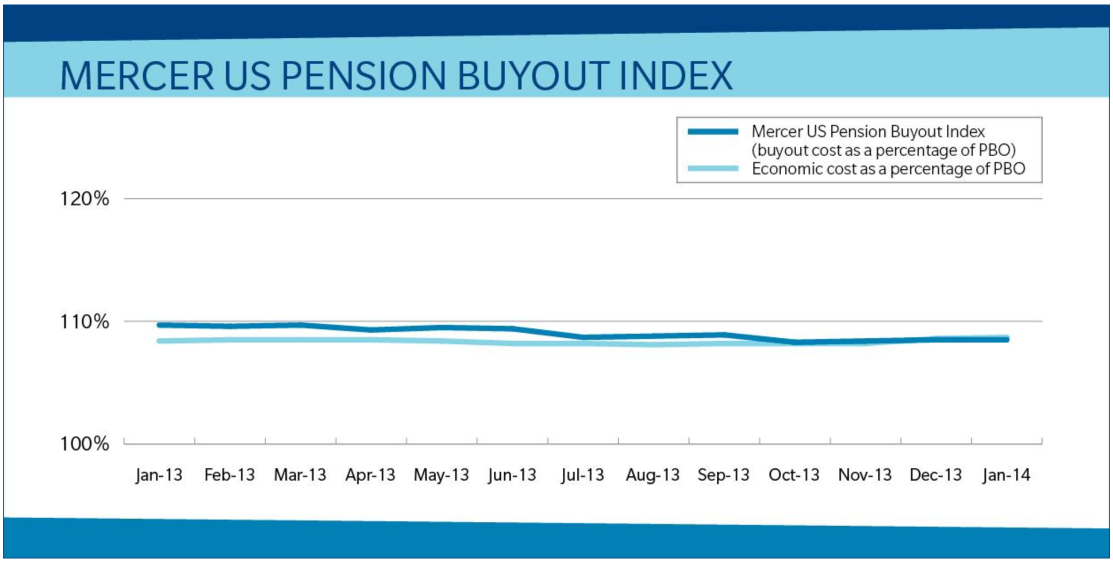
Mercer US Pension Buyout Index

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 January, as indicated by the Index, the cost of purchasing annuities from an insurer remained level at 108.5% of the accounting liability. The economic cost of maintaining the liability increased slightly, from 108.6% to 108.7% of the balance sheet liability.



Commentary on the Pension Buyout Index results for January 2014

- Some plan sponsors have been reluctant to transfer liabilities to an insurer arguing that it is too expensive, particularly compared with the accounting liability. However the accounting liability does not include all costs associated with the plan. Currently, the approximate cost of maintaining the plan is higher than the cost of transferring liabilities to an insurer for the sample plan shown.
- PBGC annual per participant premiums were recently increased significantly, from $49 per participant in 2014 to $64 per participant in 2016, increasing with inflation thereafter. This more than 30% increase is a contributing factor to the increasing costs to plan sponsors of maintaining their defined benefit plan and is a large factor in many plan sponsors' decisions to transfer liability.
- Another source of increased costs to plan sponsors of maintaining a defined benefit plan occurs when participants live longer than expected. A recently released draft mortality table by the Society of Actuaries predicts longer life expectancies than those typically used to determine a plan's accounting liability. If new mortality tables or longer life expectancies

are required to be used, the result will be an increase in plan liabilities and is another reason many plan sponsors are viewing buyouts as effective risk management tools.

- The current economic environment, together with the increase in PBGC premiums and mortality update on the horizon, makes 2014 an attractive time for sponsors to consider an 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. 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