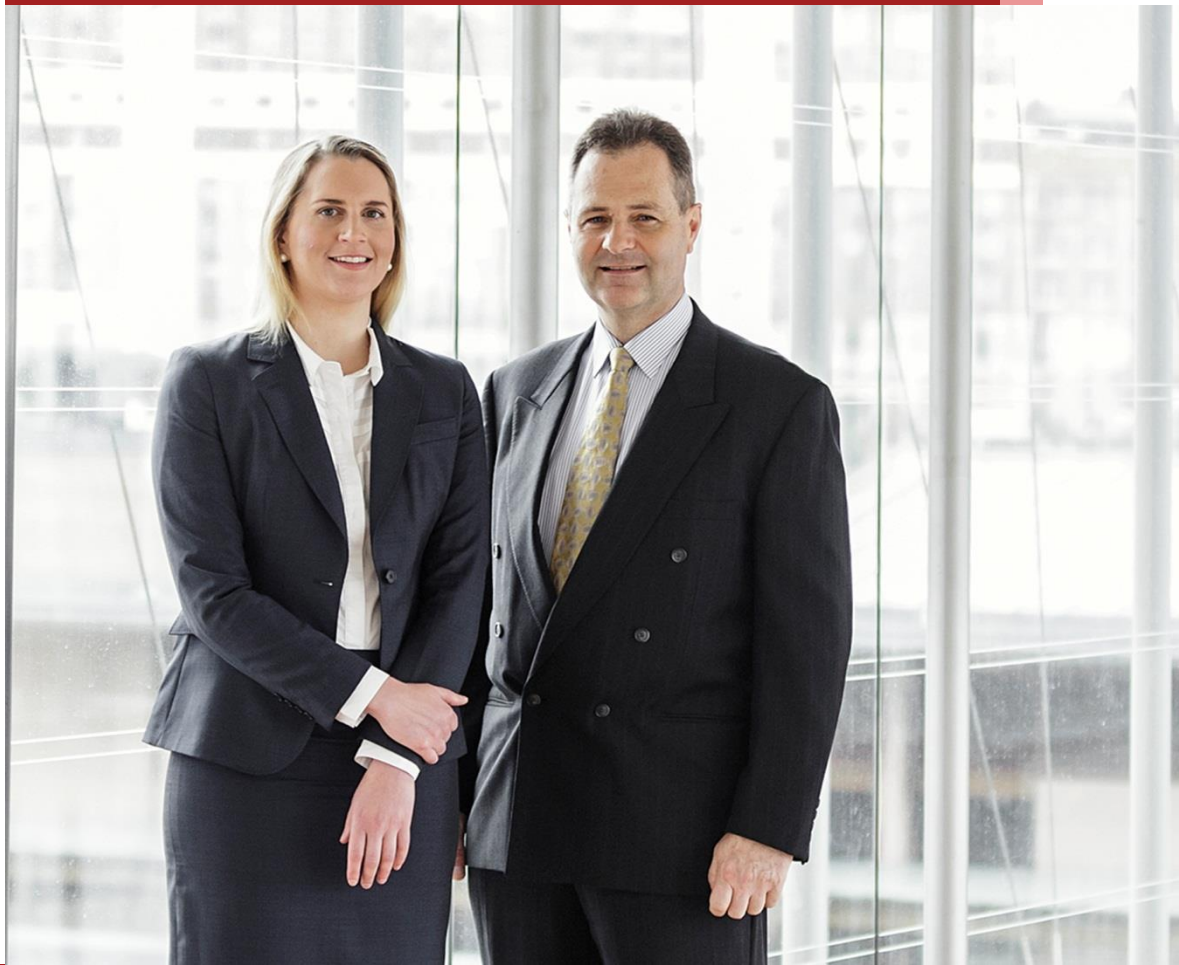


Pension/OPEB 2015 Assumption and disclosure survey

July, 2015





Dear Clients and Friends,

PwC is pleased to share with you our *Pension/OPEB 2015 Assumption and Disclosure Survey*. This survey presents our analysis of the 2014 year-end assumptions and disclosures under ASC 715-20, ASC 715-30, and ASC 715-60.

We analyzed 100 companies, comprising Fortune 100 and other large and established companies, with a December 31 measurement date. We reviewed the public annual reports for the companies selected, specifically financial information regarding pension and other postretirement benefit (OPEB) plans. We included 2013 for comparison. In addition, in order to illustrate the changing pension/OPEB economic environment since the credit crisis in 2008 and the recession that followed, we also included 2007 data.

There was a decline in funding levels (plan assets as a percentage of projected benefit obligations) since 2013 for pension plans in the survey. Median funded ratios levels have decreased from 90% in 2013 to 83% in 2014 (compared with 100% in 2007). The decrease in pension funded ratios is primarily attributable to a sharp decrease in interest rates from 2013 and a change to more conservative mortality assumptions, partially offset by favorable returns on plan assets during 2014.

The survey highlights are summarized on the next page, followed by more detailed comparative information and discussion.

One assumption that has a significant impact on plan obligation is the mortality assumption (i.e., expected lifespan of participants in the plan). In the fall of 2014, the Society of Actuaries published new mortality tables and improvement scales which reflect the results of a recent mortality experience study. This study found that people are living longer – and this can have a significant impact on pension and OPEB benefit obligations. As of December 31, 2014, 72 companies of the 100 surveyed disclosed that they have updated their mortality assumptions to reflect lower mortality levels expected currently and in the future, while 28 of the 100 companies did not include this disclosure (though we are careful not to infer from the lack of disclosure that these companies did not make adjustments to assume longer life spans).

We hope you will find the results of our *Pension/OPEB 2015 Assumption and Disclosure Survey* useful in benchmarking your company's assumptions against the survey results.

A handwritten signature in black ink, appearing to read 'Ken Stoler'.

Ken Stoler
Partner

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Highlights summary – Pension

Pension results – Summary of median assumptions

	Discount rate (at 12/31)	Expected rate of return on plan assets (at 1/1)	Salary progression rate (at 12/31)
2014	4.00%	7.30%	4.00%
2013	4.80%	7.50%	4.00%
2007	6.25%	8.30%	4.25%

The 2014 median discount rate for pension plans in the survey decreased 80 basis points since 2013 and has decreased 225 basis points since 2007. The 2014 median expected long-term rate of return on pension plan assets decreased 20 basis points since 2013 and 100 basis points since 2007. The 2014 median salary scale assumption is unchanged since 2013 but has decreased 25 basis points since 2007.

Median plan funding levels decreased since 2013, with pension plan assets equal to approximately 83% of the projected benefit obligation (PBO) in 2014 as compared to 90% in 2013. In 2007 the median funded ratio was 100%. If the median discount rate were to return to 2007 levels, we estimate the median funded ratio would increase to roughly 110%.

Median deferred losses for pension plans in the survey increased from 25% of the projected benefit obligation at the end of 2013 to 30% of the projected benefit obligation at the end of 2014. In 2007, deferred losses were only 12% of the PBO.

Median asset allocations for pension plans in the survey continued to shift away from equity to fixed income with allocations at 38% equity, 42% debt/fixed income, and 15% other in 2014 compared to 45% equity, 35% debt/fixed income, and 15% other in 2013. In 2007 the median values were 64% equity, 29% debt/fixed income, and 5% other.

Highlights summary – OPEB

OPEB results – Summary of median assumptions (at 12/31)

	Discount rate	Initial health care trend rate	Ultimate trend rate	Years to ultimate trend rate
2014	3.90%	7.00%	5.00%	8
2013	4.65%	7.00%	5.00%	7
2007	6.25%	9.00%	5.00%	6

The 2014 median discount rate for OPEB plans in the survey decreased 75 basis points since 2013 and has decreased 235 basis points since 2007. The 2014 median initial health care trend rate has remained level since 2013 and has decreased 200 basis points since 2007. The 2014 median ultimate trend rate has remained unchanged since 2013 and 2007. The median number of years to reaching the ultimate rate has increased from seven years in 2013 to eight years in 2014, and has increased two years since 2007.

The percentage of funded OPEB plans in the survey has remained constant since 2013 with 51% of plans being funded in both 2014 and 2013. In 2007 a slightly higher percentage (53%) of the OPEB plans in the survey were funded. For OPEB plans that are funded, the mean plan funding level remained constant since 2013, with OPEB plan assets equal to approximately 50% of the APBO in 2014 and 2013. In 2007 the mean funding ratio was approximately 42% for funded OPEB plans.

Pension discount rate

Table 1 – Pension discount rate

	Discount rate (at 12/31)		
	2014	2013	2007
Low	3.50%	4.00%	5.50%
Median	4.00%	4.80%	6.25%
High	4.32%	5.25%	6.80%
Mean	3.97%	4.78%	6.26%

Chart 1 – Pension discount rate

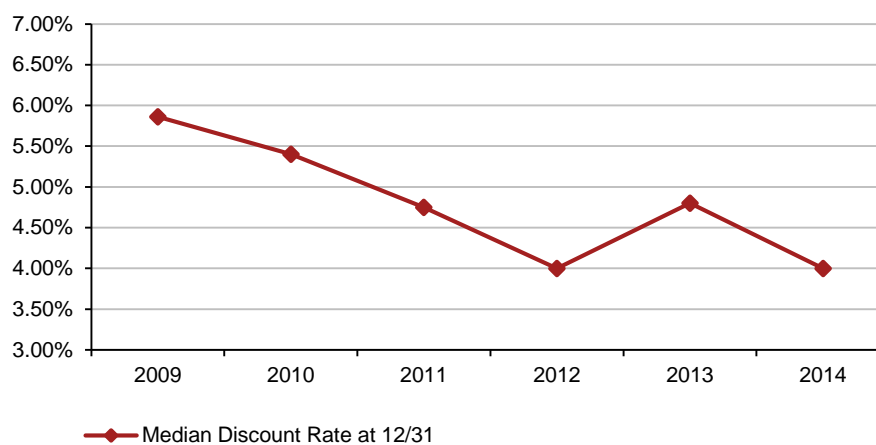
Number of companies



The median discount rate for pension plans in the survey decreased by 80 basis points since 2013 and by 225 basis points since 2007, to 4.00% in 2014. Similarly, the mean discount rate decreased by 81 basis points since 2013 and by 229 basis points since 2007, to 3.97% in 2014. While 2013 rates had increased somewhat from those in the previous year, 2014 rates have declined to rates comparable to those in 2012. These changes are consistent with overall movement of interest rates from 2007 to 2014.

For a typical plan in 2014 with a benefit obligation of \$1 billion, if the discount rate were to increase 81 basis points to last year's level, this would decrease the balance sheet liability by approximately \$120 million. If the discount rate were to increase by 229 basis points to 2007 levels, this would decrease the balance sheet liability by approximately \$280 million.

Chart 2 – 5 year trend in pension discount rate



For pension plans in the survey, discount rates trended downward from 2009 to 2012, increased in 2013, and declined once again in 2014 to levels comparable to those in 2012, consistent with the overall movement of interest rates.

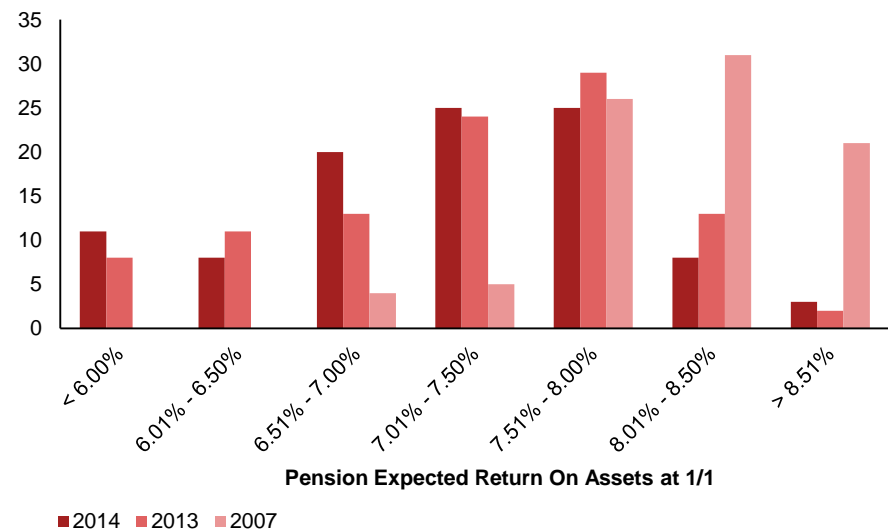
Pension expected rate of return on plan assets

Table 2 – Pension expected return on assets

	Expected Rate of return on plan assets (at 1/1)		
	2014	2013	2007
Low	4.56%	3.75%	6.90%
Median	7.30%	7.50%	8.30%
High	9.00%	9.00%	9.50%
Mean	7.21%	7.32%	8.27%

Chart 3 – Pension expected return on assets

Number of companies



The median EROA (expected return on assets assumption) for pension plans in the survey decreased by 20 basis points since 2013 and by 100 basis points from 2007, to 7.30% in 2014. The relatively small decreases in this assumption compared to discount rate assumption decreases reflects the long-term nature of the expected return assumption (which is meant to estimate asset returns over the period benefits will be paid), as well as the continuing shift in asset allocation from equity to fixed income investments.

For a typical plan in 2014 with \$1 billion in assets, a decline of 20 basis points to the expected return on assets assumption would result in about a \$2 million increase in annual pension expense. A decline of 100 basis points to the expected return on assets assumption would result in about a \$10 million increase in annual pension expense.

Pension salary progression

Table 3 – Pension salary scale

	Salary progression rate (at 12/31)		
	2014	2013	2007
Low	0.80%	2.30%	3.00%
Median	4.00%	4.00%	4.25%
High	5.99%	5.95%	6.75%
Mean	3.83%	3.87%	4.33%

Chart 4 – Pension salary scale

Number of companies



The median salary scale assumption for pension plans in the survey decreased by 25 basis points since 2007 to 4.00% in both 2013 and 2014, whereas the mean salary scale assumption decreased by about 50 basis since 2007, which appears to be generally consistent with the decrease in other economic assumptions over the period.

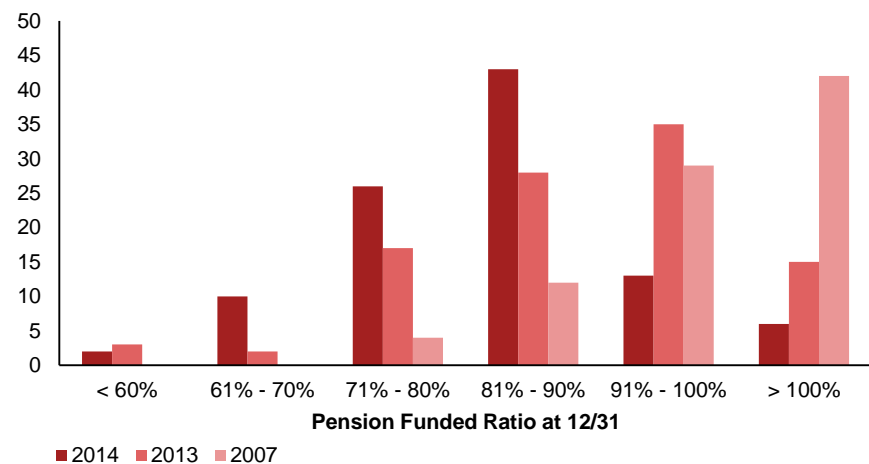
Pension funding levels

Table 4 – Pension plan funded ratios

	Funded Ratios - Pension plan assets as a % of PBO (at 12/31)		
	2014	2013	2007
Low	43%	47%	73%
Median	83%	90%	100%
High	120%	133%	143%
Mean	82%	90%	102%

Chart 5 – Pension plan funded ratios

Number of companies



The median and the mean funded ratios (pension plan assets as a percentage of projected benefit obligation) of pension plans in the survey decreased by 7 and 8 basis points, respectively since 2013 and by 17 and 20 basis points respectively, since 2007, to 83% and 82% respectively, in 2014.

While the Pension Protection Act of 2006 included aggressive contribution requirements for underfunded plans, the Moving Ahead for Progress in the 21st Century Act (MAP-21) of 2012 and the Highway and Transportation

Funding Act (HATFA) of 2014 amended these provisions and have allowed for lower contribution levels by employers. As a result, absent other changes in market conditions (for example, increasing interest rates or significant equity market returns), these funding levels will likely continue for some time.

In 2007, of the companies in the survey, over 40 of them had pension plans that were 100% funded or better, compared with 16 in 2013 and only 6 in 2014.

Pension deferred losses

Table 5 – Pension plan deferred Gains/(Losses)

	Unamortized G/(L) as a % of PBO* (at 12/31)		
	2014	2013	2007
Low	(151%)	(170%)	(114%)
Median	(30%)	(25%)	(12%)
High	5%	12%	20%
Mean	(29%)	(23%)	(12%)

* Positive percentages are unamortized gains, negative percentages are unamortized losses.

Median deferred losses as a percentage of the projected benefit obligation for pension plans in the survey continue to increase, having more than doubled since 2007, from 12% to 25% in 2013 and to 30% in 2014. Deferred losses increased from 2013 primarily due to decreasing discount rates and updated (lower) mortality assumptions, only partially offset by increases in asset values due to plan contributions and asset returns.

For a typical plan in 2014 with a benefit obligation of \$1 billion, a deferred loss of about \$300 million would be recognized in accumulated other comprehensive income and would increase net benefit expense by roughly \$30 million in each of the next 10 years.

Pension asset allocation

Table 6 – Pension asset allocation at 12/31

	Equity			Debt/Fixed income			All other*		
	2014	2013	2007	2014	2013	2007	2014	2013	2007
Low	0%	0%	0%	12%	11%	0%	0%	0%	0%
Median	38%	45%	64%	42%	35%	29%	15%	15%	5%
High	81%	80%	97%	95%	97%	52%	87%	88%	88%
Mean	39%	43%	61%	43%	39%	28%	18%	18%	11%

* Represents aggregation of cash, real estate, and other investments.

Also included in our survey is a detail of asset allocations (i.e., investment strategy) for funded pension plans. Overall, employers have been shifting from equity to fixed income and other investments since 2007. The median percentage of plan assets invested in equities dropped by 26 basis points from 2007 to 2014, decreasing to 38%

during that period. This shift reflects an increasing desire to avoid volatility in plan funding levels that comes with equity securities, as well as the ability to ‘lock in’ funding of plan liabilities by matching expected future benefit payments to fixed income returns and maturities.

Mortality assumptions

For each of the 100 companies in the survey, we reviewed Management's Discussion & Analysis and the pension/OPEB footnotes to determine how many companies disclosed a change in the mortality assumptions during 2014. Of the 100 companies, 72 disclosed a change in the mortality assumption, although in certain cases, it was difficult to determine whether the disclosure referred to the pension plans, the OPEB plans or both.

Some of the remaining 28 companies may have changed the assumption during 2014 without disclosing the fact, while others may have changed the mortality assumption in 2013.

Of the 72 companies that disclosed a change in mortality assumption, 22 disclosed that they changed to the new Society of Actuaries mortality table and projection scale published in October 2014 (RP-2014 and MP-2014), while 32 companies changed to a modified table and/or projection scale, either to an assumption adjusted for actual plan experience or to a table and/or projection scale created or modified by their external actuary. Eighteen of those companies did not provide any information about their new mortality tables. In addition, 48 disclosed the estimated increase in benefit obligations related to the change in mortality assumption, with the impact ranging from less than 1% to 15% and a median percentage impact of approximately 5%.

Frozen pension plans

The number of companies included in the survey that had frozen their funded pension plans has been increasing each year. Based on information disclosed in the survey data collected, in 2007 only one company had disclosed freezing one or more plans, compared to 18 companies in 2013 and 21 companies in 2014. For some companies in the survey, we were unable to determine whether the company had frozen one or more pension plans.

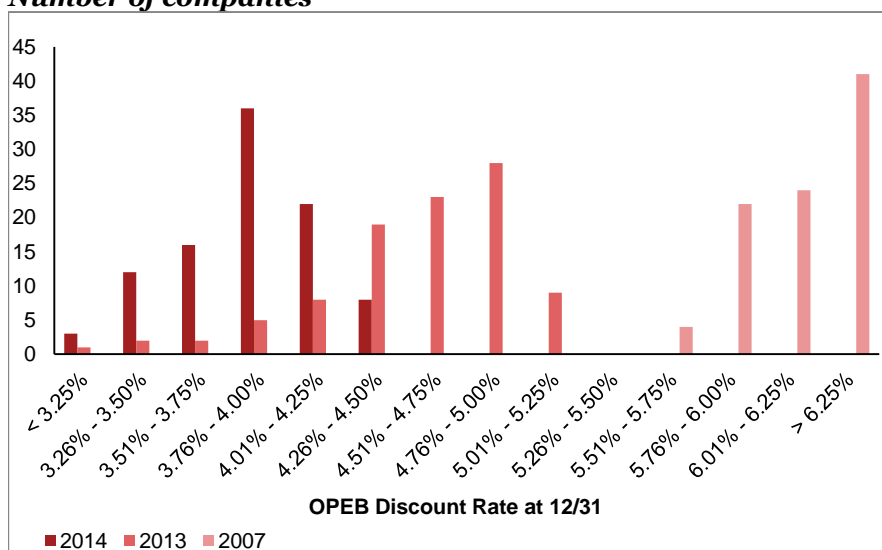
OPEB discount rate

Table 7 – OPEB discount rate

	Discount rate (at 12/31)		
	2014	2013	2007
Low	2.95%	3.18%	5.66%
Median	3.90%	4.65%	6.25%
High	4.40%	5.25%	6.80%
Mean	3.87%	4.59%	6.25%

Chart 6 – OPEB discount rate

Number of companies



Consistent with the pattern of decrease in pension discount rates, the median discount rate for OPEB plans in the survey decreased by 75 basis points since 2013 and by 235 basis points since 2007, to 3.90% in 2014. Similarly, the mean discount rate decreased by 72 basis points since 2013 and by 238 basis points since 2007, to 3.87% in 2014 (also with 2013 rates having increased somewhat from those in the previous year, and with 2014 rates having declined to rates comparable to those in 2012). These changes are

consistent with overall movement of interest rates from 2007 to 2014.

For a typical plan in 2014 with a benefit obligation of \$1 billion, if the discount rate were to increase 75 basis points to last year's level, this would decrease the balance sheet liability by approximately \$110 million. If the discount rate were to increase by 235 basis points to 2007 levels, this would decrease the balance sheet liability by approximately \$280 million.

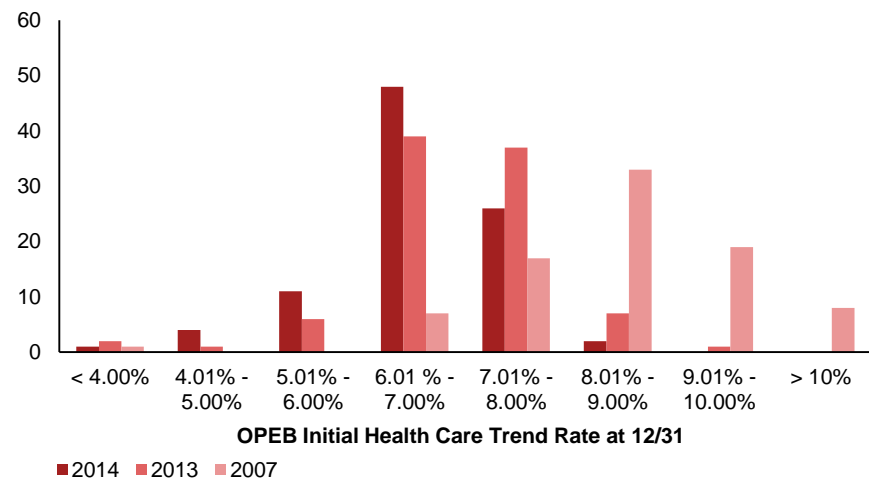
OPEB health care cost trend rate

Table 8 – OPEB trend rate at 12/31

	Initial health care trend rate			Ultimate trend rate			Years to ultimate trend rate		
	2014	2013	2007	2014	2013	2007	2014	2013	2007
Low	3.00%	3.00%	3.00%	3.00%	3.00%	4.49%	0	0	2
Median	7.00%	7.00%	9.00%	5.00%	5.00%	5.00%	8	7	6
High	8.70%	9.20%	12.00%	5.22%	5.45%	6.00%	80	81	21
Mean	6.81%	7.06%	8.81%	4.79%	4.82%	5.05%	9	9	7

Chart 7 – OPEB initial health care trend rate

Number of companies



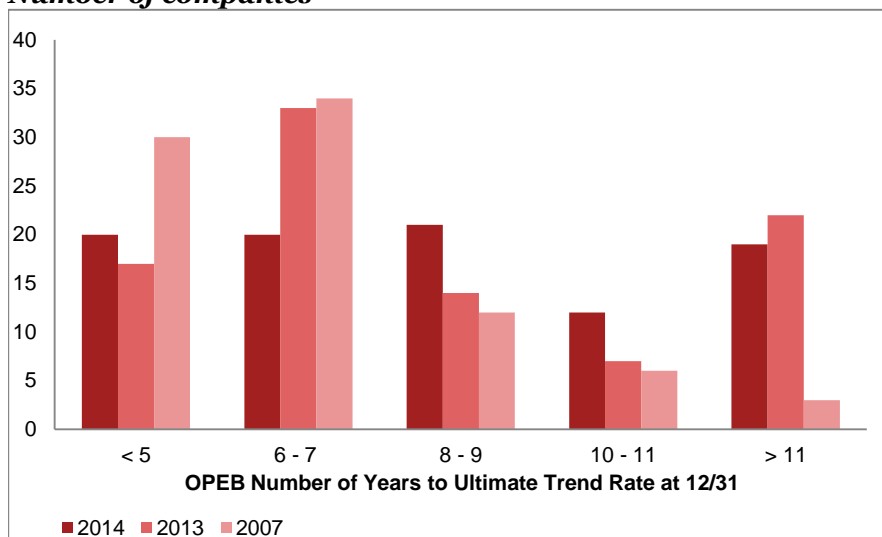
The mean and median initial health care trend rate for OPEB plans in the survey decreased by 25 and 0 basis points, respectively since 2013, while both the mean and median rates decreased by 200 basis points since 2007, to a mean of 6.81% and a median of 7.00% in 2014. These decreases

may be attributable to many factors, such as continued slowing drug cost increases, health care cost decreases consistent with assumed trend rate decreases, and other plan design changes and cost containment initiatives by employers.

OPEB ultimate health care trend rate

Chart 8 – OPEB years to ultimate trend rate

Number of companies



The median ultimate trend rates for OPEB plans in the survey remained constant from 2007 to 2014 at 5.00%, while the mean ultimate trend rate decreased by 26 basis points over the period from 5.05% in 2007 to 4.79% in 2014. While the median time to reach the ultimate

trend rate increased from 6 years in 2007 to 8 years in 2014, by 2014, 19 of the companies in the survey had extended their years-to-ultimate more than 11 years, compared to six companies with years-to-ultimate greater than 11 years in 2007.

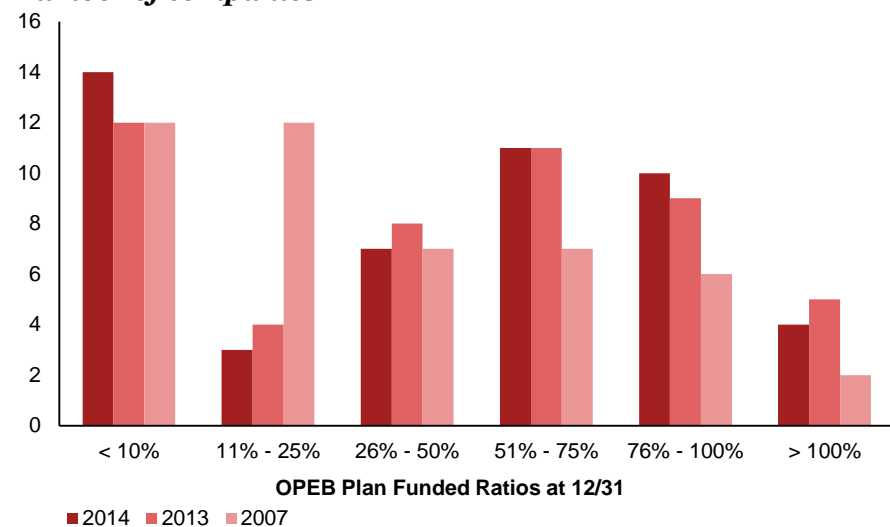
OPEB funding levels

Table 9 – OPEB plan funding

Survey companies – % Funded vs. Unfunded			
	2014	2013	2007
Funded	51%	51%	53%
Unfunded	49%	49%	47%

Chart 9 – OPEB plan funded ratios

Number of companies



The percentage of companies in the survey with funded OPEB plans decreased slightly from 53% in 2007 to 51% in 2013 and 2014. However, unlike pension plan funded ratios (pension plan assets as a percentage of pension benefit obligation), OPEB plan funded ratios (OPEB plan assets as a percentage of accumulated

postretirement benefit obligation) did not experience a significant decline from 2007 to 2014, due to both significant differences in asset mix between pension and OPEB plans and significantly lower funded ratios for most funded OPEB plans than for pension plans.

***For more
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