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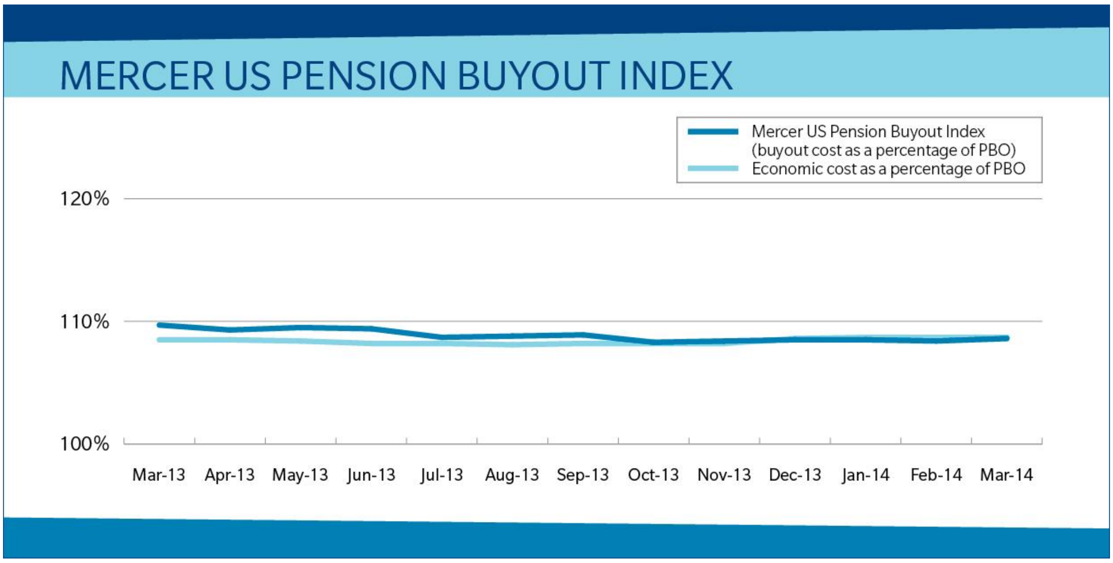
Mercer US Pension Buyout Index

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 March, as indicated by the Index, the average cost of purchasing annuities from an insurer increased slightly from 108.4% to 108.6% of the accounting liability. The economic cost of maintaining the liability remained level at 108.7% of the balance sheet liability.



Commentary on the Pension Buyout Index results for March 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 maintaining the plan. Since last October, the approximate cost of maintaining the plan continues to be approximately the same as the cost of transferring liabilities to an insurer for the sample plan modelled. The current environment allows plan sponsors who have evaluated a risk transfer to execute under favourable conditions.
- As discussed in previous months, based on a recent study by the Society of Actuaries, people are living longer than expected and as a result actuaries may soon have to update plan mortality assumptions which increases plan liabilities. While no definite date has been set for when new life expectancies may have to be used, we expect that the IRS may require plans to use the new tables to assess funding from 2016, while auditors may expect sponsors to reflect the new tables for accounting purposes even earlier. The increase to plan liabilities is expected to be greater than any increase seen in annuity prices which will be another compelling reason for plan sponsors to purchase annuities and transfer the risk.
- PBGC annual per participant premiums were recently increased significantly, from $49 per participant in 2014 to $64 per participant in 2016, and 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.

- 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 as an effective risk management tool. 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