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November 3, 2008

Cost Accounting Standards Board, attention: Raymond Wong  
Office of Federal Procurement Policy  
725 17th Street, NW  
Room 9013  
Washington, DC 20503  
Via email to [casb2@omb.eop.gov](mailto:casb2@omb.eop.gov)

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

Dear Mr. Wong:

We would like to thank the Cost Accounting Standards Board and its staff for the opportunity to comment on the CAS Board's Advance Notice of Proposed Rulemaking (ANPRM) issued in the Federal Register of Sept. 2, 2008. The comments expressed in the letter represent the undersigned consultants who work frequently with clients who are subject to the PPA and CAS 412 and 413. Our views are not necessarily the same as those of our clients or our firm.

### **Harmonization Mechanics**

The introduction of a new liability measure, the minimum actuarial liability (MAL), as well as the minimum normal cost (MNC), conceptually represents a desirable enhancement to the CAS rules. In addition, the concept of the "mandatory prepayment credit" appears to be an appropriate vehicle to provide for swift cost recovery in the event the PPA contributions exceed the CAS amount. However, we are concerned that both adjustments together create excess CAS expense. By that we mean, from our modeling, we are seeing that the CAS expense exceeds the PPA contribution and continues to grow into the future. While PPA is designed to fully fund a pension plan in 7 years, there is no such mechanism in the proposed CAS methodology, because with the Assignable Cost Limit raised to 125%, it is highly unlikely that will be reached and amortization bases eliminated ahead of schedule.

We realize that there are many different real life scenarios that exist. However, from our modeling of a newly established plan, it is apparent that these two adjustments work together to build excessive CAS expense amounts.

While the concept of the MAL is a good one, unless it is constrained or limited in some way, the CAS expense will exceed the PPA amount on an ongoing basis. We suggest considering



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dropping the MAL calculation and maintaining the “mandatory prepayment credit” mechanism which assures contractors prompt reimbursement of their cash costs. This may be oversimplification, but simplification is also a desirable goal.

### **Interest Rate for Minimum Actuarial Liability (MAL) and Minimum Normal Cost (MNC)**

We believe that although flexibility may be desirable in general, the interest rate used for the above calculations, if retained in the final CAS rules, should be more specifically defined. There is currently too much room for interpretation, and this sort of leeway creates additional decisions and issues, leaving significant exposure to legal and audit wrangling. Our suggestion would be to allow the contractor to choose either the methodology that they use under PPA, or the methodology they use under FAS to determine the ABO for the MAL calculation. Any change after implementation would be a voluntary change in method.

### **Voluntary Prepayment Credits**

Under PPA, the prefunding credit balance grows at the actual interest rate earned by the pension trust. Similar to PPA, it is proposed that the value of the voluntary prepayment account shall earn interest at the actual investment rate of return until it is applied towards pension cost. However, unlike PPA, the CAS proposal retains smoothing of the assets. We believe this may create an undesirable effect. Consider the situation where the pension trust is assumed to earn 8% has experienced a one year return far in excess of the assumed rate, for example 18%. After the excess return is smoothed, the assets have an actuarial return of 10%. But if the voluntary prepayment credit grows at 18%, the net CAS actuarial value of assets will be unnecessarily depressed, thus creating a higher than anticipated CAS expense. This works the opposite of what might be expected. However, if the voluntary prepayment credit is allowed to grow at the same rate as the actuarial value of assets, this situation would be avoided. We propose that the voluntary prepayment credit account grow at the same rate as the actuarial value of assets, which is readily determined.

### **Assignable Cost Limitation (ACL)**

We do not think that the ACL should be raised to 125% of the AAL, plus the normal cost. However, we do suggest considering an additional floor related to the MAL. Perhaps the greater of (AAL + NC), or (MAL + MNC) may work. We are finding that the 125% threshold is unlikely to be reached, which may lead to excessive CAS expense. What happens is that there are no mechanics to wipe out the existing bases. On the other hand, under PPA, a plan is expected to be “fully funded” in 7 years. In reality, under most contractors’ investment policy, it would be anticipated that there would be investment gains further reducing the PPA



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required funding in the long run, while CAS expense continues to grow under the ANPRM model.

### **Amortization and phase-in of Mandatory Prepayment Credits**

We suggest, that for government contractors for whom the percentage of their government contracting business is 90% or greater, that they can choose to claim reimbursement of the mandatory prepayment credit immediately when incurred. Because they derive the vast majority of their income from government reimbursement, we believe that the delayed reimbursement of required cash contributions may create a difficult financing situation for these contractors.

We thank you for the opportunity to offer comments on this ANPRM.

Sincerely,

A handwritten signature in cursive script that reads "James A. Winer".

James A. Winer, EA, ASA

A handwritten signature in cursive script that reads "Daniel Constantine".

Daniel Constantine, EA