

# 10S Lockheed  
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Submitted Electronically

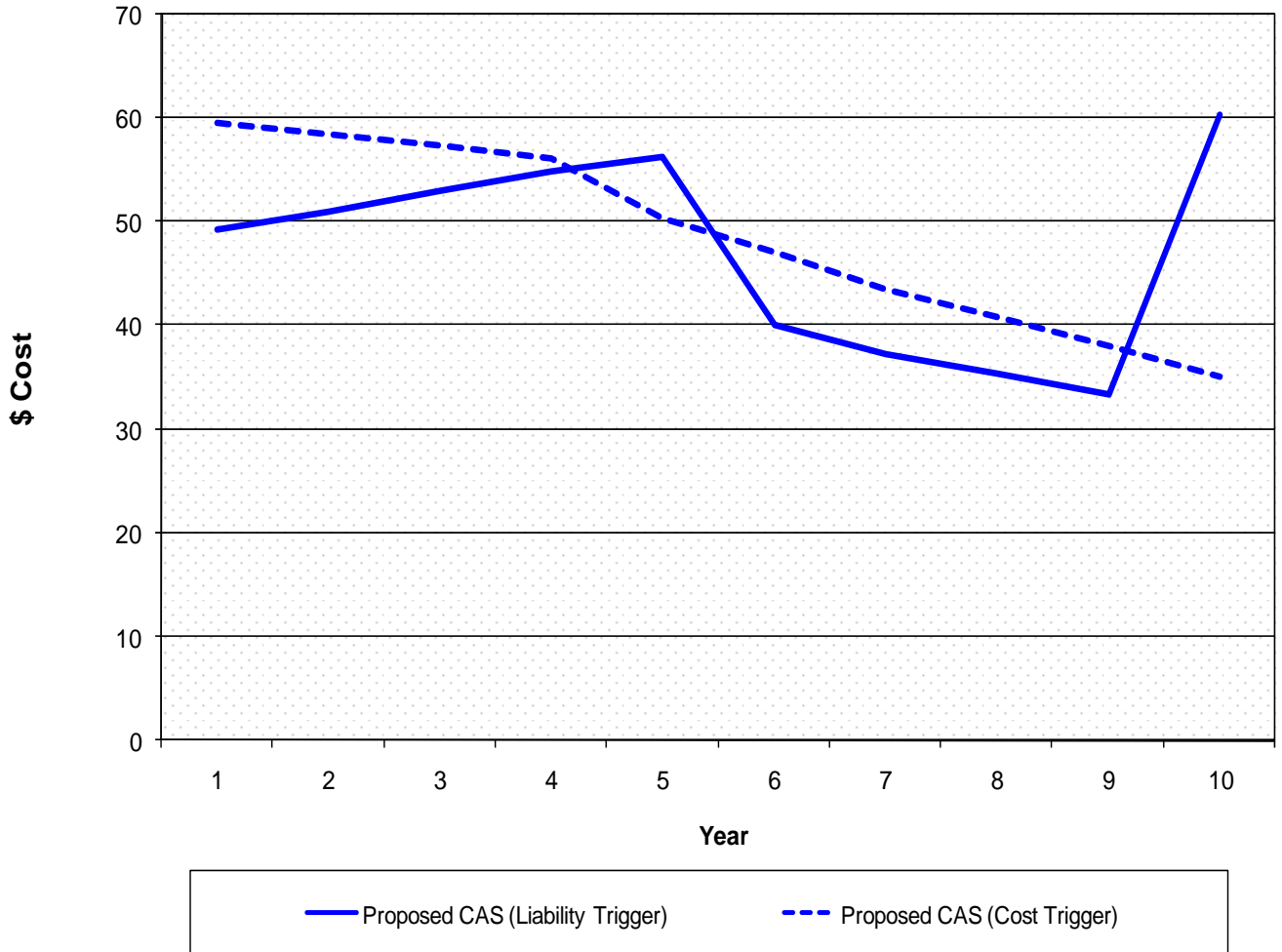
Office of Federal Procurement Policy  
Cost Accounting Standards Board  
725 17<sup>th</sup> Street, NW  
Room 9013  
Washington, D.C. 20503

Re: CAS Pension Harmonization ANPRM

After reviewing the responses submitted on November 3 we would like to take advantage of the extended comment period. In particular we would like to comment on the application of the minimum actuarial liability (MAL). In our first response to the ANPRM we commented on the recognition of the MAL in the cost calculations. The ANPRM provides that the accrued liability and the associated normal cost will be equal to the MAL and the MAL normal cost, if the MAL is larger than the actuarial accrued liability (AAL). We suggested in our comment letter that, rather than just comparing the MAL to the AAL in order to determine which measurement would be used for the accrued liability, the trigger mechanism should be based on a comparison of the cost associated with each respective liability. If the MAL and its respective normal cost would generate a higher cost than the AAL and its respective normal cost, then we should use the MAL and its normal cost to calculate the assignable cost for the year. If the opposite was true, then we should use the AAL and its normal cost to calculate the assignable cost.

Due to the time extension granted for the comment period we have been able to perform some additional modeling in order to further analyze this issue. We modeled a plan that we believe is representative of our plans as well as other plans within the defense industry. We have attached a graph showing the results of our analysis, which is based on a pension plan that follows segment accounting as opposed to composite accounting. The liability measurement (AAL vs. MAL) that is reflected in the annual cost varies among the segments, and it also varies from year to year. The use of a cost trigger approach as opposed to a liability trigger results in a less volatile cost pattern. Although we did not include the cost results in our attached graph, it appears that if the plan were to use a composite cost method then the differences between the cost trigger and the liability trigger would be much smaller.

### Comparison of Liability and Cost Triggers Segmented Cost



After reading other comment letters and performing this analysis it is also clear that further clarification is needed regarding acceptable discount rates that could be used for calculating the MAL. Examples of suggested rates include the same rate that is used for the liability calculation under the PPA, the discount rate that is used to calculate the PBO under FAS 87 and an expected average long-term interest rate. Other rates that could be supported by the contractor could also be acceptable, but these three alternatives could be considered as “safe harbors”.

If you should have any questions regarding our analysis or require any additional information please contact:

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Sincerely,

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