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LOCKHEED MARTIN

Gerald Musarra
Vice President
Government & Regulatory Affairs

July 9, 2010

Cost Accounting Standards Board
Office of Federal Procurement Policy
725 17th Street, NW
Room 9013
Washington, DC 20503

ATT: Raymond J. M. Wong

RE: CAS Pension Harmonization NPRM

Dear Mr. Wong:

On behalf of Lockheed Martin Corporation and Prudential Retirement, I am forwarding the attached comments for filing in the following proceeding: Office of Federal Procurement Policy, Cost Accounting Standards Board (Board) Notice of Proposed Rulemaking (NPRM) on Harmonization of Cost Accounting Standards (CAS) 412 and 413 With the Pension Protection Act of 2006 (PPA), published in the Federal Register on May 10, 2010.

Sincerely,

Gerald Musarra

Attachment

July 9, 2010

Cost Accounting Standards Board
Office of Federal Procurement Policy
725 17th Street, NW
Room 9013
Washington, DC 20503
Via e-mail to casb2@omb.eop.gov
Att.: Raymond J. M. Wong

RE: CAS Pension Harmonization NPRM

Lockheed Martin Corporation (Lockheed Martin) and Prudential Retirement have prepared this comment letter in response to the Office of Federal Procurement Policy, Cost Accounting Standards Board (Board) Notice of Proposed Rulemaking (NPRM) on Harmonization of Cost Accounting Standards (CAS) 412 and 413 With the Pension Protection Act of 2006 (PPA), published in the Federal Register on May 10, 2010.

Lockheed Martin is a global security company that is principally engaged in the research, design, development, manufacture, integration and sustainment of advanced technology systems, products and services. Lockheed Martin sponsors 18 defined benefit pension plans with $22 billion of assets that cover 330,000 active and retired participants. The company is committed to maintaining a healthy pension fund, and has contributed over $5 billion to the fund since 2003.

Prudential Retirement provides complete and customized retirement solutions and services, including actuarial consulting services. Prudential Retirement consults for Lockheed Martin and other organizations subject to the Federal Acquisition Regulations (FAR) and CAS.

The PPA amended the minimum funding requirements for defined benefit pension plans under the Employee Retirement Income Security Act of 1974 (ERISA). Section 106 of the PPA requires the Board to harmonize Standards 412 and 413 of the CAS with the funding requirements of the PPA. The reason for including this mandate in the PPA is that the Congress recognized that the Federal Government has burdened contractors with two different sets of rules for determining pension cost as opposed to having a single set of rules. The resulting disparities lead to inequities and have an obvious negative impact on the ability of contractors to operate effectively. The solution adopted by the Congress was to introduce a requirement for the CAS rules to be changed to remove the inequitable impact on cash-flow for contractors.

Pension cash contributions are allowable cost for which contractors should be reimbursed within a reasonable amount of time. Absent change to the CAS rules, Government contractors expect to accumulate significant prepayment credits (i.e., minimum funding cash contribution requirements in excess of CAS assignable costs). This situation would adversely affect the overall health of their organizations and their pension plans.

We recognize that it would not be in the best interests of either contracting companies or the Government to revise the CAS assignable cost to be equal to the required contributions under PPA. The nature of the Government contracting world would lend itself to another approach. The CAS Board has stated goals for harmonization which include minimal change to CAS 412 and 413, no direct adoption of PPA, maintaining causal beneficial relationships, mitigating volatility, and avoiding complexity. The goal for transition to harmonization is to minimize undue immediate impact on CAS cost. These are all desirable

goals, but the overriding goal should be the achievement of the harmonization of costs to maintain appropriate cash-flow. In our view, the NPRM fails to meet its stated goals and, as more fully discussed below, should be revised accordingly.

The extent to which harmonization is achieved under the NPRM – or any other alternative approach – can be measured by calculating the amount of prepayment credits applicable to a pension plan and the amount of time it takes for contractors to receive reimbursement for those amounts. Therefore, Lockheed Martin and Prudential Retirement collaborated to analyze projected cash funding requirements under the PPA as well as assignable pension costs under CAS based on Lockheed Martin pension plan data. The results of our modeling show that the NPRM does not achieve harmonization with the PPA. The proposed rules in the NPRM lessen the difference between the contributions required by the IRS under the PPA and the costs assignable under CAS, but do not meet the Board's mandate to harmonize the two costs. Consequently, the modeling also demonstrates proposed solutions to the more problematic elements of NPRM.

We have grouped our comments into two sections. "Major Issues" address provisions that are of critical concern and require change for harmonization to succeed. "Other Issues" cover provisions that we believe warrant revision and the Board should consider addressing in the final rule or subsequent technical correction.

We believe that harmonization should be achieved for all contractors that sponsor pension plans, both large and small, and for those that have a voice in shaping the process and those that do not. Therefore we hope that the CAS Board will not limit consideration to comments that are unanimous among all contractors, but will carefully review and analyze all comments.

MAJOR ISSUES

Trigger 1

Currently, CAS 412 and 413 measurements are based on CAS "Long Term" liabilities; the Actuarial Accrued Liability (AAL) and Normal Cost (NC) are based on long-term, best-estimate actuarial assumptions and the contractor's established immediate gain actuarial cost method. The NPRM's new section 9904.412-50(b)(7) introduces "Settlement" liabilities; the Minimum Actuarial Liability (MAL) and Minimum Normal Cost (MNC) are consistent with the PPA Funding Target and Target Normal Cost. The NPRM requires the measured CAS pension cost to be re-determined using the MAL and MNC if three (3) ''triggers'' are met.

The first trigger, "Trigger 1," requires that the pension plan's PPA Minimum Required Contribution (MRC) exceed the CAS 412 and 413 pension cost as measured with Long Term liabilities in order for the cost to be re-determined using the Settlement liabilities.

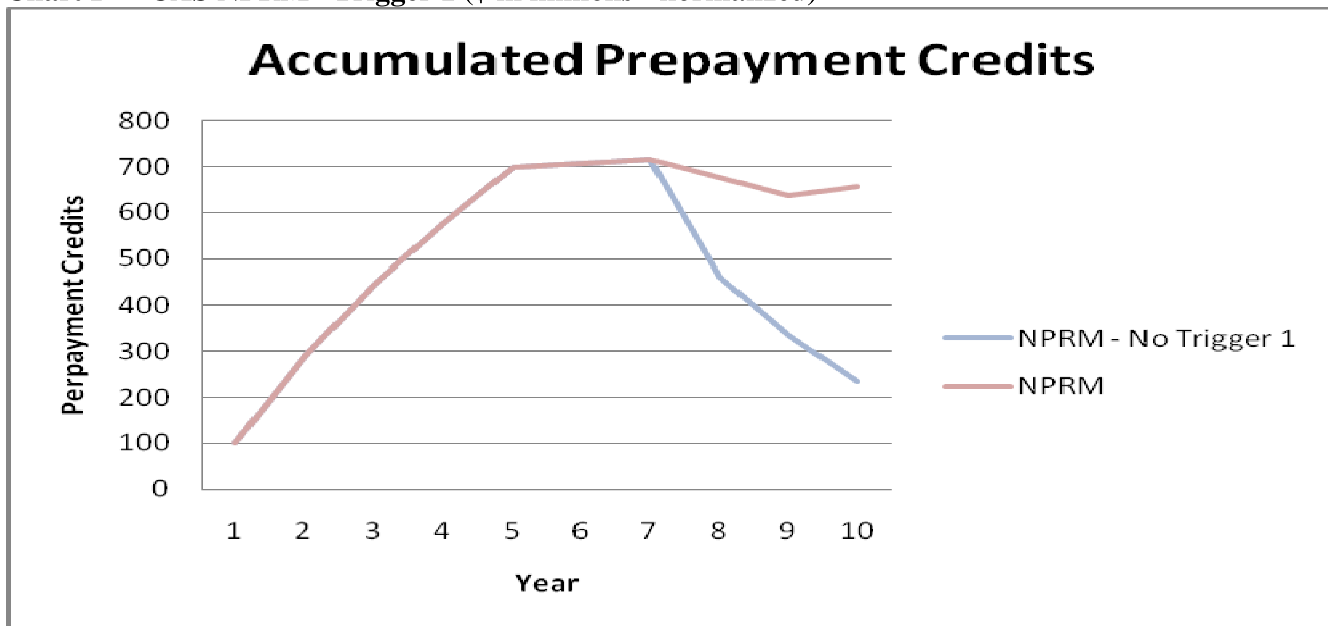
Trigger 1 presents several issues in conflict with the Board's stated goals and should be removed from the CAS pension cost calculation. First, the inclusion of the plan's PPA MRC as a component of the pension CAS cost calculation results in undue complexity. Contractors forecast CAS expense for several years when bidding on multi-year contracts. This already complicated process will now also require a multi-year forecast of PPA Minimum Required Contributions (MRCs) to determine whether Trigger 1 applies. The PPA MRCs are determined using assets, liabilities, methods, and assumptions that differ from CAS. Government cost accounting auditors will be required to learn the intricacies of the PPA.

In addition, the reference in Trigger 1 to the plan's PPA MRC contradicts the Board's desire to maintain independence between cost accounting and PPA to avoid change to cost accounting, without Board

approval, when PPA is amended. When determining the plan's MRC, PPA allows plan sponsors to make decisions regarding the application or waiver of carryover and prefunding balances. These decision points can have significant impact on the magnitude (higher or lower) of the funding requirements, and may be influenced by the implications they will have on the determination of pension CAS cost. PPA MRCs also recognize all of the assets of the pension plan, including accumulated prepayment balances, in conflict with CAS 412 and 413 which exclude accumulated prepayment balances from the Actuarial Value of Assets. Also, Trigger 1 may cause significant volatility due to change in the annual PPA required funding amounts, resulting in vacillation between the use of Long Term and Settlement liabilities for determination of CAS cost.

Lastly, our modeling shows that if Trigger 1 is maintained, then prepayment balances continue to grow demonstrating that the NPRM does not effectively harmonize CAS cost with PPA. To illustrate this point, we have included some of the results of our modeling. We analyzed Lockheed Martin pension plan CAS cost and PPA MRCs based on the NPRM as drafted with Trigger 1, and based on the NPRM without the existence of Trigger 1. These results are shown in Chart I and clearly demonstrate that the NPRM as drafted (with Trigger 1) does not achieve harmonization. There is a significant accumulated prepayment balance remaining at the end of the 10-year forecast period that is projected to continue to increase thereafter. Based on the results of our modeling, and for the other reasons mentioned above, we feel it is essential for the CAS Board to remove Trigger 1 from the proposed rule. Note, the elimination of Trigger 1 has no financial impact in the early years of the analysis for it is expected the requirements of Trigger 1 will be met. Therefore, removing Trigger 1 should have minimal impact on the Federal procurement budget over the next several years.

Chart I CAS NPRM –Trigger 1 ($ in millions - normalized)



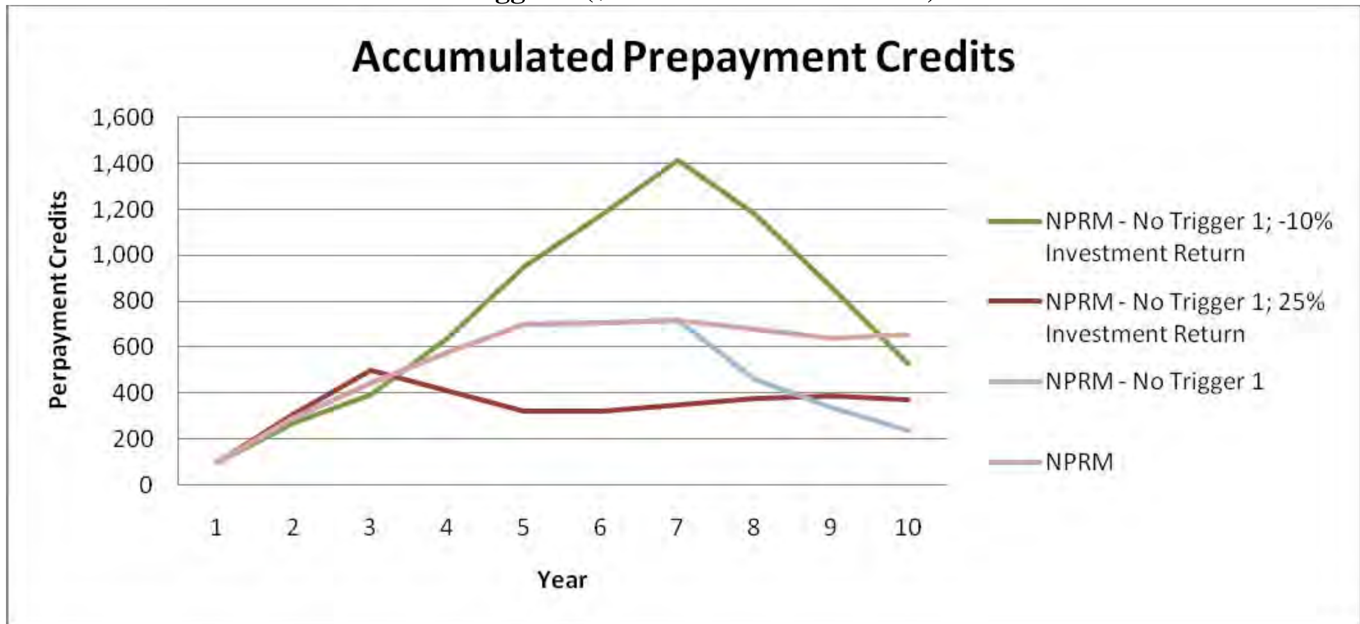
Amortization of Mandatory Prepayment Credits

The Advance Notice of Proposed Rulemaking (ANPRM) included a provision for amortizing Mandatory Prepayment Credits (MPCs) which the NPRM has deleted. We propose that some provision for amortization of MPCs be restored in the Final Rule.

In order to achieve harmonization, amortization of accumulated Mandatory Prepayment Credit (MPC) balances is a necessary component of CAS cost. Without such amortization, MPCs are not recovered in a reasonable time period, and situations may arise where the balances are inaccessible. To illustrate, in

Chart II, we extended Chart I to also include the NPRM without the existence of Trigger 1 for two economic scenarios. The first economic scenario models a positive 25% investment return for each of the first two years. The second economic scenario models a negative 10% investment return for each of the first two years.

Chart II CAS NPRM –Trigger 1 ($ in millions - normalized)



As modeled, without the amortization of accumulated MPC balances, balances grow to extraordinary levels in negative economic environments and are inaccessible in positive economic environments. Both cases demonstrate that CAS cost is clearly not harmonized with PPA.

The growth in the MPC balances occurs primarily during the 5-year transition period that applies for the application of the Settlement liabilities. To remedy this situation, we propose that MPCs that are created during the 5-year transition period be amortized over a period of 10 years, a period consistent with the NPRM amortization of gains and losses. The amortization of the MPCs created would be delayed for a two year period. The 2 year delay is to balance a timely recovery of CAS cost with the need to minimize undue immediate impact on CAS cost. It would allow the Government to plan their agency budgets; and contractors to reduce the amount and number of equitable adjustments resulting from the change in CAS, lessening complexity and disagreement.

Under our proposal, for each year of the 5-year transition period during which MPCs are created, there would be a 10-year amortization base established as an additional element of assignable cost. For each of the 5 years for which an amortization base is established, the actual amortization as an additional element of cost would be delayed for 2 years. For example, if the first year of transition was 2011, and the required funding under PPA for 2011 was higher than the assignable CAS cost for 2011 resulting in the creation of MPCs during 2011, then a 10-year amortization base would be established for those MPCs. However, instead of commencing the amortization in 2012, it would be delayed for two years and the actual amortization would begin in 2014. This process would be followed for each year of the 5-year transition period. Any MPCs that are created in years after the 5-year transition period would not be subject to amortization. For pension plans that follow segment accounting, the amortization amounts for the prepayment credits could be allocated to segments each year based on the segment liability (AAL or MAL) or as suggested in the ANPRM (based on salaries for pay-related benefits and headcounts for non pay-related benefits). Either approach would be a viable alternative.

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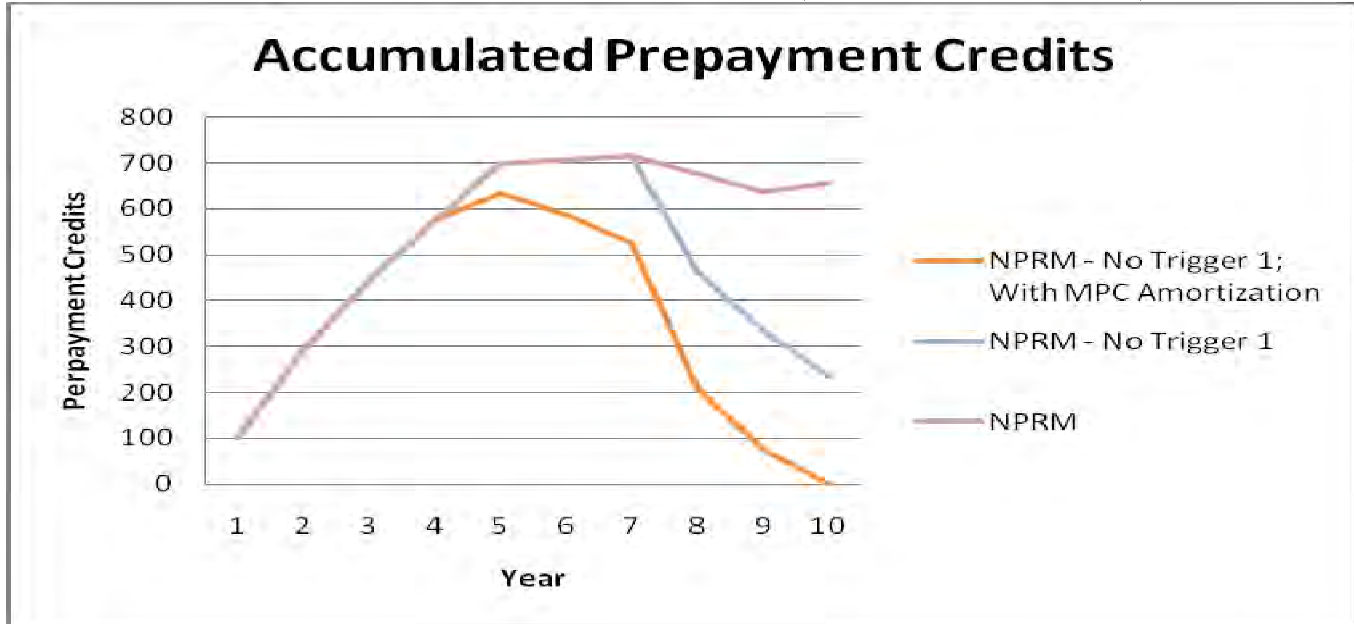
The impact on harmonization is illustrated in Chart III where we extended Chart II to also include our proposal for the amortization of MPCs without the existence of Trigger 1.

Chart III CAS NPRM – MPC AMORTIZATION ($ in millions - normalized)



There may be acceptable alternative approaches for the application of MPCs. Our approach is a proposal that would be consistent with the stated goals of reconciling PPA MRCs with contract cost recognition, avoiding complexity, and minimizing undue immediate impact on CAS cost. The amortization of MPC would also be temporary, and not part of the long term CAS cost framework.

Trigger 2

The second of the three triggers, "Trigger 2," requires the Settlement liabilities (MAL plus MNC) exceed Long Term liabilities (AAL plus NC) measured at the segment level in order for the CAS 412 and 413 cost to be re-determined using the Settlement liabilities.

Trigger 2 also presents several issues, and we suggest it be removed from the pension cost calculation. An inequity can result from the application of Trigger 2 at the segment level, especially when a contractor has an inactive segment.

Consider a contractor who maintains an inactive segment (Plan 1) and a contractor who maintains an identical plan (Plan 2) but without an inactive segment, as in Chart IV which reflects the NPRM. Trigger 2 results in different costs for Plan 1 and Plan 2 even though the plans are identical.

Chart IV CAS NPRM –Trigger 2 ($ in millions)

							Calculated CAS Cost				
		AAL	NC	MAL	MNC	Asset	Trigger 2 Test	Adjusted AAL	NC	Amort.	Cost
PLAN 1											
Seg - 1	Active	2,000	70	1,650	150	1,600	No	2,000	70	56	126
Seg - 2	Inac.	1,900	0	2,350	0	1,600	Yes	2,350	0	104	104
	Total	3,900	70	4,000	150	3,200		4,350	70	160	230
PLAN 2											
Segment - All		3,900	70	4,000	150	3,200	Yes	4,000	150	111	261

Notes: Trigger 2 Test: (MAL+MNC) > (AAL+NC)
Amortization payment reflects 10-year payment of unfunded liability at 8.25%

With the suggested removal of Trigger 2, and assuming Trigger 1 is also removed, the CAS cost would be the greater of the cost determined using Long Term liabilities and the cost determined using the Settlement liabilities. Chart V reflects the CAS cost with Trigger 2 removed, resulting in the same cost for both plans.

Chart V Alternative to NPRM – Trigger 2 Removed ($ in millions)

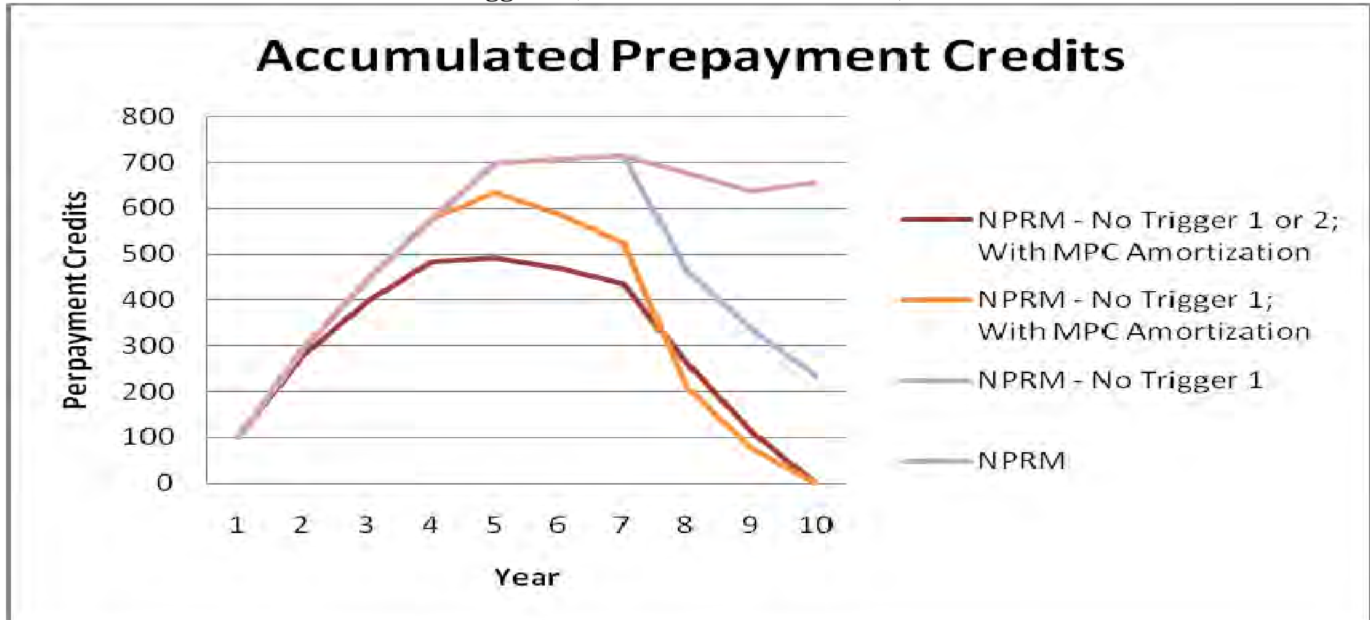
							Calculated CAS Cost				
		AAL	NC	MAL	MNC	Asset	Trigger 2 Test	Adjusted AAL	NC	Amort.	Cost
PLAN 1											
Seg - 1	Active	2,000	70	1,650	150	1,600	n/a	1,650	150	7	157
Seg - 2	Inac.	1,900	0	2,350	0	1,600	n/a	2,350	0	104	104
	Total	3,900	70	4,000	150	3,200		4,000	150	111	261
PLAN 2											
Segment - All		3,900	70	4,000	150	3,200	n/a	4,000	150	111	261

Notes: Amortization payment reflects 10-year payment of unfunded liability at 8.25%

A similar inequity due to Trigger 2 may also result based on a contractor's cost method for the Long Term liabilities. For example, Trigger 2 could result in different application of the Settlement liabilities for one plan that uses the entry age normal cost method as opposed to another identical plan that uses the projected unit credit cost method. The NPRM should treat contractors equally; the application of the triggers should not have a different result based on segment accounting or actuarial cost method. Trigger 2 results in different costs for Plan 1 and Plan 2 as shown above and should therefore be removed.

We also analyzed the impact of Trigger 2 in the modeling of the Lockheed Martin plan costs, which demonstrated that the removal of Trigger 2 more effectively harmonizes CAS cost with PPA. This is illustrated in Chart VI which extends Chart III to also include the NPRM without Trigger 2.

Chart VI CAS NPRM –Trigger 2 ($ in millions - normalized)



Trigger 2 also decreases CAS Cost predictability because a relatively small change in liability can cause the liability to switch between the Long Term and Settlement liabilities, resulting in a substantial change in CAS Cost due to differences in the Normal Cost (NC) and Minimum Normal Cost (MNC).

Finally, Trigger 2 produces counter-intuitive results. Although an increase in the Long Term liability interest rate decreases the Actuarial Accrued Liability (AAL) and should theoretically decrease cost, this could cause the liability measurement to switch from the Long Term liability (AAL) to the Settlement liability (MAL), potentially increasing the CAS Cost if the MNC exceeds the NC. For these reasons we believe Trigger 2 must be removed.

As previously mentioned, this modeling is based on actual Lockheed Martin pension plan projected CAS cost and PPA MRCs. The numbers have been normalized to maintain confidentiality. The algorithm used to perform the normalization maintained the results of the modeling but illustrates them on a smaller scale. The actual level of accumulated prepayment credits exceeds the level suggested in each of the preceding graphs. The assumptions and methods used in the modeling are outlined in Appendix A.

Transition to Settlement Liabilities

Our modeling shows that the removal of Trigger 1 is an essential element for achieving harmonization. Our analysis also shows that there needs to be an amortization provision for mandatory prepayment credits (MPCs) that are created during the 5-year transition period. In addition, the removal of Trigger 2, though not as significant of an impact as the removal of Trigger 1 or the amortization of MPCs, would help to provide equity for plans with different actuarial funding methods or segment accounting practices.

With the recommended removal of Trigger 1 and 2, after the 5-year transition period, the CAS cost would be equal to the greater of the CAS cost based on the “Settlement” liabilities, the Minimum Actuarial Liability (MAL) and Minimum Normal Cost (MNC), or the CAS cost based on the “Long

Term" liabilities, the Actuarial Accrued Liability (AAL) and Normal Cost (NC). We would like to offer an additional recommendation that the 5-year transition period be used to phase out the Long Term liabilities so that after the transition period the CAS cost would be based on the Settlement liabilities. Having the CAS cost based on the Settlement liabilities would improve harmonization by following the liability measurement that has been adopted by the PPA. It would result in a cost that would either be less than, or equal to, the greater of the cost based on the Settlement liabilities or the Long Term liabilities. We believe that this approach would work well with the removal of Trigger 1 and Trigger 2 during the 5-year transition period and the delayed amortization of MPCs that are created during the transition period. It would also reduce complexity.

Benefit Curtailment and Segment Closing

The NPRM provides the accounting for benefit curtailment or other segment closing adjustments be made using the "Long Term" Actuarial Accrued Liability (AAL). This approach is counterproductive to harmonization and we suggest the calculations be based on the "Settlement" Minimum Actuarial Liability (MAL). The AAL is calculated on a long-term, going-concern basis. In contrast, the MAL is based upon the "rates at which the pension benefits could effectively be settled based on the current period rates of return on investment grade fixed-income investments" (NPRM 412-50-(b)(7)(iv)(A)). It is counterintuitive that the NPRM may result in the use of settlement based assumptions during the going-concern phase of a segment, and going-concern assumptions in the closing phase of a segment.

A primary goal of the CAS harmonization, as mandated by the PPA, is harmonization of costs. With the PPA, Congress established the Funding Target Liability as the optimal level of pension funding, and requires cash funding to accumulate pension assets equal to the Funding Target. As noted in the NPRM Conclusions (see FR at 25983), the Board "…proposes implementation of a MAL… consistent with the basis." However, by retaining the current CAS 412 and 413 benefit curtailment and segment closing rules, the use of AAL versus MAL reverses the impact of CAS harmonization on a cumulative basis. Any increase in CAS pension cost recovery resulting from harmonization would be refunded at the time of segment closing. As proposed in the NPRM, one Government agency (with the PPA) would penalize a contractor if its pension assets are below the Funding Target/MAL while another (with the NPRM) would demand a refund of any excess of the Funding Target/MAL over the AAL.

It is only upon plan termination that the plan obligation is measured as the amount paid to irrevocably settle the liability. The use of the AAL versus the MAL at benefit curtailment and segment closing, as proposed, may encourage contractors to exit the defined benefit system to avoid the financial risk of hefty segment closing adjustments that may arise in the future. If pension plans are terminated and assets are distributed to the participants, then the segment closing adjustment would be measured using PBGC assumptions or annuity purchase assumptions. The resulting cost to the Government could be significantly higher than a segment closing adjustment that is measured using the MAL.

In order to harmonize pension cost, benefit curtailment and segment closing adjustments should be based on the difference between the Market Value of Assets (MVA) and the MAL. Both the MVA and the MAL are market-based measurements of the pension plan assets and obligations at the prevailing market conditions, and this basis is consistent with the requirements of the PPA.

OTHER ISSUES

Prepayment Credit Interest Adjustment

Several of the Board's illustrations in the NPRM relate to the application of the accumulated value of prepayment credits. The proposed changes to 9904.412-60(C)(5) and addition of 9904.412-60.1 suggest that prepayment credits are available as of the beginning of the year and are not adjusted for interest to reflect the actual timing of the funding. We suggest the prepayments be adjusted to reflect the planned timing of funding which is the current accepted practice.

Contractors typically calculate pension CAS cost based upon planned funding dates. Pension actuarial valuations are typically performed as of the beginning of year. Pension cost is then adjusted at the valuation rate from beginning of year to the dates of payment. Per the Federal Acquisition Regulations Part 31.205-6, allowable pension CAS cost must be funded within 30 days after each quarter to which it is assigned. It is not a requirement to fund the full pension CAS cost as of the beginning of the year.

A contractors decision to delay funding from the beginning of year and fund on a quarterly basis, for example, is typically an attempt to align required cash funding with CAS recovery; one of the goals of harmonization. The PPA has quarterly cash funding requirement dates of April 15th, July 15th, October 15th, and January 15th for a calendar year plan. A contractor may not know the exact quarterly minimum funding requirements at the beginning of the year and consequently how much of the pension CAS cost can be funded with cash versus accumulated prepayment credits. In addition, contractors do not typically recover CAS cost in their contracts as of the beginning of the year but throughout the year. Therefore, the delayed cash funding from the beginning of the year is not simply an investment decision, but an attempt to align the timing of cash inflow and outflow.

Accumulated prepayments credits belong to the contractor. They are the result of amounts funded in excess of the pension cost assigned to a cost accounting period; typically to meet current year, or in anticipation of near term, minimum funding requirements of ERISA, as amended by the PPA.

CAS 412 and 413 does not state that a contractor is required to use prepayment credits to fund the pension CAS cost during a year when CAS cost exceeds ERISA or PPA minimum funding requirements. It may be more likely in future years contractors make additional cash contributions in excess of minimum funding requirements to avoid the PPA implications that are imposed when the pension plan funded status is low. For example, a pension plan may be deemed “At-Risk” or subject to “Benefit Restrictions” under the PPA if the funded status is less than 80%. In this situation, the contractor would not be “required” to make additional cash contributions to improve the funded status and avoid being “At-Risk” and “Benefit Restrictions,” but may certainly elect and want to do so to avoid the unfavorable consequences such as limitations on benefit payment options, participant notices, and increased minimum funding requirements. Clearly, PPA funding rules suggest additional contributions be made. Once again, as proposed in the NPRM, one Government agency (with the PPA) would encourage advanced contributions while another (with the NPRM) would discourage them.

As currently drafted, the NPRM would result in an inequity relative to the amount of CAS recovery between two contractors with the same CAS assignable cost in a year depending on whether the cost was funded with cash funding during the year or accumulated prepayment credits.

For example, suppose the CAS assignable cost, measured on the first day of the year, was $100 for both Contractor A and Contractor B, and each Contractor had accumulated prepayment credits of $1,000 and $0, respectively. Suppose Contractor B contributes the $100 CAS Cost in 4 equal quarterly payments on the 15th of April, July, October, and January of the subsequent year. For Contractor B, in the absence of

prepayment credits, the recovered CAS Pension Cost would be $100 (1.054197) ≈ $105 adjusted for interest (assuming a valuation rate of 8.5%) versus $100 for Contractor A.

In this simple example we have two contractors with pension CAS cost that are identical. However, Contractor A would realize lower recoverable cost due to previous year cash funding circumstances that resulted in accumulated prepayment credits. It would not be equitable to penalize Contractor A for contributions in excess of assignable pension CAS cost.

The proposal that the CAS cost be $100 for Contractor A versus $105 is the equivalent of giving the Government an interest free loan. As noted above, the contractor will not recover the $100 from the Government at the beginning of year but throughout the year. Neither the contracting companies, nor the Government, should be in a position to lose money, or make money, because of inequities in the pension cost rules.

The inequitable treatment of interest on prepayment credits should not be a factor that influences the contractor's decision to use prepayment credits or fund in cash. This situation would provide equitable treatment by allowing Contractor A to recover the same $105 in pension CAS cost as for Contractor B. This would allow contractors to be treated the same, and would not discourage contractors from making advanced contributions.

Second NPRM

We recommend that the Board issue a second NPRM and not proceed directly to a final rule. This would allow the Board to fully consider the substantive and technical comments that warrant change. It is preferred by all parties there be minimal change between the NPRM and final rule to avoid any unintended technical inaccuracies. While a second NPRM will extend the rulemaking process, we believe that the additional time and effort are warranted on a matter of such enormous importance for contractors, the Government, and other stakeholders. It is more important the final rule promulgated meet the goals for harmonization than a specific timetable be met

Effective Date

The NPRM proposes that the effective date of the final rule will be the date of publication in the Federal Register. We recommend the effective date instead be established as 60 days after the publication date. The CAS provides for a period of up to 120 days between the publication and effective date of the final rule. In accordance with FAR 52.230–2, CAS covered contracts awarded and priced prior to the effective date will be eligible for equitable adjustments. This includes contracts awarded on or after the publication date but before the effective date. A 60 day period is needed between the publication and effective date to allow actuarial consulting firms and contractors sufficient time to update their valuation software and forward pricing models to reflect the new CAS requirements in contracts awarded after the publication date. Without this 60 day period, there will not be adequate time to reflect the new CAS requirements in contracts awarded within days of the publication date, and equitable adjustments might not be available.

Fees charged against prepayments

NPRM 412-30(a)(23) provides prepayment credits be "adjusted for investment returns and administrative expenses." We agree that investment-related administrative fees should be considered to offset returns for purposes of tracking prepayment credits; investment management costs are incurred on all plan assets, including prepayment credits. However, benefit administration fees are not impacted by prepayment credits and should instead be borne by the segments that participate in the plan and give rise

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to those costs. We suggest that the language be revised to read "adjusted for investment returns and investment-related administrative expenses."

Exceptional Events

The CAS Board stated that it "was interested in any comments concerning whether the gain or loss from exceptional events should be amortized over a longer period…and… how such exceptional event might be defined or identified" (see FR at 26001). It is our opinion that any such potential exceptional event be addressed separately from the CAS harmonization rulemaking, which is already very complex and at an advanced stage of the rulemaking process.

Summary

In order to reduce undue complexity, cost volatility, and more effectively harmonize CAS cost with PPA, it is crucial that Trigger 1 be removed from the final rule. We recommend a provision for amortization of MPCs be restored in the final rule, such as the approach that we have outlined. Without such amortization, MPCs are not recovered in a reasonable time period. Without these suggested changes, we respectfully submit that the Board will not have met its mandate under section 106 of the PPA.

We also recommend Trigger 2 be removed; resulting in more equitable treatment of contractors and a more simplified and harmonized final CAS rule. We urge that the CAS Board consider the additional Major Issues relating to segment closing and transition to the Settlement Liabilities. We ask the Board also consider our recommendations on the Other Issues. The current accepted practice for prepayment interest adjustment should continue; the proposed change is unrelated to harmonization.

We express our support for comments provided in the AIA / NDIA response letter; several of our comments echo the items raised in that letter. We understand that the AIA / NDIA comments address issues that represent a consensus among all members. We agree that addressing the issues presented in the AIA / NDIA letter are extremely important, but strongly believe that addressing those issues alone would not achieve the required goal of harmonization. We have included other items that our analysis indicated as very important in achieving harmonization. We believe that letters from other responders will do the same, and strongly urge the Board to consider all comments while performing its review.

Lockheed Martin and Prudential Retirement appreciate the opportunity to comment on the CAS Pension Harmonization NPRM, and welcome any questions you may have regarding our recommendations and analysis.

Sincerely,

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APPENDIX A
ASSUMPTIONS & METHODS

Initial Valuation Information

	Discount Rate	Method
Actuarial Accrued Liability (AAL)	8.25%	EAN
Normal Cost (NC)	8.25%	EAN
Minimum Actuarial Liability (MAL) and Target Liability	6.25%	Unit Credit
Minimum Normal Cost (MNC) and Target Normal Cost	6.25%	Unit Credit
Actual Return on Plan Assets (net of fees)		8.25%
Actuarial Asset Method:		
Cost Accounting Standards (CAS)		4-year asset smoothing
Pension Protection Act (PPA)		3-year asset smoothing
Segment Accounting:		Active and Inactive Segments
Funding Policy:		Maximum of CAS Cost or PPA Minimum
Prepayment Credit Balances ($ in millions)		100
Mandatory Prepayment Credit Balances ($ in millions)		0

The dollar amounts in Cost Charts I, II, III, and VI were normalized so that the Prepayment Credit Balance as of 1/1/2011 was set equal to $100 million.