UNITED STATES GENERAL ACCOUNTING OFFICE
REGIONAL OFFICE
ROOM 403, U.S. CUSTOMHOUSE, 610 SOUTH CANAL STREET
CHICAGO, ILLINOIS 60607

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FEB 7 1975

Commander
Defense Contract Administration Services
Region (DCASR), Chicago
O'Hare International Airport
P.O. Box 66475
Chicago, Illinois 60666

Dear Commander:

We are writing at this time to apprise you of our observations and status of matters within your responsibilities as disclosed during our review of pension costs at the Magnavox Company, Fort Wayne, Indiana. We have completed work at the contractor's plant, and are presently waiting for certain data to be compiled by the contractor's consulting actuary, Kwasha-Lipton, Englewood Cliffs, New Jersey, before we draw final conclusions.

The Magnavox Government and Industrial (G&I) Group manufactures defense products in Fort Wayne, Indiana. Until 1971, the Group also maintained substantial defense production at a plant in Urbana, Illinois.

As of December 31, 1973, three trusteed pension plans covered employees involved in Government work at these locations. One is a company-wide plan for salaried employees who have vested rights after 10 years of service at age 35. The other two plans are for hourly employees working in Fort Wayne who have vested rights after 15 years of service at age 40.

Our review disclosed that (1) the Government may be entitled to certain credits for abnormal employee terminations experienced by Magnavox during the period from 1969 to 1973, and (2) the contractor did not make timely trust fund contributions for two quarterly periods in 1974. These matters are discussed below.

<u>Potential adjustment for abnormal number of employee terminations</u>

Magnavox experienced a significant number of employee terminations at the Urbana and Fort Wayne plants during the years 1969 through 1973, as shown in Appendix I. The number of terminations during this period indicated that many employees may not have vested in the company pension programs.

Past contributions plus pension fund earnings for non-vested employees who have terminated employment reduce future pension costs and are referred to as reversion credits. Since the percentage of Government sales to total sales has decreased in recent years, the Government has no assurance that it will share the credits in the same proportion as it absorbed the pension costs in prior years.

The Armed Services Procurement Regulation (ASPR) 15-205.6 provides that the Government shall be given appropriate credit when a contractor has experienced abnormal forfeitures due to significant reductions in employment levels. At the time of our review, Magnavox had not determined the effect of the abnormal forfeitures on pension contributions because of the Urbana plant closing and the significant decreases in employment levels at Fort Wayne.

As you know, in 1971, representatives from your office reviewed the Magnavox pension plans and reported that abnormal terminations occurred at Fort Wayne and Urbana. The DCASR report suggested that Magnavox determine the amounts of the reversion credits and make an appropriate adjustment for credits due the Government. Magnavox and the consulting actuary took the position that the gains from non-vested salaried employee terminations at Urbana were recognized on an immediate basis and reduced future pension costs for the Fort Wayne and other company locations covered by the same pension plan. They also stated that the hourly employee turnover at Fort Wayne was minor. Subsequently, DCASR representatives accepted the contractor's position with some apparent reservation.

During our current review at Magnavox we again inquired into the matter of abnormal terminations that occurred at the Fort Wayne and Urbana locations. We recognize that actuarial determinations are highly specialized but would like further assurance that the Government received its fair share of credits for prior pension costs in view of the lower employment levels attributable to current requirements. Subsequently, on December 3, 1974, Magnavox, Kwasha-Lipton, and GAO representatives met to discuss (1) the actuarial methods used in computing annual pension cost and (2) the reversion credits that may be due the Government because of abnormal terminations at the Urbana and Fort Wayne plants. The contractor and the consulting actuary have agreed to provide us with specific data and calculations relating to the termination gains and how they were allocated to the company and ultimately to the Government. This matter was set forth in our letter of December 31, 1974, to Magnavox, a copy of which was furnished your office. In a meeting on January 15, 1975, Magnavox representatives indicated that these data should be available to us by about February 14, 1975.

We believe that the data should provide a reasonable basis for determining the amount and appropriate distribution of actuarial gains from abnormal terminations that have been experienced by the Magnavox Company. The data will be furnished to you when available for your use in arriving at an appropriate adjustment, if warranted.

Pension fund contributions

To encourage contractors to make regular payments into pension trust funds, ASPR 7-203.4 and 7-104.35 provides that pension contributions are allowable for reimbursement or progress payment computations only if the accrued costs are paid within 30 days after the end of a quarter. The contributions may be included as an allowable cost for reimbursement when paid.

Delays in contributions tend to increase future pension costs because of the income lost in the interim on pension plan investments. Further, the contractor is provided with the use of interest free money when its pension costs are reimbursed as an accrued cost or through progress payments.

We found that Magnavox delayed contributions for the quarter ended June 30 and September 30, 1974, by the amounts summarized below which are applicable to Fort Wayne operations. Magnavox officials acknowledged that they had delayed contributions to the pension funds.

	Quarter ended	
	6-30-74	9-30-74
Salary plan	$101,400	$157,800
Hourly plan	61,500	98,800
Total	$162,900	$256,600

We brought this matter to the attention of the Administrative Contracting Officer and to the resident DCAA auditor who indicated that they were not aware of the delayed contributions. Hence, you may wish to establish a procedure for monitoring the timeliness of contractors pension fund contributions.

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As indicated previously, the Magnavox response to our letter of inquiry on reversion credits will be forwarded to you upon receipt for your consideration. Your comments as to final actions on the matters herein will be appreciated. The cooperation extended by your representatives during this review was excellent.

Copies of this letter are being sent to the Magnavox Company and the Chief, DCAS Office in Fort Wayne, Indiana.

Sincerely yours,

G. F. Stromvall
Regional Manager

DECREASE IN EMPLOYEES COVERED BY SALARY PLAN IN

URBANA, ILLINOIS, AND BY HOURLY PLANS IN FORT WAYNE, INDIANA

CALENDAR YEARS 1969 THROUGH 1973

	Number of employees			
	Urbana (Salary plan)		Ft. Wayne (Hourly plans)	
Year	Year-end	Decrease	Year-end	Decrease
1969	749	-	3,100	-
1970	545	204	2,443	657
1971	-	545	2,439	4
1972	-	-	1,918	521
1973	-	-	1,583	335
Total		[a]749		1,517

[a]Available information indicated that some employees transferred to other locations.