USDA Rural Development

United States Department of Agriculture
Rural Development

February 14, 2013

To: All Electric Program Borrowers

Subject: NRECA Retirement Security Pension Plan Prepayments

RUS has received numerous calls from borrowers with regards to the opportunity for prepayment of their NRECA Retirement Security Pension Plan (R&S Plan). Specifically, NRECA is offering an option to prepay a portion of future defined benefit R&S Plan contributions. The prepayment option allows members to prepay contributions in exchange for lower future R&S Plan billing rates.

As part of an effort to be proactive to borrower needs and providing improved customer service, Electric Program staff undertook an immediate review of the changes. Staff has held numerous discussions with the RUS Program Accounting Services Division and has prepared the following accounting guidance for our borrowers who choose to participate in this prepayment opportunity.

For accounting purposes, since the payments are voluntary prepayments of the pension costs and have a future benefit, the amounts shall be recorded as a long term prepayment in Account 186, Miscellaneous Deferred Debits, of the RUS Electric Uniform System of Accounts, 7 CFR 1767 (USOA). This prepaid expense shall be amortized to Account 926, Employee Pensions and Benefits, over a ten year period which represents the remaining service lives of all plan participants. Or as an alternative, entities may calculate the amortization period by subtracting the coop's average age of its workforce as provided by NRECA from the coop's normal retirement age (per its plan definition) up to a maximum of 20 years. If an entity chooses to finance its prepayment, interest expense shall be recorded as such in the year incurred as required by the USOA.

We consider the annual pension contribution reductions resulting from the voluntary prepayments to be in the Government's best financial interests. In order to facilitate borrower's participation in this optional NRECA program and to reduce the administrative burden on our borrowers and RUS of acting on individual borrower requests to incur unsecured indebtedness, we consent to the borrowers' excluding unsecured indebtedness incurred for this purpose from the limitation in Section 6.13(e) in their RUS Loan Contracts.

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Generally speaking, Section 6.13 of the typical RUS Loan Contract places restrictions on incurring further indebtedness and then lists several exceptions to the restrictions. If an exception applies, Section 6.13 defines the excepted indebtedness as "Permitted Debt."

Not all unsecured indebtedness is "Permitted Debt." Section 6.13(e) of the RUS Loan Contract limits the amount of unsecured indebtedness that a borrower may incur to 15% of Net Utility Plant if the borrower's equity level, after giving effect to such unsecured indebtedness, is less that 30% of its Total Assets unless the borrower obtains the consent of RUS.

Since we are consenting to NRECA's request, we will consider "Permitted Debt" to include unsecured indebtedness incurred specifically for the purpose of participating in NRECA's optional prepayment of future defined benefit R&S Plan contributions. Consequently, such unsecured indebtedness will be excluded for all purposes in applying Section 6.13(e). This is an interpretation and consent under the loan contact and not an endorsement of the pension plan or the options.

This is consistent with our desire to streamline processes and to continually strive to be responsive to our borrower's needs. We are pleased to have the opportunity to take a proactive approach in addressing these concerns. Both myself, as well as the Electric Program team, look forward to working with each of you in a proactive and forward looking fashion in the future.

Sincerely,

NIVIN A. ELGOHARY
Assistant Administrator, Electric
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