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COMMITTEE ON BENEFITS FINANCE
COMMITTEE ON GOVERNMENT BUSINESS

July 9, 2010

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

Re: CAS Pension Harmonization NPRM, CAS-2007-02S

Financial Executives International's ("FEI") Committee on Benefits Finance ("CBF") and Committee on Government Business ("CGB") appreciate the opportunity to comment on the CAS Board's Pension Harmonization Notice of Proposed Rulemaking ("NPRM"). FEI is a leading international organization of senior financial executives. CBF and CGB are technical committees of FEI, which review and respond to research studies, statements, pronouncements, pending legislation, proposals and other documents issued by domestic and international agencies and organizations. This document represents the views of CBF and CGB and not necessarily the views of FEI or its members individually.

We support the CAS Board's objective to harmonize CAS 412 and 413 with the Pension Protection Act rules. We support several provisions of the NPRM which we believe meet the objective of harmonization as required under Section 106 of the Pension Protection Act ("Pension Protection Act"), including the use of the minimum actuarial liability (MAL), a measure of liability that is similar to the PPA liability, and the change in amortization period for actuarial gains and losses from 15 to 10 years. We believe the incorporation of these concepts strike an appropriate balance between timely cost recovery and an acceptable level of volatility.

In general, we have reviewed and support the recommendations and data submitted by the Aerospace Industries Association ("AIA") and the National Defense Industrial Association ("NDIA") in response to the NPRM. We would like to take this opportunity to emphasize two significant areas of concern in the current NPRM that we strongly recommend be refined as the final rule is developed.

CAS Harmonization Trigger 1

The NPRM introduces a set of three trigger, or threshold, tests that must be met in order for a contractor to use the harmonized rule. We have significant concern with the first of the three triggers, which requires that a plan's minimum required contribution under PPA must exceed the CAS 412 pension cost in order for CAS pension costs to be measured under the harmonized rule during the cost accounting period.

The CAS Board stated in the NPRM that one of its objectives is to "harmonize the disparity between the PPA minimum contribution requirements and Government contract costing" and also stated that the rule "should provide relief for the contractors' concerns with indefinite delays in recovery of cash expenditures while mitigating the expected pension cost increases that will impact Government and contractor budgets." Since this trigger compares the annual minimum required contribution under PPA with CAS reimbursable costs for discrete accounting periods, the above mentioned objectives are not achieved. Any comparisons of amounts under the two rules would need to consider a period of years, not be limited to each individual cost accounting period, due to the timing disparity between the funding of pension costs under PPA and the cost recovery under CAS. This is because PPA funding in a single year is recognized as CAS cost for Government contracts spread over a period of years after the funding occurred. The disparity of PPA funding remaining to be recovered for CAS is demonstrated by the balance of CAS prepayment credits attributable to that timing difference. Under modeling performed for various pension plans subject to the CAS rules, it is clear that the first trigger not only does not contribute to the objective of minimizing this disparity over time but prevents it. In addition, due to the inherent volatility in PPA calculations compared to CAS calculations, additional undesirable volatility is introduced into the proposed rules in the NPRM, which is in conflict with one of the goals of the NPRM, as stated in the preamble, to mitigate volatility (enhance predictability) of pension costs. Therefore, we strongly recommend eliminating the first trigger from the rule.

Segment Closing Calculations

The NPRM requires segment closing calculations to be determined using the Actuarial Accrued Liability ("AAL"), which is the traditional CAS liability under current rules, based upon long-term actuarial assumptions. We believe that it is inconsistent and in conflict with the objective of CAS harmonization to revert back to the use of the traditional long term AAL in a segment closing calculation when the previous ongoing plan calculations provided for the use of the Minimum Accrued Liability ("MAL") to achieve harmonization. Further, we believe that the use of the MAL in a segment closing calculation is more appropriate than the AAL given that the MAL is a reflection of the true liability of a plan at a discrete point in time compared to the AAL which represents the long term liability consistent with an ongoing plan or segment. In addition, if CAS continues to use the AAL for segment closing calculations, any previous cost recovery as a result of the CAS harmonization provisions would be returned to the Government, effectively resulting in a loan to the contractor which is ultimately required to be paid back upon segment closing. Any refund to the Government at segment closing would have to be paid directly from the contractor's operating cash flow because the initial PPA funding that would have been deposited into the pension trust is prohibited from any withdrawal. This would result in the contractor effectively paying twice for the same pension costs, first to the trust as an ongoing plan and then to the Government upon segment closing. Therefore, we strongly recommend that the segment closing calculations incorporate the use of the MAL as the measurement of the liability.

Finally, we support the requests in the AIA/NDIA letter for specific technical corrections and points of clarification within the NPRM to ensure effective implementation and avoid future disagreements where areas of interpretation exist.

Thank you for the opportunity to comment. If there are any questions about our comments, we would be more than willing to meet with you or your staff to discuss further and walk through explanatory examples. If you have any questions or need additional information, please contact Chris Graham at 202-626-7809 or cgraham@financialexecutives.org

Sincerely,

Andrea Edmonds
Chair, Committee on Benefits Finance
Financial Executives International

Paul J. Cienki
Chair, Committee on Government Business
Financial Executives International