

Paying the Pension Piper

Written by Nick Sanders
Tuesday, 30 May 2017 00:00

Lockheed Martin has recently received \$13.2 million from the US Air Force to compensate it for impacts to pension plan accounting.

No big deal, right?

What's \$13 million compared to the half-a-trillion overall defense budget?

We get that. We really do. From a pure materiality perspective, this is hardly worth reporting.

But from another perspective—looking at bad decision-making and failed leadership—this is an event worth noting.

This blog has reported, several times, on the liability created more than 10 years ago when CAS 412 and 413 were revised to address the impacts of the Pension Protection Act. For example, here's [a link](#) to an article we published in 2012—more than five years ago!—reporting that DoD had failed to account for contractor pension liabilities potentially worth billions of dollars. We quoted from various news sources, some of whom were themselves reporting quotes from then-DoD Comptroller Robert Hale, who implored contractors to “work” with the DoD in “tight fiscal times” to minimize impacts from the pension accounting rule changes.

The key point of this story is that DoD was aware, *from the beginning*, that the rule changes were going to result in an increase in pension plan costs. DoD was aware and not only did nothing about it, but *actively prevented* contractors from including estimates of the increased pension costs in their cost proposals. Thus, liabilities that could have been covered via obligation using funds from 10 years ago must be covered with today's current period funds.

As if funds were somehow going to be less tight in 2016 and 2017 than they were in 2006 and

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2007.

There's some good news here, not that anybody at DoD should try to claim credit for it. The good news is that the stock market has done extraordinarily well since the financial meltdown in 2007 and 2008. Thus, by kicking the can down the road for a decade, the impact was minimized. Instead of an impact measured in billions of dollars, we are seeing one measured only in millions.

How lucky for us all—especially the warfighters who would otherwise have been significantly impacted by this bureaucratic tomfoolery.

Last year we [reported](#) that Boeing received \$22.6 million from the US Air Force to cover its additional pension plan costs.

Now Lockheed [has received](#) \$13.2 million—also from the US Air Force—for its additional pension plan costs. In the words of the Pentagon announcement, “This sum reflects the total of the individual contract adjustment to which the contractor is entitled as result of the impact of the PPA on its affected contract with the U.S. government and Air Force Space Command.”

Interestingly, the announcement stated that the payment amount was being funded from “missile procurement; and research, development, test, and evaluation funds” related to Government Fiscal Years 2010, 2011, and 2012. We didn't know you could do that. We didn't know you could obligate funds 5 or more years after the close of the Government Fiscal Year!

But apparently one can, because that's what was done. We assume it was done via “no-year” money previously authorized for those GFYs, but obviously we do not know the details.

In any case, DoD has now “paid the piper” with respect to two very large defense contractors. There may well have been other payments that we simply missed, or perhaps there are still some payments to come. We would expect Raytheon to receive a payment, given that it is a fully CAS-covered contractor and has an (inactive) defined benefit pension plan (which are the two qualifications necessary to submit a claim). Obviously smaller, non-CAS-covered

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contractors will not qualify, even if they have a defined benefit pension plan and were otherwise impacted by the Pension Protection Act. (See [our article](#) on that issue if you are interested.)

We have other articles on this topic to be found via use of the keyword search feature, for those individuals who are interested in reviewing the history of how we got here. (Search using “pension”.) Our first article was posted in 2010.

Thus, the DoD has been deferring action for a long time. It’s notable that the pension piper is being paid today, and it’s also notable that the payment amount(s) are much smaller than many (including us!) had feared.