

RH 326 4: Tracie  
**REQUEST FOR AUTHORITY  
 TO DISPOSE OF RECORDS**

(See Instructions on Reverse)

**TO GENERAL SERVICES ADMINISTRATION,  
 NATIONAL ARCHIVES AND RECORDS SERVICE, WASHINGTON, D.C. 20408**

1 FROM (AGENCY OR ESTABLISHMENT)

U. S. Atomic Energy Commission

2 MAJOR SUBDIVISION

AEC Headquarters and Field Offices

3 MINOR SUBDIVISION

4 NAME OF PERSON WITH WHOM TO CONFER

J. F. Kneibler

5 TEL EXT

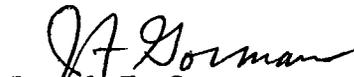
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6 CERTIFICATE OF AGENCY REPRESENTATIVE

<b>LEAVE BLANK</b>	
DATE RECEIVED <b>APR 24 1973</b>	JOB NO <b>NN-173-232</b>
NOTIFICATION TO AGENCY	
<p>In accordance with the provisions of 44 U.S.C. 3303a the disposal request, including amendments, is approved except for items that may be stamped "disposal not approved" or "with-drawn" in column 10</p>	
Date <u>5-2-73</u>	 Archivist of the United States

I hereby certify that I am authorized to act for this agency in matters pertaining to the disposal of the agency's records, that the records proposed for disposal in this Request of 2 page(s) are not now needed for the business of this agency or will not be needed after the retention periods specified

APR 20 1973

  
 Joseph F. Gorman

Chief, Records Management Branch  
 Office of the Controller

(Date)

(Signature of Agency Representative)

(Title)

7 ITEM NO	8 DESCRIPTION OF ITEM (With Inclusive Dates or Retention Periods)	9 SAMPLE OR JOB NO	10 ACTION TAKEN
1	<p><b>Pension Plan Case Files</b></p> <p>Consisting of cost-type contractor pension plans, modifications and amendments; correspondence, reports studies and analyses; negotiations; AEC requirements for acceptance and/or modifications; funding and cost data; industry pension plan comparability studies, etc.</p> <p>A. Cases for which AEC has continuing obligations or liability for pension plan claims or adjustments after contract completion or termination.</p> <p style="padding-left: 40px;">80 years after contract completion or termination.</p> <p>B. Cases for which AEC has no obligations or liability after contract completion or termination.</p> <p style="padding-left: 40px;">6 years after contract completion or termination.</p>		
2	<p><b>Casualty Insurance (including Workmen's Compensation) Plan Case Files</b></p> <p>Case files on casualty insurance coverage plans for AEC cost-type contractors, including policies, endorsements, reports, correspondence, studies, analyses, actuarial data, and computations. Included is information showing premium adjustments, coverage, funding, billing and losses incurred.</p>		

REQUEST FOR AUTHORITY TO DISPOSE OF RECORDS—Continuation Sheet

7 ITEM NO	8 DESCRIPTION OF ITEM (WITH INCLUSIVE DATES OR RETENTION PERIODS)	9 SAMPLE OR JOB NO	10 ACTION TAKEN
2	(continued)  A. Cases assigned to or administered by AEC upon contract completion or termination. 80 years after contract completion or termination.  B. Cases for which AEC has no obligation or liability after contract completion or termination. 6 years after contract completion or termination.		

U S ATOMIC ENERGY COMMISSION  
AEC MANUAL

Volume 1000 Finance  
Part 1400 Insurance

AEC 1401-01  
OC

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Chapter 1401 CONTRACTOR INSURANCE PROGRAMS

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**1401-01 POLICY**

AEC follows the general policy of the Government in not insuring its own risks. Subject to the limitations imposed by this chapter and its appendix AEC allows a contractor to insure or to self-insure those risks which actually fall on the contractor. The services of contractors' insurance companies are utilized to the maximum extent consistent with security requirements in the investigation and processing of claims.

**1401-02 PROGRAM OBJECTIVES**

The objectives of this program are to assure that contractors' insurance and pension programs, including self-insurance programs, are negotiated, administered, and settled in a uniform manner at reasonable cost to the Government.

**1401-03 RESPONSIBILITIES AND AUTHORITIES**

**031 The Controller**

- a develops and maintains policies, procedures, and standards of insurance
- b approves contractors' insurance and self-insurance programs
- c approves contractors' insurance plans, including new insurance policies and renewal policies involving substantive changes, except for group insurance plans and policies where the plan or policy represents an extension of existing group insurance carried by a contractor for his private operations and where the contractor involved is an organization engaged predominately in private competitive business
- d negotiates settlements with insurance companies under contractors' retrospective insurance plans
- e reviews contractors' insurance programs (including self-insurance) and claims administration to determine their adequacy and reasonableness of cost and to advise Managers of Field Offices thereof

- f provides advice and assistance to Managers of Field Offices on all contractor insurance problems
- g approves pension and retirement plans of cost-type contractors
  - (1) where the contractor operates an AEC-owned facility,
  - (2) where an AEC contract is being performed at a contractor's facility and the contract work involves the use of 50 percent or more of the total number of the contractor's employees at such plant or facility,
  - (3) where an AEC contract is being performed at a separate plant or facility of a contractor with a definite segregation of personnel working on the AEC contract

**032 The Director, Division of Labor Relations,** concurs as to the reasonableness of the benefits provided by group insurance plans and policies approved under 031 b and c, above and by pension and retirement plans approved under 031 g, above

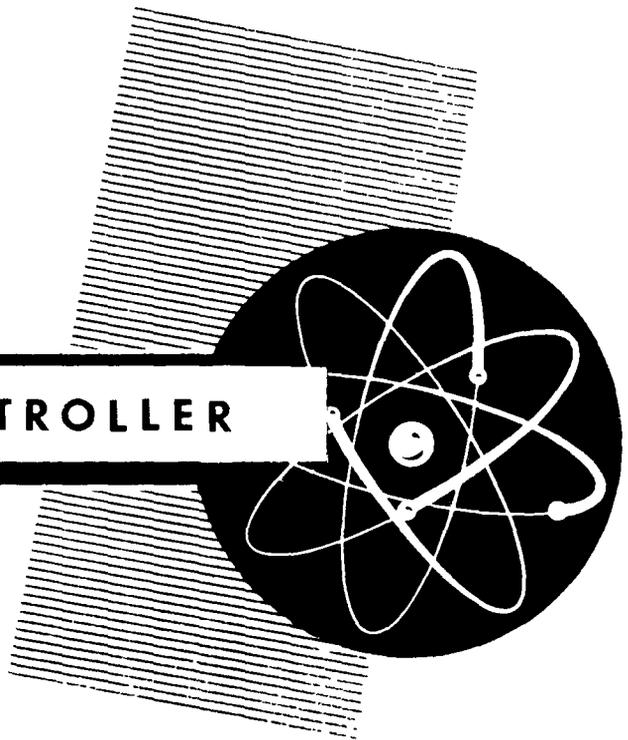
**033 Managers of Field Offices.**

- a approve contractors' group insurance plans and policies where the plan or policy represents an extension of existing group insurance carried by a contractor for his private operations and where the contractor involved is an organization engaged predominately in private competitive business
- b approve renewal policies for cost-type contractors provided there is no substantive change in the renewal policy as compared with the previous policy
- c review and approve premiums for insurance policies of cost-type contractors where there are separate insurance policies for AEC contract work
- d approve fidelity bonds of cost-type contractors



CONTRACTOR  
*Insurance*  
PROGRAMS  
HANDBOOK

OFFICE OF THE CONTROLLER



UNITED STATES ATOMIC ENERGY COMMISSION

**CONTRACTOR INSURANCE PROGRAMS**

**AEC Appendix 1401**

**OFFICE OF THE CONTROLLER  
UNITED STATES ATOMIC ENERGY COMMISSION**

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**PART I**  
**INSURANCE FOR COST-TYPE CONTRACTS**  
**UNDER SEPARATE INSURANCE POLICIES**

A. Applicability of this part is limited to:

1. Cost-type contracts for managing, operating, maintaining, constructing or performing other services in AEC-owned or -controlled facilities.
2. Cost-type contracts for performing AEC work of any type in segregated contractor-owned facilities sufficiently separated from private operations of the contractor to make separate insurance arrangements for the AEC work feasible.

Note: All other cost-type contracts are subject to provisions of part II.

B. Approved Insurance Coverages

1. Insurance on Government Property. AEC does not require or approve insurance covering loss of or damage to Government property used in connection with cost-type contracts. This principle of non-insurance is in accord with the Government's general policy of not insuring its property and rests to a large degree upon savings to the Government by eliminating the cost of insurance that would otherwise be added to the contract costs. Ordinarily the contractor will be relieved of liability for loss or damage to Government property to the extent provided in the Government property clause of the contract.
2. Group Insurance Plans. Group life insurance plans and such other forms of insurance as are provided voluntarily to employees in order to furnish benefits in the event of death, disability, dismemberment, hospitalization, surgical or medical care are subject to review in accordance with part I.F.2.

Where employees under the cost-type contract are added to the contractor's already existent group policies, pro-

vision should be made for an annual accounting so that any experience refund due will be credited to the contract.

3. Insurance Covering Workmen's Compensation and Employers' Liability. Workmen's compensation insurance protects the employer against liability imposed by a workmen's compensation law to pay benefits and furnish medical care to employees injured and to pay benefits to dependents of employees fatally injured in the course of or arising out of their employment. This type of insurance will be required by the manager of the field office unless the contractor has an acceptable program of self-insurance.
  - a. Elective Laws. Some compensation laws permit an employer to elect not to be subject to its provisions. It is a requirement of AEC for its contractors to accept liability for workmen's compensation benefits in jurisdictions having elective laws.
  - b. Statutory Immunity. Under the provisions of some state laws certain types of employers, e.g. non-profit educational institutions, may be relieved by statute from liability. If such an employer has an option to waive immunity, AEC requires him to do so.
  - c. Limited Medical Benefits. Some compensation laws limit the liability of the employer for medical care to a maximum dollar amount or to a specified period of time. In such cases the workmen's compensation insurance policy should contain a standard extra-statutory medical coverage endorsement (see exhibit 1).
  - d. Limits on Occupational Disease Coverage; Employers' Liability. Some compensation laws do not

## CONTRACTOR INSURANCE PROGRAMS

AEC Appendix 1401

- (3) an agreement required by municipal ordinance;
- (4) a sidetrack agreement; or
- (5) an elevator or escalator maintenance agreement.

The purchase of insurance for other assumed liability may be approved where assumption of such liability by the contractor has been authorized and it is determined that the purchase of such insurance is necessary.

- e. Contractors' Protective Liability. Contractors' protective liability insurance protects the contractor against loss from any claims for injuries because of operations performed for him by independent contractors. This coverage will be required in limits of \$100,000 per person and \$300,000 per accident whenever any of the work under the contract is performed by subcontractors.
  - f. Automobile Liability Insurance. Automobile public liability and property damage insurance will be required with limits of \$100,000 per person and \$300,000 per accident for bodily injury liability and \$50,000 for property damage liability. This coverage will be written on the comprehensive policy form covering all owned, non-owned, hired and Government-furnished motor vehicles used in the contract operations where use will not be limited exclusively to the premises on which the work under such contracts is performed.
  - g. Limits of Coverage. The bodily injury limits of \$100,000 per person and \$300,000 per accident, the \$50,000 limit for general property damage and \$50,000 for auto property damage, required in paragraphs a., b., and c. above are the minimum limits to be approved. There may be requests by contractors for higher limits. Before the manager of the field office recommends such a request to the Controller the reasons given by the contractor, as well as any contract terms relieving the contractor for losses not covered by insurance, shall be carefully considered.
5. Malpractice Insurance. This insurance covers liability for malpractice, error or mistake in rendering of medical, surgical, nursing or hospital services or treatment or the omission thereof. Comprehensive general liability policies ordinarily provide this coverage for the contractor but do not include coverage for individual doctors, nurses, hospital technicians and attendants. Where such professional employees are hired to operate first-aid stations or a plant hospital maintained by the contractor, their contracts of hire sometimes provide that this insurance will be furnished. In such cases or in cases where it is in the interest of the contractor and AEC to provide this insurance, it can be endorsed on the comprehensive general liability policy of the contractor.
  6. Architects' and/or Engineers' Professional Liability Insurance. This insurance covers liability of architects and/or engineers from claims arising out of the performance of professional services and caused by any error, omission or act of the insured. Normally this coverage is not an approved form of insurance since professional responsibility is a prerequisite of the selection of the contractor. Any deviation from this policy shall have the prior approval of the Controller.
  7. Boiler Insurance. The Boiler Code of the American Society of Mechanical Engineers is the standard basic inspection requirement for boilers and pressure vessels operated by contractors. Inspection service, as required in the Boiler Code, can be obtained from State Boiler Inspectors, by contract with qualified independent boiler inspectors, or by the purchase of boiler insurance. Only when other means are not available or are more costly, should boiler insurance be

premiums for these coverages exceed \$10,000 it is economical in most situations to use a retrospective plan. Usually a contract having an annual payroll of \$600,000 or more will produce the required annual premium.

There is one exception, not too frequently encountered, to the use of a retrospective plan. A contractor, because of excellent past experience in its overall operations, may be enjoying a substantial premium reduction. If this same reduction can be applied to the contractor's AEC work, the cost of insurance may be so economical that a retrospective plan is not practical. In such cases, however, separate policies should be required for the contractor's AEC work with the premiums based on its overall experience.

a. Plans With Maximum Premium.

Ordinarily retrospective plans have a maximum premium. If this maximum premium is exceeded because of adverse loss experience, the insurance company is financially responsible for the excess. Typical of these plans are the current National Defense Projects Rating Plan and the Comprehensive War Projects Rating Plan used during World War II. AEC has made use of both of these plans. These maximum premium plans are used for construction contracts and for those operation and research contracts where insurance companies can be convinced that the hazards encountered are no greater than those that they insure for commercial firms. Where this retrospective plan is used the term of the policies shall be for the life of the contract, except that either the contractor or the insurance company will have the right to terminate the policies at any time by giving reasonable notice.

b. Plans Without Maximum Premium.

A retrospective plan without maximum premium constitutes a cost-type insurance arrangement. It has been necessary for AEC to use this plan because insurance companies

are not willing to write policies on any other basis for certain contracts. In order to authorize this type of plan for AEC, the Basic Manual for Workmen's Compensation and Employers' Liability Insurance issued by the National Council on Compensation Insurance, the Manufacturers' and Contractors' Liability Manual and the Automobile Casualty Manual both issued by the National Bureau of Casualty Underwriters were amended to provide as follows:

"All work performed for or under the direction of the Atomic Energy Commission, either construction or operation, shall be subject to special treatment on an individual risk basis. Each risk involving such work should be submitted by the carrier to the Board or Bureau having jurisdiction for approval of the basis agreed upon by the carrier, the contractor and the Atomic Energy Commission."

This plan is used for those operation and research contracts involving hazards that insurance companies consider too new experience-wise to underwrite, or those so highly classified that sufficient information for risk evaluation cannot be given insurance companies.

At the present time, the large AEC operation contracts are covered under this type of plan. This means that AEC is in effect the insurer for these contracts, but because of their size and scope there is a very substantial distribution of risk. Insurance costs for this group of contracts have been the lowest of all. These two facts make it reasonable to use this retrospective plan whenever warranted. Where this retrospective plan is used the term of the policies shall be for the life of the contract, except that either the contractor or the insurance company will have the right to terminate the policies at any time by giving reasonable notice.

Offices is sent to the Controller for file.

F. Issuance of Insurance Policies

1. Workmen's Compensation and Comprehensive General Liability Insurance. Workmen's compensation (including occupational disease and employers' liability) and comprehensive general liability (including products, contractual, protective and automobile) policies or binders may be issued prior to approval by the Controller where the manager of the field office concerned has determined that the coverage provided is consistent with the terms of the contract and AEC insurance requirements and that the policy premiums are reimbursable under the contract.
2. Group Insurance. (Life, accident and health, hospitalization, medical, surgical, etc.). Certain group insurance plans require the approval of the Controller and the concurrence of the Director, Division of Labor Relations, in accordance with chapter 1401-031 and -033.
3. Fidelity Bonds. See part VI.
4. Pension Plans. See part VIII.

G. Submission of Policies and Endorsements to the Controller

Policies and endorsements submitted to the Controller for approval shall be accompanied by copies of relevant correspondence and by a memorandum from the manager of the field office which shall include:

- a. a brief description of the contract operations;
- b. a statement of any special features of the contract or of the operations having a bearing on the insurance policy; and
- c. recommendations with respect to approval of the policy.

H. Policy Provisions

1. Insurance policies submitted for approval shall contain the following by appropriate endorsement:

- a. A provision excluding any claim on the part of the insurance company to be subrogated on payment of loss or otherwise to any claim against the United States. (This will be required only when it does not increase the premium.)
- b. A provision providing that in the event of cancellation by the insurance company, 30 days advance notice shall be given to the contractor, the field office, and the U.S. Atomic Energy Commission, Office of the Controller, Contract Finance Branch, Washington, D.C., 20545.
- c. A provision limiting the insurance company's right of inspection of the contractor's records and premises as may be necessary to comply with AEC's security requirements.

2. Retrospective automobile policies of AEC contractors to be consistent with Public Law 87-258 (chapter 0304) must be endorsed as follows:

"It is agreed that such insurance as is afforded by the policy with respect to the ownership, maintenance or use of automobiles, including loading or unloading thereof, does not apply to the following as insureds: The United States of America, any of its agencies, or any of its officers or employees."

3. Contractors' retrospective liability policies with no maximum premium must be endorsed as follows:

"The Company may make such investigation, negotiation, and settlement of any claim or suit as it deems expedient; provided that with respect to any settlement or payment which the Company believes should be made in an amount in excess of \$10,000 on account of any claim the Company shall submit its recommendation to the contractor and the AEC and shall not make any such settlement or payment without approval by the contractor and the AEC."

## EXHIBIT 1

Suggested Wording.

## ADDITIONAL MEDICAL COVERAGE ENDORSEMENT

It is agreed that:

1. in addition to any payments which are required under Coverage A of the policy by the provisions of the applicable workmen's compensation or occupational disease law, the company will also pay the reasonable and proper cost of any additional medical, surgical, nurse or hospital services, medical or surgical apparatus or appliances and medicines which in the opinion of the company may be reasonably necessary for the treatment of injuries sustained by any person who is entitled, on account of such injuries, to the benefits afforded under Coverage A or who is entitled to such benefits under other terms of the policy, and
2. the company's liability under this endorsement shall be limited to \$           (1)           on account of each person for whom benefits are payable under Paragraph 1 of this endorsement.

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<sup>1</sup>This limit may be \$10,000 or \$100,000.

## EXHIBIT 2

Suggested Wording.

## VOLUNTARY COMPENSATION ENDORSEMENT

It is agreed that:

In the event of disability or death of any employee of this employer, resulting from any occupational disease, the company will pay voluntarily, on behalf of this employer, the same compensation and the same medical, surgical, hospital and other statutory benefits to or for such disabled employee or to any person claiming by, through and under him in the event of death resulting from such occupational disease, as would be payable under the Workmen's Compensation Law of the State of \_\_\_\_\_ had the disability or death of such employee resulted from any injury compensable under such law, subject to the following provisions:

1. This endorsement applies only with respect to:
  - (a) such employees as sustain disability or death from an occupational disease due to the nature of an employment in which the hazards of such disease actually exist, are characteristic of, and peculiar to the trade, occupation, process, or employment covered by the policy provided that the disability or death is actually incurred in such employment;
  - (b) such employees whose last exposure, in the employment of this employer, to the conditions causing such occupational disease occurs during the policy period and whose incapacity resulting from such disease occurs not later than \_\_\_\_\_<sup>1</sup> years after the end of the policy period;
  - (c) such occupational disease with respect to which the workmen's compensation benefits are not recoverable under the workmen's compensation or occupational disease law of any state of the United States or of any province of Canada.
2. In consideration of these payments and as a condition precedent thereto the employee or any persons claiming by, through or under him shall execute a full release of all claims for damages against this Employer in the manner required by the Company and shall in addition execute an assignment to the Company of any right of action available to any of them against any person, firm, corporation or estate, other than this Employer, which is or may be liable for such disability or death. If death of the employee shall result after a period of disability, death being due to such occupational disease, and any one claiming by, through or under the employee shall accept any payment provided for in this endorsement which accrues after such death, with notice or knowledge of said release and assignment, the acceptance of such payment shall operate to stop the person so accepting from asserting that such release or assignment is not binding upon him.
3. If the Company proceeds upon such assignment and recovers and collects an amount from the party at fault in excess of the amount of the payments made hereunder, the Company shall first take the necessary expenses of the procedure and shall pay any remaining balance of such excess so obtained to the person or persons executing the assignment. The Company shall have power and discretion to proceed against the party at fault or to settle with said party upon such terms as may seem desirable to the company, either without litigation or during the pendency thereof.

<sup>1</sup>Some companies will agree to a period of 10 years. Others may not be willing to agree to this long a period.

EXHIBIT 3

ASSIGNMENT TO GOVERNMENT AND ASSUMPTION

Date \_\_\_\_\_

The undersigned Contractor under Contract No. \_\_\_\_\_ does hereby assign, transfer and set over to the Government, as of the effective date hereof, all of its right, title, and interest in and to all return premiums, premium refunds, dividends, and any other moneys due or to become due the Contractor in connection with Policies No(s) \_\_\_\_\_ issued by the \_\_\_\_\_, as applicable to Contract No(s) \_\_\_\_\_. It is agreed that such return premiums, premium refunds, dividends, and other moneys shall be paid by the Insurance Carrier directly to the Government.

The Government does hereby assume all of the obligations of the Contractor, including the obligation to pay directly to the Insurance Carrier any further or additional premium properly charged under any of the above insurance policies heretofore approved by the Contracting Officer, which further or additional premium has not been paid by the Contractor, to the extent to which such premium would have been reimbursable to the Contractor if payment therefor had been made by the Contractor.

IN WITNESS WHEREOF, The Contractor and the Government have executed this instrument effective the \_\_\_\_\_ day of \_\_\_\_\_, \_\_\_\_.

THE UNITED STATES OF AMERICA

By \_\_\_\_\_  
(Type in Name)  
Duly Authorized Representative  
of the Contracting Officer

CONTRACTOR:  
(Type in Name)

By \_\_\_\_\_  
(Type in Name)  
Attorney-in-Fact

**PART II**  
**INSURANCE FOR COST-TYPE CONTRACTS**  
**UNDER JOINT INSURANCE POLICIES**

A. Applicability of this part is limited to:

Cost-type contracts for performing AEC work of any type in contractor-owned facilities where private operations of the contractor are not sufficiently separated from AEC work to make separate insurance arrangements feasible.

B. Approved Insurance Coverages

With respect to AEC contracts performed in contractor facilities as described in A. above, it should be recognized that

AEC will be sharing in the contractor's own insurance arrangements and will be reimbursing an appropriate share of the cost thereof. It is not the intention of AEC to dictate the kinds and amounts of insurance which the contractor shall have in his own private operations; rather it should be recognized that AEC is indirectly approving for reimbursement under the contract the kinds and amounts of insurance which the contractor normally carries, subject to exclusion of any costs which are unallowable under AEC cost principles (AECPR 9-15--Cost Principles).

## PART III

### INSURANCE FOR FIXED PRICE CONTRACTS

- A. Insurance on Government Property. There are two types of fixed-price contracts, each different in respect to the extent of responsibility placed on the contractor for damage to Government-furnished property.
1. Advertised Fixed-Price Contracts. Generally this type of contract makes the contractor responsible for damage to Government-furnished property other than for reasonable wear and tear. The decision to insure this liability should be left to the contractor.
  2. Negotiated Fixed-Price Contracts.
    - a. Except for the provisions of paragraph d. below, this type of contract generally relieves the contractor of liability for loss or destruction of or damage to Government-furnished property
      - (i) caused by any peril while the property is in transit off the contractor's premises, or (ii) caused by any of the following perils while the property is on or being removed from the contractor's or a subcontractor's or other premises unless the loss or damage results from wilful misconduct or lack of good faith of any of the contractor's managerial personnel:
 

Fire, lightning, windstorm, cyclone, typhoon, tornado, hail; explosion, riot, riot attending a strike, civil commotion, vandalism and malicious mischief; sabotage; aircraft or objects falling therefrom; vehicles running on land or tracks, excluding vehicles owned or operated by the contractor or any agent or employee of the contractor; smoke, sprinkler leakage, earthquake or volcanic eruption; flood, meaning thereby rising of rivers or streams; enemy attack or any action taken by the military, naval, or air force of the United States or its allies in resisting enemy attack.
    - b. The contractor represents that it is not including in the price of the contract any charge or reserve for insurance (including self-insurance) covering damage to the Government-furnished property caused by the perils for which he is relieved by contract terms.
    - c. It is possible that Government property furnished to a fixed-price contractor may become commingled with contractor property to such an extent that property insurance carried by the contractor would apply to property of both the contractor and the Government in case of loss or damage. In such cases the Government should be proportionately compensated for loss or damage to its property.
    - d. When special nuclear material is made available under terms of a fixed-price contract, the contractor normally shall be made financially responsible for all losses of such material. AEC recognizes that the contractor's cost of insurance for protection against such losses will be allowable within the fixed price.
- B. Insurance Covering Workmen's Compensation and Employers' Liability and Comprehensive General Liability (Including Automobile).
- The requirements under applicable state laws governing workmen's compensation and employers' liability coverage and the general practice of insuring general liability and automobile liability are usually sufficient to compel a contractor to provide insurance for such risks. Therefore, no insurance requirement is necessary unless unique circumstances make it advisable to include such a requirement in the contract.

## PART IV INSURANCE CLAIMS PROCEDURES

### A. Objectives of Claims Procedures

1. Maintenance of Security. Security information must not be compromised in the processing of workmen's compensation and occupational disease claims of AEC contractors and subcontractors; however, sufficient unclassified information must be developed to allow a just determination of each claim on its merits. Managers of Field Offices will arrange for the screening of reports of injury in order to permit the identification and deletion of classified information and for the designation of certain claims to be investigated by Q-cleared personnel of AEC, the contractor or the insurance company.
2. Protection of the Financial interests of AEC. Where cost-type contractors' claims costs are reimbursed either through a program of self-insurance or retrospective insurance plans, AEC's financial interest must be protected.

### B. Administration of Insurance Claims by Managers of Field Offices

Managers of Field Offices administer contractors' insurance claims in accordance with the following:

- a. AEC Security Requirements. Adequate controls must be established to assure that classified information is not disclosed to unauthorized persons in the administration of contractors' workmen's compensation and occupational disease claims. On some contracts, particularly operations contracts involving classified work, a considerable number of claims may involve classified information. On these contracts it is recommended that the following procedures be applied:

- (1) All claims reports will be reviewed, before they are sent to

insurance companies or any other outside agency, for deletion of classified information, bearing in mind that these reports and reports of the insurance company's investigators will ultimately reach central depositories under control of personnel not cleared to receive restricted data. Care must be taken to assure that classified information is not compromised by piecemeal releases. Upon the receipt of the initial report of each case, a prompt determination must be made whether security restrictions will prevent a complete investigation by the insurance company or other outside agency. If security is not involved, all copies of the initial report will be stamped "Investigation Unlimited." In all other cases the report is to be stamped "Investigation Limited."

- (2) Where the investigation of a claim is "limited," the extent to which the insurance company's investigator can participate must be determined, keeping in mind the general policy of the AEC to use insurance companies' services to the utmost compatible with security requirements. Such portions of the investigation as the insurance company's investigator cannot make must be completed thoroughly, promptly, and in accordance with accepted claims practice by the contractor or by AEC personnel. The manager of the field office will coordinate the activities of the contractor and the insurance company in bringing the claim to its proper conclusion.
- (3) When it is not possible for the insurance company to decide

benefits in effect when disability was discovered. Even though an applicable statute may provide for an alternative lump-sum payment, consistent with AEC purpose lump-sum settlements shall not be offered or entertained without prior approval of the Office of the Controller.

- d. Insurance Representative. The manager of the field office may find it advisable to designate an insurance representative at each installation to advise him in carrying out the above functions.

C. Functions of the Headquarters Contract Finance Branch

The Contract Finance Branch Office of the Controller, administers claims in accordance with the following:

- a. Representatives of the Contract Finance Branch will visit Field Offices:

(1) on planned schedules to inspect claims services of insurance companies, to determine the efficiency of contractors' administration of their insurance programs, and to review case files. The purpose of these inspections is to advise the manager of the field office on the adequacy of the programs and reasonableness of costs.

(2) at the request of Managers of Field Offices to render technical assistance.

- b. Representatives of the Contract Finance Branch will periodically review individual claim files in offices of the contractor where a self-insurance program exists. The purpose of this review will be to advise the manager of the field office on the adequacy of the program and the reasonableness of costs.

- c. Representatives of the Contract Finance Branch will review all interim settlements (usually annual) submitted under retrospective plans, at the home office of the insurance company. Here they will review claim files to determine that all loss payments and charges made by the insurance company are covered by the terms of its insurance policies and are in accord with standard claims practices. They will determine also that all subrogation recoveries have been properly credited. This will be done annually on a regular schedule if practical.

- d. Representatives of the Contract Finance Branch will negotiate all final settlements with insurance companies where insurance policies are on a retrospective basis.

- e. Where unusual circumstances or claims resulting from hazards peculiar to AEC contractors give rise to problems affecting several field offices, representatives of the Contract Finance Branch will assist the field office, the contractor, and the insurance company in proper disposition of the claim.

**PART V**  
**REVIEW AND APPROVAL OF CONTRACTORS'**  
**INSURANCE PREMIUMS**

A. Review Procedures

1. Managers of Field Offices:

- a. review and approve premium payments for insurance policies of cost-type contractors.
- b. determine in the case of group insurance policies:
  - (1) that the contractor has made proper payroll deductions;
  - (2) that such deductions, as well as the contractor's contributions, have been made in conformance with the terms of the policies;
  - (3) that credit for all dividends, return premiums, or return contributions has been received, and
  - (4) that the contractor is reimbursed for the proper proportion of net premiums where AEC contract work and other work of the contractor are covered by a joint group policy.
- c. assure that recommended or similar procedures described under section B of this part are carried out by contractors.

2. Pension Plan Payments. See part VIII.

B. Workmen's Compensation and Employers' Liability and Comprehensive General Liability (Including Automobile) Insurance

- 1. Basis of Premiums. Premiums for workmen's compensation and employers' liability and comprehensive general liability (including automobile) are, with few exceptions, computed at a rate applied to each \$100 of payroll expended by the contractor. In

some policies the automobile premiums are calculated on a different basis. The premiums of some rarely approved liability coverages are also on a different basis. In any event each policy should clearly state the basis of premium for each kind of coverage included.

- 2. Insurance Payroll Defined. In determining payroll on which contractors' insurance premiums are computed, gross payrolls are not used unless the terms of the policies so state. Normally overtime premium and dismissal wages are excluded, but sick leave pay, vacation pay and shift differentials are included. In most states wages in excess of an average of \$300 per week are excluded. To be certain of the inclusion or exclusion of these various payroll increments, the policy terms must be reviewed.

3. Procedure Where AEC Contract is Covered by Separate Policies.

- a. Where security permits, the contractor's payroll and other records of the units on which premiums are based will be examined by the insurance company's auditor at such intervals as are provided in the policies. He will prepare work sheets showing the basis for premium computation.
- b. Where, because of security or for other reasons, the insurance company's auditor does not examine the contractor's records, the contractor shall be required to prepare and certify a monthly statement of payroll or other rating data to be used for premium computation. This statement will be sent to the insurance company.
- c. Contractors shall be required to instruct their insurance companies or their insurance agents, brokers or advisors to mail one copy of any

**PART VI  
FIDELITY BONDS**

A. Fixed-Price Contracts

The purchase of fidelity bonds is discretionary with the contractor. The manager of the field office will not require nor will his approval be necessary for fidelity bonds under such contracts.

B. Cost-Type Contracts

1. General. As a general rule fidelity bonds should not be approved by Managers of Field Offices even though under the terms of a particular contract losses normally covered by such bonds might fall on the Government.

a. To the extent that the terms of a contract provide that losses usually covered by fidelity bonds are reimbursable, any such loss will be borne by the Government. In such a case, bonds should not be approved.

b. To the extent that the contract does not provide for reimbursement of such losses they should be borne by the contractor, and the cost of insurance against such losses should not be assumed by the Government.

c. If a particular contract is not clear whether the Government or the contractor would bear such losses, the contract should be amended to indicate where such losses fall.

2. Exceptions. If amendment of the contract is not feasible, or if other special circumstances make it desirable to assure the contractor of protection against losses usually covered by fidelity bonds, such bonds must be approved by the manager of the field office concerned. When an exception is made, the standards and procedures contained in paragraphs 3, 4, and 5, below will apply.

3. Discounts. Special premium discounts are available for AEC cost-type contractors and subcontractors where fidelity bonds (either blanket, individual, or schedule) are written to provide coverage on the contractors' or subcontractors' AEC operations only. The following rates and discounts, when applied, constitute the maximum premium which will be approved.

a. Individual and Schedule Bonds. The premium for any individual or schedule bond is determined by applying to the aggregate amount of such coverage the appropriate rate from the following schedule.

The rates are published by the Surety Association of America in Rate Manual of Fidelity, Forgery and Surety Bonds.

<u>Aggregate Amount of Coverage</u>	<u>Annual Rate per \$1,000</u>
Up to but not including \$50,000	\$5.00
\$50,000 to but not including \$100,000	4.00
\$100,000 to but not including \$250,000	3.00
\$250,000 to but not including \$500,000	2.75
\$500,000 and over	2.50

b. Commercial Blanket or Blanket Position Bonds. A special discount of 30% will be applied to the basic rate for Class A employees. (See Rate Manual of Fidelity, Forgery, and Surety Bonds published by the Surety Association of America.) The basic rate without discount will continue to apply to Class B employees. All premiums in excess of \$150 will be subject to experience rating.

4. Form. In general, blanket bonds will be Primary Commercial Blanket

EXHIBIT 4

AEC COST-TYPE CONTRACT RIDER

The following is a printed form which has been approved by the Surety Association of America.

RIDER

To be attached to and form part of Bond No. \_\_\_\_\_
in favor of \_\_\_\_\_
effective as of \_\_\_\_\_

In consideration of the premium charged for the attached bond, it is agreed that:

1. The attached bond is hereby amended as follows:

(a) by deleting Section 3 and by substituting in lieu thereof the following:

"Section 3. The word Employee or Employees, as used in this bond shall be deemed to mean, respectively, one or more of the natural persons (except directors or trustees of the Insured, if a corporation, who are not also officers or employees thereof in some other capacity) while in the regular service of the Insured in the ordinary course of the Insured's business during the term of this bond, and whom the Insured compensates by salary, wages, and/or commissions and has the right to govern and direct in the performance of such service, and who, while so engaged, render service at the site of or in connection with the work under the contract of the Insured with the United States of America to\* \_\_\_\_\_

\_\_\_\_\_
\_\_\_\_\_
\_\_\_\_\_

at \_\_\_\_\_
but not to mean brokers, factors, commission merchants, consignees, contractors, subcontractors, or other agents or representatives of the same general character."

(b) by deleting the period at the end of the last sentence of 12/13, \*\*by inserting a comma in place thereof and by adding the following

"provided, however, that if this bond be canceled by notice from, or at the instance of, the Insured upon or after completion of the work under the said contract of the Insured with the United States of America, as provided in Section 3 hereof, the Underwriter shall, on request, refund to the Insured the unearned premium computed pro rata. No change in or cancellation of this bond as an entirety, whether by notice given by the Insured or by the Underwriter, shall take effect prior to the expiration of ten (10) days after notice by registered mail, of such change or the cancellation of this bond as an entirety has been received by the Officer whose designation and address is as follows:\*\*\*unless an earlier date of such change or cancellation is approved by said Officer."

EXHIBIT 5

AEC COST-TYPE SUBCONTRACT RIDER

The following is a printed form which has been approved by the Surety Association of America.

RIDER

To be attached to and form part of Bond No. \_\_\_\_\_  
in favor of \_\_\_\_\_  
effective as of \_\_\_\_\_

In consideration of the premium charged for the attached bond, it is agreed that:

- 1. The attached bond is hereby amended as follows:

- (a) by deleting Section 3 and by substituting in lieu thereof the following:

"Section 3. The word Employee or Employees, as used in this bond shall be deemed to mean, respectively, one or more of the natural persons (except directors or trustees of the Insured, if a corporation, who are not also officers or employees thereof in some other capacity) while in the regular service of the Insured in the ordinary course of the Insured's business during the term of this bond, and whom the Insured compensates by salary, wages, and/or commissions and has the right to govern and direct in the performance of such service, and who, while so engaged, render service at the site of or in connection with the work under the contract of the Insured with (name of prime contractor) to\* \_\_\_\_\_

at \_\_\_\_\_  
but not to mean brokers, factors, commission merchants, consignees, contractors, subcontractors, or other agents or representatives of the same general character."

- (b) by deleting the period at the end of the last sentence of 12/13,\*\* by inserting a comma in place thereof and by adding the following:

"provided, however, that if this bond be canceled by notice from, or at the instance of, the Insured upon or after completion of the work under the said contract of the Insured specified in Section 3 hereof, the Underwriter shall, on request, refund to the Insured the unearned premium computed pro rata. No change in or cancellation of this bond as an entirety, whether by notice given by the Insured or by the Underwriter, shall take effect prior to the expiration of ten (10) days after notice by registered mail, of such change or the cancellation of this bond as an entirety has been received by the Officer whose designation and address is as follows:\*\*\*

\_\_\_\_\_

\_\_\_\_\_

unless an earlier date of such change or cancellation is approved by said Officer."

## PART VII

### NUCLEAR INSURANCE

#### A. Background

At the time the Atomic Energy Act of 1954, as amended, authorized the AEC to license private operations in the atomic energy field, the insurance companies were called upon to furnish coverage in the nuclear field. Because of the necessity of limits of coverage beyond those ever before required or sought, the insurance companies formed nuclear insurance pools to provide the greatest possible limits. At the same time, in order to prevent pyramiding liability for nuclear coverage, individual insurance companies found it necessary to exclude the nuclear hazard from conventional policies issued to their customers.

#### B. Nuclear Liability Pools

There are two nuclear liability insurance pools, one formed by stock insurance companies and the other by mutual companies. The first of these is the Nuclear Energy Liability Insurance Association (NELIA) which is capable of supplying \$46.5 million of liability insurance for each nuclear facility. The Mutual Atomic Energy Liability Underwriters (MAELU) can supply \$13.5 million liability coverage for each nuclear facility. Together, the total capacity of these pools is \$60 million for each facility.

#### C. Nuclear Property Pools

In order to provide insurance for nuclear facilities covering property at the site, stock insurance companies formed the Nuclear Energy Property Insurance Association (NEPIA) and the mutual companies formed the Mutual Atomic Energy Reinsurance Pool (MAERP). The combined capacity of these two pools is \$61.7 million.

#### D. Approval of Nuclear Liability Insurance

1. At the present time, twelve AEC operating contractors have nuclear coverage for third-party liability under retrospective plans which were

negotiated prior to the establishment of NELIA and MAELU. It is not proposed to make any change in the existing insurance coverage for these twelve contractors. These policies provide coverage only for liability of the contractors to third parties. AEC established a policy under which procurement of NELIA/MAELU coverage against nuclear third-party liability would be authorized for all other AEC contractors operating AEC-owned production or utilization facilities and weapons facilities, provided these policies can be obtained under a retrospective plan at a reasonable cost. These policies would cover all persons who might be liable for a nuclear incident arising out of or in connection with the contract activity. Negotiations with NELIA and MAELU will be conducted at Headquarters.

2. For cost-type contractors performing AEC work of any type in contractor-owned facilities where private operations of the contractor are not sufficiently separated from AEC work to make separate insurance arrangements feasible, where nuclear liability insurance coverage is part of the contractor's regular coverage, the AEC will reimburse the contractor for its proportionate share of such coverage in accordance with AEC cost principles.

#### E. Industry Credit Rating Plan--Nuclear Liability Coverage

Nuclear energy liability insurance is subject to an Industry Credit Rating Plan which is essentially a ten-year retrospective plan based on the experience of all holders of nuclear liability insurance policies. Where nuclear liability insurance is approved for AEC contractors as a reimbursable cost, it is mandatory that the contract be so written as to enable the AEC to recoup its proportionate share of any premium refunds. This can be done by use of an assignment at contract termination granting to

## PART VIII

### PENSION AND RETIREMENT PLANS

#### A. Definitions (for purposes of this appendix):

1. Pension and Retirement Plans. The terms "pension plans" and "retirement plans" are used interchangeably and mean permanent programs established and maintained by contractors to provide systematically for the payment of definitely determinable benefits to their employees over a period of years, usually for life, after retirement.
2. Profit-Sharing Pension Plans. The term "profit-sharing pension plans" means plans providing for the amounts of the employer's contributions to be determined or measured by the employer's profits or earnings. The future benefits cannot be actuarially determined since it is not possible to furnish any assurance that sufficient funds will be available at any time to meet any particular schedule of benefits. Such a plan may constitute the sole pension arrangement of a contractor or it might be superimposed upon or be an addition to a moderate actuarially sound pension plan providing only for pension benefits within cost limits that the contractor is willing or able to meet as a recurring fixed obligation.
3. Past Service Costs. The term "past service costs" is the amount at any time actuarially determined which would be required at such time to meet all the future benefits provided under the plan which would not be met by future normal costs and employee contributions with respect to the employees covered under the plan at such time. The term includes "supplementary costs" defined below, costs attributable to service prior to the date of the establishment of a plan or a major amendment thereto and additional costs in

particular years resulting from a change in the funding method.

4. Supplementary Costs. The term "supplementary costs" covers a variety of special benefits in addition to the principal or regular benefit credits. An example is the credit for service from the date an employee commences working for an employer and the date he becomes eligible for participation in the plan. The costs of such credits may be determined only as the conditions are fulfilled and the credit matures for individual employees.
  5. Vesting. The term "vesting" means the attainment by a participant in a plan of certain rights in the funds arising out of the employer's contributions made in his behalf. The rights ordinarily are granted only after certain requirements of the plan are met such as the completion of a specified number of years of service and/or attainment of a particular age.
  6. Replacement Contractor. A replacement contractor is a cost-type contractor who enters into a contract with the AEC for the purpose of performing all or part of the management and operation of an AEC-owned facility or function previously managed and operated by an AEC cost-type contractor.
- B. Types of Pension and Retirement Plans. Basically, pension and retirement plans are classified as either trustee plans or annuity plans although there may be a combination of both. Under the trustee type, the contributions are paid into a separate fund established by a trust indenture and direct payments are made to the beneficiaries. Under the annuity type, the plan benefits are insured with an insurance company which issues either group or individual contracts. A form of group annuity contract

## CONTRACTOR INSURANCE PROGRAMS

AEC Appendix 1401

the minimum arrangements which the AEC will consider satisfactory:

- a. A provision for separate accounting or separate funding for the AEC facility for costs incurred under the contract.
  - b. A provision that, in determining AEC costs, AEC will be credited with its proportionate share of the earnings of the Corporate Pension Fund, including unrealized appreciation in the value of Fund's investments.
  - c. A provision for the return to the AEC of any excess funding and other credits (including forfeitures). Particular attention must be given to protecting the AEC's interest where the contractor's contributions (which are reimbursed by the AEC) are made on behalf of the employees who transfer to the contractor's commercial operations and whose employment is subsequently terminated before vested rights in the plan are acquired.
  - d. A provision that, in the event of contractor replacement, the contractor will assist the AEC in preserving employees opportunities to attain vested rights through continuity of service with the replacement contractor at the AEC facility. For example, in a contributory plan, all employees who have not met the vesting requirements of the contractor's plan at time of employment by the replacement contractor will be encouraged to make the accumulations of their own contributions available to be combined with AEC funds for the purchase of annuities consistent with the provisions of the pension and retirement plan for the periods of their participation therein.
  - e. A provision that, in the event of contractor replacement, the retiring contractor will not voluntarily grant early retirement to employees employed by the replacement contractor.
4. Reporting Requirements. An annual accounting and an annual actuarial valuation are required for AEC review and information and should be submitted within 6 months after the end of the plan year.
    - a. The accounting reports should include at least the following items:
      - (1) the amount of the fund at the beginning of the year;
      - (2) employee contributions (if applicable);
      - (3) employer contributions;
      - (4) income (earnings, etc.);
      - (5) pension and other benefit disbursements;
      - (6) expenses incurred during the year;
      - (7) fund balance at the end of the year;
      - (8) total number of contract employees; and
      - (9) total number of pension plan participants.
    - b. The actuarial valuations should include at least the following items:
      - (1) a description of any adjustments for actuarial gains and losses, including unrealized appreciation and depreciation in the value of investment.
      - (2) a summary of the most recent actuarial valuation of the plan, including the actuarial assumptions, the value of the vested benefits, the cost methods employed, and a summary of the plan; and
      - (3) suggested contribution for the ensuing year.
  5. Total and Partial Pension Plan Termination. The immediate vesting of accrued benefits generally will be required if upon contract termination the pension plan is terminated and

all rights to any contributions made in his behalf by the prior contractor and any credit for his service with the prior contractor towards participation and vesting under the replacement contractor's plan.

7. Insured Plans. When an operating contractor proposes to purchase an insured pension plan to cover his employees on AEC work, he should solicit proposals from a sufficient number of insurers to establish adequate competition taking into consideration expected cost, guarantees, and other pertinent factors.
8. Exceptions. Exceptions to the above require approval of the Controller. It is recognized that there may be a small group of employees for whom separate retirement or pension arrangements are equitable because of either past or future service with the contractor in its private operations. Such arrangements are permissible and should not be treated as exceptions.

D. AEC Approval of Pension and Retirement Plans

1. Purpose. The purpose of requiring AEC approval is to determine that AEC's financial interests in the plan are continuously protected, that is, that the method to be used for funding the plan, the actuarial assumptions and method to be used to compute the liabilities of the plan, and the estimated costs are reasonable by AEC standards.
2. Responsibility for Approval. In the following cases, pension plans, amendments to the plans, and changes in methods of funding must be submitted to the Office of the Controller for approval:
  - a. Where the contractor operates an AEC-owned facility.
  - b. Where an AEC contract is being performed at a contractor's plant or facility and the contract work

involves the full-time use of not less than 50 percent of the total number of the contractor's employees at such plant or facility.

- c. Where an AEC contract is being performed at a separate plant or facility of a contractor with a definite segregation of personnel working on the AEC contract.

In all other cases, the plans, amendments and changes in methods of funding may be approved by the Managers of Field Offices on the basis of the criteria set forth in this part VIII. All pension and retirement plans requiring Headquarters approval, together with all supporting data, shall be forwarded to the Office of the Controller. The Office of the Controller shall review the plans and shall obtain the concurrence of Division of Labor Relations and of the Office of General Counsel. On completion of such review, the Office of the Controller shall authorize appropriate action on the plans to the field office manager.

3. Requirements for Approval

- a. Where a contractor is subject to Federal income taxes, the plan shall have received the approval of the Internal Revenue Service or, if the plan is being considered for IRS approval, the action of the AEC will be conditioned upon receiving such approval.
- b. Where a contractor is not subject to Federal income taxes and the approval of the Internal Revenue Service is not obtained, the AEC will include the following criteria in determining the acceptability of a plan:
  - (1) There must be a formal written document communicated to the employees as a permanent pension program providing for payments to be made into a trust or a group annuity contract.

sistent with the principles stated herein, the contractual terms prevail. See AECPR 9-15.5003 for approval of deviations in contract terms.)

2. Funding. Before the contributions required to be made under a plan may be considered for allowability as part of the cost of an AEC contract, they must have been deposited in the pension trust, paid to the insurer, or paid to the pensioner.
3. Reasonableness. Ordinarily, if the employer's contributions under a pension plan for normal costs and past service costs are determined by an independent actuary, and are acceptable by the Internal Revenue Service, they may be considered as reasonable. However, normal costs, together with all other compensation paid to the employee shall be reasonable in amount. Compensation is considered reasonable to the extent that the total amount paid or accrued is commensurate with compensation paid under the contractor's established policy and conforms generally to compensation paid by other firms of the same size, in the same industry, or in the same geographic area, for similar services. (See AECPR 9-15.5010-14.) The above criteria is also applicable to the profit-sharing pension plans.

4. Past Service and Supplementary Costs

- a. Past service costs that have been actually funded by the contractor may be allowed for contract cost reimbursement purposes to the extent allowable by the Internal Revenue Service for Federal income tax purposes, i.e., not in excess of 10 percent of the past service cost annually. In the case of operating contracts, the 10 percent rule will be applicable only if found to be reasonable under the circumstances in the particular case. Past service costs are often spread over a period represented by the differ-

ence between normal age of retirement and average age of the participant. Such costs at the beginning of such contracts normally will be only those with respect to transferees to the AEC project from the contractor's other operations and will be considered in the negotiation of the special pension arrangements, thereafter, the costs incurred by reason of plan changes in benefits or methods of funding, etc., will be considered in the Controller's review of such changes.

- b. In some cases, a contractor may defer the funding of past service and supplementary costs of a plan but still meet the requirements of the Internal Revenue Service as to the reasonableness of each year's contribution by paying interest on the unfunded amount. Such interest is considered as part of the pension cost rather than as a financing charge and, therefore, may be accepted to the extent that for any one year the amount paid does not exceed the amount that would have been allowed if the past service or supplementary cost had been funded. The same rule is applicable in the case where interest and part of the annual past service cost is paid.

F. Credits

1. Accounting For. Credits arise in various ways and it is essential that proper accounting be made for all credits arising from payments reimbursed by AEC. Credit for the normal turnover of the participants under a plan ordinarily is included as a discount factor in the actuarial computations of the annual contributions. Adjustment need be made only for forfeitures which directly or indirectly inure to the benefit of the contractor, forfeitures which inure to the benefit of other employees with no reduction in the contractor's costs will not normally