Department of Health and Human Services

OFFICE OF INSPECTOR GENERAL

NATIONAL GOVERNMENT SERVICES, INC., UNDERSTATED ITS PLAN A MEDICARE SEGMENT PENSION ASSETS AND OVERSTATED MEDICARE'S SHARE OF THE MEDICARE SEGMENT EXCESS PENSION LIABILITIES AS OF DECEMBER 31, 2018

Inquiries about this report may be addressed to the Office of Public Affairs at Public.Affairs@oig.hhs.gov.

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for Audit Services

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A-07-22-00620

Office of Inspector General

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OFFICE OF AUDIT SERVICES FINDINGS AND OPINIONS

The designation of financial or management practices as questionable, a recommendation for the disallowance of costs incurred or claimed, and any other conclusions and recommendations in this report represent the findings and opinions of OAS. Authorized officials of the HHS operating divisions will make final determination on these matters.

Report in Brief
Date: January 2023
Report No. A-07-22-00620

U.S. DEPARTMENT OF HEALTH & HUMAN SERVICES
OFFICE OF INSPECTOR GENERAL

Why OIG Did This Audit

Medicare contractors are required to separately account for the Medicare segment pension plan assets based on the requirements of Cost Accounting Standards (CAS) 412 and 413.

Previous OIG audits found that Medicare contractors did not always correctly identify and update the segmented pension assets.

Our objectives were to determine whether National Government Services, Inc. (NGS), complied with Federal requirements and its established cost accounting practice when: (1) implementing the prior audit recommendation to increase the Plan A Medicare segment pension assets as of January 1, 2015, (2) updating the Plan A Medicare segment pension assets from January 1, 2015, to December 31, 2018, and (3) determining Medicare's share of the Plan A Medicare segment excess pension assets or liabilities as a result of NGS's benefit curtailment.

How OIG Did This Audit

We reviewed NGS's implementation of the prior audit recommendation; its identification of the Plan A Medicare segment; its update of the Plan A Medicare segment pension assets from January 1, 2015, to December 31, 2018; and its calculation of Medicare's share of the Plan A Medicare segment's excess pension liabilities as of December 31, 2018, as a result of its benefit curtailment.

National Government Services, Inc., Understated Its Plan A Medicare Segment Pension Assets and Overstated Medicare's Share of the Medicare Segment Excess Pension Liabilities as of December 31, 2018

What OIG Found

NGS implemented our prior audit recommendation to increase the Plan A Medicare segment pension assets by $21,152 as of January 1, 2015. For our second objective, NGS did not correctly update the Plan A Medicare segment pension assets from January 1, 2015, to December 31, 2018, in accordance with Federal regulations and its established cost accounting practice. NGS identified Plan A Medicare segment pension assets of $8.3 million as of December 31, 2018; however, we determined that NGS understated those assets by $7,036. NGS's policies and procedures did not always ensure that NGS calculated those assets in accordance with Federal regulations and its established cost accounting practice when updating the assets.

For our third objective, NGS calculated $704,771 as Medicare's share of the Plan A Medicare segment excess pension liabilities as of December 31, 2018; however, we calculated that Medicare's share of those liabilities was $657,263 as of that date. Therefore, NGS overstated Medicare's share of the Plan A Medicare segment excess pension liabilities by $47,508.

What OIG Recommends and Auditee Comments

We recommend that NGS increase the Plan A Medicare segment pension assets by $7,036 and recognize $8.3 million as the Plan A Medicare segment pension assets as of December 31, 2018; decrease Medicare's share of the Plan A Medicare segment excess pension liabilities as of December 31, 2018, by $47,508 and recognize $657,263 as Medicare's share of the pension liabilities as a result of the benefit curtailment; and develop quality assurance procedures, to include improved policies and procedures.

NGS concurred with our recommendations and said that it would adjust its plan assets accordingly. With respect to our second recommendation, NGS said that it would work with CMS on the settlement of Medicare's share of the Medicare segment excess pension liabilities as of December 31, 2018. With respect to our third recommendation, NGS said that it would evaluate its processes and adjust as appropriate.

The full report can be found at https://oig.hhs.gov/oas/reports/region7/72200620.asp.

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Office of Inspector General Note – Appendices B, D, and E contain proprietary and confidential financial information and, at NGS's request, have been redacted from the publicly available version of this report.

INTRODUCTION

WHY WE DID THIS AUDIT

Medicare contractors are required to separately account for the Medicare segment pension plan assets based on the requirements of Cost Accounting Standards (CAS) 412 and 413. The Centers for Medicare & Medicaid Services (CMS) incorporated this requirement into the Medicare contracts beginning with fiscal year 1988. In addition, in situations such as contract terminations or benefit curtailments, CAS 413 requires contractors to identify the difference between Medicare pension assets and liabilities allocated to the Medicare segment. Previous Office of Inspector General audits found that Medicare contractors did not always correctly identify and update the segmented pension assets.

At CMS's request, the Department of Health and Human Services, Office of Inspector General, Office of Audit Services, Region VII pension audit team reviews the cost elements related to qualified defined-benefit, nonqualified defined-benefit, postretirement benefit, and any other pension-related cost elements claimed by Medicare fiscal intermediaries and carrier contractors and Medicare administrative contractors (MACs) and other CAS-covered and Federal Acquisitions Regulation (FAR)-covered contracts through Final Administrative Cost Proposals (FACPs), Incurred Cost Proposals (ICPs), or both.

For this audit, we focused on one Medicare contractor, National Government Services, Inc. (NGS). In particular, we examined the Plan A Medicare segment pension assets that NGS updated from January 1, 2015, to December 31, 2018, and Medicare's share of the Plan A Medicare segment pension liabilities that NGS determined as a result of its benefit curtailment.

OBJECTIVES

Our objectives were to determine whether NGS complied with Federal requirements and its established cost accounting practice when: (1) implementing the prior audit recommendation to increase the Plan A Medicare segment pension assets as of January 1, 2015, (2) updating the Plan A Medicare segment pension assets from January 1, 2015, to December 31, 2018, and (3) determining Medicare's share of the Plan A Medicare segment excess pension assets or liabilities as a result of NGS's benefit curtailment.

BACKGROUND

National Government Services, Inc., and Medicare

NGS is a wholly owned subsidiary of Federal Government Solutions, which is a holding company created and owned by Elevance Health (formerly Anthem, Inc.).[1] NGS administered Durable

[1] Effective June 28, 2022, Anthem Inc., changed its name to Elevance Health.

Medical Equipment (DME) Jurisdiction B[2] under MAC contracts until the contract concluded on July 31, 2016. NGS continues to administer Medicare Part A and Medicare Part B contract operations under MAC contracts for Jurisdictions 6 and K, effective September 27, 2012, and February 22, 2013, respectively.[3, 4]

NGS participates in three qualified defined-benefit pension plans: the Anthem Cash Balance Pension Plan A (formerly the WellPoint Cash Balance Pension Plan A), the Anthem Cash Balance Pension Plan B (formerly the WellPoint Cash Balance Pension Plan B), and the United Government Services, LLC (UGS), Pension Plan.

This report addresses the Medicare segment pension assets for Plan A for the period January 1, 2015, to December 31, 2018. We are addressing the Medicare segment pension assets for the Anthem Cash Balance Pension Plan B and the UGS Pension Plan in separate audits.

Benefit Curtailment

Effective December 31, 2018, NGS froze its pension plan, which triggered a curtailment of benefits under CAS 413. This report addresses NGS's calculation of Medicare's share of the Plan A Medicare segment excess pension assets or liabilities as a result of its benefit curtailment.

Upon the curtailment of its pension plan, NGS identified Medicare's share of the Plan A Medicare segment excess pension liabilities to be $704,771 as of December 31, 2018.

Prior Pension Segmentation Audit

We performed a prior pension segmentation audit of NGS (A-07-18-00541, Nov. 7, 2018), which brought the Plan A Medicare segment pension assets to January 1, 2015. We recommended that NGS increase the Plan A Medicare segment pension assets by $21,152 and, as a result, recognize $8,778,177 as the Medicare segment pension assets as of January 1, 2015.

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[2] DME Jurisdiction B consists of the States of Illinois, Indiana, Kentucky, Michigan, Minnesota, Ohio, and Wisconsin.

[3] Medicare Parts A and B Jurisdiction 6 consists of the States of Illinois, Minnesota, and Wisconsin. NGS's jurisdiction for home health and hospice services consists of the States of Alaska, Arizona, California, Hawaii, Idaho, Michigan, Minnesota, Nevada, New Jersey, New York, Oregon, Washington, and Wisconsin, and the U.S. Territories of American Samoa, Guam, Northern Mariana Islands, Puerto Rico, and U.S. Virgin Islands.

[4] Medicare Parts A and B Jurisdiction K consists of the States of Connecticut, Maine, Massachusetts, New Hampshire, New York, Rhode Island, and Vermont. NGS's jurisdiction for home health and hospice services consists of the States of Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, and Vermont.

HOW WE CONDUCTED THIS AUDIT

We reviewed NGS's implementation of the prior audit recommendation; its identification of the Plan A Medicare segment; its update of the Plan A Medicare segment pension assets from January 1, 2015, to December 31, 2018; and its calculation of Medicare's share of the Plan A Medicare segment's excess pension liabilities as of December 31, 2018, as a result of its benefit curtailment.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Appendix A contains details of our audit scope and methodology.

FINDINGS

NGS implemented our prior audit recommendation to increase the Plan A Medicare segment pension assets by $21,152 as of January 1, 2015. Regarding our second objective, NGS did not correctly update the Plan A Medicare segment pension assets from January 1, 2015, to December 31, 2018, in accordance with Federal regulations and its established cost accounting practice. NGS identified Plan A Medicare segment pension assets of $8,289,555 as of December 31, 2018; however, we determined that those assets were $8,296,591 as of that date. Therefore, NGS understated the Plan A Medicare segment pension assets by $7,036. NGS understated those pension assets because its policies and procedures did not always ensure that it calculated those assets in accordance with Federal regulations and its established cost accounting practice when updating the Medicare segment's pension assets from January 1, 2015, to December 31, 2018.

With respect to our third objective, NGS calculated $704,771 as Medicare's share of the Plan A Medicare segment excess pension liabilities as of December 31, 2018; however, we calculated that Medicare's share of the Plan A Medicare segment excess pension liabilities was $657,263 as of that date. Therefore, NGS overstated Medicare's share of the Plan A Medicare segment excess pension liabilities by $47,508. This overstatement occurred because NGS understated the Plan A Medicare segment's pension assets and did not calculate the aggregate Medicare percentage in accordance with the CAS.

Appendix B identifies the details of the NGS Plan A Medicare segment's pension assets from January 1, 2015, to December 31, 2018, as determined during our audit. Table 1 on the following page summarizes the audit adjustments required to update the NGS's Plan A Medicare segment's pension assets in accordance with Federal requirements.

Table 1: Summary of Audit Adjustments

	Per Audit	Per NGS	Difference
Prior Audit Recommendation	$8,778,177	$8,778,177	$0
Update of Medicare Segment Assets			
Contributions and Prepayment Credits	2,474,103	2,472,869	1,234
Benefit Payments	(1,529,273)	(1,543,891)	14,618
Net Transfers	(2,768,166)	(2,762,411)	(5,755)
Earnings, Net of Expenses	1,341,750	1,344,811	(3,061)
Understatement of Medicare Segment Assets			**$7,036**

PRIOR AUDIT RECOMMENDATION

NGS implemented the prior audit recommendation (A-07-18-00541, Nov. 7, 2018), which recommended that NGS increase its Medicare segment pension assets by $21,152 and recognize $8,778,177 as the Medicare segment pension assets as of January 1, 2015.

UPDATE OF MEDICARE SEGMENT PENSION ASSETS

Federal requirements require Medicare contractors to update the Medicare segment pension assets yearly in accordance with the CAS. The CAS requires that the asset base be adjusted by contributions, income, benefit payments, and expenses. For details on the Federal requirements and the relevant language of the Medicare contracts, see Appendix C.

NGS did not correctly update the Plan A Medicare segment pension assets from January 1, 2015, to December 31, 2018, in accordance with Federal requirements and its established cost accounting practice. NGS identified $8,289,555 as the Plan A Medicare segment pension assets as of December 31, 2018; however, we determined that those assets were $8,296,591 as of that date. Therefore, NGS understated the Plan A Medicare segment pension assets as of December 31, 2018, by $7,036. The following are our findings regarding the update of the Plan A Medicare segment pension assets from January 1, 2015, to December 31, 2018.

Contributions and Transferred Prepayment Credits Understated

The audited contributions and transferred prepayment credits[5] are based on the assignable pension costs.[6] In compliance with the CAS, we applied prepayment credits first to current-year assignable pension costs (because the credits were available at the beginning of the year) and

[5] A prepayment credit is the amount funded in excess of the pension costs assigned to a cost accounting period that is carried forward for future recognition.

[6] These are assigned to a specific cost accounting period.

then updated any remaining credits with interest to the next measurement (valuation) date. We then allocated contributions to assigned pension costs, as needed, as of the date of deposit. For additional details on these Federal requirements, see Appendix C.

NGS understated contributions and transferred prepayment credits by $1,234 for its Plan A Medicare segment. The understatement occurred primarily because of difference in the asset base used to calculate the assignable pension costs.

Benefit Payments Overstated

NGS overstated benefit payments by $14,618 for the Plan A Medicare segment. This overstatement occurred because NGS incorrectly identified a benefit payment for the Plan A Medicare segment participants during calendar year (CY) 2018. This overstatement of benefit payments resulted in an understatement of the NGS Plan A Medicare segment pension assets by $14,618.

Net Transfers Out Understated

NGS understated net transfers out of its Plan A Medicare segment by $5,755. The understatement occurred because NGS incorrectly identified a participant who transferred in and out of its Plan A Medicare segment. This understatement of the net transfer adjustment resulted in an overstatement of the Plan A Medicare segment pension assets by $5,755.

Earnings, Net of Expenses, Overstated

NGS overstated investment earnings, less administrative expenses, by $3,061 for its Plan A Medicare segment, because it used incorrect contributions and transferred prepayment credits, incorrect benefits payments, and incorrect net transfers (all discussed above) to develop the Plan A Medicare segment pension asset base. In our audited update, we allocated earnings, net of expenses, based on the applicable CAS requirements. For details on applicable Federal requirements, see Appendix C.

MEDICARE SEGMENT CURTAILMENT ADJUSTMENT

Medicare Segment Excess Pension Liabilities as of December 31, 2018

NGS did not correctly calculate the Plan A Medicare segment excess pension liabilities as of its benefit curtailment date in accordance with Federal regulations. Federal regulations (Appendix C) require NGS to compute a Medicare segment curtailment adjustment as a result of the benefit curtailment. Accordingly, NGS identified $704,771 in Plan A Medicare segment excess pension liabilities as of December 31, 2018. However, we calculated the Medicare segment excess pension liabilities to be $697,731 as of that date. (It is necessary to calculate the pension assets and liabilities as well as any adjustment for the Medicare segment before calculating Medicare's share. See Table 2 later in this report for details regarding the calculation of Medicare's share.) Therefore, NGS overstated the excess pension liabilities by $7,040. The overstatement occurred primarily because NGS understated the Plan A Medicare segment pension assets as of December 31, 2018. The development of excess liabilities was used to identify Medicare's share of the Medicare segment's excess pension liabilities, as discussed in the next section.

Medicare's Share of the Medicare Segment Excess Pension Liabilities

NGS calculated the aggregate Medicare percentage (that is, the percentage that reflects Medicare's share of the Plan A Medicare segment excess pension liabilities) as of December 31, 2018, to be 100 percent. We calculated the aggregate Medicare percentage to be 94.20 percent (Appendix D) using the Medicare segment pension costs developed during the prior pension costs claimed audits (listed in Endnote 1 of Appendix D) and the current pension costs claimed audit (A-07-22-00623; issued separately) as required by the CAS. For details on the Federal requirements regarding the aggregate Medicare percentage, see Appendix C.

Having calculated the aggregate Medicare percentage as of December 31, 2018, to be 100 percent, NGS thus calculated $704,771 as Medicare's share of the Plan A Medicare segment excess pension liabilities as of December 31, 2018. However, we calculated (using the 94.20 percent aggregate Medicare percentage) that Medicare's share of the Plan A Medicare segment pension liabilities was $657,263 as of that date. Therefore, NGS overstated Medicare's share of the Plan A Medicare segment excess pension liabilities by $47,508. This overstatement occurred because NGS understated the Plan A Medicare segment's pension assets (as discussed above) and did not calculate the aggregate Medicare percentage in accordance with the CAS.

Table 2 shows our calculation of Medicare's share of the excess pension liabilities.

Table 2: Medicare's Share of Excess Pension Assets and (Liabilities)

	Per Audit	Per NGS	Difference
Plan A Medicare Segment Assets as of December 31, 2018	$8,296,591	$8,289,555	$7,036
Plan A Medicare Segment Liabilities as of December 31, 2018	(8,999,236)	(8,999,240)	4
Unallowable Unfunded Liability as of December 31, 2018	4,914	4,914	0
Excess Plan A Medicare Segment Assets/(Liabilities)	(697,731)	(704,771)	7,040
Aggregate Medicare Percentage	94.20%	100.00%	(5.80%)
Excess Liabilities Attributable to Medicare	($657,263)	($704,771)	$47,508

RECOMMENDATIONS

We recommend that National Government Services, Inc.:

- increase the Plan A Medicare segment pension assets by $7,036 and recognize $8,296,591 as the Plan A Medicare segment pension assets as of December 31, 2018;

- decrease Medicare's share of the Plan A Medicare segment excess pension liabilities as of December 31, 2018, by $47,508 and recognize $657,263 as Medicare's share of the pension liabilities as a result of the benefit curtailment; and

- develop quality assurance procedures, to include improved policies and procedures, to ensure that going forward, it calculates Medicare segment pension assets in accordance with Federal requirements.

AUDITEE COMMENTS

In written comments on our draft report, NGS concurred with our recommendations and said that it would adjust its plan assets accordingly. With respect to our second recommendation, NGS said that it would work with CMS on the settlement of Medicare's share of the Medicare segment excess pension liabilities as of December 31, 2018. With respect to our third recommendation, NGS said that it would evaluate its processes and adjust as appropriate.

Our draft report included appendices containing proprietary and confidential financial information that NGS asked us to redact from any publicly available posting of this report.

NGS's comments appear in their entirety as Appendix F.

OFFICE OF INSPECTOR GENERAL RESPONSE

In response to NGS's request, we have removed the appendices in question from the publicly available version of this final report. We are separately providing this report with these appendices in their entirety to CMS.

APPENDIX A: AUDIT SCOPE AND METHODOLOGY

SCOPE

We reviewed NGS's implementation of the prior audit recommendation; its identification of the Plan A Medicare segment; its update of the Plan A Medicare segment pension assets from January 1, 2015, to December 31, 2018; and its calculation of Medicare's share of the Plan A Medicare segment's excess pension liabilities as of December 31, 2018, as a result of its benefit curtailment.

Achieving our objective did not require that we review NGS's overall internal control structures. We reviewed controls relating to the identification of the Plan A Medicare segment and to the update of the Plan A Medicare segment pension assets to ensure adherence to CAS 412 and CAS 413.

We performed audit work at our office in Jefferson City, Missouri.

METHODOLOGY

To accomplish our objective, we:

- reviewed the portions of the FAR, CAS, and Medicare contracts applicable to this audit;
- reviewed the annual actuarial valuation reports prepared by Anthem's actuarial consulting firms, which included the pension plan's assets, liabilities, normal costs, contributions, benefit payments, investment earnings, and administrative expenses, and used this information to calculate the Plan A Medicare segment assets;
- obtained and reviewed the pension plan documents and Department of Labor/Internal Revenue Service Forms 5500 used in calculating the Plan A Medicare segment assets;
- interviewed Anthem and NGS staff responsible for identifying the Medicare segment to determine whether the segment was properly identified in accordance with NGS's established cost accounting practice;
- reviewed NGS's accounting records to verify the Plan A Medicare segment identification as well as the benefit payments made from that segment;
- reviewed the prior segmentation audit performed of NGS (A-07-18-00541, Nov. 7, 2018), to determine the beginning market value of assets;
- reviewed the Plan A Medicare segment benefit curtailment adjustment prepared by NGS's staff and its actuarial consulting firm;

- provided the CMS Office of the Actuary, which provides technical actuarial advice, with the actuarial information necessary for it to calculate the Plan A Medicare segment pension assets from January 1, 2015, to December 31, 2018;

- reviewed the CMS actuaries' methodology and calculations; and

- provided the results of our audit to NGS officials on August 19, 2022.

We performed this audit in conjunction with the following audits and used the information obtained during those audits:

- *National Government Services, Inc., Overstated Its Plan B Medicare Segment Pension Assets and Overstated Medicare's Share of the Medicare Segment Excess Pension Assets as of December 31, 2018* (A-07-22-00621); and

- *National Government Services, Inc., Overstated Its United Government Services, LLC, Medicare Segment Pension Assets and Understated Medicare's Share of the Medicare Segment Excess Pension Liabilities as of December 31, 2018* (A-07-22-00622).

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

APPENDIX C: FEDERAL REQUIREMENTS RELATED TO PENSION SEGMENTATION AND MEDICARE SEGMENT CURTAILMENT ADJUSTMENT

PENSION SEGMENTATION

Federal regulations (CAS 412.50(a)(4)) require that contributions in excess of the pension cost assigned to the period be recognized as prepayment credits and accumulated at the assumed valuation interest rate until applied to future period costs. Prepayment credits that have not been applied to fund pension costs are excluded from the value of assets used to compute pension costs.

Federal regulations (CAS 412.64-1(b)) require contractors or subcontractors that become subject to the CAS, as amended, during the Pension Harmonization Rule Transition Period to phase in the minimum actuarial liability and minimum normal cost.[7] During each successive accounting period of the 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.

Federal regulations (CAS 412.64-1(b)(3)) require that the scheduled applicable percentages for each successive accounting period of the Pension Harmonization Rule Transition Period are as follows: 0 percent for the first cost accounting period, 25 percent for the second cost accounting period, 50 percent for the third cost accounting period, 75 percent for the fourth cost accounting period, and 100 percent for the fifth cost accounting period.

Federal regulations (CAS 413.50(c)(7)) require that the asset base be adjusted by contributions, permitted unfunded accruals, income, benefit payments, and expenses. For plan years beginning after March 30, 1995, the CAS requires investment income and expenses to be allocated among segments based on the ratio of the segment's WAV of assets to Total Company WAV of assets.

Federal regulations (CAS 413.50(c)(8)) require an adjustment to be made for transfers (participants who enter or leave the segment) if the transfers materially affect the segment's ratio of pension plan assets to actuarial accrued liabilities.

[7] Explanatory language in the CAS Harmonization Rule states: "To promote equity and fairness in achieving an orderly change in the contract cost accounting for pension costs, this final rule retains the transition period consisting of five cost accounting periods, the Pension Harmonization Rule Transition Period, that will phase in recognition of any adjustment of the actuarial accrued liability and normal cost. This transition method will apply to all contractors with contracts subject to CAS 412 and 413."

MEDICARE SEGMENT CURTAILMENT ADJUSTMENT

Federal regulations (CAS 412.50(a)(2)) state, in part:

i. Except as provided in 9904.412-50(d)(2), any portion of unfunded actuarial liability attributable to either pension costs applicable to prior years that were specifically unallowable in accordance with then existing Government contractual provisions or pension costs assigned to a cost accounting period that were not funded in that period, shall be separately identified and eliminated from any unfunded actuarial liability being amortized pursuant to paragraph (a)(1) of this sub section.

ii. Such portions of unfunded actuarial liability shall be adjusted for interest based on the interest assumption established in accordance with 9904.412-50(b)(4) without regard to 9904.412-50(b)(7). . . .

Federal regulations (CAS 413.50(c)(12)) state, in part:

> If a segment is closed, if there is a pension plan termination, or if there is a curtailment of benefits, the contractor shall determine the difference between the actuarial accrued liability for the segment and the market value of the assets allocated to the segment, irrespective of whether or not the pension plan is terminated. The difference between the market value of the assets and the actuarial accrued liability for the segment represents an adjustment of previously-determined pension costs.
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> i. The determination of the actuarial accrued liability shall be made using the accrued benefit cost method. The actuarial assumptions employed shall be consistent with the current and prior long term assumptions used in the measurement of pension costs. . . .
>
> ii. . . . . The market value of the assets shall be reduced by the accumulated value of prepayment credits, if any. Conversely, the market value of assets shall be increased by the current value of any unfunded actuarial liability separately identified and maintained in accordance with 9904.412-50(a)(2).
>
> iii. The calculation of the difference between the market value of the assets and actuarial liability shall be made as of the date of the event (e.g, contract termination, plan amendment, plant closure) that caused the closing of the segment, pension plan termination, or curtailment of benefits. If such a date is not readily determinable, or if its use can result in an inequitable calculation, the contracting parties shall agree on an appropriate date.

iv. Pension plan improvements adopted within 60 months of the date of the event which increase the actuarial accrued liability shall be recognized on a prorata basis using the number of months the date of adoption preceded the event date. Plan improvements mandated by law or collective bargaining agreement are not subject to this phase-in.

The methodology for determining the Federal Government's share of excess pension assets and liabilities is addressed by CAS 413.50(c)(12)(vi), which states:

> The Government's share of the adjustment amount determined for a segment shall be the product of the adjustment amount and a fraction. The adjustment amount shall be reduced for any excise tax imposed upon assets withdrawn from the funding agency of a qualified pension plan. The numerator of such fraction shall be the *sum of the pension plan costs* allocated to all contracts and subcontracts (including Foreign Military Sales) subject to this Standard during a period of years representative of the Government's 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. [Emphasis added.]