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Pension/OPEB 2014 assumption and disclosure survey

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Dear Clients and Friends,

PwC is pleased to share with you our *Pension/OPEB 2014 Assumption and Disclosure Survey*. This survey presents our analysis of the 2013 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 2012 for comparison. In addition, in order to illustrate the change in the pension/OPEB economic environment that began with the credit crisis and recession in 2008, we also included 2007 data.

There has been some improvement in pension funding status (plan assets as a percentage of projected benefit obligations) since 2012. Median funding levels have increased from 77% in 2012 to 90% in 2013 (compared with 100% in 2007), primarily attributable to an 80 basis point increase in the median discount rate from 2012 levels as well as favorable returns on plan assets. In addition, companies have continued to freeze pension benefits in recent years, further improving plan funding levels.

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

One assumption that has a significant impact on plan obligations is the mortality assumption. New mortality tables and improvement scales, which were recently published by the Society of Actuaries, could have a significant impact on pension and OPEB benefit obligations for many companies. As mortality assumption information is not a required disclosure under ASC 715, we have not included mortality data in our survey.

We hope you will find the results of our *Pension/OPEB 2014 Assumption and Disclosure Survey* useful in benchmarking your company's assumptions against the survey results.

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Highlights summary – Pension

Pension Results – Summary of Median Assumptions

	Discount rate	Rate of return on plan assets	Salary progression rate
2013	4.80%	7.50%	4.00%
2012	4.00%	7.73%	4.00%
2007	6.25%	8.30%	4.25%

The 2013 median discount rate increased 80 basis points since 2012 but has decreased 145 basis points since 2007. The 2013 median expected long-term rate of return on pension plan assets decreased 23 basis points since 2012 and 80 basis points since 2007. The 2013 median salary scale assumption is unchanged since 2012 but has decreased 25 basis points since 2007.

Median plan **funding levels increased significantly since 2012, with pension plan assets equal to approximately 90% of the projected benefit obligation (PBO) in 2013** as compared to 77% in 2012. In 2007 the median funding percentage was 100%.

Median deferred losses for pension plans also decreased from 37% of the projected benefit obligation at the end of 2012 to 24% of the projected benefit obligation at the end of 2013. In 2007, deferred losses were only 12% of the PBO.

Median asset allocations remained relatively constant at 44% equity, 35% debt/fixed income, and 15% other in 2013 compared to 46% equity, 37% debt/fixed income, and 15% other in 2012. However, in 2007 the median values were 64% equity, 29% debt/fixed income, and 6% other.

Highlights summary – OPEB

OPEB Results – Summary of Median Assumptions

	Discount rate	Initial health care trend rate	Ultimate trend rate	Years to ultimate trend rate
2013	4.65%	7.00%	5.00%	7
2012	3.89%	7.50%	5.00%	7
2007	6.25%	9.00%	5.00%	6

The 2013 median discount rate has increased 76 basis points since 2012 but has decreased 160 basis points since 2007. The 2013 median initial health care trend rate has decreased 50 basis points since 2012 and 200 basis points from 2007. The 2013 median ultimate trend rate has remained unchanged since 2012 and 2007. The median number of years to reaching the ultimate rate has remained unchanged since 2012, but has increased one year since 2007.

The percentage of companies whose OPEB plans are funded has changed slightly with 52% of plans being funded in 2013 compared to 51% of plans being funded in 2012 and 57% being funded in 2007. Unlike pensions, OPEB plan funding levels (assets as a percentage of accumulated postretirement benefit obligations) have not decreased significantly.

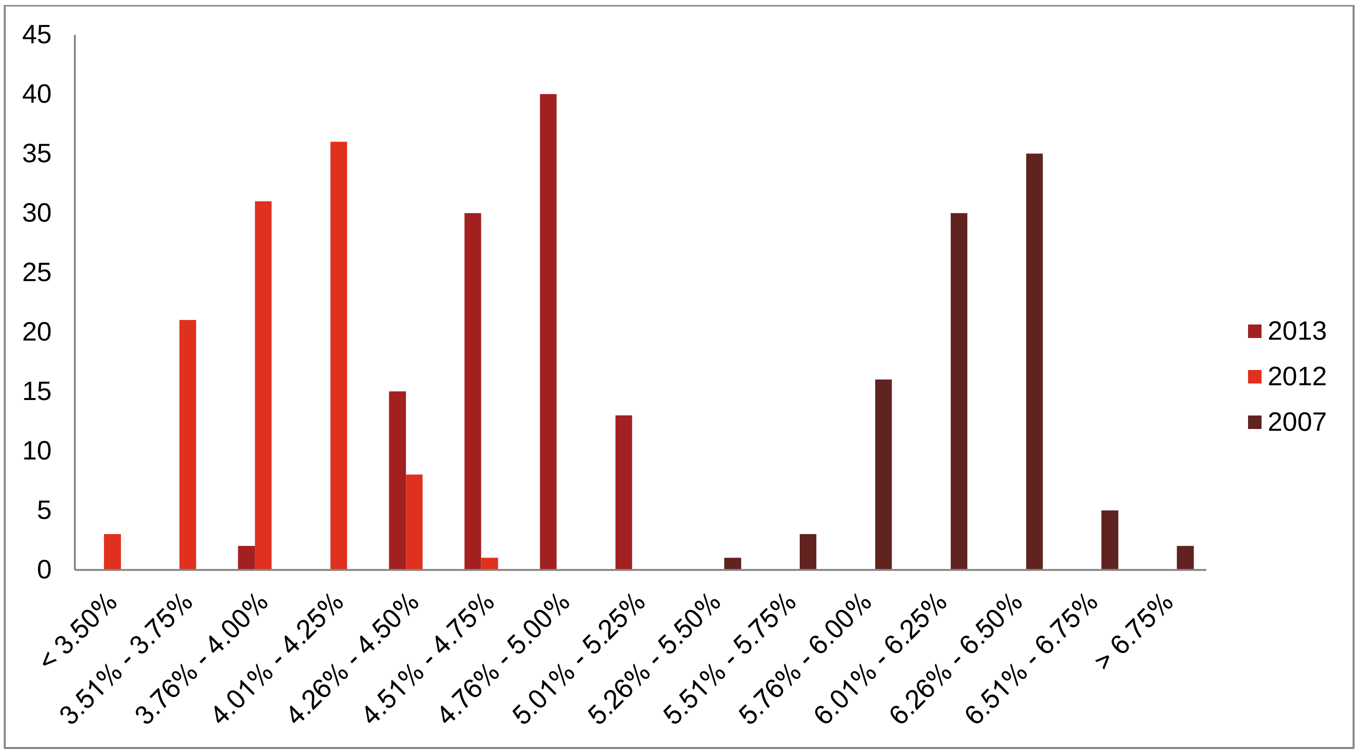
Discount rate:

Table 1 – Pension Discount Rate

	Discount rate		
	2013	***2012***	***2007***
Low	3.85%	3.44%	5.50%
Median	4.80%	4.00%	6.25%
High	5.25%	4.68%	6.80%
Mean	4.77%	3.98%	6.26%

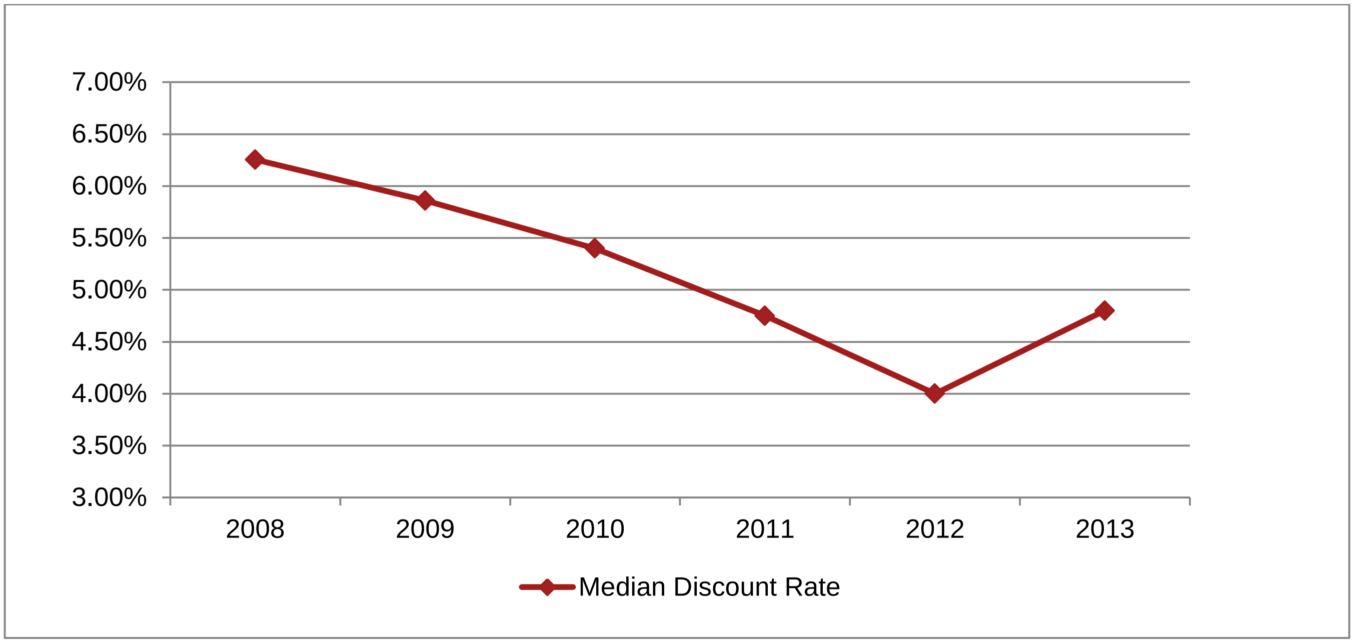
Chart 1 – Pension Discount Rate

Number of companies



For pension plans, the median discount rate increased from 2012 by 80 basis points, and decreased by 145 basis points from 2007. While rates are down overall from their 2007 levels, 2013 rates are higher than 2012 rates. For a typical plan with a benefit obligation of $1 billion, an **increase in the discount rate of 80 basis points would reduce the balance sheet liability by approximately $130 million**. A decline in the discount rate of 145 basis points would add approximately $240 million to the balance sheet liability.

Chart 2 – 5 Year Trend in Discount Rate



The discount rate trended downward from 2008 to 2012 and increased in 2013, consistent with the overall movement of interest rates.

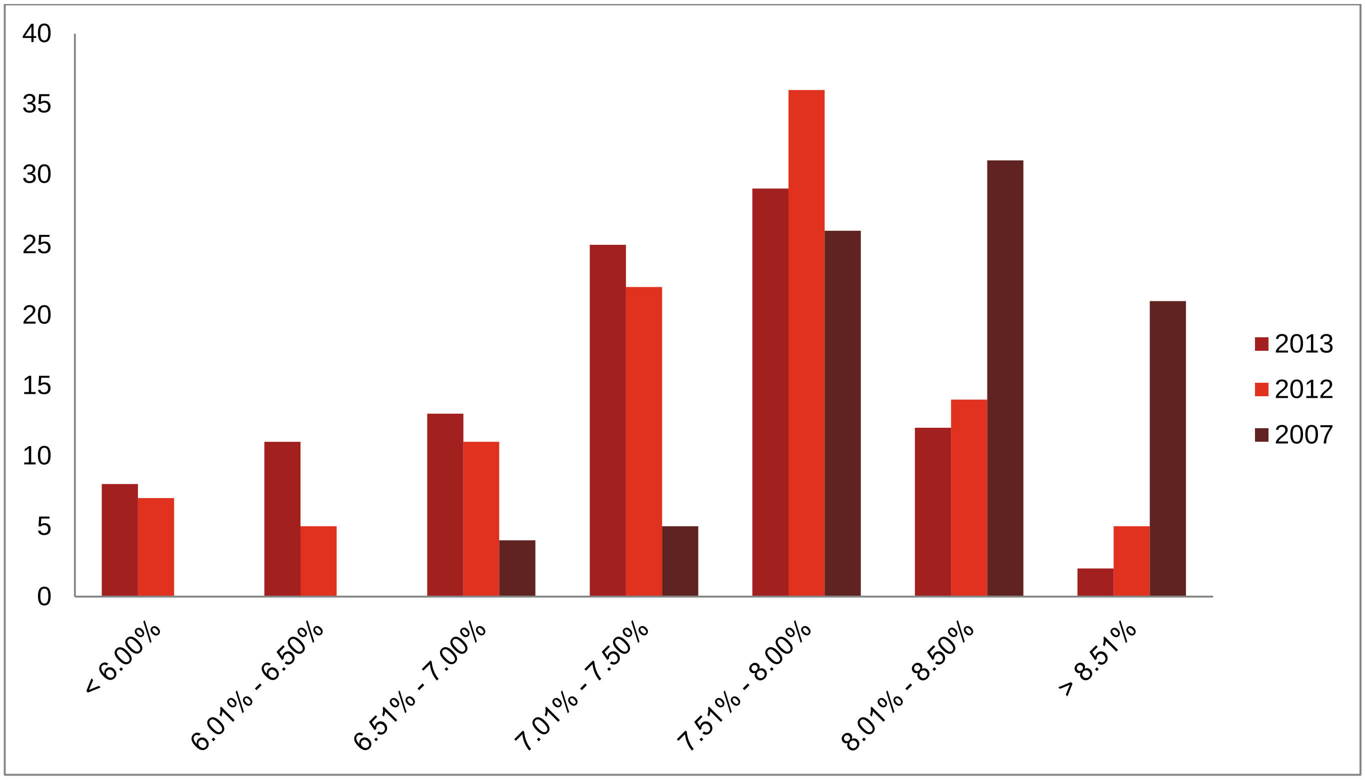
Expected Long-term Rate of return on plan assets:

Table 2 – Pension Expected Return on Assets

	Rate of return on plan assets		
	2013	***2012***	***2007***
Low	3.75%	4.80%	6.90%
Median	7.50%	7.73%	8.30%
High	9.00%	9.00%	9.50%
Mean	7.31%	7.53%	8.27%

Chart 3 – Pension Expected Long-term Rate of Return On Assets

Number of companies



The median expected long-term rate of return on assets of 7.50% in 2013 decreased approximately 23 basis points from 2012 and approximately 80 basis points from 2007. While equity market declines were significant during this period, the relatively small decrease in this assumption generally reflects the long-term nature of the expected return assumption, which is meant to estimate asset returns over the period benefits will be paid.

For a typical plan with $1 billion in assets, a decline of 23 basis points to the expected return on assets assumption would result in a $2.3 million increase in annual pension expense. Likewise, a decline of 80 basis points to the expected return on assets assumption would result in an $8.0 million increase in annual pension expense.

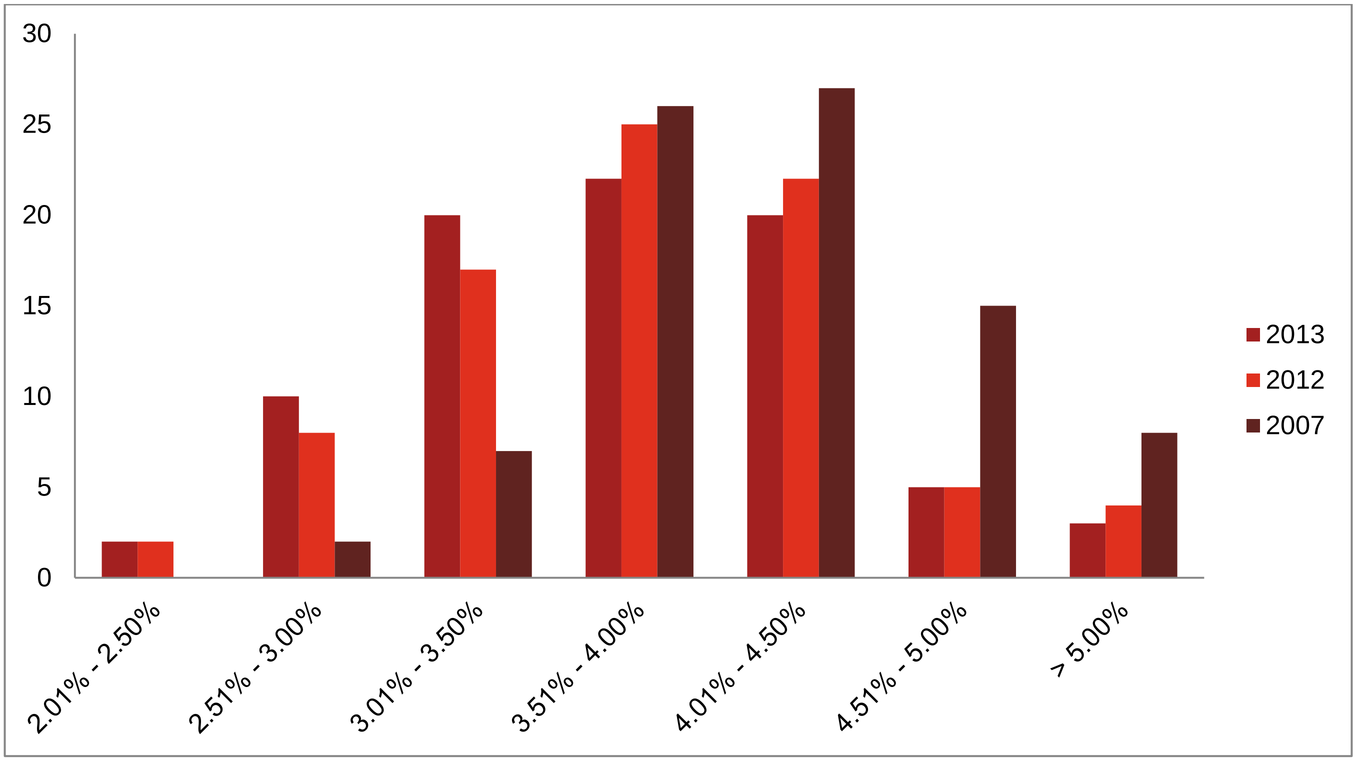
Salary progression:

Table 3 – Salary Scale

	Salary progression rate		
	2013	***2012***	***2007***
Low	2.30%	2.30%	3.00%
Median	4.00%	4.00%	4.25%
High	5.95%	5.99%	6.75%
Mean	3.87%	3.92%	4.33%

Chart 4 – Salary Progression

Number of companies



The median salary scale assumption decreased 25 basis points from 2007 to 4.00% in 2012 and 2013, which is consistent with a decrease in other economic assumptions over the period.

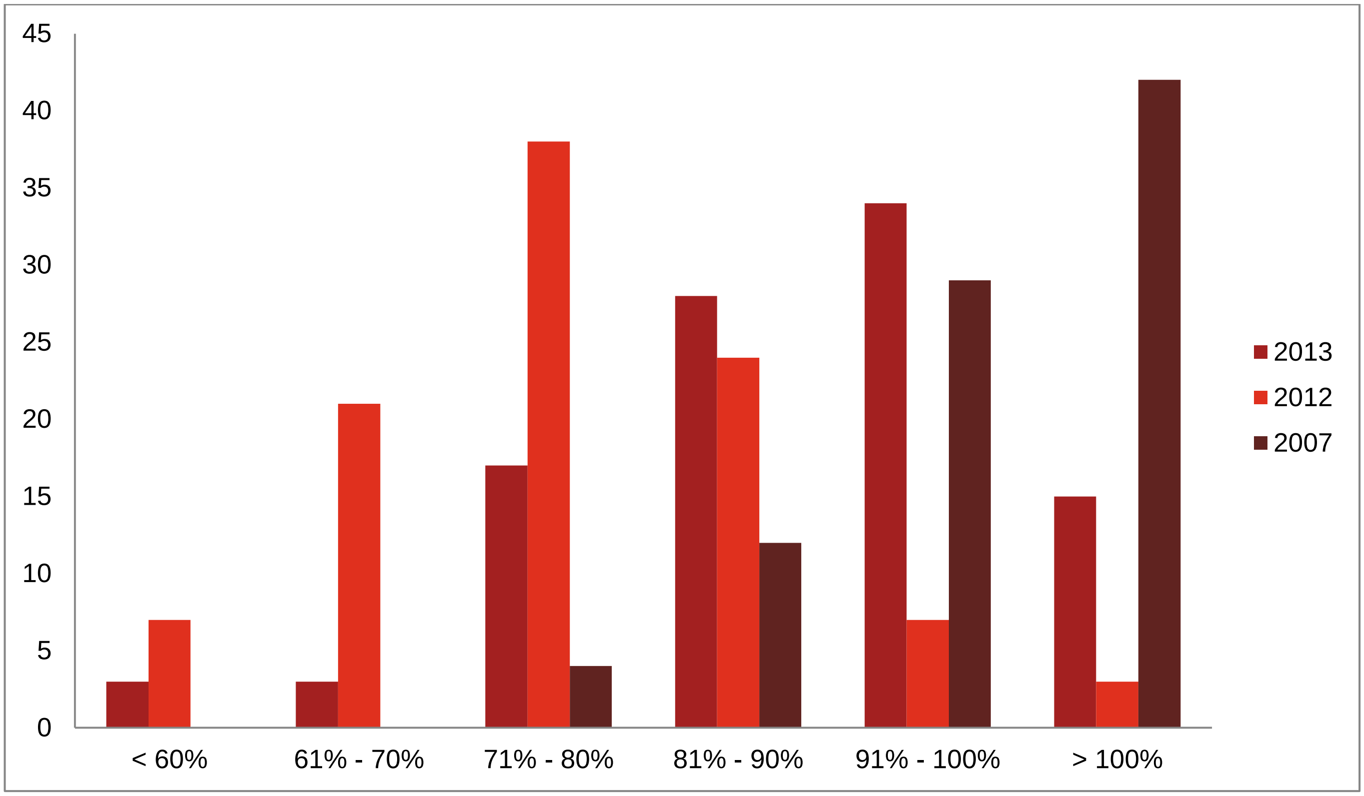
Pension plan funding levels:

Table 4 – Pension Plan Funding Levels

	Pension plan assets as a % of PBO		
	2013	***2012***	***2007***
Low	47%	38%	73%
Median	90%	77%	100%
High	133%	113%	143%
Mean	90%	76%	102%

Chart 5 - Pension Plan Funding Levels

Number of companies



The median and the mean ratio of pension funding (pension plan assets as a percentage of projected benefit obligation) has decreased overall from 2007 levels, from 100% and 102%, respectively to 90% and 90%, respectively, in 2013 but has increased from 2012 levels of 77% and 76% respectively.

In 2007, over 40 companies had pension plans that were 100% funded or better, compared with three in 2012. However, funding levels rose in 2013 due to better than expected asset performance and increasing discount rates. In 2013, 16 companies had pension plans that were 100% funded or better.

Deferred losses:

Table 5 – Pension Plan Deferred Losses

	Pension unamortized G/(L) as a % of PBO*		
	2013	***2012***	***2007***
Low	(170%)	(163%)	(114%)
Median	(24%)	(36%)	(12%)
High	33%	21%	20%
Mean	(21%)	(35%)	(11%)

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

Deferred losses as a percentage of the projected benefit obligation increased from 12% as a median percentage in 2007 to 36% in 2012 but decreased to 24% in 2013. Deferred losses decreased from 2012 primarily due to increasing asset values and increasing discount rates. Thus, for a typical plan in 2013 with a benefit obligation of $1 billion, a deferred loss of $240 million is recognized in accumulated other comprehensive income.

Asset allocation:

Table 6 – Pension Asset Allocation

	Equity			Debt/Fixed income			All other*		
	2013	***2012***	***2007***	***2013***	***2012***	***2007***	***2013***	***2012***	***2007***
Low	0%	0%	0%	4%	4%	0%	0%	0%	0%
Median	44%	46%	64%	35%	36%	29%	15%	15%	6%
High	80%	75%	97%	97%	97%	52%	88%	89%	88%
Mean	43%	45%	61%	39%	38%	28%	17%	17%	10%

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

Also included in the survey is a breakdown of asset allocations for funded pension plans, as of each plan's measurement date. The final analysis showed a gradual shift from equity to fixed income investments from 2007 to 2013; at the median, approximately 44% of assets were allocated to equity securities and 35% were invested in debt instruments for 2013 compared with 64% and 29%, respectively for 2007. At the median, nearly 15% of assets were allocated to all other investment categories (cash and cash equivalents, real estate, company stock, private equity, hedge funds, and other), compared with only 6% in 2007.

Frozen pension plans:

The number of companies included in the survey that had frozen their pension plans has been increasing each year. Based on the survey data collected, in 2007 only one company in the survey had one or more frozen pension plans, compared with seventeen companies in 2012 and eighteen companies in 2013. For some companies in the survey, we were unable to determine whether the company had frozen one or more pension plans.

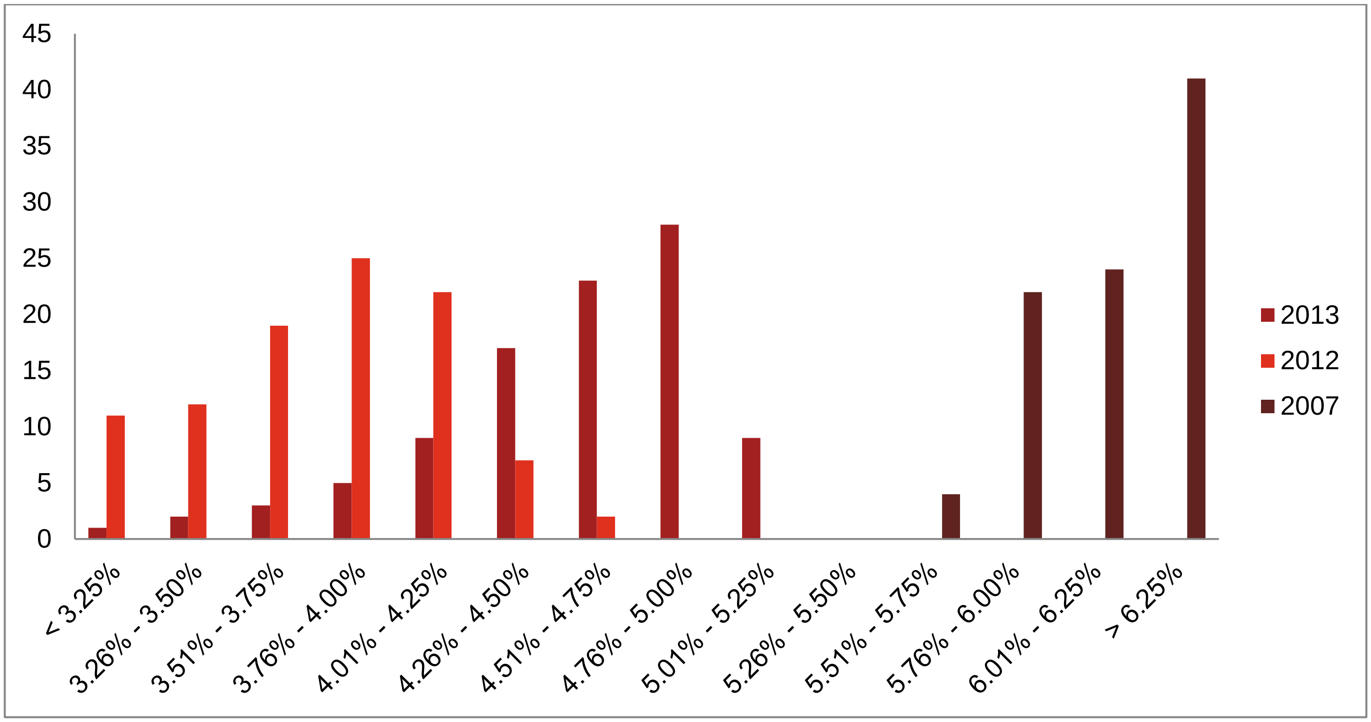
OPEB discount rate:

Table 7 – OPEB Discount Rate

	OPEB Discount rate		
	2013	***2012***	***2007***
Low	3.18%	2.59%	5.66%
Median	4.65%	3.89%	6.25%
High	5.25%	4.70%	6.80%
Mean	4.58%	3.79%	6.25%

Chart 6 – OPEB Discount Rate

Number of companies



Similar to the increase in pension discount rates, the median OPEB discount rate for 2013 increased by 76 basis points from 2012 levels but decreased by 160 basis points from 2007 levels, to 4.65%. The mean discount rate increased by 79 basis points from 2012 and decreased 167 basis points from 2007 to 4.58% in 2013. These changes are consistent with overall movement of interest rates from 2007 to 2013.

For a typical plan with a benefit obligation of $1 billion, an increase in the discount rate of 76 basis points would reduce the balance sheet liability by approximately $130 million. A decline in the discount rate of 167 basis points would add approximately $300 million to the balance sheet liability.

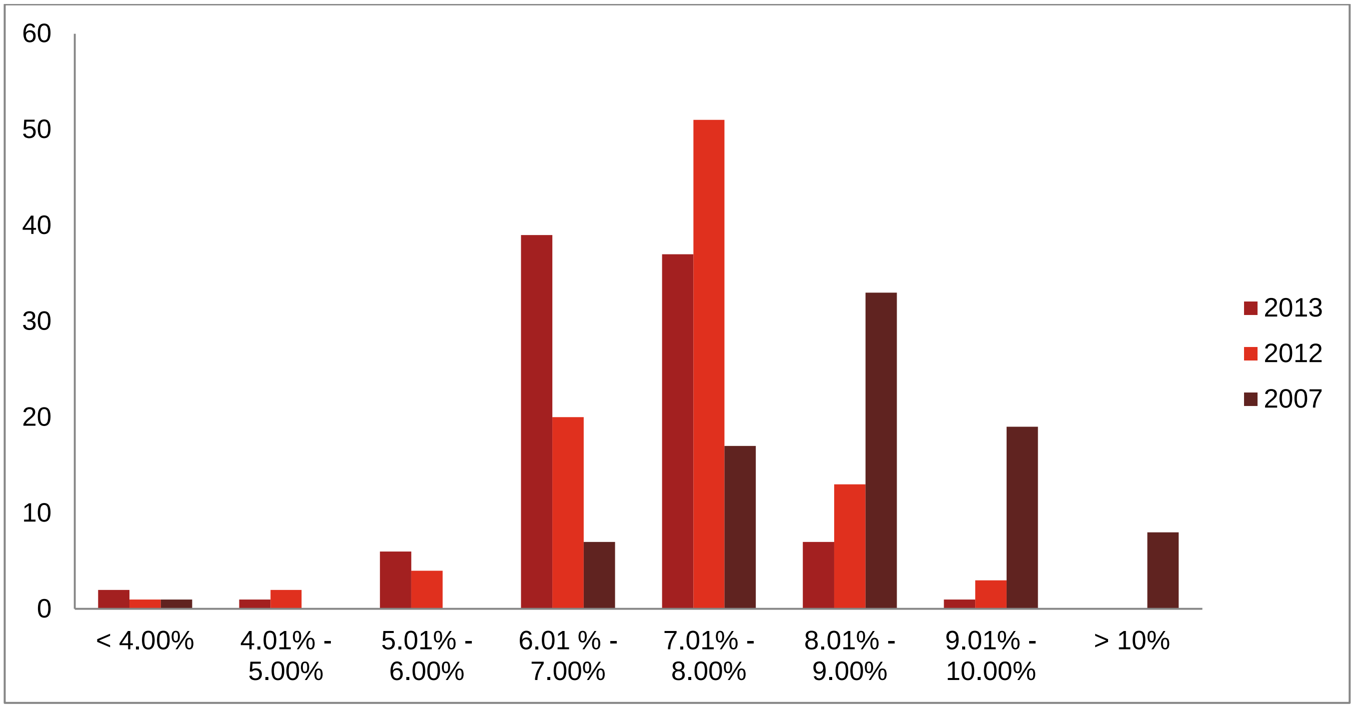
Health care cost trend rate:

Table 8 – OPEB Trend Rate

	Initial health care trend rate			Ultimate trend rate			Years to ultimate trend rate		
	2013	***2012***	***2007***	***2013***	***2012***	***2007***	***2013***	***2012***	***2007***
Low	3.00%	3.00%	3.00%	3.00%	3.00%	4.49%	0	0	2
Median	7.00%	7.50%	9.00%	5.00%	5.00%	5.00%	7	7	6
High	9.20%	9.70%	12.00%	7.00%	6.00%	6.00%	81	82	21
Mean	7.06%	7.43%	8.81%	4.84%	4.90%	5.05%	9	9	7

Chart 7 – OPEB Initial Health Care Trend Rate

Number of companies

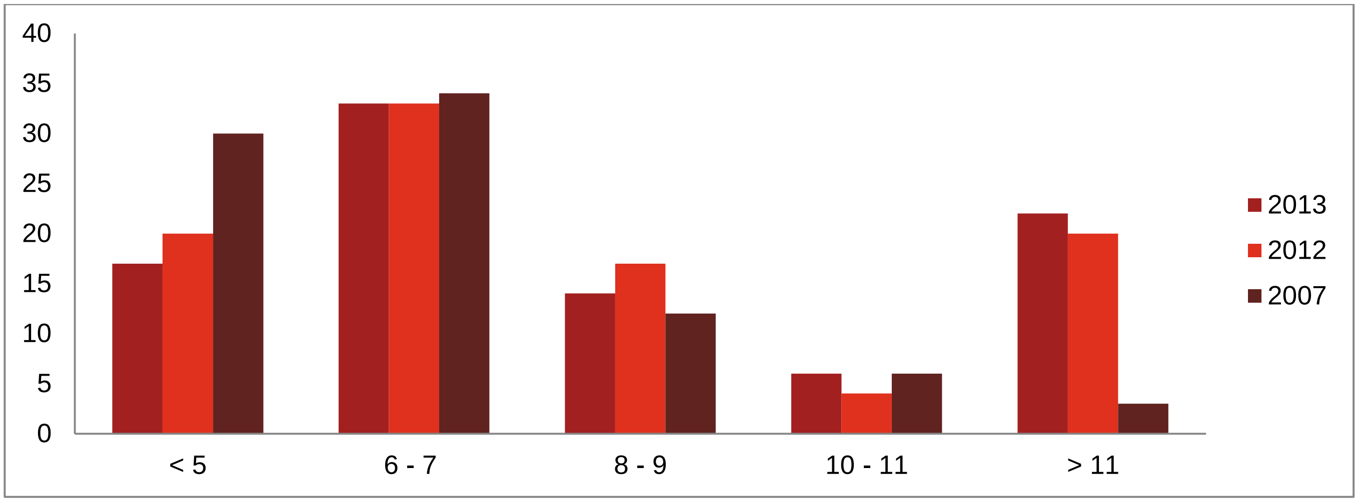


The mean initial health care rate in 2013 decreased by 37 basis points from 2012 and by 175 basis points from 2007, to 7.06%, while the median initial rate decreased by 50 basis points from 2012 and by 200 basis points from 2007, to 7.00%. These decreases may be attributable to many factors, such as continued slowing drug cost increases, health care cost decreases consistent with assumed trend rate decreases, and other cost containment initiatives by employers.

Ultimate trend rate:

Chart 8 – OPEB Years to Ultimate

Number of companies



Median ultimate trend rates remained constant from 2007 at 5.00%, while the mean ultimate trend rate decreased slightly over the period from 5.05% in 2007 to 4.84% in 2013. While the median time to reach ultimate increased slightly from 6 years in 2007 to 7 years in 2013, by 2013, more than 24 of the companies in the survey had extended their years-to-ultimate to 11 years or more, compared with seven companies in 2007.

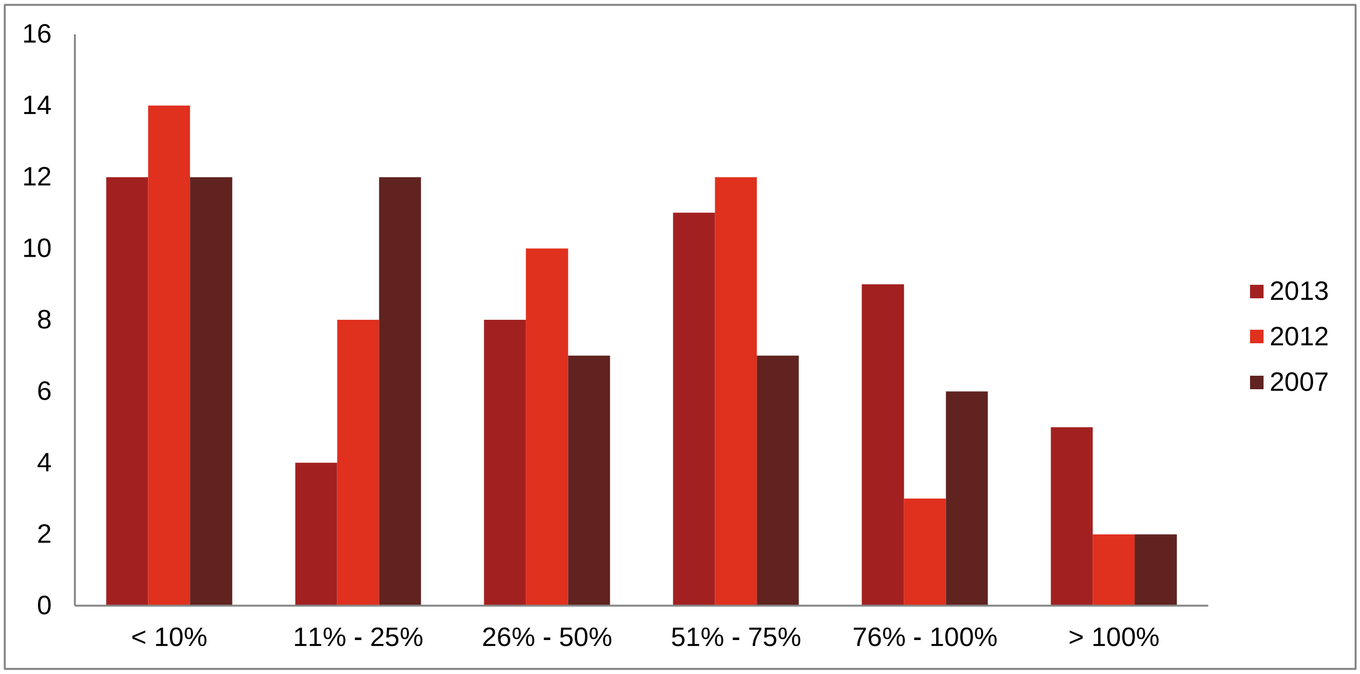
OPEB plan funding levels:

Table 9 – Funded vs. Unfunded OPEBs

	Percentage of Survey Companies – Funded vs. Unfunded		
	2013	***2012***	***2007***
Funded	52%	51%	57%
Unfunded	48%	49%	43%

Chart 9 – OPEB Plan Funding Levels

Number of companies



The percentage of companies with funded OPEB plans decreased slightly from 57% in 2007 to 52% in 2013. However, unlike pension plan funding levels, OPEB plan funding levels (OPEB plan assets as a percentage of accumulated postretirement benefit obligation) did not experience a significant decline from 2007 to 2013, possibly due to differences in asset mix between pension and OPEB plans.

Contacts

If you would like additional details on our analysis, please contact the authors Ken Stoler at (213) 270-8933, ken.stoler@us.pwc.com, Kevin Hassan at (203) 539-4049, kevin.hassan@us.pwc.com or Debbie Rudin at (646) 471-3087, debbie.rudin@us.pwc.com.