OFFICE OF THE UNDER SECRETARY OF DEFENSE

3000 DEFENSE PENTAGON
WASHINGTON, DC 20301-3000

ACQUISITION,
TECHNOLOGY
AND LOGISTICS

JUL - 8 2010

Mr. Daniel Gordon
Chair
Cost Accounting Standards Board
Office of Federal Procurement Policy
725 17th Street, NW, Room 9013
Washington, DC 20503

Dear Mr. Gordon:

The Department of Defense (DoD) is pleased to have the opportunity to provide the enclosed comments for the proposed Cost Accounting Standards Board (CASB) rule on Harmonization of Cost Accounting Standards (CAS) 412 and 413 with the Pension Protection Act (PPA).

DoD is seeking relief on the proposed transition plan by providing at least a year between the effective date and the beginning of increased costs and by lengthening the transition period. Increasing the time between the effective date for a contractor and the first contractor fiscal year will also allow both the Government and the impacted contractors to adjust systems and procedures to the new criteria in the rule.

We appreciate your consideration of our comments. Please direct any questions regarding this letter to Mr. H. Clyde Wray at 703-602-8387 or e-mail at clyde.wray@osd.mil.

Sincerely,

Brian E. George
Deputy Director, Cost, Pricing and Finance
Defense Procurement and Acquisition Policy

Enclosure:
As stated

Department of Defense(DoD) Comments

Proposed Cost Accounting Standards Board (CASB) rule on Harmonization of Cost Accounting Standards (CAS) 412 and 413 with the Pension Protection Act (PPA)

1. DoD originally expected a proposed rule to be published sometime in 2009 with a final rule published in early January 2010. For most contractors, that would have placed the applicability date at the beginning of the first year with increased costs due to changes in the rule, to be nearly a year after the final rule publishing date. The current time table appears to anticipate that a final rule will be published in late 2010. That will require the Government and contractors to devise and renegotiate new rates and procedures in a compressed time schedule. The Department recommends that the final rule be issued in January 2011 or that the transition schedule be reconfigured to place a zero increase in the first year (see #2 below).

2. Due to the budgetary cirumstances, it would be best for the DoD if the costs for pensions increased gradually. Many contractors and industry associations have also expressed to the Department that they do not want increases to come so quickly that DoD must reduce products or services in order to afford the pension costs. Accordingly, it is suggested that the transition period be increased from five years to seven years and that the early years have a smaller annual percentage increase than the later years; e.g., 0% for the 1st year, 10% for 2nd, 20% for 3rd, 40 for 4th, 60% for 5th, 80% for 6th, and 100% for 7th. Additionally, if the final rule will be issued in January 2011, the transitions percentage could be 10%, 20%, 30%, 40%, 60%, 80%, and 100% for the seven years. There are several methods that would meet the request for time to plan and budget, gradual backloaded transition, and reduced equitable adjustments.

3. In several places the rule references ERISA when it apparently means the current ERISA Tax Deduction Limit as defined in the Pension Protection Act of 2006. If that is the case, it is recommended that the ERISA provision be identified with more specificity. Also, since ERISA may be amended in the future, the Department recommends that ERISA be defined for the purpose of CAS 412 and CAS 413 as the ERISA in effect as of a stated date. While it is realized that this may be assumed, inclusion may reduce future litigation in the event of amendments to ERISA.

Enclosure