

(4) According to the actuarial valuation report, the 2017 actuarial loss of \$523,788 includes a \$494,000 actuarial loss due to a change in measurement basis from using an actuarial accrued liability of \$2,100,000 to using a minimum actuarial liability of \$2,594,000, including the effect of any change in the interest rate basis. (See Table 11 for the actuarial accrued liability and the minimum actuarial liability.) The \$494,000 loss (\$2,594,000-\$2,100,000) due to the change in the liability basis is amortized as part of the total actuarial loss of \$523,788 over a ten-year period in accordance with 9904.412-50(a)(1)(v) and 9904.413-50(a)(2)(ii). Similarly, the next year's valuation report shows a 2018 actuarial gain of \$437,696, which includes a \$93,000 actuarial gain (\$2,305,000-\$2,212,000) due to a change from a minimum actuarial liability back to an actuarial accrued liability basis, which includes the effect of any change in interest rate basis. The \$93,000 gain due to the change in the liability basis will be amortized as part of the total \$437,696 actuarial gain over a ten-year period in accordance with 9904.412-50(a)(1) and 9904.413-50(a)(2)(ii).

[76 FR 81312, Dec. 27, 2011, as amended at 77 FR 43543, July 25, 2012]

9904.412-61 Interpretation. [Reserved]

9904.412-62 Exemption.

None for this Standard.

9904.412-63 Effective Date.

(a) This Standard is effective as of 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 Har-

monization 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 9904.412 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 9904.412 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 9904.412 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 9904.412-63(b)(1) shall apply.

[76 FR 81319, Dec. 27, 2011, as amended at 77 FR 43543, July 25, 2012]

9904.412-64 Transition method.

To be acceptable, any method of transition from compliance with Standard 9904.412 in effect prior to March 30, 1995, to compliance with the Standard effective March 30, 1995, must follow the equitable principle that costs, which have been previously provided for, shall not be redundantly provided for under revised methods. Conversely, costs that have not previously been provided for must be provided for under the revised method. This transition subsection is not intended to qualify for purposes of assignment or allocation, pension costs which have previously been disallowed for reasons other than ERISA tax-deductibility limitations. The sum of all portions of unfunded actuarial liability identified pursuant to Standard 9904.412, effective March 30, 1995, including such portions

of unfunded actuarial liability determined for transition purposes, is subject to the provisions of 9904.412-40(c) on requirements for assignment. The method, or methods, employed to achieve an equitable transition shall be consistent with the provisions of Standard 9904.412, effective March 30, 1995, and shall be approved by the contracting officer. Examples and illustrations of such transition methods include, but are not limited to, the following:

(a) *Reassignment of certain prior unfunded accruals.* (1) Any portion of pension cost for a qualified defined-benefit pension plan, assigned to a cost accounting period prior to March 30, 1995, which was not funded because such cost exceeded the maximum tax-deductible amount, determined in accordance with ERISA, shall be assigned to subsequent accounting periods, including an adjustment for interest, as an assignable cost deficit. However, such costs shall be assigned to periods on or after March 30, 1995, only to the extent that such costs have not previously been allocated as cost or price to contracts subject to this Standard.

(2) Alternatively, the transition method described in paragraph (d) of this subsection may be applied separately to costs subject to paragraph (a)(1) of this subsection.

(b) *Reassignment of certain prior unallocated credits.* (1) Any portion of pension cost for a defined-benefit pension plan, assigned to a cost accounting period prior to March 30, 1995, which was not allocated as a cost or price credit to contracts subject to this Standard because such cost was less than zero, shall be assigned to subsequent accounting periods, including an adjustment for interest, as an assignable cost credit.

(2) Alternatively, the transition method described in paragraph (d) of this subsection may be applied separately to costs subject to paragraph (b)(1) of this subsection.

(c) *Accounting for certain prior allocated unfunded accruals.* Any portion of unfunded pension cost for a nonqualified defined-benefit pension plan, assigned to a cost accounting period prior to March 30, 1995, that was allocated as cost or price to contracts sub-

ject to this Standard, shall be recognized in subsequent accounting periods, including adjustments for imputed interest and benefit payments, as an accumulated value of permitted unfunded accruals.

(d) *“Fresh start” alternative transition method.* The transition methods of paragraphs (a)(1), (b)(1), and (c) of this subsection may be implemented using the so-called “fresh start” method whereby a portion of the unfunded actuarial liability of a defined-benefit pension plan, which occurs in the first cost accounting period after March 30, 1995, shall be treated in the same manner as an actuarial gain or loss. Such portion of unfunded actuarial liability shall exclude any portion of unfunded actuarial liability that must continue to be separately identified and maintained in accordance with 9904.412-50(a)(2), including interest adjustments. If the contracting officer already has approved a different amortization period for the fresh start amortization, then such amortization period shall continue.

(e) *Change to pay-as-you-go method.* A change in accounting method subject to 9903.302 will have occurred whenever costs of a nonqualified defined-benefit pension plan have been accounted for on an accrual basis prior to March 30, 1995, and the contractor must change to the pay-as-you-go cost method because the plan does not meet the requirement of 9904.412-50(c)(3), either by election or otherwise. In such case, any portion of unfunded pension cost, assigned to a cost accounting period prior to March 30, 1995 that was allocated as cost or price to contracts subject to this Standard, shall be assigned to future accounting periods, including adjustments for imputed interest and benefit payments, as an accumulated value of permitted unfunded accruals. Costs computed under the pay-as-you-go cost method shall be charged against such accumulated value of permitted unfunded accruals before such costs may be allocated to contracts.

(f) *Actuarial assumptions.* The actuarial assumptions used to calculate assignable cost deficits, assignable cost credits, or accumulated values of permitted unfunded accruals for transition purposes shall be consistent with

the long term assumptions used for valuation purposes for such prior periods unless the contracting officer has previously approved the use of other reasonable assumptions.

(g) *Transition illustrations.* Unless otherwise noted, paragraphs (g) (1) through (9) of this subsection address pension costs and transition amounts determined for the first cost accounting period beginning on or after the date this revised Standard becomes applicable to a contractor. For purposes of these illustrations an interest assumption of 7% is presumed to be in effect for all periods.

(1) For the cost accounting period immediately preceding the date this revised Standard was applicable to a contractor, Contractor S computed and assigned pension cost of \$1 million for a qualified defined-benefit pension plan. The contractor made a contribution equal to the maximum tax-deductible amount of \$800,000 for the period leaving \$200,000 of assigned cost unfunded for the period. Except for this \$200,000, no other assigned pension costs have ever been unfunded or otherwise disallowed. Using the transition method of paragraph (a)(1) of this subsection, the contractor shall establish an assignable cost deficit equal to \$214,000 ($\$200,000 \times 1.07$), which is the prior unfunded assigned cost plus interest. If this assignable cost deficit amount, plus all other portions of unfunded actuarial liability identified in accordance with 9904.412-50(a) (1) and (2), equal the total unfunded actuarial liability, pension cost may be assigned to the current period.

(2) Assume that Contractor S in 9904.412-64(g)(1) priced the entire \$1 million into firm fixed-price contracts. In this case, no assignable cost deficit amount may be established. In addition, the \$214,000 ($\$200,000 \times 1.07$) shall be separately identified and maintained in accordance with 9904.412-50(a)(2). If all portions of unfunded actuarial liability identified in accordance with 9904.412-50(a) (1) and (2), equal the total unfunded actuarial liability, pension cost may be assigned to the period.

(3) Assume the same facts as in 9904.412-64(g)(1), except Contractor S only funded and allocated \$500,000. The \$300,000 of assigned cost that was not

funded, but could have been funded without exceeding the tax-deductible maximum, may not be recognized as an assignable cost deficit. Instead, the \$300,000 must be separately identified and maintained in accordance with 9904.412-50(a)(2). If the \$321,000 ($\$300,000 \times 1.07$) plus the \$214,000 already identified as an assignable cost deficit plus all other portions of unfunded actuarial liability identified in accordance with 9904.412-50(a) (1) and (2), equal the total unfunded actuarial liability, pension cost may be assigned to the period.

(4) Assume that, for Contractor S in 9904.412-64(g)(3), the only portion of unfunded actuarial liability that must be identified under 9904.412-50(a)(2) is the \$321,000. If Contractor S chooses to use the "fresh start" transition method, the \$321,000 of unfunded assigned cost must be subtracted from the total unfunded actuarial liability in accordance with 9904.412-63(d). The net amount of unfunded actuarial liability shall then be amortized over a period of fifteen years as an actuarial loss in accordance with 9904.412-50(a)(1)(v) and Cost Accounting Standard 9904.413.

(5) For the cost accounting period immediately preceding the date this revised Standard becomes applicable to a contractor, Contractor T computed and assigned pension cost of negative \$400,000 for a qualified defined-benefit plan. Because the contractor could not withdraw assets from the trust fund, the contracting officer agreed that instead of allocating a current period credit to contracts, the negative costs would be carried forward, with interest, and offset against future pension costs allocated to the contract. Using the transition method of paragraph (b)(1) of this subsection, the contractor shall establish an assignable cost credit equal to \$428,000 ($\$400,000 \times 1.07$). If this assignable cost credit amount, plus all other portions of unfunded actuarial liability identified in accordance with 9904.412-50(a) (1) and (2), equals the total unfunded actuarial liability, pension cost may be assigned to the period.

(6) Assume that in 9904.412-64(g)(5), following guidance issued by the contracting agency the contracting officer

had deemed the cost for the prior period to be \$0. In order to satisfy the requirements of 9904.412-40(c) and assign pension cost to the current period, Contractor S must account for the prior period negative accruals that have not been specifically identified. Following the transition method of paragraph (b)(1) of this subsection, the contractor shall identify \$428,000 as an assignable cost credit.

(7) Assume the facts of 9904.412-64(g)(5), except Contractor S uses the “fresh start” transition method. In addition, for the current period the plan is overfunded since the actuarial value of the assets is greater than the actuarial accrued liability. In this case, an actuarial gain equal to the negative unfunded actuarial liability; i.e., actuarial surplus, is recognized since there are no portions of unfunded actuarial liability that must be identified under 9904.412-50(a)(2).

(8) Since March 28, 1989 Contractor U has computed, assigned, and allocated pension costs for a nonqualified defined-benefit plan on an accrual basis. The value of these past accruals, increased for imputed interest at 7% and decreased for benefits paid by the contractor, is equal to \$2 million as of the beginning of the current period. Contractor U elects to establish a “Rabbi trust” and the plan meets the other criteria at 9904.412-50(c)(3). Using the transition method of paragraph (c) of this subsection, Contractor U shall recognize the \$2 million as the accumulated value of permitted unfunded accruals, which will then be included in the market value and actuarial value of the assets. Because the accumulated value of permitted unfunded accruals is exactly equal to the current period market value of the assets, 100% of benefits for the current period must be paid from sources other than the funding agency in accordance with 9904.412-50(d)(2)(ii).

(9) Assume that Contractor U in 9904.412-64(g)(8) establishes a funding agency, but elects to use the pay-as-you-go method for current and future pension costs. Furthermore, plan participants receive \$500,000 in benefits on the last day of the current period. Using the transition method of paragraph (e) of this subsection to ensure

prior costs are not redundantly provided for, the contractor shall establish assets; i.e., an accumulated value of permitted unfunded accruals, of \$2 million. Since these assets are sufficient to provide for the current benefit payments, no pension costs can be allocated in this period. Furthermore, previously priced contracts subject to this Standard shall be adjusted in accordance with 9903.302. The accumulated value of permitted unfunded accruals shall be carried forward to the next period by adding \$140,000 (7%×\$2 million) of imputed interest, and subtracting the \$500,000 of benefit payments made by the contractor. The accumulated value of permitted unfunded accruals for the next period equals \$1,640,000 (\$2 million + \$140,000—\$500,000).

[60 FR 16547, Mar. 30, 1995; 60 FR 20248, Apr. 25, 1995]

9904.412-64.1 Transition Method for the CAS Pension Harmonization Rule.

Contractors or subcontractors that become subject to the Standard, as amended, during the Pension Harmonization Transition Period shall recognize the change in cost accounting method in accordance with paragraphs (a) and (b).

(a) The Pension Harmonization Rule Transition Period is the five cost accounting periods beginning with a contractor's first cost accounting period beginning after June 30, 2012, and is independent of the receipt date of a contract or subcontract subject to this Standard. The Pension Harmonization Rule Transition Period begins on the first day of a contractor's first cost accounting period that begins after June 30, 2012.

(b) Phase in of the Minimum Actuarial Liability and Minimum Normal Cost. During each successive accounting period of Pension Harmonization Rule Transition Period, the contractor shall recognize on a scheduled basis the amount by which the minimum actuarial liability differs from the actuarial accrued liability; and the amount by which the sum of the minimum normal cost plus any expense load differs from the sum of the normal cost plus any expense load.