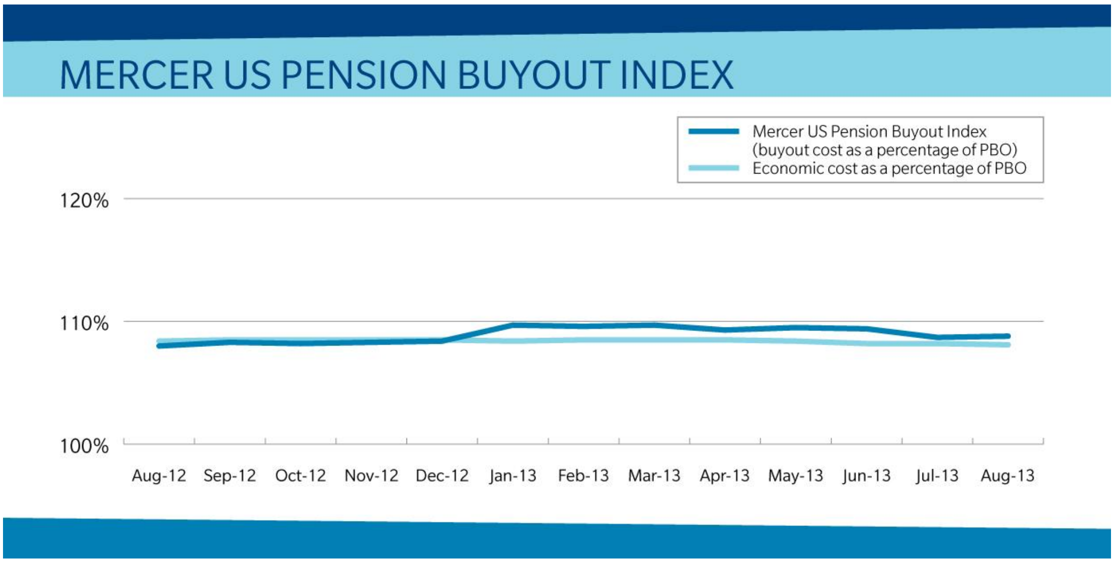
Mercer US Pension Buyout Index

The Mercer US Pension Buyout Index ("the Index") allows plan sponsors to see at a glance the relative cost of a buyout by an insurer of retiree liabilities of a defined benefit plan, and how that cost changes over time. In addition, the index shows the approximate long-term economic cost of retaining the retiree liabilities on a sponsor's Balance Sheet, which includes an allowance for the future expenses and risk margin needed to maintain the obligations. Based on this evaluation, sponsors can compare the approximate current cost of risk transfer through annuitization with the total cost of retaining obligations on the balance sheet.

Published monthly, the Index tracks the relationship between the accounting liability for a hypothetical traditional defined benefit plan and two cost measures: the approximate total economic cost of retaining the obligations on the balance sheet and the estimated cost of transferring those liabilities to an insurance company.

Annuity pricing data from a number of leading US life insurance companies are used to compile the Index. These insurers include American General, Massachusetts Mutual Life Insurance Company (MassMutual), MetLife, Principal, Pacific Life, Prudential and United of Omaha (Mercer is not associated with any of the aforementioned insurers). On a given month the Index may be compiled from pricing data from some or all of these insurers.

In Figure 1 below, we show the estimated buyout cost for a sample plan comprised of retirees only. As of August 31, 2013 the indicative buyout cost for retirees was 108.8% of the accounting liability. This compares to an estimated long-term economic cost of retaining the plan of 108.1% of the accounting liability. This economic cost includes an allowance for future retention costs (administrative, PBGC premiums and asset related costs) as well as a reserve for future improvements in mortality. These additional costs and reserves are not included in the accounting liabilities published by plan sponsors, but do represent future costs that should be reflected in any risk transfer comparisons and evaluations. These costs will vary depending on the specifics of each plan.



Commentary on the Mercer US Pension Buyout Index results for August 2013

- Figure 1 indicates that the cost of purchasing annuities for retirees remained relatively level over August 2013, with only a small increase from 108.7% to 108.8% of the accounting liability. The economic cost of retaining the retirees also remained relatively level, but showed a small decrease from 108.2% to 108.1% of the accounting liability.

- The retiree buyout cost relative to the economic cost of retaining the liabilities therefore increased slightly during August but continues to be low at approximately 70 basis points indicating that buyout premiums are potentially attractive for sponsors when compared with all-in retention costs (e.g. PBGC premiums, administrative costs, investment expenses). Reviewing total retention costs in a more comprehensive way illustrates that annuity purchases may be a cost effective risk transfer option for many sponsors, either today or when their plans become better funded.
- Interest rates have risen significantly over recent months which have led to a decrease in the absolute cost of buyout. This rise in interest rates continued in August, but was offset by a decrease in assets due to poor equity market performance. As such, the aggregate funded status of pension plans sponsored by S&P 1500 companies stands at an estimated 89% as of August 31, 2013, up from 74% at the end of 2012. This rise in funding levels has reduced the potential cash and funded status impact of a buyout.
- For sponsors that wish to incorporate annuity buyout options to their strategic planning, the recent improvement in funding level and the current small margin between the buyout and economic cost heightens the need to be prepared to act quickly. We believe plan sponsors should consider evaluating, well in advance of any planned buyout, the steps required to facilitate an annuity buyout and gauge the financial and investment strategy impact.

For the current value of the Mercer US Pension Buyout Index and full information about the Index, including Methodology for preparation and Important Notices, please visit our website at www.mercer.com/US-pension-buyout-index