



**COMMITTEE ON GOVERNMENT BUSINESS  
COMMITTEE ON BENEFITS FINANCE**

September 5, 2013

Mr. Raymond Wong  
Office of Federal Procurement Policy  
725 17<sup>th</sup> Street NW – Room 9013  
Washington, DC  
20503

Subject: Comments pursuant to request made at the July 31 & August 14, 2013 Public Meetings regarding the Cost Accounting Standards: CAS 413 Pension case at the CAS board.

Dear Mr. Wong,

The Financial Executives International's ("FEI") Committee on Government Business ("CGB") and the Committee on Benefits Finance ("CBF") appreciate the opportunity to provide comments regarding a potential rule change in the Cost Accounting Standards: CAS 413 Pension Adjustments for Extraordinary Events.

The FEI is a professional association representing the interests of more than 15,000 chief financial officers, treasurers, controllers, tax directors, and other senior financial executives from over 8,000 major companies throughout the United States and Canada. FEI represents both the providers and users of financial information. The CGB formulates policy opinions on government contracting issues and the CBF formulates policy opinions on employee benefits issues (including pensions) for FEI in line with the views of the membership. This letter represents the views of these Committees.

A number of our Committee members participated at the public meetings held on July 31 and August 14 at the Professional Services Council offices in Arlington, VA. We first would like to express our gratitude to the Board in having these public meetings. We found them to be well attended by knowledgeable individuals, from multiple constituencies which enabled a robust, candid and productive discussion of the issues. This transparency and involvement of the public in the rulemaking process is a "best practice" that will in the end result in better rulemaking and the administration of those rules as we go forward.

During these meetings the CAS board working group requested that comments or issues that were discussed be captured and submitted in writing to the board in accordance with July 8, 2013 federal register notice. To that end below are items the FEI CGB & CBF submit from the discussions that we feel merit further consideration by the Board;

### **Elimination of CAS 413-50(C)(12)**

The question was posed and discussed at the meetings if this rule should be eliminated as being unnecessary in today's environment.

The rule should not be eliminated. The basis under which it was established remains and is an appropriate cost accounting treatment for settlement purposes. Because of the nature of how CAS pension costs are recognized in contracting there must be a settling of pension costs when a plan is terminated or a contractor ceases to be involved in Government business. The peculiarities of CAS pension calculations layer costs related to prior year gains and losses associated with pension assets (i.e. pension cost smoothing). A settlement adjustment is necessary to recognize variations from those prior periods to ensure both the Government and the contractor have equitably recognized their mutual pension obligations from the contractual relationship that is ending.

### **Curtailments**

Several actuaries at the public meeting discussed the view that curtailments should be treated as plan amendments not as a segment closing adjustment under CAS 413-50(c)(12). There appeared to be a widely held view that the 1995 update to CAS 413 was in error for making this change. An undesirable effect of that has been to hamper contractors from being able to manage aspects of their pensions to control costs through plan curtailments so as not to trip a CAS 413 segment closing adjustment.

We recommend that CAS board consider reviewing the treatment of plan curtailments under CAS 413 as part of the rule making process. Treating curtailments as plan amendments allowing for continued recognition of on-going pension cost verses triggering a plan settlement adjustment would be a desirable outcome from the rulemaking process.

### **"Orphan" Segments or Plans**

During the meetings there was a discussion on the "soft freezes" that a number of contractors have implemented.

CAS 413-50(c)(1) states:

*"For contractors who compute a composite pension cost covering plan participants in two or more segments, the base to be used for allocating such costs shall be representative of the factors on which the pension benefits are based. For example, a base consisting of salaries and wages shall be used for pension costs that are calculated as a percentage of salaries and wages; a base consisting of the number of participants shall be used for pension costs that are calculated as an amount per participant..." (Emphasis added)*

By freezing plans to new participants, the population of active plan participants over time will dwindle and ultimately become zero. Contractors distributing pension costs in accordance with the above citation will face uncertainty when their active population ceases but they continue to

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measure pension costs in accordance with CAS 412. We believe that allowing contractors to distribute that “orphan” cost across the total payroll or some other rationale of the organizations previously eligible for those pensions would prevent inequitable distribution of the cost and/or a premature plan terminations. Absent guidance, there is a potential for disputes regarding the treatment of this cost. We recommend that the board evaluate if the above citation can be expanded to provide options, additionally the inclusion of an illustration in CAS 413-60, that addresses this situation would be helpful.

### **Mark to Market (Ref CAS413-50(c)(12)(i))**

The working group posed a question if a “Mark to Market” true up was appropriate under the context of pension plan assets and liabilities having been accumulated over many years.

For segment closing adjustments the CAS board should modify segment closing calculations to be based on the MAL (Minimum Actuarial Liability) and use interest rates consistent with CAS 412-50(b)(7) the CAS Pension Harmonization rule.

As we’ve discussed above in addressing the need of segment closing adjustments, an adjustment is necessary when a pension plan ends and/or the contractor exits Government business/contracting. The peculiarities of CAS pension calculations layer cost related to prior year gains and losses associated with pension assets. A settlement adjustment will recognize variations from those prior periods to ensure both the Government and the contractor have equitably recognized their mutual pension obligations as part of a final settlement.

Using the MAL (for both qualified and nonqualified plans) is appropriate and in harmony with how pension costs are measured today for other pension calculations (CAS 412, GAAP & ERISA). Over time society’s view of pensions has evolved to where today a short term or a “mark to market” view is predominant. Congress effectively changed the contracting view of pension costs when it put into the Pension Protection Act (PPA) of 2006 the requirement for the CAS regulations to be “harmonized” with that short term view. The interest rates included in the CAS Pension Harmonization rule took steps to fulfill that Congressional mandate for CAS 412. Revising CAS 413 segment closing adjustments for this requirement will complete that process.

The nature of a segment closing has not changed; assets and liabilities are looked at, for a point in time irrespective of the age of the plan. What has changed, as noted above, is the measure of these assets, liabilities and costs to take a short term view consistent and in harmony with how pension costs are perceived and managed today.

### **Historical Records (Ref CAS 413-50(c)(5))**

During the meetings there was discussion on the issue of the lack of discrete historical records with respect inactive plan participants, plan contributions, benefits and earnings. Contractors currently implement the CAS using reasonable actuarial estimates, in lieu of having these discrete values.

In situations where plans have been in a surplus position, these estimates have been accepted in calculating segment closings. It has only been in situations when plans are in a deficit position that oversight agencies have made an issue of the lack of records. In our opinion reasonable actuarial estimates should be acceptable irrespective of the funding status of a plan (surplus or deficit).

Contractors were not required to maintain the records, nor at the time those records were available was there an expectation there would be a need for them in the future. There were the rule changes, and the regulators strident view of those changes, that has created the perceived need for those historical records, after they became unavailable,

Absolute precision should not be a fundamental requirement for pension segment closing calculations. Pension costs and plan funding at a point in time, by its very nature is an estimate. Naturally if information is available it should be used, as is practical. However not to allow reasonable estimates in this process in some circumstances, where they are acceptable in others, is inconsistent.

### **Conflicts between CAS, IRC 414(l) and negotiated sales agreement with transfer of assets**

The Board posed a question regarding instances when a segment is closed as a result of a sale or transfer of ownership to a successor in interest in the contracts of a segment, including the pension obligations. In general, the CAS formula for calculating the asset share to be transferred will be different from what is required under the IRC.

Contractors should not be penalized by the CAS for a conflict in these statutory requirements, the CAS should allow for the acceptance of the IRC formula regarding asset transfers for segment closing purposes.

### **Merging of Pension Plans and Segmented Plans**

Another item discussed related to CAS 413-50(c)(3) where the CAS instructs when to account for pension plans on a segmented basis. The CAS is silent with respect to the ability to merge segmented plans to be measured with fewer segments or on a composite basis going forward. Adding flexibility into the rules to allow for segments and plans to be merged may enable the acquisition community to better manage these pension obligations and streamline administrative costs of tracking segments and plans for CAS purposes that have long since been merged for GAAP or ERISA purposes.

### **Timing of Submitting Segment Closing Adjustment Calculations**

A recent court decision regarding the submission of CAS 413 segment closing adjustments has created challenges for CAS covered contractors that experience segment closings. That decision has resulted in a requirement for contractors to measure and submit the segment closing adjustments in the cost accounting period as of the date of the segment closing.

The nature of the actuarial calculations for these adjustments requires sufficient time to collect data and information to complete the process. Both the CAS standards and rules are silent regarding timing allowed to submit an adjustment.

The CAS rules establish the timing for when to submit a CASB disclosure statement (reference CASB 9903.202-1). It would be instructive and helpful to provide similar guidance with regard to segment closing adjustments. We feel this is a matter of measurement of the costs and not the

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administration of CAS which falls to the FAR council. If the CAS board recognizes the practical challenges to calculate these adjustments, just as they did with the timing of CASB statement filings, the FAR council could then implement any administrative rules from that point forward.

**CAS 412-50(c)(2)(i) – Discussion on the “Zero” cost floor**

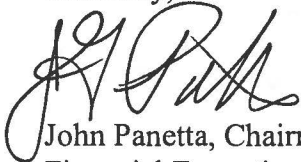
At the second public meeting while addressing the “need” for a segment closing adjustment an idea was forwarded by one of the working group members, to solicit discussion, regarding assignable cost credits. In particular the question was asked if the floor<sup>1</sup> in CAS 412-50(c)(2)(i) should be eliminated, thereby allowing pension credits to be recognized within cost accounting periods.

Contractors are precluded from withdrawing funds from pension plans to used for purposes that are not specifically sanctioned by the ERISA regulations. The idea of eliminating this floor would impose an inequitable financial imposition on contractors to fund these credits from resources outside of the pension, in effect double funding the same pension costs.

Modification of this floor should not be addressed by the board in the upcoming case. Settlement adjustments should only take place at the end of the contractual relationship between the Contractor and the Government or when a pension plan is terminated. Interim recognition of credits, would increase complexity and not change the need for a final settlement in the end.

We appreciate your consideration of our recommendations and welcome the opportunity to discuss any and all related matters. FEI staff and business leaders from FEI’s member companies are available to speak on any of these issues. If you or your staff should have any questions feel free to contact Mr. Robert Kramer at 202.626.7804.

Sincerely,



John Panetta, Chairman  
 Financial Executives International  
 Committee on Government Business



Deborah Tully, Chairman  
 Financial Executives International  
 Committee on Benefits Finance

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<sup>1</sup> CAS 412-50(c)(2)(i) states: Any amount of pension cost measured for the period that is less than zero shall be assigned to future accounting periods as an assignable cost credit. The amount of pension cost assigned to the period shall be zero.