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ABC Benefits Briefing
Webinar on DB Plan Issues

PENSION CASH CONTRIBUTION REQUIREMENTS SKYROCKET 2009 - 2012

KEY FINDINGS FROM MERCER'S ESTIMATED 2010/2011 REQUIRED CONTRIBUTIONS AND CREDIT BALANCES REPORT

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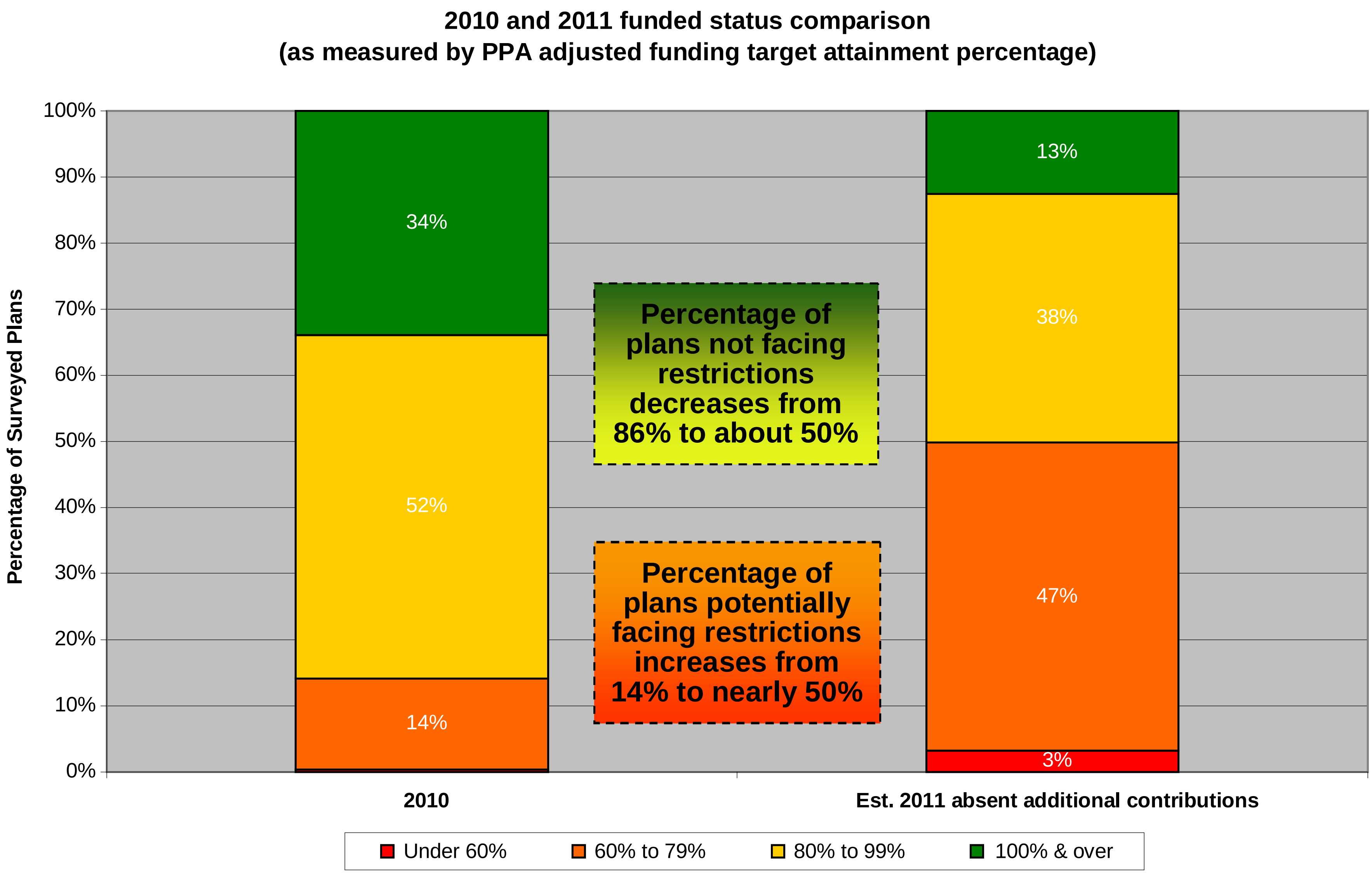
What’s good for the economy isn’t necessarily good for pension plans

- Interest rates hit historic lows as the economy struggles to recover
  - Ongoing Federal Reserve activity keeping interest rates low
- Investment market volatility continues
  - The equity market roller coaster ride of 2011
- One-two punch for pension plans
  - Lower interest rates increase liabilities
  - If assets grow less than liabilities, funded status is eroded
    - At the end of last week, S&P 500 down by about 2% YTD
- Liability matched investment strategy helps mitigate the impact
  - Pension plans that have taken steps to “de-risk” will fare proportionally better

Funded ratios decline from 2010 to 2011

- 2011 funded status driven by
  - Continued decline in PPA interest rates
  - Phase-in of final tranche of 2008 asset losses
  - Contributions over minimum required amount for 2010
- Aggregate funded percentage estimated to drop by almost 15% from 2010 (from 101% in 2010 to 86% in 2011)
  - A small number of large, well funded plans drive these high percentages
- Absent additional contributions, percentage of plans that are below 80% funded would increase from 14% to slightly over 50%
  - Plans less than 80% funded potentially face benefit restrictions, at-risk status (higher contributions and PBGC premiums, no prefunding of NQDC for key executives), PBGC 4010 reporting
  - Mercer's survey of S&P1500 filings suggests many sponsors contributed more than the minimum required amount for 2010
    - Actual percentage of plans below 80% funded will be smaller

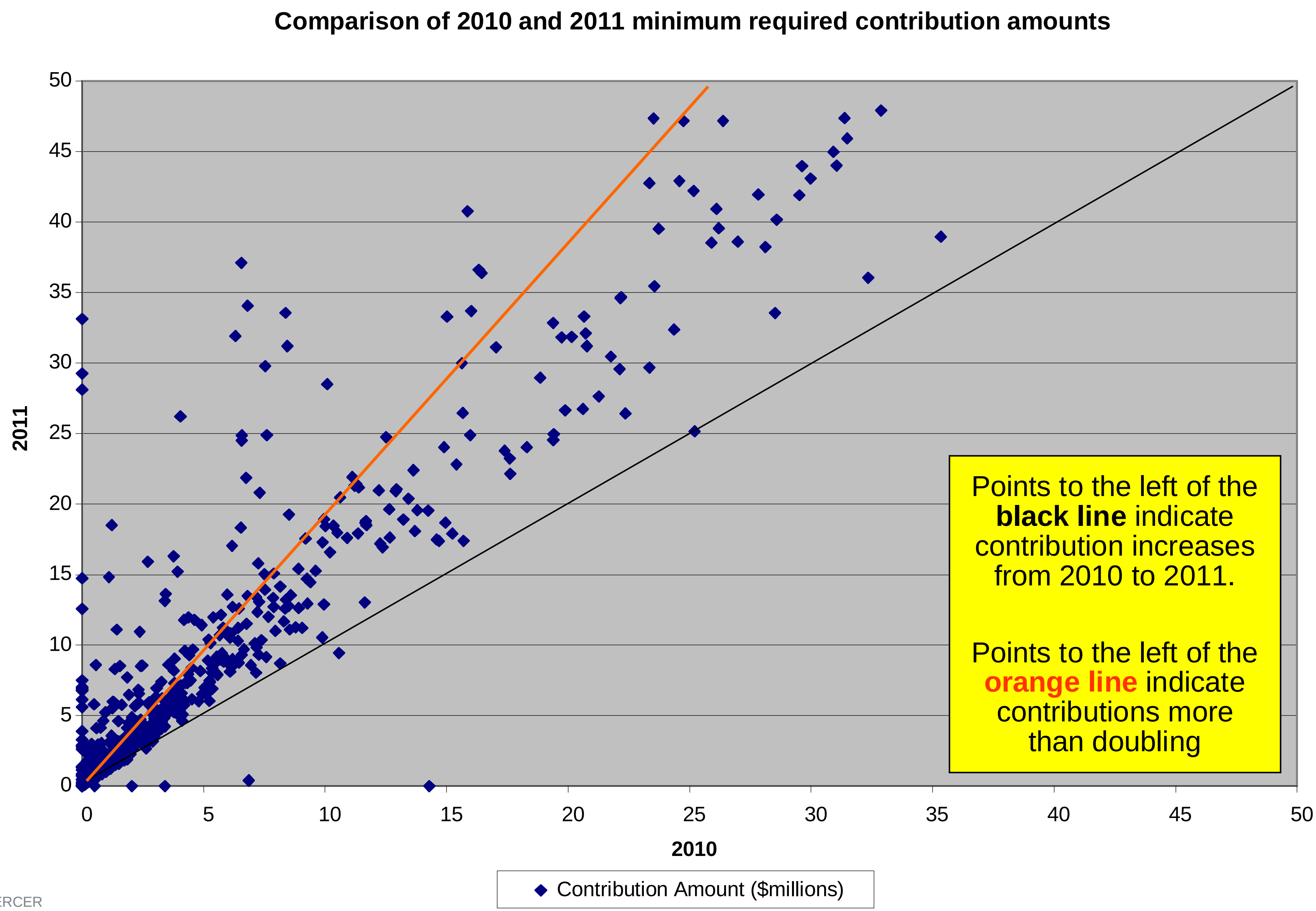
Funded ratios decline from 2010 to 2011



2011 Minimum required contributions dramatically higher than 2010

- Substantial year-over-year increases in PPA minimum required contributions (MRCs)
  - Aggregate MRCs for surveyed plans
    - $5.4B for 2009
    - $8.5B for 2010
    - $15.3B for 2011
  - Wide variation by plan
    - For more than 75% of surveyed plans, 2011 MRC will be more than double 2009 MRC
    - Just 3% of plans likely to have no MRC in 2011

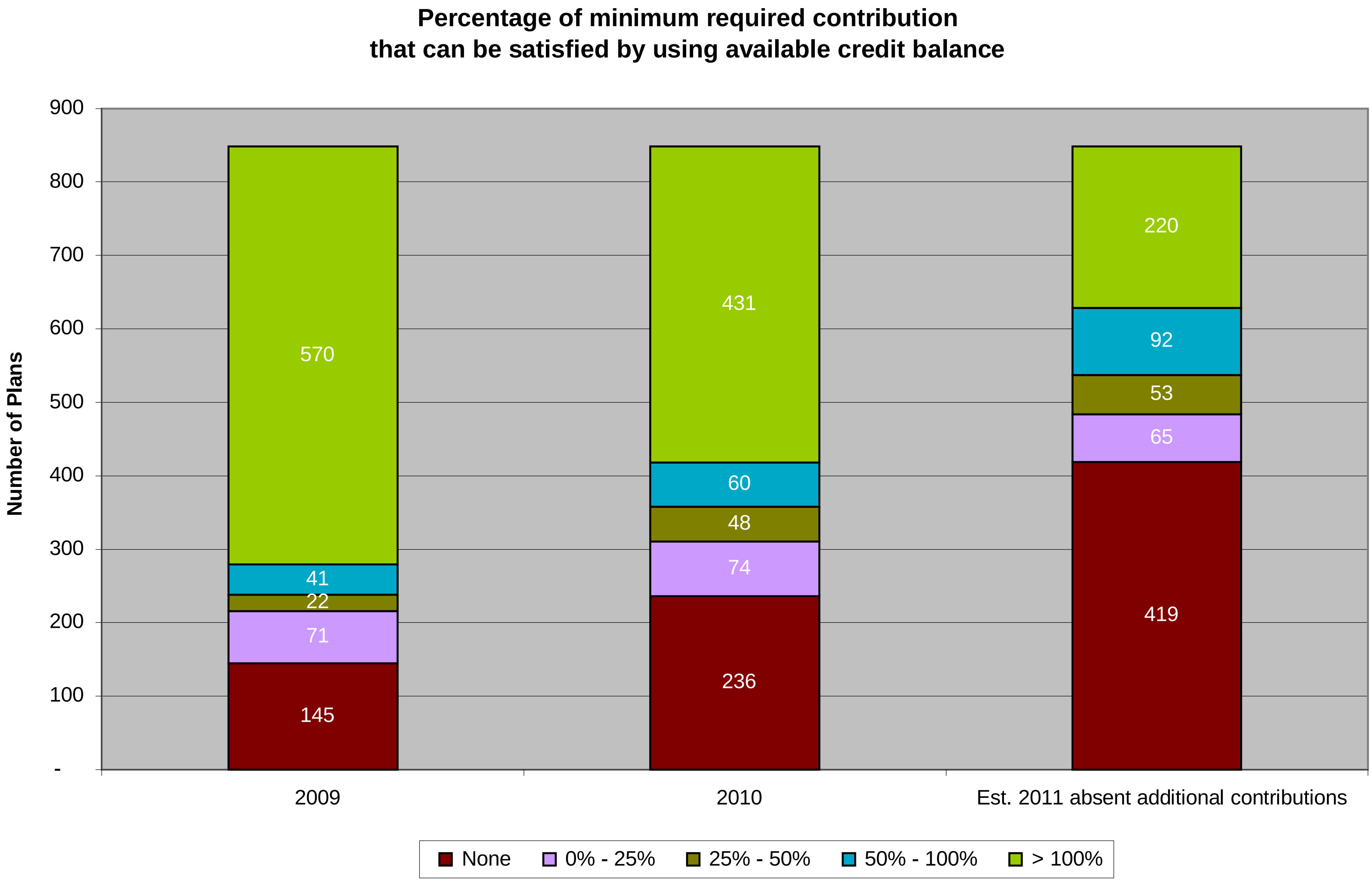
2011 Minimum required contributions dramatically higher than 2010



Smaller credit balances available to meet contribution requirements

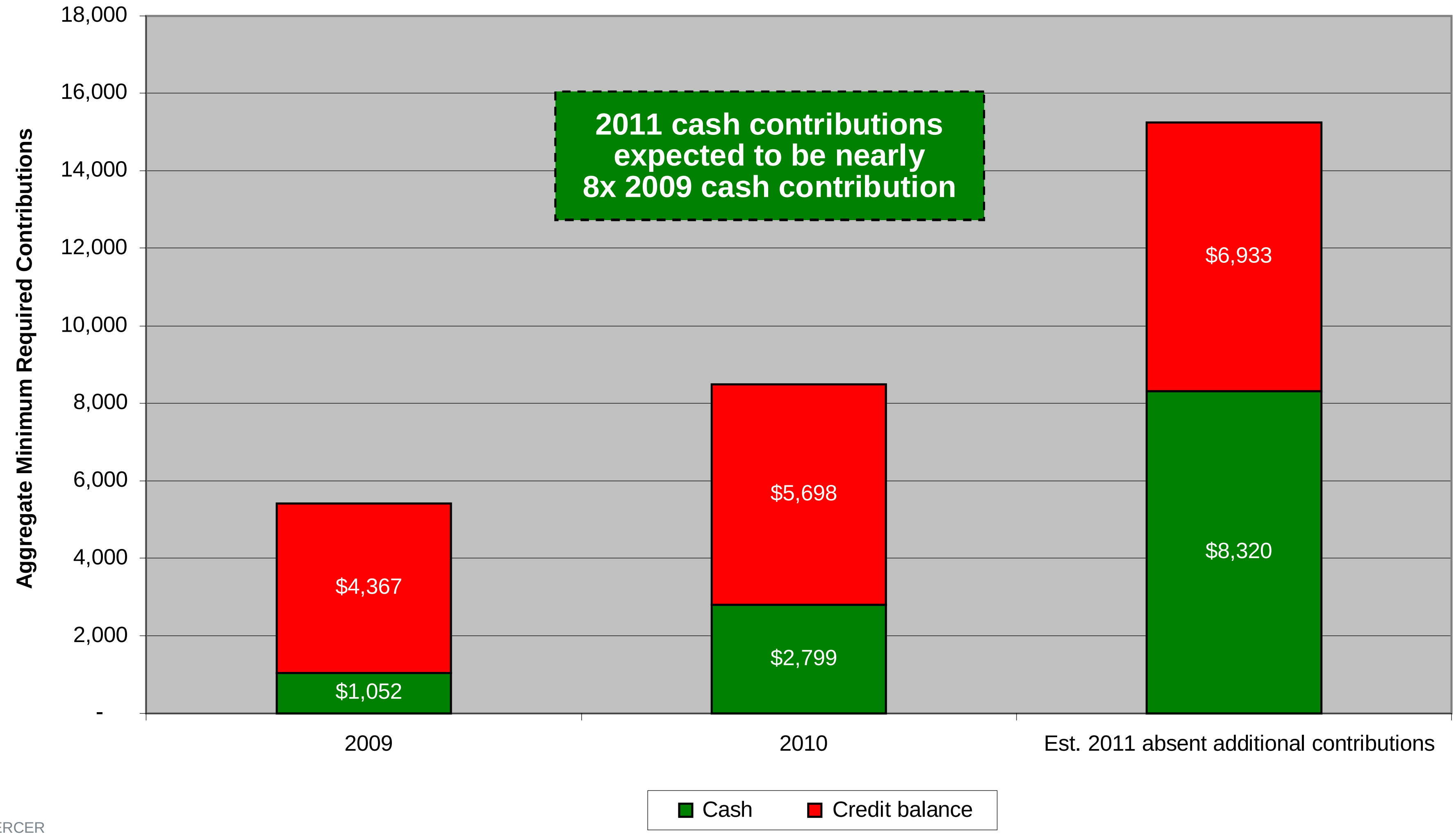
- Lower credit balances driven by:
  - Waivers to maintain AFTAPs at 60% or 80% threshold to avoid benefit restrictions
  - Application towards prior MRCs
- In 2009
  - Over 80% of plans had some credit balance to apply to MRCs
  - More than two-thirds could fully satisfy MRC using credit balance
- In 2011
  - Only 50% of plans are expected to have any credit balance
  - Only about one-quarter could fully satisfy MRC using credit balance

Smaller credit balances available to meet contribution requirements
Change in credit balance coverage ratio from 2009 to 2011



Smaller credit balances available to meet contribution requirements
Cash contributions rising faster than MRCs

Allocation of aggregate minimum required contribution amount between cash and available credit balance



Looking forward to 2012 and beyond
Contributions will continue to rise

- Continued Federal Reserve action likely to keep interest rates low for the foreseeable future
- PPA segment interest rates expected to drop 40-60 basis points between 2011 and 2012
  - On top of nearly 50 basis point drop between 2010 and 2011
- Equity markets remain volatile
  - S&P 500 was down 2% YTD as of the end of last week
- Further increases in MRCs in 2012
  - Credit balance availability expected to decline further
  - Cash contributions expected to rise again, putting cash flow pressures on many plan sponsors

Looking forward to 2012 and beyond
Systemic problems of PPA funding rules revealed

- Contribution requirements will increase when employers can least afford them
  - Limited (2-year) interest-rate and asset smoothing
  - Rapid (7-year) amortization of funding shortfalls
- Current high contribution requirements could lead to substantial overfunding when interest rates rise
- Foreseeable fallout
  - More plans closed to new entrants or frozen
  - More participants affected by distribution, amendment and UCEB restrictions
  - More sponsors leaving DB system entirely

Notes on survey data

- 849 plans for which Mercer is enrolled actuary
  - Calendar-year
  - Subject to PPA single-employer funding rules
  - Complete data available for 2009 and 2010
- Cover more than 4 million employees
- Nearly $200 billion in assets as of Jan. 1, 2010
- Represent about 16% of all plans with more than $50 million in assets
- Complete report available at: http://select.mercer.com/article/20117116/

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