



**DEFENSE CONTRACT AUDIT AGENCY**  
**DEPARTMENT OF DEFENSE**  
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IN REPLY REFER TO

PAC 730.3.B.08/2006-11

October 12, 2006  
06-PAC-037(R)

MEMORANDUM FOR REGIONAL DIRECTORS, DCAA  
DIRECTOR, FIELD DETACHMENT, DCAA

**SUBJECT:** Transmittal of Director, Defense Procurement and Acquisition Policy (DPAP) Interim Guidance on the Impact of the Pension Protection Act of 2006 on Forward Pricing

On October 3, 2006, the Director of Defense Procurement and Acquisition Policy (DPAP) issued the enclosed interim guidance addressing the impact of the Pension Protection Act (PPA) of 2006 on forward pricing.

The PPA was signed into law on August 17, 2006. The PPA changes the rules for computing both the Internal Revenue Code (IRC) minimum and maximum pension contribution. The minimum contribution will be computed using an interest rate assumption based on the corporate bond rates of return (instead of the expected return of pension assets) and a seven-year amortization period for unfunded pension liabilities (instead of the current 10 to 30 year amortization period) and are effective starting in 2008. Both of the changes to the minimum contribution are expected to significantly increase the amount of pension contributions. Finally, the PPA increases the maximum amount of the pension contribution starting in 2006.

The CAS rules governing the measurement, assignment and allocation of pension cost have not been changed to consider the requirements of the PPA. As a result, DPAP issued interim guidance on the pricing of Government cost-based contracts to the Military Departments and Directors of Defense Agencies. The interim guidance states that DPAP requires contracting officers to coordinate with the Headquarters or Secretariat staff organization before including any impacts of the PPA in contract prices. **Likewise, FAO personnel should notify their regional personnel if their cognizant contractors include the impacts of the PPA in forward pricing proposals. Regional personnel should notify the DCAA Policy Accounting and Cost Principles Division (PAC).** DPAP plans to issue additional guidance by November 30, 2006.

If FAO personnel have any questions on this subject, they should contact regional personnel. If regional personnel have any questions, they should contact Accounting and Cost Principles Division at (703) 767-3250.

/s/ Terry M. Schneider  
/for/ Kenneth J. Saccoccia  
Assistant Director  
Policy and Plans

Enclosure:  
DPAP Memorandum, dated October 3, 2006

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ACQUISITION  
TECHNOLOGY  
AND LOGISTICS

DPAP/P

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OCT 03 2006

MEMORANDUM FOR SECRETARIES OF THE MILITARY DEPARTMENTS  
(ATTN: ACQUISITION EXECUTIVES)  
DIRECTORS OF DEFENSE AGENCIES

SUBJECT: Pension Protection Act of 2006 Impact on Forward Pricing

The recently passed Pension Protection Act of 2006 will require significant funding changes to contractor defined benefit pension plans for plan years beginning after 2007. My office is working with the services, DCMA and DCAA to determine the full impact of the legislation on forward pricing rates and contract pricing. We anticipate that guidance will be issued by November 30, 2006. In the interim, contracting officers shall coordinate with their Headquarters/Secretariat staff organizations before including any impacts in contract prices for changes related to the Pension Protection Act of 2006.

If you have any questions or require additional information, contact Mr. John McPherson, Senior Procurement Analyst, at 703-614-4840 or email at [john.mcperson@osd.mil](mailto:john.mcperson@osd.mil).

Shay D. Assad  
Director, Defense Procurement and  
Acquisition Policy

