

Lockheed Martin Corporation
6801 Rockledge Drive Bethesda, MD 20817



LETTER OF COMMENT NO. 159



Martin T. Stanislav
Vice President and Controller

May 31, 2006

Technical Director – File Reference 1025-300
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Sent via email to director@fasb.org, File Reference 1025-300

Re: Proposed Statement of Financial Accounting Standards:
Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans

Lockheed Martin Corporation welcomes the opportunity to provide comments on this exposure draft (ED). Lockheed Martin is a publicly traded corporation engaged in the research, design, development, manufacture, integration, operation, and sustainment of advanced technology systems, products, and services. In 2005, we reported sales of approximately \$37 billion. We sponsor defined benefit pension plans for most of our employees, and certain health care and life insurance benefits for eligible retirees. The accumulated benefit obligation for our defined benefit pension plans was approximately \$25 billion at December 31, 2005.

We support the FASB's desire to improve reporting and disclosure requirements for defined benefit pension and other postretirement plans. We have limited our remarks to the issue we feel most in need of additional consideration by the Board. Our comments are motivated by concerns about the fidelity of the proposal to established accounting concepts, the representational faithfulness of items on the balance sheet, and the ability of financial statement users to utilize the information provided in the manner intended.

This issue, the methodology to be used to calculate the pension liability reported on the balance sheet, was not explicitly identified in the ED as a topic for comment. We strongly believe, however, that the proposed use of the projected benefit obligation (PBO) in this calculation is practically and conceptually inappropriate. For reasons more fully discussed below, we advocate the use of the accumulated benefit obligation (ABO) for this purpose, in addition to eliminating

the recording of a related intangible asset (as is required under the current minimum liability calculation).

There are currently two different pension liability measurements disclosed each year, the PBO and the ABO. The PBO reflects the impact of expected future pay increases that have not yet been earned, while the ABO does not. This construct is borrowed from long-standing actuarial methods that recognize the long-term nature of pension obligations. The current reflection of pay increases that are yet to be earned is one of the techniques employed for smoothing the accrual of the pension liability over an employee's working career. The actuarial profession has traditionally used various approaches for *smoothing annual volatility in liability measurements* when developing systematic funding requirements for the long-term liabilities under pension plans. *In contrast, the accounting profession continues to search for the appropriate market value of the pension obligation determined as of each disclosure date. A market value should reflect the current benefits earned as of the measurement date, and should not reflect benefits not yet earned.* This would suggest that the more appropriate accounting basis for the liability on the balance sheet is the ABO. We believe that using the PBO to determine the pension plan liability does not result in a representationally faithful depiction of the plan's overfunded or underfunded status on the balance sheet.

In addition, the ABO has greater fidelity to the market value concept. The accounting measurement of the pension liability attempts to place a market value on the pension obligation, and there are challenges inherent in applying a market value to this type of liability, the first of which is that there is no existing market for pension liabilities. As an alternative, accounting standards allow for the pension liability to be calculated using a discount rate based on rates of return on high-quality fixed income investments. However, the reality is that pension trust funds generally have no more than about one-third of the portfolio invested in such a manner. It is therefore inconsistent and illogical to use spot bond rates to value the liability. However, now that this approach has become the accepted convention, we do not believe that the integrity of the accounting theory should be further compromised by including "nonliabilities" (the effect of future discretionary salary adjustments, when evaluated using the characteristics of a liability described in Concepts Statement No. 6) in the market-value calculation of the pension liability at the balance sheet date.

Using the ABO to determine the balance sheet liability would require continued use of the minimum liability concept. Currently the adjustment to other comprehensive income due to the minimum liability might be at least partially offset by an intangible asset. This intangible asset is equal to the unrecognized prior service cost. This item lends additional complexity to an already confusing and very technical area. We do not believe that it would be helpful to retain the intangible asset as a component of the accounting disclosure. We support the use of the ABO for determining the balance sheet disclosure, as well as the elimination of the intangible asset concept.

We appreciate the efforts of the Board and the staff on this important topic. The subject of retirement benefits is characterized by technical idiosyncrasies that create unique challenges when trying to reconcile disclosure and reporting objectives with the theory that underlies generally accepted accounting principles. We also appreciate the ability to offer comments for the Board's review in its further deliberations, and believe that consideration of constituent comments in the Board's due process is an integral step in the attainment of high-quality accounting standards. Please contact us if you require any additional information or clarification.

Sincerely,

/s/ Martin T. Stanislav
Vice President and Controller