

participation in the pension plan. The denominator of such fraction shall be the total pension costs assigned to cost accounting periods during those same years. This amount shall represent an adjustment of contract prices or cost allowance as appropriate. The adjustment may be recognized by modifying a single contract, several but not all contracts, or all contracts, or by use of any other suitable technique.

(vii) The full amount of the Government's share of an adjustment is allocable, without limit, as a credit or charge during the cost accounting period in which the event occurred and contract prices/costs will be adjusted accordingly. However, if the contractor continues to perform Government contracts, the contracting parties may negotiate an amortization schedule, including interest adjustments. Any amortization agreement shall consider the magnitude of the adjustment credit or charge, and the size and nature of the continuing contracts.

(viii) If a benefit curtailment is caused by a cessation of benefit accruals mandated by the Employee Retirement Income Security Act of 1974 (ERISA), 29 U.S.C. 1001 *et seq.*, as amended based on the plan's funding level, then no adjustment for the curtailment of benefit pursuant to this paragraph (c)(12) is required. Instead, the curtailment of benefits shall be recognized as follows:

(A) If the written plan document provides that benefit accruals are non-forfeitable once employment service has been rendered, and shall be retroactively restored if, and when, the benefit accrual limitation ceases, then the contractor may elect to recognize the expected benefit accruals in the actuarial accrued liability and normal cost during the period of cessation for the determination of pension cost in accordance with the provisions of 9904-412 and 413.

(B) Otherwise, the curtailment of benefits shall be recognized as an actuarial gain or loss for the period. The subsequent restoration of missed benefit accruals shall be recognized as an actuarial gain or loss in the period in which the restoration occurs.

[60 FR 16550, Mar. 30, 1995, as amended at 76 FR 81323, Dec. 27, 2011]

9904.413-60 Illustrations.

(a) *Assignment of actuarial gains and losses.* Contractor A has a defined-benefit pension plan whose costs are measured under an immediate-gain actuarial cost method. The contractor makes actuarial valuations every other year. In the past, at each valuation date, the contractor has calculated the actuarial gains and losses that have occurred since the previous valuation date, and has merged such gains and losses with the unfunded actuarial liabilities that are being amortized. Pursuant to 9904.413-40(a), the contractor must make an actuarial valuation annually, and any actuarial gains or losses measured must be separately amortized over a specific period of years beginning with the period for which the actuarial valuation is made in accordance with 9904.413-50(a)(1) and (2). If the actuarial gain or loss is measured for a period beginning prior to the "Applicability Date for the CAS Pension Harmonization Rule," the gain or loss shall be amortized over a fifteen-year period. For gains and losses measured for periods beginning on or after the "Applicability Date for the CAS Pension Harmonization Rule," the gain or loss shall be amortized over a ten-year period.

(b)(1) *Valuation of the assets of a pension plan.* Contractor B has a qualified defined-benefit pension plan, the assets of which are invested in equity securities, debt securities, and real property. The contractor, whose cost accounting period is the calendar year, has an annual actuarial valuation of the pension plan assets in June of each year; the effective date of the valuation is the beginning of that year. The contractor's method for valuing the assets of the pension plan is as follows: debt securities expected to be held to maturity are valued on an amortized basis running from initial cost at purchase to par value at maturity; land and buildings are valued at cost less depreciation taken to date; all equity securities and debt securities not expected to be held to maturity are valued on the basis of a five-year moving average of market values. In making an actuarial valuation, the contractor must compare the values reached under the asset

valuation method used with the market value of all the assets as required by 9904.413-40(b). In this case, the assets are valued as of January 1 of that year. The contractor established the following values as of the valuation date.

| | Asset valuation method | Market |
|--|------------------------|-------------------|
| Cash | \$100,000 | 100,000 |
| Equity securities | 6,000,000 | 7,800,000 |
| Debt securities, expected to be held to maturity | 550,000 | 600,000 |
| Other debt securities | 600,000 | 750,000 |
| Land and Buildings, net of depreciation | 400,000 | 750,000 |
| Total | 7,650,000 | 10,000,000 |

(2) Section 9904.413-50(b)(2) requires that the actuarial value of the assets of the pension plan fall within a corridor from 80 to 120 percent of market. The corridor for the plan's assets as of January 1 is from \$12 million to \$8 million. Because the asset value reached by the contractor, \$7,650,000, falls outside that corridor, the value reached must be adjusted to equal the nearest boundary of the corridor: \$8 million. In subsequent years the contractor must continue to use the same method for valuing assets in accordance with 9904.413-50(b)(3). If the value produced falls inside the corridor, such value shall be used in measuring pension costs.

(3) Assume that besides the market value of assets of \$10 million that Contractor B has on the valuation date of January 1, 2017, the contractor makes a contribution of \$100,000 on July 1, 2017, to cover its prior year's pension cost. Based on the contractor's assumed interest rate of 8% which complies with 9904.412-40(b)(2) and 9904.412.-50(b)(5), the contribution is discounted for the six-month period from January 1, 2017 to July 1, 2017. For contract cost accounting purposes, the contractor measures \$96,225 as the present value (PV) of the \$100,000 contribution on January 1, 2017 (discounted at 8% per annum for one half year using compound interest, i.e., $Net\ PV = \$100,000 / 1.08^{0.5}$), and therefore recognizes \$10,096,225 as the market value of assets as required by 9904.413-50(b)(6)(ii). The actuarial value of assets on January 1, 2017, must also reflect \$96,225 as the present value of the July 1, 2017, contribution of \$100,000.

(c) *Allocation of pension costs to segments.* (1) Contractor C has a defined-benefit pension plan covering employees at five segments. Pension cost is computed by use of an immediate-gain actuarial cost method. One segment (X) is devoted primarily to performing work for the Government. During the current cost accounting period, Segment X had a large and unforeseeable reduction of employees because of a contract termination at the convenience of the Government and because the contractor did not receive an anticipated follow-on contract to one that was completed during the period. The segment does continue to perform work under several other Government contracts. As a consequence of this termination of employment gain, a separate calculation of the pension cost for Segment X would result in materially different allocation of costs to the segment than would a composite calculation and allocation by means of a base. Accordingly, pursuant to 9904.413-50(c)(2), the contractor must calculate a separate pension cost for Segment X. In doing so, the entire termination of employment gain must be assigned to Segment X and amortized over fifteen years. If the actuarial assumptions for Segment X continue to be substantially the same as for the other segments, the termination of employment gain may be separately amortized and allocated only to Segment X; all other Segment X computations may be included as part of the composite calculation. After the termination of employment gain is amortized, the contractor is no longer required to separately calculate the costs for Segment X unless subsequent events require each separate calculation.

(2) Contractor D has a defined-benefit pension plan covering employees at ten segments, all of which have some contracts subject to this Standard. The contractor's calculation of normal cost is based on a percentage of payroll for all employees covered by the plan. One of the segments (Segment Y) is entirely devoted to Government work. The contractor's policy is to place junior employees in this segment. The salary scale assumption for employees of the segment is so different from that of the other segments that the pension

cost for Segment Y would be materially different if computed separately. Pursuant to 9904.413-50(c)(2)(iii), the contractor must compute the pension cost for Segment Y as if it were a separate pension plan. Therefore, the contractor must allocate a portion of the market value of pension plan's assets to Segment Y in accordance with 9904.413-50(c)(5). Memorandum records may be used in making the allocation. However, because the necessary records only exist for the last five years, 9904.413-50(c)(5)(ii) permits an initial allocation to be made as of the earliest date such records are available. The initial allocation must be made on the basis of the immediate gain actuarial cost method or methods used to calculate prior years' pension cost for the plan. Once the assets have been allocated, they shall be brought forward to the current period as described in 9904.413-50(c)(7). A portion of the undivided actuarial value of assets shall then be allocated to the segment based on the segment's proportion of the market value of assets in accordance with 9904.413-50(c)(5)(iii). In future cost accounting periods, the contractor shall make separate pension cost calculations for Segment Y based on the appropriate salary scale assumption. Because the factors comprising pension cost for the other nine segments are relatively equal, the contractor may compute pension cost for these nine segments by using composite factors. As required by 9904.413-50(c)(1), the base to be used for allocating such costs shall be representative of the factors on which the pension benefits are based.

(3) Contractor E has a defined-benefit pension plan which covers employees at twelve segments. The contractor uses composite actuarial assumptions to develop a pension cost for all segments. Three of these segments primarily perform Government work; the work at the other nine segments is primarily commercial. Employee turnover at the segments performing commercial work is relatively stable. However, employment experience at the Government segments has been very volatile; there have been large fluctuations in employment levels and the contractor assumes that this pattern of employ-

ment will continue to occur. It is evident that separate termination of employment assumptions for the Government segments and the commercial segments will result in materially different pension costs for the Government segments. Therefore, the cost for these segments must be separately calculated, using the appropriate termination of employment assumptions for these segments in accordance with 9904.413-50(c)(2)(iii).

(4) Contractor F has a defined-benefit pension plan covering employees at 25 segments. Twelve of these segments primarily perform Government work; the remaining segments perform primarily commercial work. The contractor's records show that the termination of employment experience and projections for the twelve segments are so different from that of the average of all of the segments that separate pension cost calculations are required for these segments pursuant to 9904.413-50(c)(2). However, because the termination of employment experience and projections are about the same for all twelve segments, Contractor F may calculate a composite pension cost for the twelve segments and allocate the cost to these segments by use of an appropriate allocation base in accordance with 9904.413-50(c)(1).

(5) After this Standard becomes applicable to Contractor G, it acquires Contractor H and makes it Segment H. Prior to the merger, each contractor had its own defined-benefit pension plan. Under the terms of the merger, Contractor H's pension plan and plan assets were merged with those of Contractor G. The actuarial assumptions, current salary scale, and other plan characteristics are about the same for Segment H and Contractor G's other segments. However, based on the same benefits at the time of the merger, the plan of Contractor H had a disproportionately larger unfunded actuarial liability than did Contractor G's plan. Any combining of the assets and actuarial liabilities of both plans would result in materially different pension cost allocation to Contractor G's segments than if pension cost were computed for Segment H on the basis that

it had a separate pension plan. Accordingly, pursuant to 9904.413-50(c)(3), Contractor G must allocate to Segment H a portion of the assets of the combined plan. The amount to be allocated shall be the market value of Segment H's pension plan assets at the date of the merger determined in accordance with 9904.413-50(c)(5), and shall be adjusted for subsequent receipts and expenditures applicable to the segment in accordance with 9904.413-50(c)(7). Pursuant to 9904.413-40(b)(1) and 9904.413-50(c)(5)(iii), Contractor G must use these amounts of assets as the basis for determining the actuarial value of assets used for calculating the annual pension cost applicable to Segment H.

(6) Contractor I has a defined-benefit pension plan covering employees at seven segments. The contractor has been making a composite pension cost calculation for all of the segments. However, the contractor determines that, pursuant to this Standard, separate pension costs must be calculated for one of the segments. In accordance with 9904.413-50(c)(9), the contractor elects to allocate pension plan assets only for the active participants of that segment. The contractor must then create a segment to accumulate the assets and actuarial accrued liabilities for the plan's inactive participants. When active participants of a segment become inactive, the contractor must transfer assets to the segment for inactive participants equal to the actuarial accrued liabilities for the participants that become inactive.

(7) Contractor J has a defined-benefit pension plan covering employees at ten segments. The contractor makes a composite pension cost calculation for all segments. The contractor's records show that the termination of employment experience for one segment, which is performing primarily Government work, has been significantly different from the average termination of employment experience of the other segments. Moreover, the contractor assumes that such different experience will continue. Because of this fact, and because the application of a different termination of employment assumption would result in significantly different costs being charged the Government, the contractor must develop sep-

arate pension cost for that segment. In accordance with 9904.413-50(c)(2)(iii), the amount of pension cost must be based on an acceptable termination of employment assumption for that segment; however, as provided in 9904.413-50(c)(10), all other assumptions for that segment may be the same as those for the remaining segments.

(8) Contractor K has a five-year contract to operate a Government-owned facility. The employees of that facility are covered by the contractor's overall qualified defined-benefit pension plan which covers salaried and hourly employees at other locations. At the conclusion of the five-year period, the Government decides not to renew the contract. Although some employees are hired by the successor contractor, because Contractor K no longer operates the facility, it meets the 9904.413-30(a)(20)(iii) definition of a segment closing. Contractor K must compute the actuarial accrued liability for the pension plan for that facility using the accrued benefit cost method as of the date the contract expired in accordance with 9904.413-50(c)(12)(i). Because many of Contractor K's employees are terminated from the pension plan, the Internal Revenue Service considers it to be a partial plan termination, and thus requires that the terminated employees become fully vested in their accrued benefits to the extent such benefits are funded. Taking this mandated benefit improvement into consideration in accordance with 9904.413-50(c)(12)(iv), the actuary calculates the actuarial accrued liability to be \$12.5 million. The contractor must then determine the market value of the pension plan assets allocable to the facility, in accordance with 9904.413-50(c)(5), as of the date agreed to by the contracting parties pursuant to 9904.413-50(c)(12)(iii), the date the contract expired. In making this determination, the contractor is able to do a full historical reconstruction of the market value of the assets allocated to the segment. In this case, the market value of the segment's assets amounted to \$13.8 million. Thus, for this facility the value of pension plan assets exceeded the actuarial accrued liability by \$1.3 million. Pursuant to 9904.413-50(c)(12)(vi), this amount

indicates the extent to which the Government over-contributed to the pension plan for the segment and, accordingly, is the amount of the adjustment due to the Government.

(9) Contractor L operated a segment over the last five years during which 80% of its work was performed under Government CAS-covered contracts. The Government work was equally divided each year between fixed-price and cost-type contracts. The employees of the facility are covered by a funded nonqualified defined-benefit pension plan accounted for in accordance with 9904.412-50(c)(3). For each of the last five years the highest Federal corporate income tax rate has been 30%. Pension costs of \$1 million per year were computed using a projected benefit cost method. Contractor L funded at the complement of the tax rate (\$700,000 per year). The pension plan assets held by the funding agency earned 8% each year. At the end of the five-year period, the funding agency balance; i.e., the market value of invested assets, was \$4.4 million. As of that date, the accumulated value of permitted unfunded accruals; i.e., the current value of the \$300,000 not funded each year, is \$1.9 million. As defined by 9904.413-30(a)(20)(i), a segment closing occurs when Contractor L sells the segment at the end of the fifth year. Thus, for this segment, the market value of the assets of the pension plan determined in accordance with 9904.413-30(a)(10) is \$6.3 million, which is, the sum of the funding account balance (\$4.4 million) and the accumulated value of permitted unfunded accruals (\$1.9 million). Pursuant to 9904.413-50(c)(12)(i), the contractor uses the accrued benefit cost method to calculate an actuarial accrued liability of \$5 million as of that date. There is no transfer of plan assets or liabilities to the buyer. The difference between the market value of the assets and the actuarial accrued liability for the segment is \$1.3 million (\$6.3 million—\$5 million). Pursuant to 9904.413-50(c)(12)(vi), the adjustment due to the Government for its 80% share of previously-determined pension costs for CAS-covered contracts is \$1.04 million (80% times \$1.3 million). Because contractor L has no other Government contracts the \$1.04

million is a credit due to the Government.

(10) Assume the same facts as in 9904.413-60(c)(9), except that Contractor L continues to perform substantial Government contract work through other segments. After considering the amount of the adjustment and the current level of contracts, the contracting officer and the contractor establish an amortization schedule so that the \$1.04 million is recognized as credits against ongoing contracts in five level annual installments, including an interest adjustment based on the interest assumption used to compute pension costs for the continuing contracts. This amortization schedule satisfies the requirements of 9904.413-50(c)(12)(vii).

(11) Assume the same facts as in 9904.413-60(c)(9). As part of the transfer of ownership, Contractor L also transfers all pension liabilities and assets of the segment to the buyer. Pursuant to 9904.413-50(c)(12)(v), the segment closing adjustment amount for the current period is transferred to the buyer and is subsumed in the future pension cost accounting of the buyer. If the transferred liabilities and assets of the segment are merged into the buyer's pension plan which has a different ratio of market value of pension plan assets to actuarial accrued liabilities, then pension costs must be separately computed in accordance with 9904.413-50(c)(3).

(12) Contractor M sells its only Government segment. Through a contract novation, the buyer assumes responsibility for performance of the segment's Government contracts. Just prior to the sale, the actuarial accrued liability under the actuarial cost method in use is \$18 million, and the market value of assets allocated to the segment of \$22 million. In accordance with the sales agreement, Contractor M is required to transfer \$20 million of plan assets to the new plan sponsored by the buyer. In determining the segment closing adjustment under 9904.413-50(c)(12), the actuarial accrued liability and the market value of assets are reduced by the amounts transferred to the buyer's new plan in accordance with the terms of the sales agreement. The adjustment amount, which is the difference between the remaining assets (\$2 million)

and the remaining actuarial liability (\$0), is \$2 million.

(13) Contractor N has three segments that perform primarily government work and has been separately calculating pension costs for each segment. As part of a corporate reorganization, the contractor closes the production facility for Segment A and transfers all of that segment's contracts and employees to Segments B and C, the two remaining government segments. The pension assets from Segment A are allocated to the remaining segments based on the actuarial accrued liability of the transferred employees. Because Segment A has discontinued operations, a segment closing has occurred pursuant to 9904.413-30(a)(20)(ii). However, because all pension assets and liabilities have been transferred to other segments or to successors in interest of the contracts of Segment A, an immediate period adjustment is not required pursuant to 9904.413-50(c)(12)(v).

(14) Contractor O does not renew its government contract and decides to not seek additional government contracts for the affected segment. The contractor reduces the work force of the segment that had been dedicated to the government contract and converts the segment's operations to purely commercial work. In accordance with 9904.413-30(a)(20)(iii), the segment has closed. Immediately prior to the end of the contract the market value of the segment's assets was \$20 million and the actuarial accrued liability determined under the actuarial cost method in use was \$22 million. An actuarial accrued liability of \$16 million is determined using the accrued benefit cost method as required by 9904.413-50(c)(12)(i). The segment closing adjustment is \$4 million (\$20 million-\$16 million).

(15) Contractor P terminated its underfunded defined-benefit pension plan for hourly employees. The market value of the assets for the pension plan is \$100 million. Although the actuarial accrued liability exceeds the \$100 million of assets, the termination liability for benefits guaranteed by the Pension Benefit Guarantee Corporation (PBGC) is only \$85 million. Therefore, the \$15 million of assets in excess of the liability for guaranteed benefits are allo-

cated to plan participants in accordance with PBGC regulations. The PBGC does not impose an assessment for unfunded guaranteed benefits against the contractor. The adjustment amount determined under 9904.413-50(c)(12) is zero.

(16) Assume the same facts as 9904.413-60(c)(15), except that the termination liability for benefits guaranteed by the Pension Benefit Guarantee Corporation (PBGC) is \$120 million. The PBGC imposes a \$20 million (\$120 million-\$100 Million) assessment against Contractor P for the unfunded guaranteed benefits. The contractor then determines the Government's share of the pension plan termination adjustment charge of \$20 million in accordance with 9904.413-50(c)(12)(vi). In accordance with 9904.413-50(c)(12)(vii), the cognizant Federal official may negotiate an amortization schedule based on the contractor's schedule of payments to the PBGC.

(17) Assume the same facts as in 9904.413-60(c)(16), except that pursuant to 9904.412-50(a)(2) Contractor P has an unassignable portion of unfunded actuarial liability for prior unfunded pension costs which equals \$8 million. The \$8 million represents the value of assets that would have been available had all assignable costs been funded and, therefore, must be added to the assets used to determine the pension plan termination adjustment in accordance with 9904.413-50(c)(12)(ii). In this case, the adjustment charge is determined to be \$12 million (\$20 million-\$8 million).

(18) Contractor Q terminates its qualified defined-benefit pension plan without establishing a replacement plan. At termination, the market value of assets is \$85 million. All obligations for benefits are irrevocably transferred to an insurance company by the purchase of annuity contracts at a cost of \$55 million, which thereby determines the actuarial liability in accordance with 9904.413-50(c)(12)(i). The contractor receives a reversion of \$30 million (\$85 million-\$55 million). The adjustment is equal to the reversion amount, which is the excess of the market value of assets over the actuarial liability. However, the Internal Revenue Code imposes a 50% excise tax of \$15 million (50% of \$30 million) on

the reversion amount. In accordance with 9904.413-50(c)(12)(vi), the \$30 million adjustment amount is reduced by the \$15 million excise tax. Pursuant to 9904.413-50(c)(12)(vi), a share of the \$15 million net adjustment (\$30 million-\$15 million) shall be allocated, without limitation, as a credit to CAS-covered contracts.

(19) Assume that, in addition to the facts of 9904.413-60(c)(18), Contractor Q has an accumulated value of prepayment credits of \$10 million. Contractor Q has \$3 million of unfunded actuarial liability separately identified and maintained pursuant to 9904.412-50(a)(2). The assets used to determine the adjustment amount equal \$78 million. This amount is determined as the market value of assets (\$85 million) minus the accumulated value of prepayment credits (\$10 million) plus the portion of unfunded actuarial liability maintained pursuant to 9904.412-50(a)(2) (\$3 million). Therefore, the difference between the assets and the actuarial liability is \$23 million (\$78 million-\$55 million). In accordance with 9904.413-50(c)(12)(vi), the \$23 million adjustment is reduced by the \$15 million excise tax to equal \$8 million. The contracting officer determines that the pension cost data of the most recent eight years reasonably reflects the government's participation in the pension plan. The sum of costs allocated to fixed-price and cost-type contracts subject to this Standard over the eight-year period is \$21 million. The sum of costs assigned to cost accounting periods during the last eight years equals \$42 million. Therefore, the government's share of the net adjustment is 50% (\$21 million divided by \$42 million) of the \$8 million and equals \$4 million.

(20) Contractor R maintains a qualified defined-benefit pension plan. Contractor R amends the pension plan to eliminate the earning of any future benefits; however the participants do continue to earn vesting service. Pursuant to 9904.413-30(a)(7), a curtailment of benefits has occurred. An actuarial accrued liability of \$78 million is determined under the accrued benefit cost method using the interest assumption used for the last four actuarial valuations. The market value of assets, determined in accordance with 9904.413-

50(c)(12)(ii), is \$90 million. Contractor R shall determine the Government's share of the adjustment in accordance with 9904.413-50(c)(12)(vi). The contractor then shall allocate that share of the \$12 million adjustment (\$90 million-\$78 million) determined under 9904.413-50(c)(12) to CAS-covered contracts. The full amount of adjustment shall be made without limitation in the current cost accounting period unless arrangements to amortize the adjustment are permitted and negotiated pursuant to 9904.413-50(c)(12)(vii).

(21) Contractor S amends its qualified defined-benefit pension plan to "freeze" all accrued benefits at their current level. Although not required by law, the amendment also provides that all accrued benefits are fully vested. Contractor S must determine the adjustment for the curtailment of benefits. Fifteen months prior to the date of the plan amendment freezing benefits, Contractor S voluntarily amended the plan to increase benefits. This voluntary amendment resulted in an overall increase of over 10%. All actuarial accrued liabilities are computed using the accrued benefit cost method. The actuarial accrued liability for all accrued benefits is \$1.8 million. The actuarial accrued liability for vested benefits immediately prior to the current plan amendment is \$1.6 million. The actuarial accrued liability determined for vested benefits based on the plan provisions before the voluntary amendment is \$1.4 million. The \$1.4 million actuarial liability is based on benefit provisions that have been in effect for six years and is fully recognized. However, the \$200,000 increase in liability due to the voluntary benefit improvement adopted 15 months ago must be phased-in on a prorata basis over 60 months. Therefore, only 25% (15 months divided by 60 months) of the \$200,000 increase, or \$50,000, can be included in the curtailment liability. The current amendment voluntarily increasing vesting was just adopted and, therefore, none of the associated increase in actuarial accrued liability can be included. Accordingly, in accordance with 9904.413-50(c)(12)(iv), Contractor S determines the adjustment for the curtailment of

benefits using an actuarial accrued liability of \$1.45 million (\$1.4 million plus \$50,000).

(22) Contractor T has maintained separate qualified defined-benefit plans for Segments A and B and has separately computed pension costs for each segment. Both segments perform work under contracts subject to this Standard. On the first day of the current cost accounting period, Contractor T merges the two pension plans so that segments A and B are now covered by a single pension plan. Because the ratio of assets to liabilities for each plan is materially different from that of the merged plan, the contractor continues the separate computation of pension costs for each segment pursuant to 9904.413-50(c)(3). After considering the assignable cost limitations for each segment, Contractor T determines the potentially assignable pension cost is \$12,000 for Segment A and \$24,000 for Segment B. The maximum tax-deductible amount for the merged plan is \$30,000, which is \$6,000 less than the sum of the otherwise assignable costs for the segments (\$36,000). To determine the portion of the total maximum tax-deductible amount applicable to each segment on a reasonable basis, the contractor prorates the \$30,000 by the pension cost determined for each segment after considering the assignable cost limitations for each segment. Therefore, in accordance with 9904.413-50(c)(1)(i), the assignable pension cost is \$10,000 for Segment A (\$30,000 times \$12,000 divided by \$36,000) and \$20,000 for Segment B (\$30,000 times \$24,000 divided by \$36,000). Contractor T funds the full \$30,000 and allocates the assignable pension cost for each segment to final cost objectives.

(23) Assume the same facts as in 9904.413-60(c)(22), except that the tax-deductible maximum is \$40,000 and the ERISA minimum funding requirement is \$18,000. Since funding of the accrued pension cost is not constrained by tax-deductibility, Contractor T determines the assignable pension cost to be \$12,000 for Segment A and \$24,000 for Segment B. If the contractor funds \$36,000, the full assigned pension cost of each segment can be allocated to final cost objectives. However, because the contractor funds only the ERISA min-

imum of \$18,000, the contractor must apportion the \$18,000 contribution to each segment on a basis that reflects the assignable pension cost of each segment in accordance with 9904.413-50(c)(1)(ii). To measure the funding level of each segment, Contractor T uses an ERISA minimum funding requirement separately determined for each segment, as if the segment were a separate plan. On this basis, the allocable pension cost is determined to be \$8,000 for Segment A and \$10,000 for Segment B. In accordance with 9904.412-50(a)(2), Contractor T must separately identify, and eliminate from future cost computations, \$4,000 (\$12,000 - \$8,000) for Segment A and \$14,000 (\$24,000 - \$10,000) for Segment B.

(24) Assume the same facts as in 9904.413-60(c)(23), except that Segment B performs only commercial work. As permitted by 9904.413-50(c)(1)(ii), the contractor first applies \$12,000 of the contribution amount to Segment A, which is performing work under Government contracts, for purposes of 9904.412-50(d)(1). The remaining \$6,000 is applied to Segment B. The full assigned pension cost of \$12,000 for Segment A is funded and such amount is allocable to CAS-covered contracts. Pursuant to 9904.412-50(a)(2), the contractor separately identifies, and eliminates from future pension costs, the \$18,000 (\$24,000 - \$6,000) of unfunded assigned cost for Segment B.

(25) Contractor U has a qualified defined-benefit pension plan covering employees at two segments that perform work on contracts subject to this Standard. The ratio of the actuarial value of assets to actuarial accrued liabilities is significantly different between the two segments. Therefore, Contractor U is required to compute pension cost separately for each segment. The actuarial value of assets allocated to Segment A exceeds the actuarial accrued liability by \$50,000. Segment B has an unfunded actuarial liability of \$20,000. Thus, the pension plan as a whole has an actuarial surplus of \$30,000. Pension cost of \$5,000 is computed for Segment B and is less than Segment B's assignable cost limitation of \$9,000. The tax-deductible maximum is \$0 for the plan as whole and, therefore, \$0 for each segment.

Contractor U will deem all existing amortization bases maintained for Segment A to be fully amortized in accordance with 9904.412-50(c)(2)(ii). For Segment B, the amortization of existing portions of unfunded actuarial liability continues unabated. Furthermore, pursuant to 9904.412-50(c)(2)(iii), the contractor establishes an additional amortization base for Segment B for the assignable cost deficit of \$5,000.

(26) Assume the same facts as Illustration 9904.413-60(c)(20), except that ERISA required Contractor R to cease benefit accruals. In this case, the segment closing adjustment is exempted by 9904.413-50(c)(12)(viii). If the written plan document provides that benefit accruals will automatically be retroactively reinstated when permitted by ERISA, then the pension cost measured pursuant to CAS 412 and this Standard for contract costing purposes may continue to recognize the benefit accruals, if the contractor has so elected. If there is evidence that the contractor might revoke the plan provision to restore the missed benefit accruals, then the contractor shall not make such election. Otherwise, the pension cost measured pursuant to CAS 412 and this Standard shall not recognize any benefit accruals until, and unless, the plan is subsequently amended to reinstate the accruals. Furthermore, when the plan is amended, the change in the actuarial accrued liability shall be measured as an actuarial gain or loss, and amortized in accordance with 9904.412-50(a)(1)(v) and 9904.413-50(a)(2)(ii).

[60 FR 16553, Mar. 30, 1995; 60 FR 20248, Apr. 25, 1995, as amended at 61 FR 58011, Nov. 12, 1996; 76 FR 81324, Dec. 27, 2011; 77 FR 43543, July 25, 2012]

9904.413-61 Interpretation. [Reserved]

9904.413-62 Exemption.

None for this Standard.

9904.413-63 Effective Date.

(a) This Standard is effective as February 27, 2012, hereafter known as the “Effective Date”, and is applicable for cost accounting periods after June 30, 2012, hereafter known as the “Implementation Date.”

(b) Following the award of a contract or subcontract subject to this Standard

on or after the Effective Date, contractors shall follow this Standard, as amended, beginning with its next cost accounting period beginning after the later of the Implementation Date or the award date of a contract or subcontract to which this Standard is applicable. The first day of the cost accounting period that this Standard, as amended, is first applicable to a contractor or subcontractor is the “Applicability Date of the CAS Pension Harmonization Rule” for purposes of this Standard. Prior to the Applicability Date of the CAS Pension Harmonization Rule, contractors or subcontractors shall follow the Standard in 9904.413 in effect prior to the Effective Date.

(1) Following the award of a contract or subcontract subject to this Standard received on or after the Effective Date, contractors with contracts or subcontracts subject to this Standard that were received prior to the Effective Date shall continue to follow the Standard in 9904.413 in effect prior to the Effective Date. Beginning with the Applicability Date of the CAS Pension Harmonization Rule, such contractors shall follow this Standard, as amended, for all contracts or subcontracts subject to this Standard.

(2) Following the award of a contract or subcontract subject to this Standard received during the period beginning on or after the date published in the FEDERAL REGISTER and ending before the Effective Date, contractors shall follow the Standard in 9904.413 in effect prior to the Effective Date. If another contract or subcontract, subject to this Standard, is received on or after the Effective Date, the provisions of 9904.413-63(b)(1) shall apply.

[60 FR 16557, Mar. 30, 1995, as amended at 76 FR 81325, Dec. 27, 2011; 77 FR 43543, July 25, 2012]

9904.413-64 Transition method.

(a) To be acceptable, any method of transition from compliance with Standard 9904.413 in effect prior to March 30, 1995, to compliance with Standard 9904.413 in effect as of March 30, 1995, must follow the equitable principle that costs, which have been previously provided for, shall not be redundantly provided for under revised