital strategies and technology solutions. Founded in 1878 as an actuarial consulting firm, Watson Wyatt combines human capital and financial expertise to deliver business solutions that drive shareholder value. Watson Wyatt has more than 7,000 associates in 32 countries with corporate offices in Arlington, Virginia and Reigate, England. We consult for a number of organizations that are subject to CAS and the Federal Acquisition Regulations ("FAR").

The PPA was enacted, in part, as a response to the failure of companies with severely underfunded qualified defined benefit pension plans ("pension plans"), even though companies had typically contributed at least the minimum amount required under the Internal Revenue Service ("IRS") rules. PPA was designed to ensure that corporations would fund towards liabilities measured on more of a settlement basis over a 7-year period, so that plans would be less likely to be severely underfunded.

Contractors expect to be required (or are already required) to accelerate contributions to their pension plans under the PPA. Without any changes in the CAS rules, contractors expect to accumulate significant prepayment credits (i.e., cash contribution requirements in excess of CAS assignable costs), which some worry could negatively impact the overall health of their organizations and their sponsorship of pension plans.

[1] Federal Register: September 2, 2008 (Volume 73, Number 170), pp. 51261-51263.

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The proposed rules in the Advance Notice of Proposed Rulemaking ("ANPRM") represent a significant step to lessen the difference between the contributions required by the IRS under the PPA and the costs assignable under CAS. Additional detail would be helpful to implement the proposed rules. In this letter, we provide comments on the provisions that would benefit from additional clarification, as well as offer suggestions that may better achieve the Board's goals for this project as stated in the ANPRM. Such goals include minimizing the changes to CAS 412 and 413, reconciling PPA minimum required contributions with contract cost recognition over a reasonable time period, mitigating volatility and avoiding complexity to the degree possible.

MINIMUM ACTUARIAL LIABILITY: INTEREST RATE BASIS FOR DETERMINATION

According to the proposed CAS 412-40(b)(3)(ii), the interest assumption that is used to determine the Minimum Actuarial Liability ("MAL") shall "reflect the contractor's 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 durations to the pension benefits." This provision will help align CAS 412 and 413 with the two other major sets of rules and standards that affect pension funding, i.e., the Financial Accounting Standards ("FAS") and the PPA funding rules.

The only consequential difference between the ANPRM definition and the determination of the discount rate under FAS, is that Paragraph 31 of FAS 106 indicates that the discount rates are to be determined based on "rates of return on high-quality fixed-income investments ***currently*** available whose cash flows match the timing and amount of expected benefit payments" (emphasis added). Thus, FAS is explicit about when the discount rate determination is to be made, whereas the ANPRM definition is silent about the date the settlement is to be made.

History shows that the FAS discount rate leads to volatile pension expense as the discount rate changes from one measurement date to the next. Exhibit A provides a monthly history of the Citigroup Pension Liability Index from January 31, 1985 through September 30, 2008. The Citigroup Pension Liability Index is a good proxy for the FAS discount rate. To illustrate how dramatically the index can change over a 12-month period, note that between May 31, 2002 and May 31, 2003, the Index dropped by 172 basis points. Using general actuarial rules of thumb, this drop would translate to a 22% increase in liability and a 41% increase in normal cost.

The interest assumption used for liabilities for determining minimum funding requirements under the PPA is based on high-quality corporate bonds, but PPA allows the plan sponsor the option to use a 24-month average of rates vs. a one month average.

Even with the ability for plan sponsors to use a 24-month average of interest rates, a common concern with PPA valuation interest rates is how volatile the funding requirements could become, because the PPA valuation interest rate would also change

from one valuation date to another. As PPA funding requirements only became effective beginning this year, it remains to be seen how volatile the PPA funding requirements would be because of the PPA valuation interest rate.

Recommendation: Given that contractors will need to balance volatility concerns with concerns to harmonize CAS assignable costs with PPA funding requirements, we believe it is appropriate that the proposed CAS 412-40(b)(3)(ii) provides leeway for contractors to use alternative methods to determine the interest assumption. It will be helpful to allow contractors to take into account the PPA basis and/or the FAS basis for setting the MAL interest assumption and, if necessary, add a constraint to mitigate the volatility that would be caused by an otherwise annually changing interest rate.

For example, a contractor may set an initial MAL interest rate that is the effective PPA rate at the time of transition. Let us assume that the contractor sets the initial rate to be 6.25%. As part of their policy, they may maintain this rate as long as the effective PPA valuation interest rate at future valuation dates remains within 50 basis points of this initial rate, i.e., as long as the effective PPA valuation interest rate falls within the range 5.75% to 6.75%. If the effective PPA valuation interest rate falls below 5.75% for two consecutive valuation dates (or above 6.75% for two consecutive valuation dates), part of this contractor's policy would be to revisit and reset the 6.25% MAL interest rate to a new rate.

A contractor who is less concerned about volatility --- i.e., their plan liabilities are relatively less sensitive to changes in discount rates because of their plan design and/or the demographics of their plan participants --- may simply decide to adopt a policy of setting the MAL interest rate to the effective PPA valuation interest rate (or some function of the PPA valuation interest rate) to harmonize CAS assignable costs with PPA funding costs as much as possible.

These examples for setting the MAL interest rate illustrate only two possible methods that contractors can use. Each contractor will have a different issue that is most important for them to deal with, and we anticipate each will choose a MAL interest rate policy that will best address their particular issue.

MINIMUM ACTUARIAL LIABILITY: ADDITIONAL COMPLEXITY AND REDUCED PREDICTABILITY

While the ability to have contractors determine their CAS assignable costs based on liabilities reflecting the yields on high-quality corporate bonds is a significant relief for the negative cashflow issue faced by government contractors, the process for introducing the MAL into the development of the CAS Assignable Costs will result in additional complexity in the calculations.

The ANPRM sets the Actuarial Accrued Liability (AAL) to the larger of

(a) the regular AAL using the long-term interest assumption, and
(b) the MAL.

If the MAL is larger than the regular AAL, the Normal Cost (NC) is adjusted to be equal to the Normal Cost determined on the same basis as the MAL, including the underlying interest rate assumption. If the regular AAL is larger than the MAL, the Normal Cost is not adjusted, even if the MAL Normal Cost (MNC) is larger than the regular NC.

In a survey of 13 government contractors that collectively sponsor 31 pension plans (see Attachment I), we have found that 6 plans, i.e., 19%, have MALs that are less than the regular AALs, though the MNCs are greater than the regular NCs. Under the ANPRM, these plans will not be harmonized in the sense that neither the MNC nor the MAL would be reflected in the CAS cost calculations.

Other complexities that will result from using the MAL in the development of CAS assignable costs include the following:

- Should changes in the liability due to the application of MAL from one year to the next, and the non-application of the MAL from one year to the next, be established as part of the gain/loss amortization base?
- If the MAL applies, should amortization charges reflect the long-term interest rate or the MAL interest rate?
- If the MAL applies and the plan is setting up an amortization base for either a plan change or an assumption change, should the amortization base be set up reflecting liabilities on the same basis as the MAL or on the same basis as the regular AAL?

Furthermore, there will be additional volatility under the ANPRM, and thus reduced predictability of costs, due to switching the AAL and NC between the MAL/MNC and regular AAL/NC particularly with a MAL interest rate that changes frequently. There will be situations where the MAL and the regular AAL are about equal while the MNC and the regular NC are very different[2]. As the MAL and the regular AAL take turn in being the greater value, the CAS assignable cost could be changing significantly from one year to the next given the difference in the MNC and regular NC.

***Recommendation**:* Instead of applying minimums to the liabilities and normal costs used in the calculation of the CAS assignable cost, we present the following alternative (which we shall refer to as the "Minimum CAS Cost" alternative) for consideration and further study. We believe this alternative addresses the Board's goals of minimizing changes to

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[2] We are aware of actual pension plans with MALs that are within 5% of the ALs but with MNCs that are double the NCs.

CAS 412 and 413 and avoiding complexity as much as possible, while addressing the difference between CAS assignable costs and PPA minimum required contributions.

We believe this alternative will lead to less volatile CAS assignable costs compared to the ANPRM. In Attachment II, we compare results under this approach and under the ANPRM for a hypothetical sample. We recommend further study of this approach.

Under this alternative, the CAS assignable cost will be the greater of (a) and (b) below:

(a) the Regular CAS Cost, which is the CAS cost determined without regard to the CAS Harmonization Rule (i.e., as determined under the current CAS 412 but with a 10-year amortization of gains/losses as proposed under the ANPRM),

(b) the Minimum CAS Cost which is equal to
   (i) the Minimum Normal Cost; plus
   (ii) a 10-year amortization of the unfunded MAL at transition; plus
   (iii) a 10-year amortization of each year's increase or decrease in the unamortized unfunded MAL,

where the unfunded MAL is equal to the difference between the Minimum Actuarial Liability and the CAS assets net of prepayment credits.

Thus, under this alternative, we impose a "minimum CAS cost" (i.e., item b above) instead of minimum liabilities and normal costs. This will avoid the dramatic changes in CAS assignable costs that occur due to the switching between the regular AAL/NC and MAL/MNC.

Under this alternative, a Reconciliation Account will need to be established. This Reconciliation Account will track the differences between the Minimum CAS Costs (when they apply) and the Regular CAS Costs. This Reconciliation Account will need to be combined with the Unfunded Actuarial Liability in determining the amortization gain/loss base for each year.

If this account is not established, the add-on CAS assignable cost that results from the application of the Minimum CAS Cost will lead to an actuarial gain that will then be amortized in the succeeding 10 years. In other words, the additional CAS cost in the current year will be counteracted by reductions in CAS assignable costs (through amortization of gains) in following years.

We believe a similar Reconciliation Account would also be necessary under the ANPRM to avoid a similar problem for periods when a Mandatory Prepayment Credit Charge is part of the CAS assignable cost for a plan.

MINIMUM ACCRUED LIABILITY: SEGMENT ACCOUNTING

The ANPRM is not clear regarding the comparison of the regular AAL and MAL under segment accounting: should the comparison be done at a plan level or for each segment individually?

It would be helpful if the final rule is explicit regarding how the MAL should be applied in segment accounting. Otherwise, two contractors might apply the rules differently.

Recommendation: Setting aside the "minimum CAS cost" alternative we presented above, if minimums are applied to liabilities and normal costs, we would recommend that such minimums be applied at the segment level.

If the MAL is applied at the plan level, the final rule would need to specify how the excess of the MAL over the regular AAL and the excess of the MNC over the regular NC would be allocated to each segment. As this could lead to additional complexity, we recommend that comparisons be done at the segment level instead.

Note that under our "minimum CAS cost" alternative, we would recommend that minimum CAS costs be applied at the segment level as well.

MINIMUM ACCRUED LIABILITY: CAS ASSIGNABLE COST HIGHER THAN PPA FUNDING REQUIREMENT

There can be situations where the CAS assignable cost developed without regard to the MAL would be larger than the PPA funding requirement. Regardless of this situation, under the ANPRM, if the MAL is higher than the regular AAL, the liabilities and normal costs will be adjusted to reflect the MAL and the MNC. This adjustment will result in even higher CAS assignable costs.

If the intent of the CAS Harmonization Rule is to adjust the CAS assignable costs so that the *excess* of the PPA funding requirements over the CAS assignable costs are recovered on a timely basis, increasing the regular AAL to the MAL when the CAS cost is already greater than the PPA funding requirement for a given year may not be necessary, particularly if there are no existing prepayment credits.

Recommendation: We recommend that, if no prepayment credits exist and the CAS cost determined without regard to the MAL and the MNC already exceeds the PPA minimum funding requirement, then the CAS cost should not be adjusted to reflect the MAL and the MNC.

PREPAYMENT CREDITS: SPLIT OF MANDATORY AND VOLUNTARY PREPAYMENT CREDITS AT TRANSITION

The proposed CAS 412-64.1(c)(2) indicates that any prepayment credit existing at the transition to the new rules will be deemed to be Voluntary Prepayment Credits (VPC), unless they can be identified as Mandatory Prepayment Credits (MPC).

It may be difficult for contractors to determine the split between the MPC and the VPC at transition, particularly if contributions were made many years ago. The burden will be greatest on contractors who have the longest contractual relationships with the Government. Also, contractors who have undergone merger and acquisition activity will deal with additional complexities.
Without any provision specifying how the determination is to be made, how a contractor decides to develop the MPC at transition is potentially an area for dispute between the contractor and the Government.

Recommendation: We recommend a simplified method in determining the VPC and the MPC at transition. Under our proposed method, the VPC account at transition will be the ERISA Credit Balance. The MPC account at transition will be equal to the difference between the Prepayment Credit (as determined under the current CAS rules) and the ERISA Credit Balance (including both Carryover and Prefunding Balances as defined in PPA).

Note that the ERISA Credit Balance reflects the cumulative excess of discretionary contributions over ERISA minimum required contributions. This is akin to the ANPRM's intent of bucketing into the VPC account the contributions in excess of ERISA minimum required contributions, when the ERISA minimum required contributions exceed the CAS assignable costs.

Any remaining Prepayment Credit not categorized as Voluntary Prepayment Credit should thus be in the MPC account. If the Prepayment Credit at transition exceeds the Credit Balance, then that excess would be representative of the aggregate excess of ERISA minimum required contributions over CAS assignable costs, which this ANPRM intends to bucket into the MPC account.

The primary advantages of our recommended method are as follows:

- All ingredients for determining the VPC and MPC accounts at transition are already known.
- The methodology for determining these prepayment credit accounts at transition will be uniform for all contractors.
- This would prevent disputes between the contractors and the Government at transition.

PREPAYMENT CREDITS: DEVELOPMENT OF ONGOING MANDATORY PREPAYMENT CREDITS

The proposed CAS 412-30(a)(18) defines the "Minimum Required Funding" to be the ERISA minimum required contribution reduced by any available Credit Balance. This Minimum Required Funding amount is used to determine whether there are additions to the MPC account.

This definition leads to an important issue. By reducing the ERISA minimum required contribution by the available Credit Balance, contractors with different funding policies will have different CAS assignable costs. In particular, contractors who contribute more than the minimum funding requirement in some years will have lower CAS assignable costs.

Exhibit B illustrates this issue. Consider two contractors who both have ERISA minimum required contributions, prior to any Credit Balances, equal to $3 million each year and CAS Assignable Costs, without regard to any amortization of mandatory prepayment credits, equal to $2 million each year.

Contractor A has an established funding policy to make a contribution every three years equal to the contribution requirement for the current year and the next two years. In year 1, Contractor A contributes $9 million to the plan to satisfy the minimum funding requirements for years 1, 2 and 3. This results in Credit Balances at the beginning of years 2 and 3.

Contractor B's established funding policy is to make the minimum required contribution each year. As a result, Contractor B contributes $3 million to the plan in each of years 1, 2 and 3. Contractor B's plan does not develop an ERISA Credit Balance in the three-year period under consideration.

Under Contractor A's plan, an MPC of $1 million is created in year 1. No MPCs are created in years 2 and 3. On the other hand, under Contractor B's plan, MPCs of $1 million are created in each of years 1, 2 and 3.

Because more MPCs are established under Contractor B's plan, Contractor B ends up with total CAS assignable costs of $6.6 million for years 1 through 3. This is $600,000 higher than the total CAS assignable costs for Contractor A for the same period. Thus, solely due to the funding policy, Contractor A ends up with lesser cost recovery during the 3-year period.

We believe that the final rule should be neutral to the contractor's funding policy. It should not penalize contractors that choose to contribute more than the minimum amounts required by the IRS.

Recommendation: We recommend that the proposed CAS 412-30(a)(18) be changed to define the "Minimum Required Funding" to be the ERISA minimum required contribution without reduction by the Credit Balance. To be considered under CAS, this amount must be funded by the contractor with either cash contributions or the application of any available Credit Balance.

Exhibit C illustrates how this alternative definition will lead to the same CAS assignable costs even if funding policies differ.

PREPAYMENT CREDITS: CAS COSTS CONSIDERED IN DETERMINING MANDATORY PREPAYMENT CREDITS

The proposed CAS 412-50(a)(4)(i)(A) states:

> *"The amount of the minimum required funding amount in excess of* ***the assigned pension cost*** *under this Standard shall be accounted for as a mandatory prepayment credit and added to the mandatory prepayment account." (emphasis added)*

It is unclear whether the assigned pension cost in this provision includes the Mandatory Prepayment Charge. We believe the intent is for the Mandatory Prepayment Charge to be *not* included for this purpose.

It will be helpful if the Board clarifies its intent regarding this provision.

PREPAYMENT CREDITS: ALLOCATION TO SEGMENTS

It would be helpful if the new rules clarify whether prepayment credits (Mandatory and Voluntary) should be:

- determined and maintained at the individual segment level; or
- determined and maintained at a plan level, with MPC charges and applied prepayment credits (Mandatory and Voluntary) allocated to individual segments each year, and once allocated to a segment, MPC charges are maintained at that segment; or
- determined and maintained at a plan level, with MPC charges and applied prepayment credits (Mandatory and Voluntary) allocated to individual segments as they are needed

Recommendation: We recommend that the prepayment credits be determined and maintained at a plan level, with MPC charges and applied prepayment credits (Mandatory and Voluntary) allocated to individual segments each year, as they are needed. This is the third option listed above. We recommend the allocation be on a basis that considers the

otherwise assignable pension costs or the funding levels of the individual segments as provided under CAS 413-50(c)(1)(i).

This approach provides the following advantages:

- The annual valuation calculations will be less complex.
- With prepayment credits not tied to segments until they become assignable, there will be less complexity in situations involving business divestitures. Otherwise, a methodology will need to be specified as to how the prepayment credits tied to a segment that is being sold will be reallocated to the remaining segments.
- Since prepayment credits are amounts not yet assigned or allocated to cost objectives, the rules should allow contractors flexibility in recovering such prepayment credits. This approach provides this flexibility.

ASSIGNABLE COST LIMITATION: NEW 125% LIMIT

Section 9904.412-30(a)(9) defines the Assignable Cost Limitation (ACL) to be "the excess, if any, of 125 percent of the actuarial accrued liability, without regard to the minimum actuarial liability, plus the current normal cost over the actuarial value of the assets of the pension plan."

It is unclear whether the 125 percent factor applies only to the AL, or to the Normal Cost and Actuarial Value of Asset as well. In other words, it would be helpful if clarification is provided regarding which of the following the ANPRM intends to be the ACL definition:

(a) 125% x AL, plus NC minus Assets
(b) 125% x (AL plus NC), minus Assets
(c) 125% x (AL plus NC minus Assets)

We believe (b) above is appropriate. The new ACL definition – which reflects the 125% factor – would allow for sufficient surplus assets that would make CAS assignable costs less volatile compared to the current definition.

However, since the determination of the CAS assignable costs take the MAL and MNC into account, we believe that the ACL needs to also take these minimums into account. Thus, we recommend the definition below.

Recommendation: We recommend that Section 9904.412-30(a)(9) be re-written as follows:

"Assignable cost limitation means the greater of (i) and (ii):

(i) equals (A) plus (B) minus (C)
- (A) 125% of the actuarial accrued liability, without regard to the minimum actuarial liability
- (B) 125% of the normal cost, without regard to the minimum normal cost
- (C) actuarial value of the assets of the pension plan

(ii) equals (A) plus (B) minus (C)
- (A) the minimum actuarial liability
- (B) the minimum normal cost
- (C) actuarial value of the assets of the pension plan

INTEREST RATE ASSUMPTION: AMORTIZATION SCHEDULES

We believe the final rules need to clarify whether the long-term interest rate assumption is to be used to develop all amortization payments, regardless of whether the MAL is higher than the AAL.

Recommendation: We recommend the use of the long-term interest rate assumption in developing all amortization payments. This will simplify the calculations compared to an alternative that would reflect the long-term interest rate assumption in some situations and the MAL interest rate in other situations.

INTEREST RATE ASSUMPTION: VOLUNTARY PREPAYMENT CREDITS

The proposed CAS 412-50(a)(ii)(B) states that "the value of the voluntary prepayment account shall be adjusted for interest at the actual investment return rate…." To avoid possible conflicts, the regulations should more clearly describe how the "actual investment return rate" is to be determined and whether that rate should apply to contributions that generate voluntary prepayment credits during the plan year.

One possible rewording of the proposed CAS 412-50(a)(ii)(B) is as follows:

> "The value of the voluntary prepayment account as of the beginning of a plan year that is not used to satisfy the CAS Assignable Cost during the plan year shall be adjusted for interest at the actual investment rate of return to the end of the year. The value of the voluntary prepayment account as of the beginning of a plan year that is used to satisfy the CAS Assignable Cost during the plan year shall be adjusted for interest to the date it is applied towards funding the CAS Assignable Cost. Any addition to the voluntary prepayment account shall be adjusted with interest from the date the contribution was made (that led to the voluntary prepayment credit) to the end of the year at the actual investment rate of return. The actual investment rate of return shall be determined based on the investment earnings on the market value of

assets for the entire plan adjusted by benefit payments and contributions (adjusted for timing)."

TRANSITION RULES: SEGMENT CLOSING

The proposed CAS 413-50(c)(12)(i) indicates that the liability used in the determination of a segment closing adjustment shall not be less than the minimum actuarial liability. In addition, the proposed CAS 413-64.1(c) indicates that the minimum actuarial liability is subject to a 5-year phase-in.

Recommendation: We recommend that a segment closing adjustment be determined without regard to the 5-year phase-in. Without this change, a segment closing adjustment can be significantly affected by the exact timing of the event. All other things being equal, other than the timing of the event (i.e., within the 5-year phase-in period versus beyond this period), the ANPRM rules will result in different segment closing adjustments.

The transition rules were put in place to "allow time for agency budgets to manage the possible increase in contract costs and to mitigate the impact on existing non-CAS covered contracts." Since the segment closing adjustment represents a one-time event to "true up" CAS assets, it would be unreasonable to subject it to the transition rules and never "true up" the assets to the liability that would have been determined had the event occurred at a later date.

TRANSITION RULES: MANDATORY PREPAYMENT CREDITS

The proposed CAS 412-64.1(c)(1) defines a method that phases in the additional CAS costs that will result from recognizing the existing MPC account at transition. The MPC account at transition is effectively divided into five pieces, with each piece amortized beginning in years 1, 2, 3, 4 and 5 based on 12, 10, 8, 6, and 5-year amortization periods, respectively. Under this method, the entire MPC account at transition will be fully amortized over 12 years.

In Exhibit D, we illustrate MPC charges for a $5 million MPC account at transition under the proposed ANPRM provisions. Note that the MPC charge starts low in early years, peaks in the middle of the 12-year period, then goes down again towards the end of the period.

We recognize the need for transitioning the amortization of the MPC at transition. It will be helpful for budget purposes if the MPC charges start low and gradually rise. But the MPC charges may not need to rise as high as it would in the middle of the 12-year period only to go down again. Thus, we present an alternative that should result in lower MPC charges in the earlier years of the transition period and at the same time lessens the level

of MPC charges in the middle of the 12-year period. We also illustrate this alternative in Exhibit D. We describe this alternative below.

Recommendation: We recommend that the MPC account at transition be amortized as follows:

- A 12-year amortization of one-fifth of the MPC account at transition will be recognized as an MPC charge for years 1 to 4.
- An 11-year amortization of one-fifth of the MPC account at transition adjusted for one year of interest will be recognized as an MPC charge for years 2 to 4.
- A 10-year amortization of one-fifth of the MPC account at transition adjusted for two years of interest will be recognized as an MPC charge for years 3 to 4.
- A 9-year amortization of one-fifth of the MPC account at transition adjusted for three years of interest will be recognized as an MPC charge for year 4.
- In year 5, the outstanding balance of the MPC account at transition will be determined recognizing the MPC charges in years 1 to 4. The balance will be amortized over 8 years, i.e., in years 5 to 12.

OTHER COMMENTS: RELATED ITEMS

In modifying the existing CAS rules to harmonize with PPA, we request that the Board clarify certain items.

- Under current CAS 413, even if there are ongoing contracts an immediate segment closing adjustment occurs when a contractor freezes its pension plan voluntarily. We note that even when a plan is frozen, there are ongoing CAS costs. We also note that the current CAS 413 is silent as to whether or not ongoing CAS costs can be recognized.

  Because CAS 413 is silent, it is our understanding that in some situations, contractors are not allowed to further recognize the CAS costs, while there are other situations when such CAS costs are allowed. This results in inequity.

  We believe that CAS 413 should be amended to explicitly allow ongoing CAS costs even after a contractor voluntarily freezes its pension plan, if there are ongoing contracts. We note that ongoing CAS costs are allowed under PPA-triggered plan freezes.

- To minimize disputes, it will be helpful if the rules make clear that in the areas where the contractor has options in how certain items are determined (e.g., MAL interest assumption, actual return on assets, etc.), those items would be considered part of the contractor's CAS accounting policy. Any meaningful changes would be subject to the rules on changes in accounting policy. Because every contractor has their own

methodologies and specific issues, general rules that become part of the CAS accounting policy would be preferential to any proscriptive rules. If proscriptive rules were used, contractors would have more certainty around how a particular item should be determined, but odd results could arise depending on the contractor's particular situation.

OTHER COMMENTS: REQUEST FOR A SECOND ANPRM

Finally, given the complexity of the issues that the ANPRM has raised, how critical it is that contractors have a full understanding of the potential impact of new regulations as possible, and the importance of getting final regulations that are helpful and equitable for both contractors and the Government, we recommend issuing a second ANPRM, rather than moving to the third stage of the regulatory process, i.e., promulgating a Notice of Proposed Rulemaking.

We appreciate the opportunity to comment on these important regulations and we would be happy to address any questions regarding our recommendations. Please contact Judy Ocaya at 949-798-7504 or judy.ocaya@watsonwyatt.com if you wish to discuss any aspect of our comments.

Sincerely,

Gene Wickes
Global Practice Director – Benefits Consulting Group

c: Judy C. Ocaya
Tom Supple

WATSON WYATT WORLDWIDE
ADVANCE NOTICE OF PROPOSED RULEMAKING ON CAS HARMONIZATION

EXHIBIT A

Citigroup Pension Liability Index as Proxy for FAS Discount Rates
(January 31, 1985 through September 30, 2008)

Discount Rate

8.50%
8.00%
7.50%
7.00%
6.50%
6.00%
5.50%
5.00%

Jan-95 Jul-95 Jan-96 Jul-96 Jan-97 Jul-97 Jan-98 Jul-98 Jan-99 Jul-99 Jan-00 Jul-00 Jan-01 Jul-01 Jan-02 Jul-02 Jan-03 Jul-03 Jan-04 Jul-04 Jan-05 Jul-05 Jan-06 Jul-06 Jan-07 Jul-07 Jan-08 Jul-08

Measurement Date

Source: Citigroup

EXHIBIT B

Ignores Adjustments for Interest **Amounts in Millions**	**Contractor A - Advance Funding**				**Contractor B - Minimum Funding**			
	Year 1	Year 2	Year 3	Total	Year 1	Year 2	Year 3	Total
1. Cash Contribution for the year	9.0	-	-	9.0	3.0	3.0	3.0	9.0
2. ERISA Credit Balance at beginning of year (prior year 2. plus prior year 1. minus prior year 3.)	-	6.0	3.0		-	-	-	
3. PPA Minimum before Credit Balance	3.0	3.0	3.0		3.0	3.0	3.0	
4. PPA Minimum after Credit Balance (3. minus 2., but not less than zero)	3.0	-	-		3.0	3.0	3.0	
5. CAS	2.0	2.0	2.0		2.0	2.0	2.0	
6. Mandatory Prepayment Amortization Charge, without regard to Applied Mandatory Prepayment Credits								
- Five-Year Amortization of Year 1 Mandatory Prepayment Credit		0.2	-			0.2	0.2	
- Five-Year Amortization of Year 2 Mandatory Prepayment Credit			-				0.2	
- Subtotal		0.2	-			0.2	0.4	
7. Applied Mandatory Prepayment Credit (apply existing Mandatory Prepayment Credit if 5. greater than 4.)		1.0	-			-	-	
8. Assignable Mandatory Prepayment Amortization Charge		-	-			0.2	0.4	
9. Mandatory Prepayment Credit generated during the year (lesser of 1. and 4., minus 5., but not less than zero)	1.0	-	-		1.0	1.0	1.0	
10. Mandatory Prepayment Credit balance at end of year (prior year 10. less 7. less 8. plus 9.)	1.0	-	-		1.0	1.8	2.4	
11. Applied Voluntary Prepayment Credit		1.0	2.0			-	-	
12. Voluntary Prepayment Credit balance at end of year (prior year 12. plus 1. minus 9. minus 5. plus 7., but not less than zero)	6.0	5.0	3.0		-	-	-	
13. Total CAS Reimbursement (5. plus 8.)	2.0	2.0	2.0	6.0	2.0	2.2	2.4	6.6

EXHIBIT C

Ignores Adjustments for Interest
Amounts in Millions

	Contractor A - Advance Funding				Contractor B - Minimum Funding			
	Year 1	Year 2	Year 3	Total	Year 1	Year 2	Year 3	Total
1. Cash Contribution for the year	9.0	-	-	9.0	3.0	3.0	3.0	9.0
2. ERISA Credit Balance at beginning of year (prior year 2. plus prior year 1. minus prior year 3.)	-	6.0	3.0		-	-	-	
3. PPA Minimum before Credit Balance	3.0	3.0	3.0		3.0	3.0	3.0	
4. PPA Minimum after Credit Balance (3. minus 2., but not less than zero)	3.0	-	-		3.0	3.0	3.0	
5. CAS	2.0	2.0	2.0		2.0	2.0	2.0	
6. Mandatory Prepayment Amortization Charge, without regard to Applied Mandatory Prepayment credits								
- Five-Year Amortization of Year 1 Mandatory Prepayment Credit		0.2	0.2			0.2	0.2	
- Five-Year Amortization of Year 2 Mandatory Prepayment Credit			0.2				0.2	
- Subtotal		0.2	0.4			0.2	0.4	
7. Applied Mandatory Prepayment Credit (apply existing Mandatory Prepayment Credit if 5. greater than 3.)		-	-			-	-	
8. Assignable Mandatory Prepayment Amortization Charge		0.2	0.4			0.2	0.4	
9. Mandatory Prepayment Credit generated during the year (lesser of (1. plus 2.) and 3., minus 5., but not less than zero)	1.0	1.0	1.0		1.0	1.0	1.0	
10. Mandatory Prepayment Credit balance at end of year (prior year 10. less 7. less 8. plus 9.)	1.0	1.8	2.4		1.0	1.8	2.4	
11. Applied Voluntary Prepayment Credit		2.0	2.0			-	-	
12. Voluntary Prepayment Credit balance at end of year (prior year 12. plus 1. minus 9. minus 5. plus 7., but not less than zero)	6.0	3.0	-		-	-	-	
13. Total CAS Reimbursement (5. plus 8.)	2.0	2.2	2.4	6.6	2.0	2.2	2.4	6.6

EXHIBIT D

$5 Million Mandatory Prepayment Account at Transition
8% Interest Rate

Y-axis: Mandatory Prepayment Credit Charge (0 to 1,200,000)

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
ANPRM	122,866	271,895	459,831	712,141	1,027,644	1,027,644	1,027,644	1,027,644	1,027,644	1,027,644	712,141	459,831
Alternative	122,866	262,942	423,894	610,611	829,819	829,819	829,819	829,819	829,819	829,819	829,819	829,819

ATTACHMENT I

WATSON WYATT WORLDWIDE
ADVANCE NOTICE OF PROPOSED RULEMAKING ON CAS HARMONIZATION
SURVEY OF GOVERNMENT CONTRACTORS
OCTOBER 2008

This survey was conducted to assist the Aerospace Industries Association and other interested parties in submitting comments to the Cost Accounting Standards (CAS) Board regarding the CAS Harmonization Rule Advance Notice of Proposed Rulemaking (ANPRM) issued on September 2, 2008.

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 Prepayment Credit over the PPA 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 awarded contracts	$0.5 billion to well over $5 billion (that is, this survey includes both PPA Section 106 "eligible" and ineligible contractors)
3. Number of qualified defined benefit plans	31 plans
Harmonized Values	
4. Total CAS Accrued Liability (AL) in 2010, at long term interest rate	$149.8 billion
5. Total CAS Normal Cost (NC) in 2010, at long-term interest rate	$2.6 billion
6. Number of plans with Minimum Actuarial Liability (MAL) greater than AL	25 plans, i.e., 81% of all plans
7. Number of plans with Minimum Normal Cost (MNC) greater than NC	30 plans, i.e., 97% of all plans

ATTACHMENT I

WATSON WYATT WORLDWIDE
ADVANCE NOTICE OF PROPOSED RULEMAKING ON CAS HARMONIZATION
SURVEY OF GOVERNMENT CONTRACTORS
OCTOBER 2008

Item	Result
Harmonization Trigger	
8. Number of plans that will NOT be harmonized, if MAL > AL is used as trigger for harmonization	6 plans, i.e., 19% of all plans
9. Number of plans that will NOT be harmonized, even if the MNC is greater than the NC, if MAL > AL is used as trigger for harmonization	6 plans, i.e., 19% of all plans
10. MAL + MNC > AL + NC as an alternative trigger: Number of plans that will NOT be harmonized, even if the MNC is greater than the NC, if MAL + MNC > AL + NC is used as trigger for harmonization	3 plans, i.e., 10% of all plans (i.e., using this alternative trigger will allow more plans to be harmonized)
Assignable Cost Limitation (ACL)	
11. Highest ratio of MAL to AL	125.4%
12. Max of (MAL + NC, 125% of (AL + NC)) as alternative in ACL: Number of plans with MAL + MNC greater than 125% of (AL + NC)	None (thus, using the maximum of the MAL + NC and 125% of (AL + NC) has a neutral effect on the ACL)
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[3], as percent of total 2010 Normal Cost for all plans in the survey	1%
15. Amortization of total MPC balance at transition for 2014 thru 2018[1], as percent of total 2010 Normal Cost for all plans in the survey	12%

Thanks to all government contractors who participated in this survey and the actuaries at Hewitt, JP Morgan, Mercer, Towers Perrin, and Watson Wyatt who assisted in gathering the data. Please contact Judy Ocaya at judy.ocaya@watsonwyatt.com with any questions regarding this survey.

[3] The Mandatory Prepayment Credit balance at transition is divided into five pieces and each piece is amortized over 12, 10, 8, 6 and 5 years respectively. This layered approach results in the lowest amortization payment in years 2010 and 2021 (i.e., the first and last years of the 12-year transition period) and the highest amortization payment in years 2014 through 2018 (i.e., the middle of the transition period).

ATTACHMENT II

Watson Wyatt Worldwide
Minimum CAS Cost as Alternative for CAS Harmonization

While the ANPRM addresses the discrepancy between PPA funding requirements and the CAS assignable costs under current CAS, the ANPRM introduces additional volatility. We believe that both the Government and contractors could benefit from exploring ways to mitigate the additional volatility as much as possible.

In addition, we have found the ANPRM to be complex. In discussions with contractors and other actuaries, both within Watson Wyatt and from other firms, we found the ANPRM susceptible to different interpretations. We are concerned that this will result in costly disputes between the Government and contractors in the future. We believe both parties would benefit from new rules that revise the current CAS as minimally as possible, with changes that are relatively simple and straightforward to calculate, but at the same time achieve the goal of harmonizing CAS and PPA funding requirements.

In recognizing the desirability of mitigating the additional volatility and less complex new rules, we respectfully present this “Minimum CAS Cost” alternative for the Board’s consideration.

Considerations

The modeling we have performed indicates that this Minimum CAS Cost method will lead to less volatile, and thus more predictable, CAS assignable costs compared to the ANPRM.

This Minimum CAS Cost method will significantly reduce the Prepayment Credits that would otherwise develop under current CAS. However, this approach may lead to slower recovery of such Prepayment Credits compared to the ANPRM.

Both the Government and contractors will need to balance concerns regarding timeliness of cost recovery, with concerns regarding lack of cost predictability. On the one hand, contractors may be burdened with negative cashflow for a few more years under this alternative approach compared to the ANPRM. On the other hand, there may be issues related to the actual recovery of greater “unpredicted” costs under the ANRPM due to contract and budgetary constraints.

Determination of CAS Assignable Cost

Under this alternative, the CAS assignable cost will be the greater of (1) and (2) below:

1. The Regular CAS Cost, which is the CAS cost determined without regard to the CAS Harmonization Rule (i.e., as determined under the current CAS 412 but with a 10-year amortization of gains/losses as proposed under the ANPRM), and

2. The Minimum CAS Cost, which is equal to

   a. the Minimum Normal Cost; plus
   b. a 10-year amortization of the unfunded MAL at transition; plus
   c. a 10-year amortization of each year’s increase or decrease in the unamortized unfunded MAL,

where the unfunded MAL is equal to the difference between the Minimum Actuarial Liability and the CAS assets net of prepayment credits.

For transition, only 80%, 85%, 90%, and 95% of the otherwise determined Minimum CAS Cost will be taken into account in years 1, 2, 3 and 4 after the effective date of the new CAS rules. Beginning in year 5, 100% of the Minimum CAS Cost will be taken into account.

In addition, in years when there are no outstanding Prepayment Credits, the Minimum CAS Cost provision will not apply.

The Assignable Cost Limitation under this approach would be 125% of (the regular Actuarial Liability plus Normal Cost) less Assets, or the Minimum Actuarial Liability plus Minimum Normal Cost less Assets, if greater. In this regard, Assets will be net of Prepayment Credits.

The new "equation of balance" test under this alternative will be as follows:

Outstanding Balance of Amortization Bases
=
Unfunded Actuarial Liability plus the Reconciliation Account

where the Reconciliation Account equals the accumulated value of the excess of the Minimum CAS Cost over the Regular CAS Cost. When the amortization bases for the Unfunded Actuarial Liability are considered fully amortized, the Reconciliation Account is reset to zero.

COST ILLUSTRATIONS

We modeled costs for a hypothetical plan reflecting the following:

- Current CAS, i.e., without harmonization
- ANPRM
- Alt 1 - Minimum CAS Cost alternative, with no Mandatory Prepayment Charge
- Alt 2 - Minimum CAS Cost alternative, with Mandatory Prepayment Charge

We made the following assumptions:

- PPA funding rules apply beginning in 2008. New CAS harmonization rules will apply beginning in 2010.
- Asset averaging is not used for PPA but asset smoothing is used for CAS. We surveyed 233 plans covered under PPA and 79% of plans are using market value for determining costs under PPA. The remaining 21% of plans are using the averaging method currently allowed under PPA, but it is likely that most are using an averaging period of only a couple of months.
- No discretionary contributions are made. Cash contributions reflect the minimum required under PPA and the funding requirements under CAS for costs to be assignable.

ATTACHMENT II

WATSON WYATT WORLDWIDE
MINIMUM CAS COST AS ALTERNATIVE FOR CAS HARMONIZATION

We considered the following economic scenarios:

- Baseline – This reflects an asset return of 8% from 2009 and onward. This matches the assumed CAS long-term interest rate. This scenario represents a forward pricing cost forecast.
- "Actual" Set 1 – This reflects a negative 2% asset return for 2009, instead of the 8% return reflected in forward pricing. All other assumptions are the same as under the Baseline.
- "Actual" Set 2 – This is the same as Actual Set 1, except the PPA discount rate for 2009 is 6.75% instead of the 6.25% assumed in forward pricing.
- "Actual Set" 3 - This reflects volatile asset returns and varying effective PPA discount rates from year to year.

Note that in the "Actual" sets, we reflected the same CAS long-term interest rate (8% all years) and CAS Minimum Actuarial Liability interest rate (6.25% all years) that we used in the Baseline scenario.

We prepared sets of graphs showing the following:

- CAS assignable costs
- Cash funding requirements
- CAS assignable costs less cash funding (i.e., net cashflow for each year)
- Prepayment Credits
- Differences between the CAS assignable costs under the Baseline scenario and the Actual scenario

The last graph is an illustration of how the CAS assignable costs can differ from the baseline (i.e., forward pricing results) when reflecting "actual" experience. Ideally, the variances from baseline should be as small as possible, to avoid situations where the forecasted costs included in contracts are significantly different than the actual costs.

OBSERVATIONS

CAS Costs (Charts A1, B1, C1 and D1). In all four economic scenarios, the Minimum CAS Cost alternative without the Mandatory Prepayment Credit Charges (Alt 1) does not have the same steep growth and decline as seen under the ANPRM and the Minimum CAS Cost alternative with the Mandatory Prepayment Credit Charges (Alt 2).

The CAS assignable costs peak at higher levels under the ANPRM and Alt 2. These highest points are driven by the Mandatory Prepayment Charges. These Mandatory Prepayment Charges also drive the sudden drops from the peak points.

During the initial years after transition, the CAS calculations do not reflect the full Minimum Actuarial Liabilities and Minimum Normal Costs (which are proxies for PPA Target Liabilities and Normal Costs). The discrepancies between the Minimum Required Funding amounts (PPA

funding requirements less Credit Balances) and the CAS assignable costs result in a build up of Mandatory Prepayment Credits, resulting in a growing aggregate value of Mandatory Prepayment Charges. This leads to the steep growth in CAS assignable costs to high peak points under the ANPRM and Alt 2. However, at some point the CAS assignable cost becomes greater than the Minimum Required Funding Amounts. At this point, Mandatory Prepayment Credits begin to be applied and Mandatory Prepayment Charges begin to be not part of the assignable costs. This leads to the drop from the peak points.

Because the CAS assignable costs under Alt 1 do not swing as widely, in this regard it is a better method relative to the ANPRM and Alt 2.

Cash Requirements (Charts A2, B2, C2 and D2). The cash requirements under the ANPRM, Alt 1 and Alt 2 are the same in the earlier years. This is because the cash requirements are driven by PPA funding requirements. The cash requirements deviate in the later years when CAS drives the need for funding. In these years, the cash requirements depend on the availability of Prepayment Credits to "fund" the CAS assignable costs.

CAS less Cash Requirements (Charts A3, B3, C3 and D3). In the earlier years, there will be negative cashflow since PPA funding requirements exceed the CAS assignable costs. The issue of negative cashflow lasts longer under Alt 1, essentially by a year or two, compared to the ANPRM and Alt 2. This is because the CAS assignable costs do not ramp up as high under Alt 1 in the earlier years compared to the CAS assignable costs under the ANPRM and Alt 2.

Because the negative cashflow issue lasts longer under Alt 1, in this regard it is a less preferable method relative to the ANPRM and Alt 2. However, note that the negative cashflow amounts that persist under Alt 1 are small relative to the levels of the negative cashflow in the early years under all methods.

Prepayment Credits (Charts A4, B4, C4 and D4). The ANPRM, Alt 1 and Alt 2 all significantly reduce the buildup of Prepayment Credits compared to the current rules with no harmonization. All Prepayment Credits are recovered around the same time (plus/minus one year)

The accumulated Prepayment Credit peaks at higher levels under Alt 1. However, note that in the scenarios modeled, in the first few years the accumulated Prepayment Credit is lower under Alt 1 than under the ANPRM.

Deviation from Baseline Scenario (Charts B5, C5 and D5). As mentioned previously, these graphs illustrate how the CAS assignable costs can differ from the baseline (i.e., forward pricing results) when reflecting "actual" experience. Positive variances mean actual costs are higher than the costs reflected in forward pricing. Ideally, the variances from baseline should be as small as possible, to avoid situations where the forecasted costs included in contracts are significantly different than the actual costs.

These graphs suggest that Alt 1 is a better method than the ANRPM and Alt 2, in the sense that actual costs would differ less from costs reflected in forward pricing rates.

IN CLOSING

There are advantages that Alt 1 (i.e., the Minimum CAS Cost alternative, without Mandatory Prepayment Credit Charges) has over the ANPRM. First of all, we believe this alternative is simpler and more straightforward in terms of calculations of costs. Also, this alternative will lead to less volatile CAS assignable costs and forward pricing costs that are closer to actual costs. On the other hand, this method will lead to slower recovery of Prepayment Credits and a longer period of negative cashflow.

We recommend further study and modeling of this alternative and the ANRPM. We would be happy to assist the Board if the Board deems this approach merits further study.

ATTACHMENT II

WATSON WYATT WORLDWIDE
"MINIMUM CAS COST" AS ALTERNATIVE FOR CAS HARMONIZATION

BASELINE – CHART A1

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Asset Return	-20.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%
PPA Discount Rate	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%
CAS Discount Rate	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%
CAS MAL Discount Rate	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%

CAS Assignable Cost
(in millions)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
No Harmonization	-	-	-	15.6	20.3	25.3	25.2	25.1	25.1	25.1	25.1	25.1	25.1	25.2	25.2
ANPRM	-	-	13.5	31.2	45.6	59.1	42.1	39.5	36.8	33.7	30.5	27.3	24.2	21.1	17.8
Alt 1 Without MPC Charge	-	-	23.7	31.1	37.5	44.5	45.4	43.3	41.1	38.5	35.6	28.9	29.3	29.6	-
Alt 2 With MPC Charge	-	-	25.0	36.9	46.9	42.1	42.8	40.8	38.5	35.8	33.0	28.7	29.1	20.4	-

ATTACHMENT II

WATSON WYATT WORLDWIDE
"MINIMUM CAS COST" AS ALTERNATIVE FOR CAS HARMONIZATION

BASELINE – CHART A2

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Asset Return	-20.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%
PPA Discount Rate	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%
CAS Discount Rate	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%
CAS MAL Discount Rate	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%

Cash Requirements
(in millions)

60.0
50.0
40.0
30.0
20.0
10.0
-

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2011	2012
No Harmonization	-	49.4	45.9	44.9	43.5	41.7	39.4	-	5.7	8.0	7.0	6.0	5.1	4.4	3.7
ANPRM	-	49.4	45.9	44.9	43.5	41.7	39.4	-	5.7	8.0	6.7	23.8	22.9	20.0	16.8
Alt 1 Without MPC Charge	-	49.4	45.9	44.9	43.5	41.7	39.4	-	5.7	8.0	13.0	27.3	27.7	28.0	-
Alt 2 With MPC Charge	-	49.4	45.9	44.9	43.5	41.7	39.4	-	5.7	8.0	21.0	27.2	27.6	19.4	-

ATTACHMENT II

Watson Wyatt Worldwide
"Minimum CAS Cost" as Alternative for CAS Harmonization

Baseline – Chart A3

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Asset Return	-20.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%
PPA Discount Rate	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%
CAS Discount Rate	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%
CAS MAL Discount Rate	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%

CAS less Cash Requirements
(in millions, negative amount means negative cashflow)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2011	2012
No Harmonization	-	(49.4)	(45.9)	(29.3)	(23.1)	(16.3)	(14.2)	25.1	19.3	17.1	18.1	19.1	20.0	20.8	21.5
ANPRM	-	(49.4)	(32.4)	(13.7)	2.2	17.5	2.7	39.5	31.1	25.7	23.8	3.4	1.3	1.1	1.0
Alt 1 Without MPC Charge	-	(49.4)	(22.2)	(13.8)	(5.9)	2.8	5.9	43.3	35.4	30.5	22.6	1.5	1.6	1.6	-
Alt 2 With MPC Charge	-	(49.4)	(21.0)	(8.0)	3.4	0.5	3.4	40.8	32.8	27.9	12.0	1.5	1.6	1.1	-

ATTACHMENT II

WATSON WYATT WORLDWIDE
"MINIMUM CAS COST" AS ALTERNATIVE FOR CAS HARMONIZATION

BASELINE – CHART A4

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Asset Return	-20.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%
PPA Discount Rate	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%
CAS Discount Rate	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%
CAS MAL Discount Rate	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%

Prepayment Credit
(in millions, beginning of year)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
No Harmonization	-	-	49.4	99.2	136.1	169.7	199.0	228.6	221.2	219.0	218.9	217.8	215.6	212.3	207.9
ANPRM	-	-	49.4	85.4	105.3	110.6	100.7	105.1	73.2	47.2	24.4	2.0	-	-	-
Alt 1 Without MPC Charge	-	-	49.4	75.0	94.1	106.7	111.5	113.5	78.3	48.2	20.7	-	-	-	-
Alt 2 With MPC Charge	-	-	49.4	73.7	86.8	89.3	95.0	98.3	64.5	36.0	10.2	-	-	-	-

ATTACHMENT II

WATSON WYATT WORLDWIDE
"MINIMUM CAS COST" AS ALTERNATIVE FOR CAS HARMONIZATION

"ACTUAL" SET 1 – CHART B1

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Asset Return	-20.00%	-2.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%
PPA Discount Rate	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%
CAS Discount Rate	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%
CAS MAL Discount Rate	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%

CAS Assignable Cost
(in millions)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
No Harmonization	-	-	-	18.6	24.9	31.4	32.6	32.5	32.4	32.4	32.5	32.5	32.5	32.5	32.6
ANPRM	-	-	14.9	35.6	52.9	68.9	75.4	43.4	40.7	37.6	34.4	31.2	28.2	25.1	15.5
Alt 1 Without MPC Charge	-	-	24.9	34.1	42.6	51.6	54.6	52.7	50.5	48.0	45.2	42.4	40.8	35.3	-
Alt 2 With MPC Charge	-	-	26.2	41.1	53.9	66.3	70.8	44.1	41.8	39.2	39.4	40.2	36.8	-	-

ATTACHMENT II

WATSON WYATT WORLDWIDE
"MINIMUM CAS COST" AS ALTERNATIVE FOR CAS HARMONIZATION

"ACTUAL" SET 1 – CHART B2

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Asset Return	-20.00%	-2.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%
PPA Discount Rate	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%
CAS Discount Rate	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%
CAS MAL Discount Rate	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%

Cash Requirements
(in millions)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2011	2012
No Harmonization	-	49.4	55.3	54.6	53.5	51.9	49.9	20.9	9.3	8.1	7.0	6.0	5.1	4.4	3.7
ANPRM	-	49.4	55.3	54.6	53.5	51.9	49.9	20.9	9.3	8.1	7.0	19.0	26.6	23.7	14.7
Alt 1 Without MPC Charge	-	49.4	55.3	54.6	53.5	51.9	49.9	20.9	9.3	8.1	7.0	20.0	38.6	33.4	-
Alt 2 With MPC Charge	-	49.4	55.3	54.6	53.5	51.9	49.9	20.9	9.3	8.1	25.6	38.1	34.9	-	-

ATTACHMENT II

Watson Wyatt Worldwide
"Minimum CAS Cost" as Alternative for CAS Harmonization

"Actual" Set 1 – Chart B3

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Asset Return	-20.00%	-2.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%
PPA Discount Rate	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%
CAS Discount Rate	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%
CAS MAL Discount Rate	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%

CAS less Cash Requirements
(in millions, negative amount means negative cashflow)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2011	2012
No Harmonization	-	(49.4)	(55.3)	(36.0)	(28.5)	(20.6)	(17.3)	11.6	23.2	24.3	25.4	26.4	27.4	28.2	28.9
ANPRM	-	(49.4)	(40.4)	(19.0)	(0.6)	17.0	25.5	22.6	31.4	29.5	27.4	12.3	1.5	1.3	0.8
Alt 1 Without MPC Charge	-	(49.4)	(30.4)	(20.5)	(10.9)	(0.4)	4.7	31.8	41.2	39.9	38.2	22.4	2.2	1.9	-
Alt 2 With MPC Charge	-	(49.4)	(29.2)	(13.5)	0.5	14.4	20.9	23.2	32.5	31.1	13.8	2.2	2.0	-	-

ATTACHMENT II

WATSON WYATT WORLDWIDE
"MINIMUM CAS COST" AS ALTERNATIVE FOR CAS HARMONIZATION

"ACTUAL" SET 1 – CHART B4

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Asset Return	-20.00%	-2.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%
PPA Discount Rate	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%
CAS Discount Rate	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%
CAS MAL Discount Rate	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%

Prepayment Credit
(in millions, beginning of year)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
No Harmonization	-	-	49.4	108.6	152.9	193.1	228.4	263.3	272.0	269.9	266.4	261.6	255.3	247.7	238.6
ANPRM	-	-	49.4	93.4	119.1	128.0	119.7	102.1	86.7	61.3	35.9	10.6	-	-	-
Alt 1 Without MPC Charge	-	-	49.4	83.2	109.6	128.3	137.8	142.9	121.4	88.8	54.9	20.1	-	-	-
Alt 2 With MPC Charge	-	-	49.4	81.9	101.1	107.5	100.2	85.7	68.4	40.4	11.7	-	-	-	-

ATTACHMENT II

Watson Wyatt Worldwide
"Minimum CAS Cost" as Alternative for CAS Harmonization

"Actual" Set 1 – Chart B5

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Baseline															
Asset Return	-20.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%
PPA Discount Rate	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%
"Actual"															
Asset Return	-20.00%	-2.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%
PPA Discount Rate	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%

CAS Assignable Costs: Deviation of "Actual" from Baseline (e.g., Forward Pricing)
(in millions)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
No Harmonization	-	-	-	3.0	4.6	6.1	7.4	7.4	7.3	7.4	7.4	7.4	7.4	7.4	7.4
ANPRM	-	-	1.4	4.5	7.3	9.8	33.4	3.9	3.9	3.9	3.9	4.0	4.0	4.0	(2.2)
Alt 1 Without MPC Charge	-	-	1.2	3.0	5.0	7.1	9.2	9.3	9.4	9.5	9.6	13.5	11.5	5.7	-
Alt 2 With MPC Charge	-	-	1.2	4.2	7.1	24.2	28.0	3.3	3.3	3.3	6.4	11.5	7.7	(20.4)	-

ATTACHMENT II

Watson Wyatt Worldwide
"Minimum CAS Cost" as Alternative for CAS Harmonization

"Actual" Set 2 – Chart C1

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Asset Return	-20.00%	-2.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%
PPA Discount Rate	6.25%	6.75%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%
CAS Discount Rate	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%
CAS MAL Discount Rate	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%

CAS Assignable Cost
(in millions)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
No Harmonization	-	-	-	18.6	25.0	31.4	32.7	32.5	32.4	32.4	32.4	32.4	32.4	32.4	32.4
ANPRM	-	-	14.7	35.2	52.3	68.0	74.2	67.9	37.5	34.4	31.2	28.0	24.9	21.8	5.1
Alt 1 Without MPC Charge	-	-	24.9	34.1	42.6	51.6	54.6	52.7	50.5	47.9	45.1	42.3	40.6	34.1	-
Alt 2 With MPC Charge	-	-	25.9	40.6	53.3	65.4	69.6	65.2	39.5	38.5	39.4	40.2	15.6	-	-

ATTACHMENT II

WATSON WYATT WORLDWIDE
"MINIMUM CAS COST" AS ALTERNATIVE FOR CAS HARMONIZATION

"ACTUAL" SET 2 – CHART C2

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Asset Return	-20.00%	-2.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%
PPA Discount Rate	6.25%	6.75%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%
CAS Discount Rate	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%
CAS MAL Discount Rate	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%

Cash Requirements
(in millions)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2011	2012
No Harmonization	-	39.3	56.7	55.4	54.3	52.8	50.8	48.4	-	-	3.1	5.9	5.1	4.4	3.7
ANPRM	-	39.3	56.7	55.4	54.3	52.8	50.8	48.4	-	-	8.4	26.5	23.6	20.6	4.9
Alt 1 Without MPC Charge	-	39.3	56.7	55.4	54.3	52.8	50.8	48.4	-	-	3.1	21.0	38.4	32.3	-
Alt 2 With MPC Charge	-	39.3	56.7	55.4	54.3	52.8	50.8	48.4	-	2.4	37.2	38.1	14.8	-	-

ATTACHMENT II

WATSON WYATT WORLDWIDE
"MINIMUM CAS COST" AS ALTERNATIVE FOR CAS HARMONIZATION

"ACTUAL" SET 2 – CHART C3

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Asset Return	-20.00%	-2.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%
PPA Discount Rate	6.25%	6.75%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%
CAS Discount Rate	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%
CAS MAL Discount Rate	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%

CAS less Cash Requirements
(in millions, negative amount means negative cashflow)

60.0
40.0
20.0
-
(20.0)
(40.0)
(60.0)
(80.0)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2011	2012
No Harmonization	-	(39.3)	(56.7)	(36.8)	(29.3)	(21.4)	(18.2)	(15.9)	32.4	32.4	29.3	26.5	27.3	28.0	28.7
ANPRM	-	(39.3)	(42.1)	(20.2)	(2.0)	15.2	23.4	19.5	37.5	34.4	22.7	1.5	1.3	1.2	0.3
Alt 1 Without MPC Charge	-	(39.3)	(31.8)	(21.3)	(11.7)	(1.2)	3.8	4.3	50.5	47.9	42.1	21.3	2.2	1.8	-
Alt 2 With MPC Charge	-	(39.3)	(30.8)	(14.8)	(1.0)	12.6	18.7	16.8	39.5	36.1	2.1	2.2	0.8	-	-

ATTACHMENT II

WATSON WYATT WORLDWIDE
"MINIMUM CAS COST" AS ALTERNATIVE FOR CAS HARMONIZATION

"ACTUAL" SET 2 – CHART C4

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Asset Return	-20.00%	-2.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%
PPA Discount Rate	6.25%	6.75%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%
CAS Discount Rate	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%
CAS MAL Discount Rate	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%

Prepayment Credit
(in millions, beginning of year)

350.0
300.0
250.0
200.0
150.0
100.0
50.0
-

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
No Harmonization	-	-	39.3	99.2	143.5	183.7	219.2	254.1	289.6	279.7	269.0	260.5	254.1	246.4	237.4
ANPRM	-	-	39.3	84.2	110.4	120.1	112.9	97.0	83.7	52.1	21.1	-	-	-	-
Alt 1 Without MPC Charge	-	-	39.3	73.7	100.1	118.9	128.5	133.8	139.0	98.6	57.5	19.0	-	-	-
Alt 2 With MPC Charge	-	-	39.3	72.7	92.4	99.6	93.5	80.7	69.0	34.1	-	-	-	-	-

ATTACHMENT II

WATSON WYATT WORLDWIDE
"MINIMUM CAS COST" AS ALTERNATIVE FOR CAS HARMONIZATION

"ACTUAL" SET 2 – CHART C5

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Baseline															
Asset Return	-20.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%
PPA Discount Rate	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%
"Actual"															
Asset Return	-20.00%	-2.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%
PPA Discount Rate	6.25%	6.75%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%

CAS Assignable Costs: Deviation of "Actual" from Baseline (e.g., Forward Pricing)
(in millions)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
No Harmonization	-	-	-	3.0	4.6	6.1	7.4	7.4	7.3	7.3	7.3	7.3	7.2	7.2	7.2
ANPRM	-	-	1.2	4.0	6.7	8.9	32.1	28.5	0.7	0.7	0.7	0.7	0.7	0.7	(12.6)
Alt 1 Without MPC Charge	-	-	1.2	3.0	5.0	7.1	9.3	9.4	9.3	9.5	9.5	13.4	11.3	4.5	-
Alt 2 With MPC Charge	-	-	1.0	3.7	6.5	23.3	26.7	24.4	1.0	2.7	6.4	11.5	(13.5)	(20.4)	-

ATTACHMENT II

WATSON WYATT WORLDWIDE
"MINIMUM CAS COST" AS ALTERNATIVE FOR CAS HARMONIZATION

"ACTUAL" SET 3 – CHART D1

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Asset Return	-20.00%	-2.00%	5.00%	12.00%	15.00%	8.00%	10.00%	-1.00%	4.00%	8.00%	15.00%	10.00%	2.00%	8.00%	12.00%
PPA Discount Rate	6.25%	6.75%	7.00%	6.75%	6.50%	6.00%	6.00%	5.75%	6.50%	6.75%	7.00%	7.00%	6.75%	6.50%	6.25%
CAS Discount Rate	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%
CAS MAL Discount Rate	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%

CAS Assignable Cost
(in millions)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
No Harmonization	-	-	-	19.0	25.2	30.3	29.9	27.8	27.3	29.0	31.9	33.4	34.0	33.9	33.5
ANPRM	-	-	14.7	33.5	49.6	63.0	67.6	59.7	33.3	32.6	33.5	32.2	30.1	27.0	23.5
Alt 1 Without MPC Charge	-	-	25.1	34.7	43.1	50.6	51.6	47.5	44.7	44.1	44.8	40.3	42.1	42.7	10.9
Alt 2 With MPC Charge	-	-	26.1	39.1	50.8	60.7	63.5	57.6	36.4	35.8	37.6	40.3	42.0	13.9	-

ATTACHMENT II

Watson Wyatt Worldwide
"Minimum CAS Cost" as Alternative for CAS Harmonization

"Actual" Set 3 – Chart D2

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Asset Return	-20.00%	-2.00%	5.00%	12.00%	15.00%	8.00%	10.00%	-1.00%	4.00%	8.00%	15.00%	10.00%	2.00%	8.00%	12.00%
PPA Discount Rate	6.25%	6.75%	7.00%	6.75%	6.50%	6.00%	6.00%	5.75%	6.50%	6.75%	7.00%	7.00%	6.75%	6.50%	6.25%
CAS Discount Rate	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%
CAS MAL Discount Rate	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%

Cash Requirements
(in millions)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2011	2012
No Harmonization	-	39.3	41.2	48.8	49.5	52.1	49.8	50.7	-	7.3	-	-	-	25.5	27.9
ANPRM	-	39.3	41.2	48.8	49.5	52.1	49.8	50.7	-	7.3	8.4	30.5	28.5	25.6	22.2
Alt 1 Without MPC Charge	-	39.3	41.2	48.8	49.5	52.1	49.8	50.7	-	7.3	1.5	38.1	39.8	40.4	10.3
Alt 2 With MPC Charge	-	39.3	41.2	48.8	49.5	52.1	49.8	50.7	-	9.9	35.6	38.2	39.8	13.1	-

ATTACHMENT II

Watson Wyatt Worldwide
"Minimum CAS Cost" as Alternative for CAS Harmonization

"Actual" Set 3 – Chart D3

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Asset Return	-20.00%	-2.00%	5.00%	12.00%	15.00%	8.00%	10.00%	-1.00%	4.00%	8.00%	15.00%	10.00%	2.00%	8.00%	12.00%
PPA Discount Rate	6.25%	6.75%	7.00%	6.75%	6.50%	6.00%	6.00%	5.75%	6.50%	6.75%	7.00%	7.00%	6.75%	6.50%	6.25%
CAS Discount Rate	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%
CAS MAL Discount Rate	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%

CAS less Cash Requirements
(in millions, negative amount means negative cashflow)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2011	2012
No Harmonization	-	(39.3)	(41.2)	(29.8)	(24.3)	(21.8)	(19.9)	(22.9)	27.3	21.7	31.9	33.4	34.0	8.4	5.5
ANPRM	-	(39.3)	(26.6)	(15.3)	0.1	10.9	17.8	9.0	33.3	25.3	25.0	1.7	1.6	1.4	1.3
Alt 1 Without MPC Charge	-	(39.3)	(16.2)	(14.0)	(6.3)	(1.6)	1.8	(3.3)	44.7	36.7	43.3	2.2	2.3	2.3	0.6
Alt 2 With MPC Charge	-	(39.3)	(15.2)	(9.6)	1.3	8.5	13.7	6.9	36.4	25.9	2.0	2.2	2.3	0.7	-

ATTACHMENT II

WATSON WYATT WORLDWIDE
"MINIMUM CAS COST" AS ALTERNATIVE FOR CAS HARMONIZATION

"ACTUAL" SET 3 – CHART D4

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Asset Return	-20.00%	-2.00%	5.00%	12.00%	15.00%	8.00%	10.00%	-1.00%	4.00%	8.00%	15.00%	10.00%	2.00%	8.00%	12.00%
PPA Discount Rate	6.25%	6.75%	7.00%	6.75%	6.50%	6.00%	6.00%	5.75%	6.50%	6.75%	7.00%	7.00%	6.75%	6.50%	6.25%
CAS Discount Rate	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%
CAS MAL Discount Rate	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%

Prepayment Credit
(in millions, beginning of year)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
No Harmonization	-	-	39.3	83.7	119.7	153.1	186.5	220.6	260.5	253.5	251.5	239.0	224.0	207.1	214.6
ANPRM	-	-	39.3	68.7	88.7	94.6	89.9	77.8	73.8	45.6	23.2	-	-	-	-
Alt 1 Without MPC Charge	-	-	39.3	58.1	76.0	87.4	94.9	99.5	109.7	72.8	40.9	-	-	-	-
Alt 2 With MPC Charge	-	-	39.3	57.0	70.4	73.5	69.6	60.1	56.7	24.0	-	-	-	-	-

ATTACHMENT II

WATSON WYATT WORLDWIDE
"MINIMUM CAS COST" AS ALTERNATIVE FOR CAS HARMONIZATION

"ACTUAL" SET 3 – CHART D5

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Baseline															
Asset Return	-20.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%
PPA Discount Rate	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%
"Actual"															
Asset Return	-20.00%	-2.00%	5.00%	12.00%	15.00%	8.00%	10.00%	-1.00%	4.00%	8.00%	15.00%	10.00%	2.00%	8.00%	12.00%
PPA Discount Rate	6.25%	6.75%	7.00%	6.75%	6.50%	6.00%	6.00%	5.75%	6.50%	6.75%	7.00%	7.00%	6.75%	6.50%	6.25%

CAS Assignable Costs: Deviation of "Actual" from Baseline (e.g., Forward Pricing)
(in millions)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
No Harmonization	-	-	-	3.3	4.9	5.0	4.7	2.7	2.2	3.9	6.9	8.3	8.9	8.8	8.3
ANPRM	-	-	1.2	2.3	4.0	3.9	25.5	20.2	(3.5)	(1.1)	3.0	5.0	6.0	5.9	5.7
Alt 1 Without MPC Charge	-	-	1.4	3.6	5.6	6.1	6.3	4.1	3.5	5.6	9.1	11.4	12.7	13.1	10.9
Alt 2 With MPC Charge	-	-	1.1	2.2	4.0	18.6	20.6	16.9	(2.1)	(0.1)	4.6	11.6	12.9	(6.6)	-