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LOCKHEED MARTIN



Memorandum

Date: October 23, 1996
To: D. C. Rice
From: R. F. Bernal, 1009COM, MS-8320, 6-3828 - RC *RFBernal*
Subject: Contract DE-AC05-96OR22464, Appendix A, Reimbursement Authorization (R.A.) 1

Attached is R.A. 1 to Appendix A of the Oak Ridge contract, which has been approved by the Department of Energy Oak Ridge Operations Office.

If you have any questions, please contact me.

RFB:mk

Attachment

DOE Form AD-36 (4-91)	U.S. Department of Energy REIMBURSEMENT AUTHORIZATION	No. 1
		Page 1 of 5

Project Operations and Research	Location Oak Ridge, Tennessee
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Contractor Lockheed Martin Energy Research Corporation

Contract No. DE-AC05-96OR22464	Date of Contract July 1, 1996
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The following modification to the Advance Understanding on Personnel Costs (Appendix A) is approved as an allowable cost, effective: July 1, 1996.

This R.A. incorporates changes agreed upon in discussions between the contractor and the government for incorporation into the contract, effective January 1, 1996. Pages are provided which replace pages in the Appendix A, effective January 1, 1996. The contractor has a period of 60 days to transition completely the changes resulting from this revised R.A. No. 1, effective July 1, 1996.

Pages 4-8 through 4-11 should be removed and replaced with the attached. The following highlights the changes incorporated by this R.A.:

<u>Page</u>	<u>Paragraph</u>	<u>Description</u>
4-8	4.10	Updates Group Insurance Plans to reflect changes in Contractor cost of Medical Expense Plan and Dental Expense Assistance Plan. Adds Medical and Dependent Care Flexible Spending Accounts.
4-8	4.10.1	Grants eligibility of medical plan benefits to employees either voluntarily or involuntarily separated as a result of a work force restructuring plan.
4-9	4.11	Updates contract costs associated with the Savings Plan to show changes effective January 1, 1997, and those effective January 1, 1998.
4-10 4-11		Repaginated pages due to additional language added in 4.10 and 4.11.

Approved for the U.S. Department of Energy by: <i>William A. Truex</i>	Date: 10-18-96
William A. Truex, Leader, Industrial Personnel Group	

4.10 Group Insurance Plans (Cont.)

Plan	Current Contractor Cost*
Group Life Insurance	Active salaried employees, retirees under age 65 - 50% of full cost for basic life.
Medical Expense including Prescription Drug and Vision Plans	Active employees - 88% of full cost Retirees (with greater than 10 years full time service) - 75% of full cost
Major Medical Medicare Supplement Plan	Retirees (with greater than 10 years full time service) - 50% of full cost
Dental Expense Assistance Plan	Active employees - 88% full cost effective July 1, 1996 Retirees under 65 - 75% of full cost effective July 1, 1996
Travel Insurance	100% of full cost
Special Accident Insurance Plan	0 - fully paid by employee
Long Term Disability Plan	100% of full cost for replacement income - 60% of salary
Medical and Dependent Care Flexible Spending Accounts	Administrative Cost only

*This table will be revised to reflect 1996 benefit plan changes when determined.

4.10.1 Benefits Program for Displaced Workers

- a. The cost of medical plan coverage for contractor employees who have separated from employment, excluding those terminated "for cause," will be reimbursable from the date of separation provided the employee:
 1. on the employment rolls and voluntary or involuntary separation on or after October 23, 1992, as a result of the implementation of a work force restructuring plan requested by the Secretary of Energy; and
 2. eligible for medical insurance coverage under the contractor's plan at the time of separation from employment; and
 3. not eligible for coverage under an employer's group health plan or Medicare since the time of separation.
- b. Retirees eligible for medical coverage under the Contractor's health plan will not be eligible for coverage under this Order.
- c. Benefits for displaced workers contained in a Workforce Restructuring Plan, developed pursuant to the National Defense Authorization Act of 1993, are reimbursable to the extent that a specific description of each benefit with supporting information and detailed projected costs has been reviewed and approved in advance by DOE, for inclusion in the Plan.

4.11 Pension & Savings Plans

The Contractor will be reimbursed for all costs incurred in implementing, administering, and funding the above plans. The features of the Pension and Savings Plans are set forth in plan descriptions, current copies of which will be provided to DOE. These plans will be administered consistently and in accordance with applicable laws, Internal Revenue Service code, Plan Documents, and fiduciary responsibilities. The Contractor will periodically review the Plans to assure that the plan design meets Contractor objectives to provide income replacement value consistent with industry standards, and to assure the overall benefit package is reasonable and competitive from a total compensation perspective. The contractor cost of these plans are included in the table below:

Plan	Contractor Cost
Pension Plan	100% contractor paid
Savings Plan	50% match up to 6% of pay (3% of pay) Effective January 1, 1998: 75% match up to 2% of pay 50% match for the next 4% of pay 3½% of pay total Effective January 1, 1998: 100% match up to 2% of pay 50% match for the next 4% of pay (4% of pay total)

4.11.1 Reports

The Contractor will submit copies of actuarial valuation reports (prepared by the Contractor's actuarial consultants), a copy of IRS Form 5500 with schedules as submitted to IRS, and other financial or accounting reports developed or required in connection with the DOE reimbursed Pension and Retirement Plans.

4.11.2 Non-Qualified Pension Plans

Non-qualified Pension Plans implemented solely to replace the reductions in the Pension Plan benefit due to limitations imposed by Sections 415 and 401(a) 17 of the Internal Revenue Code are reimbursable under this contract. These plans will provide employees with benefits provided under the formulae expressed in the contractor's Pension plan and does not provide any additional benefit absent the Internal Revenue Code limitations. These benefits will be funded on a pay-as-you-go basis.

4.11.3 Incentive Compensation

The inclusion of Incentive Compensation (IC) in pensionable earnings is an allowable cost with the following restrictions:

- a. The normal cost to the pension plan will not exceed \$40,000 per year in 1996 dollars.
- b. No more than 9 active employees will be covered by IC at any one time.
- c. Energy Research will not exceed either the dollar amount or number of employees covered without prior written approval of the Contracting Officer or his designee.

4.11.4 Contract Termination/Expiration

The contractor shall not terminate any benefit plan without DOE approval. All costs for claims arising from defined benefit plans and post-retirement life, medical, and other benefit liabilities for active and retired employees are obligations of the government. It is the intention of DOE not to entertain any enhancements in these programs after the contractor announces the intention not to renew the contract. At the termination or expiration of this contract, the contractor's obligations to employees and retirees for these plans shall be relieved and indemnified by the government as described below:

a. Defined Benefit Plans

- (1) If the contract terminates or expires and there is a replacement contractor, all assets and liabilities shall transfer to the replacement contractor, and the contractor shall be relieved of, and indemnified by DOE, against any and all liabilities arising from such plans.
- (2) If the contract terminates or expires and there is no replacement contractor, the plan shall be terminated in accordance with the provisions of ERISA and the Internal Revenue Code (IRC). Annuity purchase bids will be solicited from a minimum of five of the ten largest insurance companies whose AM Best rating is A+ and who are currently quoting pension plan termination annuities. After all obligations for all liabilities (as defined in IRC 1.414(1)) of these defined benefit plans have been fully funded, as well as any related tax liability of the corporation, any remaining assets shall be returned to the DOE. If the assets are insufficient to cover pension obligations, DOE shall provide additional funding to cover such obligations.
- (3) If the plan terminates before the contract terminates, the definition and disposition of assets and liabilities shall be as specified in paragraph (2).
- (4) Under the scenarios described in paragraphs (1), (2), and (3), the contractor shall actively manage all assets until the date of settlement. Such management shall include protection of principal if appropriate.

b. Defined Contribution Plan

Upon contract termination, individual employee accounts in the defined contribution plan shall be handled in accordance with the provisions of ERISA. Any unallocated funds (e.g., suspense accounts) shall be returned to the DOE.

c. Post-Retirement Life and Medical, and Other Benefit Obligations

- (1) If the contract terminates and there is a replacement contractor, all assets and liabilities shall transfer to the replacement contractor, and the contractor shall be relieved of, and indemnified by DOE, against any and all further liabilities arising from such plans.
- (2) If the contract terminates and there is no replacement contractor, DOE will make available to the contractor in a timely manner sufficient funds so that the contractor has no out-of-pocket expenditures from corporate funds to cover all liabilities incurred under this contract related to Contracting Officer-approved employee welfare benefit plans (including but not limited to medical, life, and workers' compensation). If so requested by DOE at the time of contract termination or expiration, the contractor will continue as the sponsor of these plans until all liabilities of such plans are discharged.

d. Taxes and IRS Penalties

If contractor action or inaction regarding plans approved by the Contracting Officer results in a tax or other IRS penalty, the contractor shall pay same from corporate funds.

If DOE action or inaction regarding plans approved by the Contracting Officer results in a tax or other IRS penalty, the contractor shall pay same from DOE funds.

4.12 Employee Assistance Program

The Contractor will provide for an Employee Assistance Program consistent with the Drug Free Workplace Act of 1988. This benefit will be administered in accordance with the contract between the contractor and the EAP vendor. Periodic internal reviews will be conducted to assess cost/benefit of program delivery under current contract.

4.13 Funeral Leave

In the event of the death of a member of the employee's immediate family, a salaried employee may be granted leave with pay for up to four days.

4.14 Decision Making Leave

Time off with pay for a decision making leave under the Contractor's discipline program is allowable.