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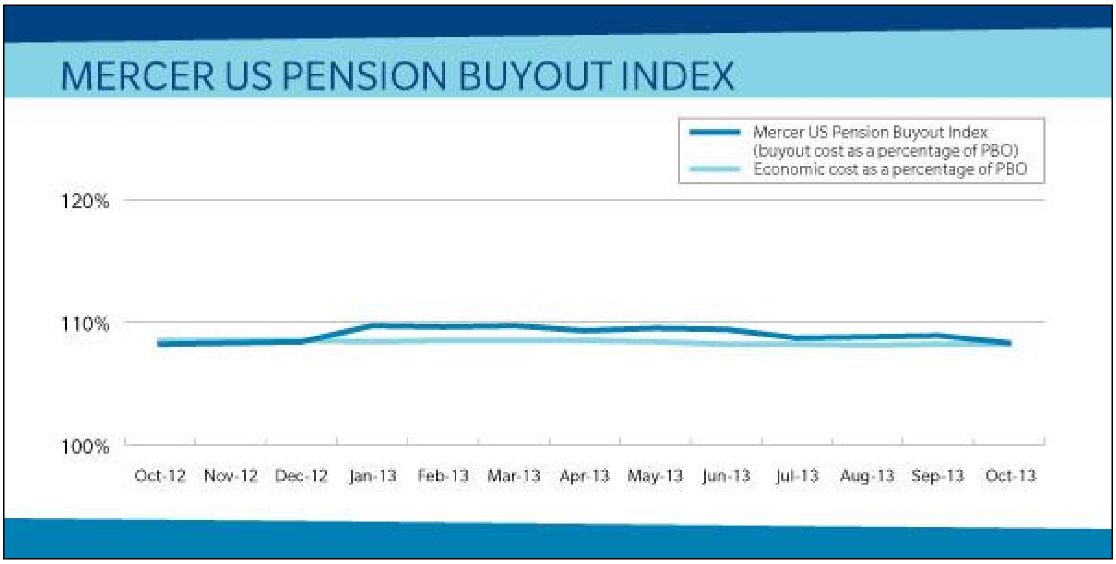
Mercer US Pension Buyout Index

The Mercer US Pension Buyout Index (the "Index") tracks the relationship between the accounting liability for retirees of a hypothetical defined benefit plan and two cost measures: the estimated cost of transferring the pension liabilities to an insurance company (i.e. a buyout) and the approximate total economic cost of retaining the obligations on the balance sheet.

During October, as indicated by the Index, the cost of purchasing annuities from an insurer decreased from 108.9% to 108.3% while the economic cost of maintaining the liability remained level at 108.2% of the balance sheet liability.



Commentary on the Pension Buyout Index results for October 2013

- The retiree buyout cost relative to the economic cost of retaining the liabilities decreased significantly during October to its smallest margin during 2013 at approximately 10 basis points. The current low margin when comparing buyout costs to the cost of retaining the liabilities is potentially attractive for sponsors who are prepared to act on the opportunity. Reviewing total retention cost in a more comprehensive analysis illustrates when 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 during 2013 which has led to a decrease in the absolute cost of a buyout. During October, interest rates decreased slightly but for many sponsors this was offset by positive equity and fixed income market performance. As such, the aggregate funded status of pension plans sponsored by companies in the S&P 1500 stands at an estimated 91% as of October 31, 2013, up from 74% at the end of 2012. For many plans, 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 levels 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 impact.
- Sponsors considering a buyout in the future should also review their plan's investment strategy and consider increasing their allocation to liability hedging assets, either immediately,

given recent improvements in funded status, or over time as the funded status improves further. This can reduce the likelihood of the funded status declining again, leading to unexpected additional cash being required to purchase annuities at a later stage.

About the Mercer US Pension Buyout Index

Published monthly, 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. This economic cost includes an allowance for future retention costs (administrative, PBGC premiums and investment expenses) 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 comparison and evaluation. These costs will vary depending on the specifics of each plan. Based on this evaluation, sponsors can compare the approximate current cost of risk transfer through an annuity purchase with the total cost of retaining obligations on the balance sheet.

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.

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