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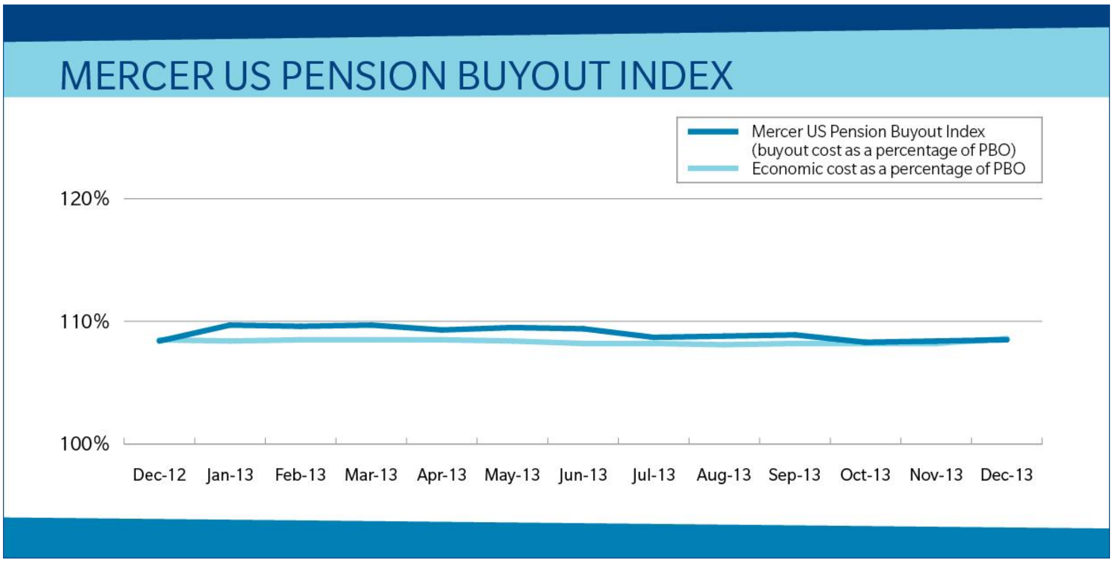
Mercer US Pension Buyout Index

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 December, as indicated by the Index, the cost of purchasing annuities from an insurer increased from 108.4% to 108.5%. The economic cost of maintaining the liability also increased, moving from 108.2% to 108.6% of the balance sheet liability primarily due to recent increases in PBGC premiums which will make it more costly for plan sponsors to maintain the plan.



Commentary on the Pension Buyout Index results for November 2013

- The Bipartisan Budget Act of 2013 increased annual per-participant PBGC premiums from $50 in 2015 to $57 in 2015 and $64 in 2016, increasing with inflation thereafter. This increases the annual cost to the sponsor of maintaining the plan. For the sample plan considered, the total economic cost of maintaining retiree liabilities increased by 40 basis points and crossed the buyout cost threshold as of December 31, 2013. This increase in retention cost makes buyout potentially very attractive to sponsors from an economic perspective.
- Both interest rates and equity markets rose significantly during 2013 which led to a decrease in the absolute cost of a buyout. The aggregate funded status of pension plans

sponsored by companies in the S&P 1500 increased by over 20% during 2013 to an estimated 95% as of the end of 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.

- This improvement in funded status, together with the increase in PBGC premiums, means 2014 could be an attractive time for sponsors to consider annuity buyout. There are a number of steps involved in order to prepare for a buyout and so we recommend that sponsors act now to evaluate whether buyout is appropriate for them and develop an implementation strategy.
- 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