TMH-24

REVISED

Puget Sound Energy
2010 General Rate Case
WUTC Docket Nos. UE-090704 and UG-090705

FEA Cross Examination Exhibit

Supplemental Response to PSE Data Request No. 003 to FEA

Witness: Thomas Hunt (PSE)

Supplemental response to PSE data request No. 003 to FEA
WUTC Docket Nos. UE-090704 and UG-090705

**PSE Data Request No. 003 to FEA:**

Regarding Exhibit No. RSC-1T, page 19, line 4 Witness Ralph C. Smith testifies that "there is a discernible trend away from such plans" (RSC-1T page 19, line 4) in reference to PSE's qualified defined benefit pension. Please provide copies of all studies or reports used to document this trend, including any specific studies that included regulated utilities.

**SUPPLEMENTAL RESPONSE:**

Listed below are the plans of which we are currently aware involving situations where utilities have closed, frozen, significantly modified or discontinued their defined benefit pension plans:

PacifiCorp / Rocky Mountain Power – During 2007, for non-union employees the final average pay formula was frozen and future accruals made under a cash balance formula. All employees hired on or after 1/1/08 do not participate in the retirement plan. For Local 659 union employees and Local S1978 union employees, the final average pay formula within the retirement plans were frozen during 2008 and future accruals ceased. For Location 125 Union employees hired prior to 1/1/06 and over a certain age, the final average pay formula within the retirement plan were frozen and future accruals ceased. Effective 1/1/09, non-union employees were permitted to choose to continue receiving pay credits under the cash balance formula approach within the retirement plan or receive the credits as additional fixed contribution within the 401(k) plan during a limited election period.

American Water Works Company, Inc. –The defined benefit pension plan was closed to all non-union employees hired on or after 1/1/06. For union employees hired on or after 1/1/01 the accrued benefits under the defined benefit plan were frozen.

Aqua America, Inc. Employees hired after April 1, 2003 do not participate in the Company's defined benefit pension plans.

Verizon – As of 6/30/06, Verizon management employees no longer earn pension benefits under the defined benefit plan.

Shenandoah Telecommunications Company – The defined benefit pension plan was frozen as of 1/31/07 and the company announced its intentions to settle benefits earned under the plan and terminate the plan.

Cincinnati Bell – Effective 3/28/09 – froze pay-related pension credits under the defined benefit pension plan for managers and non-union employees who were accruing benefits

under such plan, were under the age of 50, and were not eligible for the 2007 early retirement option.

See Attachments PSE-FEA-003_Supp_01 through Supp_06 for related documentation.

Additionally, the following utilities no longer offer defined benefit pension plans to new hires or only allow for the cash balance plan for new hires:

United Illuminating Company, Vermont Electric Cooperative (union employees), Connecticut Natural Gas, Southern Connecticut Gas, and Northeast Utilities.

Additionally, see Attachments PSE-FEA-003_Supp_07 through Supp_12 for the following other related articles and studies:

PSE-FEA-003_Supp_07: Excerpt from Waters Corporation's September 4, 2007 Form 8-K

PSE-FEA-003_Supp_08: Dow Jones Newswire article – Pension-Plan Freezes Likely to Ramp Up Next Year (By Lynn Cowan, March 20, 2009)

PSE-FEA-003_Supp_09: Pension Rights Center: Pension Publications listing – Companies That Have Changed Their Defined Benefit Pension Plans (As of April 2, 2009)

PSE-FEA-003_Supp_10: GAO Defined Benefit Pensions – Plan Freezes Affect Millions of Participants and May Pose Retirement Income Challenges (A copy of the complete GAO report can be obtained online at: http://www.gao.gov/new.items/d08817.pdf)

PSE-FEA-003_Supp_11: GAO Defined Benefit Pensions: Survey of Sponsors of Large Defined Benefit Pension Plans (July 2008)

PSE-FEA-003_Supp_12: Deloitte 2008 Survey of Economic Assumptions

This list may be supplemented upon further research.

Date of response: December 4, 2009
Preparer: Ralph C. Smith
Preparer's telephone number: (734) 522-3420

08-035-93/Rocky Mountain Power
November 24, 2008
CCS Data Request 1.9

**CCS Data Request 1.9**

Please provide a summarization/description of all changes to the retirement plans offered to employees, by employee group and by date, for the last three years to date. This should also include a description of any changes or modifications to the SERP plans.

**Response to CCS Data Request 1.9**

**2005**
No changes.

**2006**
Retirement Plan:
In accordance with contract negotiations with Local 125, the final average pay formula under the Retirement Plan changed from 1.3% to 1.35% for all service for employees hired prior to January 1, 2006. Employees hired after January 1, 2006 no longer participated in the Retirement Plan.

SERP Plan:
This plan was amended so that no new entrants were included as of March 20, 2006.

**2007**
Retirement Plan:
Local 127 and Local 197 negotiated a change to the formula for employees hired on or after January 1, 2007. These employees would not be eligible for the final average pay formula, rather they would participate in a cash balance formula with a pay credit of 5% annually.

Effective May 31, 2007, for the non-represented employees the final average pay formula within the retirement plan was frozen and future accruals will be made under a cash balance formula. For those employees who were under age 40 on June 1, 2007 they receive a pay credit under the cash balance formula of 6.5%, plus 4% pay credit for earnings in excess of the social security wage base for the calendar year. For employees 40 or older on June 1, 2007 they receive a pay credit of 6.5%, plus 4% pay credit for earnings in excess of the social security wage base for the calendar year. In addition, they receive 5 years of transition credits of 4% for the first three years; 2.5% for the fourth year and 1.5% for the fifth year.

Employees hired on or after June 1, 2007 will receive a 5% pay credit to their cash balance plan.

08-035-93/Rocky Mountain Power
November 24, 2008
CCS Data Request 1.9

**2008**
Retirement Plan:

- For employees hired on or after January 1, 2008, they will not participate in the retirement plan.
- Due to contract negotiations effective January 1, 2008, for Local 659 employees, the final average pay formula within the retirement plan was frozen and future accruals will cease.
- Due to contract negotiations with Local 125 employees who were hired prior to January 1, 2006 and are 53 or older as of October 1, 2008 will have their final average pay formula with the retirement plan frozen and future accruals will cease.
- Due to contract negotiations effective October 15, 2008 for Local S1978 employees the final average pay formula within the retirement plan was frozen and future accruals will cease.

**2009**
Retirement Plan/401(k) Choice:
Effective January 1, 2009, non-union employees will be able to choose to continue receiving pay credits under the cash balance formula within the Retirement Plan or receive these credits as an additional fixed contribution within the 401(k) Plan. This choice period occurred August 25, 2008 through October 3, 2008. The election is irrevocable.

# AMERICAN WATER WORKS COMPANY, INC.

## FORM 10-K
(Annual Report)

## Filed 02/27/09 for the Period Ending 12/31/08

| | |
|---|---|
| Address | 1025 LAUREL OAK ROAD<br>VOORHEES, NJ 08043 |
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| CIK | 0001410636 |
| Symbol | AWK |
| SIC Code | 4941 - Water Supply |
| Fiscal Year | 12/31 |

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In selecting a discount rate for our pension and postretirement benefit plans, a yield curve was developed for a portfolio containing the majority of United States-issued Aa-graded non-callable (or callable with make-whole provisions) corporate bonds. For each plan, the discount rate was developed as the level equivalent rate that would yield the same present value as using spot rates aligned with the projected benefit payments. The discount rate for determining pension benefit obligations was 6.12% and 6.27% at December 31, 2008 and 2007 respectively. The discount rate for determining other post-retirement benefit obligations was 6.09% and 6.20% at December 31, 2008 and 2007 respectively. The discount rate for determining both the pension obligations and other postretirement benefit obligations was 5.90% at December 31, 2006.

The asset allocation for the Company's U.S. pension plan at December 31, 2008 and 2007 by asset category, are as follows:

| | Target Allocation | Percentage of Plan Assets At December 31, | |
|---|---|---|---|
| Asset category | 2008 | 2008 | 2007 |
| Equity securities | 70% | 70% | 60% |
| Fixed income | 30% | 30% | 40% |
| Total | 100% | 100% | 100% |

The investment policy guidelines of the pension plan require that the fixed income portfolio has an overall weighted average credit rating of AA or better by Standard & Poor's and the minimum credit quality for fixed income securities must be BBB- or better. Up to 20% of the portfolio may be invested in collateralized mortgage obligations backed by the United States Government.

The Company's other postretirement benefit plans are partially funded. The asset allocation for the Company's other postretirement benefit plans at December 31, 2008 and 2007, by asset category, are as follows:

| | Target Allocation | Percentage of Plan Assets At December 31, | |
|---|---|---|---|
| Asset category | 2008 | 2008 | 2007 |
| Equity securities | 70% | 70% | 61% |
| Fixed income | 30% | 30% | 39% |
| Total | 100% | 100% | 100% |

The Company's investment policy, and related target asset allocation, is evaluated periodically through asset liability studies. The studies consider projected cash flows of maturity liabilities, projected asset class return risk, and correlation and risk tolerance.

The pension and postretirement welfare plan trusts investments include debt and equity securities held directly and through commingled funds. The trustee for the Company's defined benefit pension and post retirement welfare plans uses independent valuation firms to calculate the fair value of plan assets. Additionally, the company independently verifies the assets values. Approximately 87.2% of the assets are valued using the quoted market price for the assets in an active market at the measurement date. The remaining 12.8% of the assets are valued using other observable inputs.

In selecting an expected return on plan assets, we considered tax implications, past performance and economic forecasts for the types of investments held by the plans. The long-term expected rate of return on plan assets, which we refer to as EROA, assumption used in calculating pension cost was 7.90% for 2008, 8.00% for 2007, and 8.25% for 2006. The weighted average EROA assumption used in calculating other postretirement benefit costs was 7.75% for 2008, 7.38% for 2007, and 7.95% for 2006.

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In selecting a rate of compensation increase, we consider past experience in light of movements in inflation rates. Our rate of compensation increase was 4.00% for 2008, and 4.25% for 2007 and 2006.

In selecting health care cost trend rates, we consider past performance and forecasts of increases in health care costs. Our health care cost trend rate used to calculate the periodic cost was 8.00% in 2008 gradually declining to 5% in 2014 and thereafter.

Assumed health care cost trend rates have a significant effect on the amounts reported for the other postretirement benefit plans. The health care cost trend rate is based on historical rates and expected market conditions. A one-percentage-point change in assumed health care cost trend rates would have the following effects:

| Change in Actuarial Assumption | Impact on Other Postretirement Benefit Obligation at December 31, 2008 | Impact on 2008 Total Service and Interest Cost Components |
|---|---|---|
| | ($ in thousands) | |
| Increase assumed health care cost trend by 1% | $ 59,525 | $ 6,226 |
| Decrease assumed health care cost trend by 1% | $ (49,853) | $ (5,100) |

We will use a discount rate and EROA of 6.12% and 7.90%, respectively, for estimating our 2009 pension costs. Additionally, we will use a discount rate and expected return on plan assets of 6.09% and 7.60%, respectively, for estimating our 2009 other postretirement benefit costs. A decrease in the discount rate or the EROA would increases our pension expense. Our 2008 and 2007 pension and postretirement costs were $51.4 million and $44.9 million, respectively. Based on current plan assets and expected future asset returns, the Company currently estimates the increase to pension and postretirement expense (net of capitalized amounts) in 2009 to be approximately $32 million, pretax. It is the Company's intent to work with PUCs in the states in which it operates to minimize the impact of such increases on its results of operations. The Company currently expects to make pension and postretirement benefit contributions to the plan trusts of $125.2 million, $132.5 million, $124.7 million, $161.9 million and $123.2 million in 2009, 2010, 2011, 2012 and 2013 respectively. Actual amounts contributed could change significantly from these estimates.

The assumptions are reviewed annually and at any interim remeasurement of the plan obligations. The impact of assumption changes is reflected in the recorded pension and postretirement benefit amounts as they occur, or over a period of time if allowed under applicable accounting standards. The assumptions are selected to represent the average expected experience over time and may differ in any one year from actual experience due to changes in capital markets and the overall economy. As these assumptions change from period to period, recorded pension and postretirement benefit amounts and funding requirements could also change.

**Recent Accounting Pronouncements**

In January 2009, the Financial Accounting Standards Board ("FASB") issued FASB Staff Position ("FSP"). Emerging Issues Task Force ("EITF") No. 99-20-1, "Amendments to the Impairment Guidance of EITF Issue No. 99-20" ("FSP EITF 99-20-1"). This pronouncement amends EITF 99-20. "Recognition of Interest Income and Impairment on Purchased Beneficial Interests and Beneficial Interests That Continue to Be Held by a Transferor in Securitized Financial Assets." (EITF 99-20), to achieve more consistent determination of whether an other-than-temporary impairment has occurred. FSP EITF 99-21-1 also retains and emphasizes the objective of an other than-temporary impairment assessment and the related disclosure requirements in SFAS No. 115 "Accounting for Certain Investments in Debt and Equity Securities," and other related guidance. FSP EITF 99-20-1 is effective for interim and annual reporting periods ending after December 15, 2008, and is required to be applied prospectively. The adoption of FSP EITF 99-20-1 did not have an impact on the Company's results of operations, financial position or cash flows.

In December 2008, the FASB issued FAS No. 132(R)-1, "Employers" Disclosures about Postretirement Benefit Plan Assets" ("FSP FAS 132(R)-1"), which requires additional disclosures for employers' pension and other postretirement benefit plan assets. As pension and other postretirement benefit plan assets were not included within the scope of SFAS No. 157, FSP FAS 132(R)-1 requires employers to disclose information about fair value measurements of plan assets similar to the disclosures required under SFAS No. 157, the investment policies and strategies for the major categories of plan assets, and significant concentrations of risk within plan

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assets. FSP FAS 132(R)-1 will be effective for the Registrants as of December 31, 2009. As FSP FAS 132(R)-1 provides only disclosure requirements, the adoption of this standard will not have an impact on the Company's results of operations, financial position or cash flows.

On October 10, 2008, FASB issued FASB Staff Position No. 157-3, "Determining the Fair Value of a Financial Asset When a Market for That Asset Is Not Active" ("FSP 157-3"), which clarifies the application of Statement of Financial accounting Standards No. 157, "Fair Value Measurements" (SFAS 157") in an inactive market and provides an example to demonstrate how the fair value of a financial asset is determined when the market for that financial asset is inactive. FSP 157-3 was effective upon issuance, including prior periods of which financial statements had not been issued. The adoption of this standard as of September 30, 2008 did not have an impact on the Company's results of operations, financial position or cash flows.

In February 2008, the FASB issued FASB Staff Position SFAS 157-2 which allows a one-year deferral of the adoption of SFAS 157 for nonfinancial assets and nonfinancial liabilities (such as intangible assets, property, plant and equipment and goodwill) that are required to be measured at fair value on a periodic basis (such as at acquisition or impairment). The Company elected to use this deferral option and accordingly, only partially adopted SFAS 157 on January 1, 2008. SFAS 157 will be adopted for the Company's nonfinancial assets and liabilities valued on a non-recurring basis on January 1, 2009.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, "Fair Value Measurements," which we refer to as SFAS 157. SFAS 157 establishes a common definition for fair value to be applied to U.S. generally accepted accounting principles guidance requiring use of fair value, establishes a framework for measuring fair value, and expands disclosure about such fair value measurements. On January 1, 2008, the Company adopted the provisions of SFAS 157 for financial assets and liabilities, and nonfinancial assets and liabilities with recurring measurements. The Company's assets and liabilities measured at fair value on a recurring basis during the period were cash and cash equivalents, restricted funds and short-term debt. These assets and liabilities were measured at fair value on the balance sheet date using quoted prices in active markets (level 1 inputs, as defined by SFAS 157). The adoption of SFAS 157 for the Company's financial assets and liabilities did not have a material effect on the Company's results of operations, financial position or cash flows. The Company measured the assets of its defined benefit pension and other postretirement welfare plans pursuant to SFAS 157 as of December 31, 2008. The Company does not believe the adoption of SFAS 157 for the Company's nonfinancial assets and liabilities will have an impact on its results of operations, financial position or cash flows.

In December 2007, the FASB issued Statement of Financial Accounting Standard No. 160, "Noncontrolling Interests in Consolidated Financial Statements—an Amendment of ARB No. 51," which we refer to as SFAS 160. SFAS 160 establishes new accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. SFAS 160 will be effective for us on January 1, 2009. We do not believe this standard will have an impact on our results of operations, financial position and cash flows.

Also in December 2007, the FASB issued Statement of Financial Accounting Standards No. 141(R), "Business Combinations," which we refer to as SFAS 141(R). SFAS 141(R), which will significantly change the accounting for business combinations, is effective for business combinations finalized on or after January 1, 2009. As the provisions of SFAS 141(R) are applied prospectively to business combinations for which the acquisition date occurs after the guidance becomes effective, the impact to the Company cannot be determined until the transactions occur. In December 2008, the Company expensed transaction costs of approximately $0.9 million for acquisitions that will not close until after January 1, 2009 and will not be capitalized as goodwill under the provisions of SFAS 141(R).

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities—including an amendment of FASB Statement No. 115," (" SFAS 159"). This standard permits entities to choose to measure many financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without

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having to apply complex hedge accounting provisions. SFAS 159 is effective for years beginning January 1, 2008. The Company has not elected to exercise the fair value irrevocable option. Therefore, the adoption of SFAS 159 did not have an impact on the Company's results of operations, financial position or cash flows.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans—an amendment of FASB Statements No. 87, 88, 106 and 132(R)," which we refer to as SFAS 158. This statement requires the recognition of the overfunded or underfunded status of pension and other postretirement benefit plans on the balance sheet. Under SFAS 158, actuarial gains and losses, prior service costs or credits, and transition obligations and assets that have not been recognized in net periodic benefit cost under previous accounting standards will be recognized as a regulatory asset for the portion of the underfunded liability that meets the recovery criteria prescribed in SFAS 71 and as accumulated other comprehensive income, net of tax effects, for that portion of the underfunded liability that does not meet SFAS 71 regulatory accounting criteria. We adopted the recognition and disclosure requirements of the statement on December 31, 2006.

In September 2006, the SEC issued Staff Accounting Bulletin No. 108, "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements," which we refer to as SAB 108. SAB 108 provides guidance on how prior year misstatements should be considered when quantifying misstatements in current year financial statements for purposes of determining whether the current year's financial statements are materially misstated. SAB 108 was effective for the fiscal year ended December 31, 2006.

In June 2006, the FASB issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes," which we refer to as FIN 48, an Interpretation of SFAS No. 109, "Accounting for Income Taxes." FIN 48 is intended to address inconsistencies among entities with the measurement and recognition in accounting for income tax deductions for financial statement purposes. Specifically, FIN 48 addresses the timing of the recognition of income tax benefits. FIN 48 requires the financial statement recognition of an income tax benefit when we determine that it is more-likely-than-not that the tax position will be sustained. FIN 48 is effective for fiscal years beginning after December 15, 2006. We adopted it as required on January 1, 2007, and it did not have a significant effect on our results of operations or financial position.

During 2006, the Emerging Issues Task Force of the Financial Accounting Standards Board ratified EITF Issue No. 06-3, "How Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement (that is, Gross versus Net Presentation)," which we refer to as EITF 06-3. The Task Force reached a consensus that the scope of EITF 06-3 includes any tax assessed by a governmental authority that is both imposed on and concurrent with a specific revenue-producing transaction between a seller and a customer, and that the presentation of such taxes is an accounting policy that should be disclosed. Our accounting policy is to present these taxes on a net basis (excluded from revenues).

See Note 2—Significant Accounting Policies in the notes to the audited consolidated financial statements for a discussion of new accounting standards recently adopted or pending adoption.

## ITEM 7A. QUANTITIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to market risk associated with changes in commodity prices, equity prices and interest rates. We use a combination of fixed-rate and variable-rate debt to reduce interest rate exposure. As of December 31, 2008, a hypothetical 10% increase in interest rates associated with variable-rate debt would result in a $0.2 million decrease in our pre-tax earnings. Our risks associated with price increases for chemicals, electricity and other commodities are reduced through long-term contracts and the ability to recover price increases through rates. Non-performance by these commodity suppliers could have a material adverse impact on our results of operations, cash flows and financial position.

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future benefit are expensed or capitalized as appropriate. Remediation costs that relate to an existing condition caused by past operations are accrued, on an undiscounted basis, when it is probable that these costs will be incurred and can be reasonably estimated. Remediation costs accrued amounted to $10,538 and $11,000 at December 31, 2008 and 2007, respectively. Included in these balances were $10,100 of estimated liabilities pursuant to a conservation agreement entered into by a subsidiary of the Company with the National Oceanic and Atmospheric Administration requiring the Company to, among other provisions, implement certain measures to protect the steelhead trout and its habitat in the Carmel River watershed in the state of California. The Company pursues recovery of incurred costs through all appropriate means, including regulatory recovery through customer rates. The Company expects to make an initial payment of $3,500 in April of 2009 and $1,100 annually from July 2010 to July 2016.

**New Accounting Standards**

In January 2009, the Financial Accounting Standards Board ("FASB") issued FASB Staff Position ("FSP") Emerging Issues Task Force ("EITF") No. 99-20-1, "Amendments to the Impairment Guidance of EITF Issue No. 99-20" ("FSP EITF 99-20-1"). This pronouncement amends EITF 99-20, "Recognition of Interest Income and Impairment on Purchased Beneficial Interests and Beneficial Interests That Continue to Be Held by a Transferor in Securitized Financial Assets" ("EITF 99-20"), to achieve more consistent determination of whether an other-than-temporary impairment has occurred. FSP EITF 99-20-1 also retains and emphasizes the objective of an other than-temporary impairment assessment and the related disclosure requirements in Statement of Financial Accounting Standards ("SFAS") No. 115, "Accounting for Certain Investments in Debt and Equity Securities," and other related guidance. FSP EITF 99-20-1 is effective for interim and annual reporting periods ending after December 15, 2008, and is required to be applied prospectively. The adoption of FSP EITF 99-20-1 did not have an impact on the Company's results of operations, financial position or cash flows.

In December 2008, the FASB issued FSP FAS No. 132(R)-1, "Employers' Disclosures about Postretirement Benefit Plan Assets" ("FSP FAS 132(R)-1"), which requires additional disclosures for employers' pension and other postretirement benefit plan assets. As pension and other postretirement benefit plan assets were not included within the scope of SFAS No. 157, "Fair Value Measurements" ("SFAS 157"), FSP FAS 132(R)-1 requires employers to disclose information about fair value measurements of plan assets similar to the disclosures required under SFAS No. 157, the investment policies and strategies for the major categories of plan assets, and significant concentrations of risk within plan assets. FSP FAS 132(R)-1 will be effective for the Company as of December 31, 2009. As FSP FAS 132(R)-1 provides only disclosure requirements, the adoption of this standard will not have an impact on the Company's results of operations, financial position or cash flows.

In October 2008, the FASB issued FSP No. 157-3, "Determining the Fair Value of a Financial Asset When a Market for That Asset Is Not Active" ("FSP 157-3"), which clarifies the application of SFAS 157 in an inactive market and provides an example to demonstrate how the fair value of a financial asset is determined when the market for that financial asset is inactive. FSP 157-3 was effective upon issuance, including prior periods for which financial statements had not been issued. The adoption of this standard as of September 30, 2008 did not have an impact on the Company's results of operations, financial position or cash flows.

In February 2008, the FASB issued FSP SFAS 157-2 which allows a one-year deferral of adoption of SFAS 157 for nonfinancial assets and nonfinancial liabilities (such as intangible assets, property, plant and equipment and goodwill) that are required to be measured at fair value on a periodic basis (such as at acquisition or impairment). The Company elected to use this deferral option and accordingly, only partially adopted SFAS 157 on January 1, 2008. SFAS 157 will be adopted for the Company's nonfinancial assets and liabilities valued on a non-recurring basis on January 1, 2009.

On January 1, 2008, the Company adopted the provisions of SFAS 157 for financial assets and liabilities, and nonfinancial assets and liabilities with recurring measurements. The Company's assets and liabilities measured at fair value on a recurring basis during the period were cash and cash equivalents, restricted funds and short-term debt. These assets and liabilities were measured at fair value on the balance sheet date using quoted

prices in active markets (level 1 inputs, as defined by SFAS 157). The adoption of SFAS 157 for the Company's financial assets and liabilities did not have a material effect on the Company's results of operations, financial position or cash flows. The Company measured the assets of its defined benefit pension and other post retirement welfare plans pursuant to SFAS 157 at December 31, 2008. The Company does not believe the adoption of SFAS 157 for the Company's nonfinancial assets and liabilities will have an impact on its results of operations, financial position and cash flows.

In December 2007, the FASB issued SFAS No. 160 ("SFAS 160"), "Non-controlling Interests in Consolidated Financial Statements—An Amendment of ARB No. 51," which establishes new accounting and reporting standards for the non-controlling interest in a subsidiary and for the deconsolidation of a subsidiary. SFAS 160 is effective for the Company on January 1, 2009. The Company does not believe the standard will have an impact on its results of operations, financial position and cash flows.

In December 2007, the FASB issued SFAS No. 141(R) ("SFAS 141(R)"), "Business Combinations," which will significantly change the accounting for business combinations. SFAS 141(R) is effective for the Company for business combinations finalized on or after January 1, 2009. In December 2008, the Company expensed transaction costs of approximately $860 for acquisitions that will not close until after January 1, 2009 and will not be capitalized as goodwill under the provisions of SFAS 141(R).

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities—Including an amendment of FASB Statement No. 115" ("SFAS 159"). This standard permits entities to choose to measure many financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. This standard is effective for years beginning January 1, 2008. The Company has not elected to exercise the fair value irrevocable option. Therefore, the adoption of SFAS 159 did not have an impact on the Company's results of operations, financial position or cash flows.

In September 2006, the FASB issued SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans—an amendment of FASB Statements No. 87, 88, 106 and 132(R)" ("SFAS 158"). This statement requires the recognition of the overfunded or underfunded status of pension and other postretirement benefit plans on the balance sheet. Under SFAS 158, actuarial gains and losses, prior service costs or credits, and transition obligations and assets that have not been recognized in net periodic benefit cost under previous accounting standards will be recognized as a regulatory asset for the portion of the underfunded liability that meets the recovery criteria prescribed in SFAS 71 and as accumulated other comprehensive income, net of tax effects, for that portion of the underfunded liability that does not meet SFAS 71 regulatory accounting criteria. The Company adopted the recognition and disclosure requirements of the statement as of the end of fiscal year 2006.

**Reclassifications**

Certain reclassifications have been made to conform previously reported data to the current presentation.

**Note 3: Acquisitions**

During 2008, the Company closed on acquisitions of 10 regulated water and wastewater systems, for an aggregate purchase price of $12,512, including transaction costs of $2,622. The purchase price was allocated to the net tangible assets based upon their estimated fair values at the acquisition date.

During 2007, the Company acquired nine regulated water systems for a total aggregate purchase price of $15,877. Included in this total was the Company's acquisition on November 1, 2007 of all of the capital stock of S.J. Services, Inc. ("SJS") for $13,458. The acquisition was accounted for as a business combination in accordance with SFAS 141. Accordingly, operating results of SJS from November 1, 2007 were included in the Company's results of operations. The purchase price was allocated to the net tangible and intangible assets based

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At December 31, 2008 and 2007, the Company had capital loss carryforwards for federal income tax purposes of $17,614 and $19,977, respectively. The Company has recognized a full valuation allowance for the capital loss carryforwards because the Company does not believe these losses are more likely than not to be recovered.

The Company files income tax returns in the United States federal jurisdiction, and various state and foreign jurisdictions. With few exceptions, the Company is no longer subject to U.S. federal, state and local or non-U.S income tax examinations by tax authorities for years before 2003.

During 2006, the Company filed federal refund claims with the Internal Revenue Service ("IRS"). The majority of the Company's refund claims were attributable to the carry back of NOL's generated in 2003. The refund claims procedurally required approval by the Joint Committee of Taxation ("JCT"). The Company received notification from the IRS outlining their final findings from the audit to which the Company and IRS agreed. In the fourth quarter of 2008, the Company received approximately $28,652 in refunds excluding interest of $6,317.

The Company has state income tax examinations in progress and does not expect material adjustments to result.

The Company adopted FIN 48 effective January 1, 2007. The adoption did not have any impact to the Company's opening balance of accumulated deficit in 2007 because the positions taken were adequately reserved. The Company's gross FIN 48 liability, excluding interest and penalties, for unrecognized tax benefits decreased during 2008 as follows:

| | |
|---|---|
| Balance at January 1, 2007 | $2,202 |
| Decreases relating to tax authority settlements | (36) |
| Decreases due to statute of limitations | (524) |
| Balance at December 31, 2007 | 1,642 |
| Decreases due to lapse of statute of limitations | (291) |
| Balance at December 31, 2008 | $1,351 |

The liability balance as of December 31, 2008 and 2007 does not include interest and penalties of $312 and $341, respectively, which is recorded as a component of income tax expense. The Company does not anticipate material changes to its unrecognized tax benefits within the next year. If the Company sustains all of its positions at December 31, 2008 and 2007, an unrecognized tax benefit of $1,104 and $1,396, respectively, excluding interest and penalties, would impact the Company's effective tax rate.

**Note 15: Employee Benefits**

**Pension and Other Postretirement Benefits**

The Company maintains noncontributory defined benefit pension plans covering eligible non-union employees of its regulated utility and shared services operations. Benefits under the plans are based on the employee's years of service and compensation. The pension plans have been closed for any employees hired on or after January 1, 2006. Union employees hired on or after January 1, 2001 had their accrued benefit frozen and will be able to receive this benefit as a lump sum upon termination or retirement. Union employees hired on or after January 1, 2001 and non-union employees hired on or after January 1, 2006 are provided with a 5.25% of base pay defined contribution plan.

The Company's funding policy is to contribute at least the minimum amount required by the Employee Retirement Income Security Act of 1974. Pension plan assets are invested in a number of investments including equity and bond mutual funds, fixed income securities and guaranteed interest contracts with insurance companies.

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Pension expense in excess of the amount contributed to the pension plans is deferred by certain regulated subsidiaries pending future recovery in rates charged for utility services as contributions are made to the plans. (See Note 7)

The Company also has several unfunded noncontributory supplemental non-qualified pension plans that provide additional retirement benefits to certain employees.

The Company maintains postretirement benefit plans providing varying levels of medical and life insurance to eligible retirees. The retiree welfare plans are closed for union employees hired on or after January 1, 2006. The plans had previously closed for non-union employees hired on or after January 1, 2002.

The Company's policy is to fund postretirement benefit costs accrued. Plan assets are invested in equity and bond mutual funds.

The obligations of the plans are dominated by obligations for active employees. Because the timing of expected benefit payments is so far in the future and the size of the plan assets are small relative to the Company's assets, the investment strategy is to allocate a large portion of assets to equities, which the Company believes will provide the highest return over the long-term period. The fixed income assets are invested in long duration debt securities in order to better match the duration of the plan liability.

The liabilities of the pension and other postretirement benefit plans were adjusted to their fair value at the time of the Acquisitions.

The Company periodically conducts an asset liability modeling study to ensure the investment strategy is aligned with the profile of the obligations. The long-term goals are to maximize the plan funded status and minimize contributions and pension expense, while taking into account the potential volatility risks on each of these items.

None of the Company's securities are included in pension or other postretirement benefit plan assets. Combined plan assets of the benefit plan's include approximately $500 of RWE securities at December 31, 2008.

The asset allocation for the Company's U.S. pension plan at December 31, 2008 and 2007 by asset category, are as follows:

| | Target Allocation | Percentage of Plan Assets At December 31, | |
|---|---|---|---|
| Asset category | 2008 | 2008 | 2007 |
| Equity securities | 70% | 70% | 60% |
| Fixed income | 30% | 30% | 40% |
| Total | 100% | 100% | 100% |

The investment policy guidelines of the pension plan require that the fixed income portfolio has an overall weighted average credit rating of AA or better by Standard & Poor's and the minimum credit quality for fixed income securities must be BBB- or better. Up to 20% of the portfolio may be invested in collateralized mortgage obligations backed by the United States Government.

The Company's other postretirement benefit plans are partially funded. The asset allocation for the Company's other postretirement benefit plans at December 31, 2008 and 2007, by asset category, are as follows:

| | Target Allocation | Percentage of Plan Assets At December 31, | |
|---|---|---|---|
| Asset category | 2008 | 2008 | 2007 |
| Equity securities | 70% | 70% | 61% |
| Fixed income | 30% | 30% | 39% |
| Total | 100% | 100% | 100% |

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The postretirement benefit plan assets are invested in a manner consistent with the pension plan investment policy.

The following table provides a rollforward of the changes in the benefit obligation and plan assets for the most recent two years for all plans combined:

| | Pension Benefits | | Other Benefits | |
|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 |
| **Change in benefit obligation** | | | | |
| Benefit obligation at January 1 | $ 916,994 | $ 892,857 | $ 451,944 | $ 426,294 |
| Service cost | 26,207 | 25,611 | 12,425 | 12,683 |
| Interest cost | 58,195 | 53,288 | 28,197 | 25,383 |
| Plan participants' contributions | — | — | 1,803 | 1,682 |
| Amendments | 850 | — | — | — |
| Actuarial (gain) loss | 46,988 | (23,284) | 2,426 | 5,656 |
| Special termination benefits | — | 93 | — | — |
| Gross benefits paid | (32,345) | (31,571) | (22,669) | (21,300) |
| Federal subsidy | — | — | 1,616 | 1,546 |
| Benefit obligation at December 31 | $1,016,889 | $ 916,994 | $ 475,742 | $ 451,944 |
| **Change in Plan Assets** | | | | |
| Fair value of plan assets at January 1 | $ 626,272 | $ 578,280 | $ 293,392 | $ 281,390 |
| Actual return on plan assets | (158,322) | 25,535 | (65,400) | 4,403 |
| Employer contributions | 77,678 | 54,028 | 27,375 | 27,217 |
| Plan participants' contributions | — | — | 1,803 | 1,682 |
| Benefits paid | (32,345) | (31,571) | (22,669) | (21,300) |
| Fair value of plan assets at December 31 | $ 513,283 | $ 626,272 | $ 234,501 | $ 293,392 |
| Funded status at December 31 | $ (503,606) | $(290,722) | $(241,241) | $(158,552) |
| **Amounts recognized in the balance sheet consist of:** | | | | |
| Current liability | $ (1,544) | $ (1,609) | $ (48) | $ (44) |
| Noncurrent liability | (502,062) | (289,113) | $(241,193) | (158,508) |
| Net amount recognized | $ (503,606) | $(290,722) | $(241,241) | $(158,552) |

The following table provides the components of the Company's accumulated other comprehensive income and regulatory assets that have not been recognized as components of periodic benefit costs as of December 31.

| | Pension Benefits | | Other Benefits | |
|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 |
| Net actuarial loss (gain) | $334,934 | $77,927 | $143,907 | $ 53,627 |
| Prior service cost (credit) | 1,722 | 1,053 | (13,301) | (14,482) |
| Transition obligation (asset) | — | — | 694 | 867 |
| Net amount recognized | $336,656 | $78,980 | $131,300 | $ 40,012 |
| Regulatory assets | $198,506 | $45,933 | $131,300 | $ 40,012 |
| Accumulated other comprehensive income | 138,150 | 33,047 | — | — |
| | $336,656 | $78,980 | $131,300 | $ 40,012 |

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At December 31, 2008 and 2007, the projected benefit obligation, accumulated benefit obligation and fair value of plan assets for pension plans with a projected obligation in excess of plan assets were as follows:

| | Projected Benefit Obligation Exceeds the Fair Value of Plans' Assets | |
|---|---|---|
| | 2008 | 2007 |
| Projected benefit obligation | $ 1,017,000 | $ 917,000 |
| Fair value of plan assets | 513,000 | 626,000 |

| | Accumulated Benefit Obligation Exceeds the Fair Value of Plans' Assets | |
|---|---|---|
| | 2008 | 2007 |
| Accumulated benefit obligation | $ 887,000 | $ 793,000 |
| Fair value of plan assets | 513,000 | 626,000 |

The accumulated postretirement benefit obligation exceeds plan assets for all of the Company's other postretirement benefit plans.

In August 2006, the Pension Protection Act ("PPA") was signed into law in the U.S. The PPA replaces the funding requirements for defined benefit pension plans by requiring that defined benefit plans contribute to a 100% of the current liability funding target over 7 years. Defined benefit plans with a funding status of less than 80% of the current liability are defined as being "at risk" and additional funding requirements and benefit restrictions may apply. The PPA was effective for the 2008 plan year with short-term phase-in provisions for both the funding target and at-risk determination. The Company's qualified defined benefit plan is currently funded above the at-risk threshold, and therefore the Company expects that the plans will not be subject to the "at risk" funding requirements of the PPA. The Company is proactively monitoring the plan's funded status and projected contributions under the new law to appropriately manage the potential impact on cash requirements.

Minimum funding requirements for qualified defined benefit pension plans are determined by government regulations and not by accounting pronouncements. The Company plans to contribute at least amounts equal to the minimum required contributions in 2009 to the qualified pension plans. The Company plans to contribute its 2009 other postretirement benefit cost to its Voluntary Employee's Benefit Association Trust.

Information about the expected cash flows for the pension and postretirement benefit plans is as follows:

| | Pension Benefits | Other Benefits |
|---|---|---|
| 2009 expected employer contributions | | |
| To plan trusts | $ 84,200 | $ 41,636 |
| To plan participants | 1,544 | 48 |

The Company made 2009 contributions to fund pension benefits and other benefits of $17,100 and $10,409, respectively through February 2009.

The following table reflects the net benefits expected to be paid from the plan assets or the Company's assets:

| | Pension Benefits | Other Benefits | |
|---|---|---|---|
| | Expected Benefit Payments | Expected Benefit Payments | Expected Federal Subsidy Payments |
| 2009 | $ 38,114 | $ 21,511 | $ 1,691 |
| 2010 | 41,626 | 24,220 | 1,845 |
| 2011 | 45,376 | 27,218 | 1,982 |
| 2012 | 49,519 | 29,849 | 2,169 |
| 2013 | 54,005 | 32,562 | 2,360 |
| 2014 - 2018 | 347,870 | 203,348 | 14,660 |

Because the above amounts are net benefits, plan participants' contributions have been excluded from the expected benefits.

Accounting for pensions and other postretirement benefits requires an extensive use of assumptions about the discount rate, expected return on plan assets, the rate of future compensation increases received by the Company's employees, mortality, turnover and medical costs. Each assumption is reviewed annually. The assumptions are selected to represent the average expected experience over time and may differ in any one year from actual experience due to changes in capital markets and the overall economy. These differences will impact the amount of pension and other postretirement benefit expense that the Company recognizes.

The significant assumptions related to the Company's pension and other postretirement benefit plans are as follows:

| | Pension Benefits | | | Other Benefits | | |
|---|---|---|---|---|---|---|
| | 2008 | 2007 | 2006 | 2008 | 2007 | 2006 |
| **Weighted-average assumptions used to determine December 31 benefit obligations** | | | | | | |
| Discount rate | 6.12% | 6.27% | 5.90% | 6.09% | 6.20% | 5.90% |
| Rate of compensation increase | 4.00% | 4.25% | 4.25% | N/A | N/A | N/A |
| Medical trend | N/A | N/A | N/A | graded from 8% in 2009 to 5% in 2015+ | graded from 8% in 2008 to 5% in 2014+ | graded from 9% in 2007 to 5% in 2011+ |
| **Weighted-average assumptions used to determine net periodic cost** | | | | | | |
| Discount rate | 6.27% | 5.90% | 5.65% | 6.20% | 5.90% | 5.65% |
| Expected return on plan assets | 7.90% | 8.00% | 8.25% | 7.75% | 7.38% | 7.95% |
| Rate of compensation increase | 4.25% | 4.25% | 4.25% | N/A | N/A | N/A |
| Medical trend | N/A | N/A | N/A | graded from 8% in 2008 to 5% in 2014+ | graded from 9% in 2007 to 5% in 2011+ | graded from 10% in 2006 to 5% in 2011+ |

N/A—Assumption is not applicable.

The discount rate assumption was determined for the pension and postretirement benefit plans independently. A yield curve was developed for a universe containing the majority of U.S.—issued Aa—graded corporate bonds, all of which were non callable (or callable with make-whole provisions). For each plan, the discount rate was developed as the level equivalent rate that would produce the same present value as that using spot rates aligned with the projected benefit payments.

The expected long-term rate of return on plan assets is based on historical and projected rates of return for current and planned asset classes in the plans' investment portfolios. Assumed projected rates of return for each of the plans' projected asset classes were selected after analyzing historical experience and future expectations of the returns and volatility of the various asset classes. Based on the target asset allocation for each asset class, the overall expected rate of return for the portfolio was developed, adjusted for historical and expected experience of active portfolio management results compared to the benchmark returns and for the effect of expenses paid from plan assets. The Company's pension expense increases as the expected return on assets decreases.

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Assumed health care cost trend rates have a significant effect on the amounts reported for the other postretirement benefit plans. The health care cost trend rate is based on historical rates and expected market conditions. A one -percentage -point change in assumed health care cost trend rates would have the following effects:

| | One-Percentage-Point Increase | One-Percentage-Point Decrease |
|---|---|---|
| Effect on total of service and interest cost components | $ 6,226 | $ (5,100) |
| Effect on other postretirement benefit obligation | $ 59,525 | $ (49,853) |

The following table provides the components of net periodic benefit costs for the years ended December 31:

| | 2008 | 2007 | 2006 |
|---|---|---|---|
| **Components of net periodic pension benefit cost** | | | |
| Service cost | $ 26,206 | $ 25,611 | $ 24,308 |
| Interest cost | 58,195 | 53,288 | 49,622 |
| Expected return on plan assets | (51,701) | (47,052) | (42,304) |
| Amortization of: | | | |
| Prior service cost (credit) | 181 | 127 | 494 |
| Actuarial (gain) loss | 5 | 262 | 1,482 |
| Periodic pension benefit cost | $ 32,886 | $ 32,236 | $ 33,602 |
| Special termination pension benefit charge | — | 93 | 373 |
| Curtailment charge | — | — | 971 |
| Settlement charge (credit) | — | — | 65 |
| Net periodic pension benefit cost | $ 32,886 | $ 32,329 | $ 35,011 |
| **Other changes in plan assets and benefit obligations recognized in other comprehensive income, net of tax** | | | |
| Amortization of prior service credit (cost) | $ (26) | $ (36) | |
| Current year actuarial (gain) loss | 64,139 | (924) | |
| Amortization of actuarial gain (loss) | (1) | (72) | |
| Total recognized in other comprehensive income | $ 64,112 | $ (1,032) | |
| Total recognized in net periodic benefit cost and comprehensive income | $ 96,998 | $ 31,297 | |
| **Components of net periodic other postretirement benefit cost** | | | |
| Service cost | $ 12,425 | $ 12,683 | $ 11,613 |
| Interest cost | 28,197 | 25,383 | 24,348 |
| Expected return on plan assets | (23,002) | (21,065) | (19,689) |
| Amortization of: | | | |
| Transition obligation (asset) | 173 | 173 | 173 |
| Prior service cost (credit) | (1,180) | (1,180) | (1,145) |
| Actuarial (gain) loss | 810 | — | 2,011 |
| Periodic other postretirement benefit cost | $ 17,423 | $ 15,994 | $ 17,311 |
| Curtailment charge | — | — | (18) |
| Net periodic other postretirement benefit cost | $ 17,423 | $ 15,994 | $ 17,293 |

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The Company's policy is to recognize curtailments when the total expected future service of plan participants is reduced by greater than 10% due to an event that results in terminations and/or retirements. The Company reflected curtailments in 2006 due to a significant number of aggregate terminations and retirements at one of its subsidiaries.

The estimated amounts that will be amortized from accumulated other comprehensive income and regulatory assets into net periodic benefit cost in 2009 are as follows:

| | Pension Benefits | Other Benefits |
|---|---|---|
| Actuarial (gain) loss | $23,968 | $ 9,155 |
| Prior service cost (credit) | 182 | (1,181) |
| Transition obligation (asset) | — | 173 |
| Total | $24,150 | $ 8,147 |

**Savings Plans for Employees**

The Company maintains 401(k) savings plans that allow employees to save for retirement on a tax-deferred basis. Employees can make contributions that are invested at their direction in one or more funds. The Company makes matching contributions based on a percentage of an employee's contribution, subject to certain limitations. Due to the Company's discontinuing new entrants into the defined benefit pension plan, on January 1, 2006 the Company began providing an additional 5.25% of base pay defined contribution benefit for union employees hired on or after January 1, 2001 and non-union employees hired on or after January 1, 2006. The Company expensed contributions to the plans totaling $7,789 for 2008, $7,305 for 2007 and $6,898 for 2006. All of the Company's contributions are invested in one or more funds at the direction of the employee.

**Long-Term Incentive Plan**

The Company participated in a RWE long-term incentive plan for executives ("RWE LTIP"). Under the RWE LTIP, Company employees were granted 120,004 performance shares of RWE common stock which vested over three years beginning January 1, 2005. Subject to the vesting provisions, the performance shares were payable in cash. In accordance with SFAS 123(R), the performance shares were accounted for as a liability. Participants received their awards in cash in 2008. No expense was recognized related to these shares during 2008 and no liability remains at December 31, 2008. The Company recorded a liability of $8,398 related to the performance shares at December 31, 2007, which was included in Other current liabilities. For the years ended December 31, 2007 and 2006, the Company recognized approximately $4,127 and $2,604, respectively, of share-based compensation expense related to the performance shares in operation and maintenance expense.

**Retention Bonuses**

The Company established a retention bonus program that was intended to retain employees in key leadership roles through the timely completion of the IPO. If a participant remained employed by the Company through March 31, 2008, the participant received a cash bonus based on a predetermined percentage of his or her base salary in effect on January 1, 2006, or his or her hire date, if he or she was hired after January 1, 2006. Participants received their awards in cash in 2008. For the years ended December 31, 2008, 2007, and 2006, the Company recognized approximately $455, $2,498, and $2,907, respectively, of expense related to the retention bonuses in operation and maintenance expense.

**Completion Bonuses**

The Company offered a completion bonus to reward selected senior executives for their contributions to the IPO process. Each eligible executive was entitled to receive a cash bonus based on a predetermined percentage of

As of December 31, 2007, there was $4,184 of total unrecognized compensation cost related to nonvested share-based compensation arrangements granted under the plans. The cost is expected to be recognized over a weighted average period of 1.1 years.

***Restricted Stock*** – Restricted stock awards provide the grantee with the rights of a shareholder, including the right to receive dividends and to vote such shares, but not the right to sell or otherwise transfer the shares during the restriction period. Restricted stock awards result in compensation expense which is equal to the fair market value of the stock on the date of the grant and is amortized ratably over the restriction period. The adoption of SFAS No. 123R had no impact on the Company's recognition of stock-based compensation expense associated with restricted stock awards. The Company expects forfeitures of restricted stock to be de minimis. There were no forfeitures prior to the adoption of SFAS 123R for the grants that were under restriction as of January 1, 2006. During the years ended December 31, 2007, 2006 and 2005, the company recorded stock-based compensation related to restricted stock awards as operations and maintenance expense in the amounts of $1,097, $710 and $495, respectively. The following table summarizes nonvested restricted stock transactions for the year ended December 31, 2007:

| | Number of Shares | Weighted Average Fair Value |
|---|---|---|
| Nonvested shares at beginning of period | 56,888 | $ 23.98 |
| Granted | 55,000 | 23.27 |
| Vested | (37,443) | 21.85 |
| Forfeited | (5,000) | 29.46 |
| Nonvested shares at end of period | 69,445 | $ 24.17 |

The following table summarizes the value of restricted stock awards at the date the restriction lapsed:

| | Years ended December 31, | | |
|---|---|---|---|
| | 2007 | 2006 | 2005 |
| Intrinsic value of restricted stock awards vested | $ 835 | $ 660 | $ 614 |
| Fair value of restricted stock awards vested | 818 | 465 | 500 |

As of December 31, 2007, $925 of unrecognized compensation costs related to restricted stock is expected to be recognized over a weighted average period of 1.1 years. The aggregate intrinsic value of restricted stock as of December 31, 2007 was $1,472. The aggregate intrinsic value of restricted stock is based on the number of shares of restricted stock and the market value of the Company's common stock as of the period end date.

**Note 16 – Pension Plans and Other Postretirement Benefits**

The Company maintains qualified, defined benefit pension plans that cover a substantial portion of its full-time employees who were hired prior to April 1, 2003. Retirement benefits under the plans are generally based on the employee's total years of service and compensation during the last five years of employment. The Company's policy is to fund the plans annually at a level which is deductible for income tax purposes and which provides assets sufficient to meet its pension obligations. To offset certain limitations imposed by the Internal Revenue Code with respect to payments under qualified plans, the Company has a non-qualified Excess Benefit Plan for Salaried Employees in order to prevent certain employees from being penalized by these limitations. The Company also has non-qualified Supplemental Executive Retirement Plans for certain current and retired employees. The net pension costs and obligations of the qualified and non-qualified plans are included in the tables which follow. Employees hired after April 1, 2003 may participate in a defined contribution plan that provides a Company matching contribution on amounts contributed by participants and an annual profit-sharing contribution based upon a percentage of the eligible participants' compensation.

# Notes to Consolidated Financial Statements

**NOTE 15 (1 OF 3)**

EMPLOYEE BENEFITS

We maintain non-contributory defined benefit pension plans for many of our employees. In addition, we maintain postretirement health care and life insurance plans for our retirees and their dependents, which are both contributory and non-contributory and include a limit on the Company's share of cost for certain recent and future retirees. We also sponsor defined contribution savings plans to provide opportunities for eligible employees to save for retirement on a tax-deferred basis. We use a measurement date of December 31 for our pension and postretirement health care and life insurance plans.

Refer to Note 1 for a discussion of the adoption of SFAS No. 158, which was effective December 31, 2006.

**Pension and Other Postretirement Benefits**
Pension and other postretirement benefits for many of our employees are subject to collective bargaining agreements. Modifications in benefits have been bargained from time to time, and we may also periodically amend the benefits in the management plans.

As of June 30, 2006, Verizon management employees no longer earned pension benefits or earned service towards the company retiree medical subsidy. In addition, new management employees hired after December 31, 2005 are not eligible for pension benefits and managers with less than 13.5 years of service as of June 30, 2006 are not eligible for company-subsidized retiree healthcare or retiree life insurance benefits. Beginning July 1, 2006, management employees receive an increased company match on their savings plan contributions.

The following tables summarize benefit costs, as well as the benefit obligations, plan assets, funded status and rate assumptions associated with pension and postretirement health care and life insurance benefit plans:

**Obligations and Funded Status**

(dollars in millions)

| | Pension | | Health Care and Life | |
|---|---|---|---|---|
| At December 31, | **2008** | 2007 | **2008** | 2007 |
| **Change in Benefit Obligations** | | | | |
| Beginning of year | **$ 32,495** | $ 34,159 | **$ 27,306** | $ 27,330 |
| Service cost | **382** | 442 | **306** | 354 |
| Interest cost | **1,966** | 1,975 | **1,663** | 1,592 |
| Plan amendments | **300** | - | **24** | - |
| Actuarial (gain) loss, net | **(154)** | 123 | **(483)** | (409) |
| Benefits paid | **(2,577)** | (4,204) | **(1,529)** | (1,561) |
| Termination benefits | **32** | - | **7** | - |
| Curtailment gain | **-** | - | **(29)** | - |
| Acquisitions and divestitures, net | **(183)** | - | **(169)** | - |
| Settlements | **(1,867)** | - | **-** | - |
| End of year | **$ 30,394** | $ 32,495 | **$ 27,096** | $ 27,306 |
| **Change in Plan Assets** | | | | |
| Beginning of year | **$ 42,659** | $ 41,509 | **$ 4,142** | $ 4,303 |
| Actual return on plan assets | **(10,680)** | 4,591 | **(1,285)** | 352 |

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| | | | | |
|---|---|---|---|---|
| Company contributions | **487** | 737 | **1,227** | 1,048 |
| Benefits paid | **(2,577)** | (4,204) | **(1,529)** | (1,561) |
| Settlements | **(1,867)** | – | **–** | – |
| Acquisitions and divestitures, net | **(231)** | 26 | **–** | – |
| End of year | **$ 27,791** | $ 42,659 | **$ 2,555** | $ 4,142 |
| **Funded Status** | | | | |
| End of year | **$ (2,603)** | $ 10,164 | **$ (24,541)** | $ (23,164) |
| **Amounts recognized on the balance sheet** | | | | |
| Noncurrent assets | **$ 3,132** | $ 13,745 | **$ –** | $ – |
| Current liabilities | **(122)** | (130) | **(496)** | (360) |
| Noncurrent liabilities | **(5,613)** | (3,451) | **(24,045)** | (22,804) |
| Total | **$ (2,603)** | $ 10,164 | **$ (24,541)** | $ (23,164) |
| **Amounts recognized in Accumulated Other Comprehensive Loss (Pretax)** | | | | |
| Actuarial loss, net | **$ 13,296** | $ 13 | **$ 6,848** | $ 6,040 |
| Prior service cost | **1,162** | 932 | **3,235** | 3,636 |
| Total | **$ 14,458** | $ 945 | **$ 10,083** | $ 9,676 |

Changes in benefit obligations were caused by factors including changes in actuarial assumptions and settlements.

The accumulated benefit obligation for all defined benefit pension plans was $29,405 million and $31,343 million at December 31, 2008 and 2007, respectively.

Information for pension plans with an accumulated benefit obligation in excess of plan assets follows:

| At December 31, | **2008** | 2007 (dollars in millions) |
|---|---|---|
| Projected benefit obligation | **$ 27,171** | $ 11,001 |
| Accumulated benefit obligation | **26,641** | 10,606 |
| Fair value of plan assets | **21,436** | 8,868 |



* This is an interactive electronic version of Verizon's 2008 Annual Report to Shareowners, and it is intended to be complete and accurate. The contents of this version are qualified in their entirety by reference to the printed version. A reproduction of the printed version is available in PDF format on this website.

# Notes to Consolidated Financial Statements

**NOTE 15 (2 OF 3)**

During 2008, the decline in the fair value of pension assets increased the number of plans having accumulated benefit obligations in excess of plan assets as of December 31, 2008 compared to December 31, 2007.

**Net Periodic Cost**
The following table displays the details of net periodic pension and other postretirement costs:

(dollars in millions)

| | Pension | | | Health Care and Life | | |
|---|---|---|---|---|---|---|
| Years Ended December 31, | **2008** | 2007 | 2006 | **2008** | 2007 | 2006 |
| Service cost | **$ 382** | $ 442 | $ 581 | **$ 306** | $ 354 | $ 356 |
| Interest cost | **1,966** | 1,975 | 1,995 | **1,663** | 1,592 | 1,499 |
| Expected return on plan assets | **(3,187)** | (3,175) | (3,173) | **(321)** | (317) | (328) |
| Amortization of prior service cost | **62** | 43 | 44 | **395** | 392 | 360 |
| Actuarial loss, net | **40** | 98 | 182 | **222** | 316 | 290 |
| Net periodic benefit (income) cost | **(737)** | (617) | (371) | **2,265** | 2,337 | 2,177 |
| Termination benefits | **32** | – | 47 | **7** | – | 14 |
| Settlement loss | **364** | – | 56 | **–** | – | – |
| Curtailment loss and other, net | **–** | – | – | **24** | – | – |
| Subtotal | **396** | – | 103 | **31** | – | 14 |
| Total (income) cost | **$ (341)** | $ (617) | $ (268) | **$2,296** | $ 2,337 | $ 2,191 |

Other pretax changes in plan assets and benefit obligations recognized in other comprehensive (income) loss are as follows:

(dollars in millions)

| | Pension | | Health Care and Life | |
|---|---|---|---|---|
| At December 31, | **2008** | 2007 | **2008** | 2007 |
| **Other changes in plan assets and benefit obligations recognized in other comprehensive (income) loss (pretax)** | | | | |
| Actuarial (gain) loss, net | **$ 13,686** | $ (1,317) | **$ 1,030** | $ (444) |
| Prior service cost | **293** | – | **(6)** | – |
| Reversal of amortization items: | | | | |
| Prior service cost | **(62)** | (43) | **(395)** | (392) |
| Actuarial loss, net | **(404)** | (98) | **(222)** | (316) |
| Total recognized in other comprehensive (income) loss (pretax) | **$ 13,513** | $ (1,458) | **$ 407** | $ (1,152) |

The estimated net loss and prior service cost for the defined benefit pension plans that will be amortized from Accumulated other comprehensive loss into net periodic benefit cost over the next fiscal year are $114 million and $112 million, respectively. The estimated net loss and prior service cost for the defined benefit postretirement plans that will be amortized from Accumulated other comprehensive loss into net periodic benefit cost over the next fiscal year are $238 million and $401 million, respectively.

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**Additional Information**

As a result of the adoption of SFAS No. 158 in 2006, we no longer record an additional minimum pension liability. In prior years, as a result of changes in interest rates and changes in investment returns, an adjustment to the additional minimum pension liability was required for a number of plans, as indicated below. The adjustment in the liability was recorded as a charge or (credit) to Accumulated other comprehensive loss, net of tax, in shareowners' investment in the consolidated balance sheets. The Additional Minimum Pension Liability at December 31, 2006, was reduced by $809 million, ($526 million after-tax) based on the final measurement just prior to the adoption of SFAS No. 158. The remaining $396 million, ($262 million after-tax), was reversed as a result of the adoption of SFAS No. 158.

(dollars in millions)

| Years Ended December 31, | **2008** | 2007 | 2006 |
|---|---|---|---|
| Decrease in minimum liability included in other comprehensive income, net of tax | $ — | $ — | $ (526) |

**Assumptions**

The weighted-average assumptions used in determining benefit obligations follow:

| | **Pension** | | **Health Care and Life** | |
|---|---|---|---|---|
| At December 31, | **2008** | 2007 | **2008** | 2007 |
| Discount rate | **6.75%** | 6.50% | **6.75%** | 6.50% |
| Rate of compensation increases | **4.00** | 4.00 | **N/A** | 4.00 |

The weighted-average assumptions used in determining net periodic cost follow:

| | **Pension** | | | **Health Care and Life** | | |
|---|---|---|---|---|---|---|
| Years Ended December 31, | **2008** | 2007 | 2006 | **2008** | 2007 | 2006 |
| Discount rate | **6.50%** | 6.00% | 5.75% | **6.50%** | 6.00% | 5.75% |
| Expected return on plan assets | **8.50** | 8.50 | 8.50 | **8.25** | 8.25 | 8.25 |
| Rate of compensation increase | **4.00** | 4.00 | 4.00 | **4.00** | 4.00 | 4.00 |

Feature | Selected Financial Data and MD&A | Financials

* This is an interactive electronic version of Verizon's 2008 Annual Report to Shareowners, and it is intended to be complete and accurate. The contents of this version are qualified in their entirety by reference to the printed version. A reproduction of the printed version is available in PDF format on this website.

# Notes to Consolidated Financial Statements

**NOTE 15 (3 OF 3)**

In order to project the long-term target investment return for the total portfolio, estimates are prepared for the total return of each major asset class over the subsequent 10-year period, or longer. Those estimates are based on a combination of factors including the current market interest rates and valuation levels, consensus earnings expectations, historical long-term risk premiums and value-added. To determine the aggregate return for the pension trust, the projected return of each individual asset class is then weighted according to the allocation to that investment area in the trust's long-term asset allocation policy.

The assumed Health Care Cost Trend Rates follow:

| | **Health Care and Life** | | |
|---|---|---|---|
| At December 31, | **2008** | 2007 | 2006 |
| Health care cost trend rate assumed for next year | **9.00%** | 10.00% | 10.00% |
| Rate to which cost trend rate gradually declines | **5.00** | 5.00 | 5.00 |
| Year the rate reaches level it is assumed to remain thereafter | **2014** | 2013 | 2011 |

A one-percentage-point change in the assumed health care cost trend rate would have the following effects:

| | (dollars in millions) | |
|---|---|---|
| One-Percentage-Point | Increase | Decrease |
| Effect on 2008 service and interest cost | $ 279 | $ (224) |
| Effect on postretirement benefit obligation as of December 31, 2008 | **2,891** | **(2,399)** |

**Plan Assets**

*Pension Plans*

The weighted-average asset allocations for the pension plans by asset category follow:

| At December 31, | **2008** | 2007 |
|---|---|---|
| **Asset Category** | | |
| Equity securities | **46%** | 59% |
| Debt securities | **20** | 18 |
| Real estate | **9** | 6 |
| Other | **25** | 17 |
| Total | **100%** | 100% |

Equity securities include Verizon common stock of $87 million and $127 million at December 31, 2008 and 2007, respectively. Other assets include cash and cash equivalents (primarily held for the payment of benefits), private equity and investments in absolute return strategies.

*Health Care and Life Plans*

The weighted-average asset allocations for the other postretirement benefit plans by asset category follow:

| At December 31, | **2008** | 2007 |
|---|---|---|
| **Asset Category** | | |

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| | | |
|---|---|---|
| Equity securities | | |
| Debt securities | **67%** | 74% |
| Other | **26** | 21 |
| | **7** | 5 |
| Total | **100%** | 100% |

In our health care and life plans, there was not a significant amount of Verizon common stock held at the end of 2008 and none in 2007.

Our portfolio strategy emphasizes a long-term equity orientation, significant global diversification, the use of both public and private investments and professional financial and operational risk controls. Assets are allocated according to long-term risk and return estimates. Both active and passive management approaches are used depending on perceived market efficiencies and various other factors.

### Cash Flows

In 2008, we contributed $332 million to our qualified pension plans, $155 million to our nonqualified pension plans and $1,227 million to our other postretirement benefit plans. We estimate required qualified pension plan contributions for 2009 to be approximately $300 million. We also anticipate approximately $120 million in contributions to our non-qualified pension plans and $1,770 million to our other postretirement benefit plans in 2009.

### Estimated Future Benefit Payments

The benefit payments to retirees, which reflect expected future service, are expected to be paid as follows:

(dollars in millions)

| | Pension Benefits | Health Care and Life Prior to Medicare Prescription Drug Subsidy | Expected Medicare Prescription Drug Subsidy |
|---|---|---|---|
| 2009 | $ 4,101 | $ 1,979 | $ 89 |
| 2010 | 3,110 | 2,085 | 99 |
| 2011 | 2,769 | 2,174 | 109 |
| 2012 | 2,324 | 2,195 | 122 |
| 2013 | 2,338 | 2,221 | 134 |
| 2014 – 2018 | 11,292 | 10,928 | 837 |

### Savings Plan and Employee Stock Ownership Plans

We maintain four leveraged employee stock ownership plans (ESOP). Only one plan currently has unallocated shares. We match a certain percentage of eligible employee contributions to the savings plans with shares of our common stock from this ESOP. At December 31, 2008, the number of unallocated and allocated shares of common stock in this ESOP were 3 million and 68 million, respectively. All leveraged ESOP shares are included in earnings per share computations.

Total savings plan costs were $683 million, $712 million, and $669 million in 2008, 2007 and 2006, respectively.

### Severance Benefits

The following table provides an analysis of our severance liability recorded in accordance with SFAS No. 112, *Employers' Accounting for Postemployment Benefits (SFAS No. 112)*:

(dollars in millions)

| Year | Beginning of Year | Charged to Expense | Payments | Other | End of Year |
|---|---|---|---|---|---|
| 2006 | $ 596 | $ 343 | $ (383) | $ 88 | $ 644 |
| 2007 | 644 | 743 | (363) | - | 1,024 |
| **2008** | **1,024** | **570** | **(509)** | **19** | **1,104** |

The remaining severance liability is actuarially determined and includes the impact of the activities described in *"Severance, Pension and Benefit Related Charges"* below. The 2008 expense includes charges for the involuntary separation of approximately 8,600 employees, including approximately 800 during the fourth quarter of 2008 and 5,100 expected during 2009. The 2007 expense includes charges for the involuntary separation of 9,000 employees as described below.

*Severance, Pension and Benefit Related Charges*

During 2008, we recorded net pretax severance, pension and benefits charges of $950 million ($588 million after-tax). This charge primarily included $586 million ($363 million after-tax) for workforce reductions in connection with the separation of approximately 8,600 employees and related charges; 3,500 of whom were separated in the second half of 2008, with the remaining reductions expected to occur in 2009, in accordance with SFAS No. 112. Also included are net pretax pension settlement losses of $364 million ($225 million after-tax) related to employees that received lump-sum distributions primarily resulting from our separation plans. These charges were recorded in accordance with SFAS No. 88, *Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits* (SFAS No. 88), which requires that settlement losses be recorded once prescribed payment thresholds have been reached.

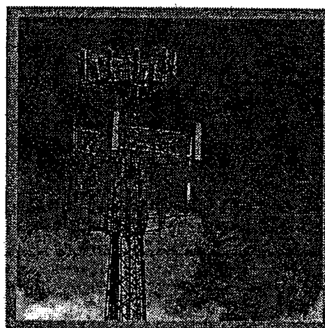
During the fourth quarter of 2007, we recorded charges of $772 million ($477 million after-tax) primarily in connection with workforce reductions of 9,000 employees and related charges, 4,000 of whom were separated in the fourth quarter of 2007 with the remaining reductions occurring throughout 2008. In addition, we adjusted our actuarial assumptions for severance to align with future expectations.

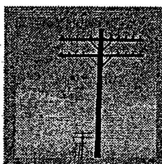
During 2006, we recorded net pretax severance, pension and benefits charges of $425 million ($258 million after-tax). These charges included net pretax pension settlement losses of $56 million ($26 million after-tax) related to employees that received lump-sum distributions primarily resulting from our separation plans. These charges were recorded in accordance with SFAS No. 88. Also included are pretax charges of $369 million ($228 million after-tax) for employee severance and severance-related costs in connection with the involuntary separation of approximately 4,100 employees.



* This is an interactive electronic version of Verizon's 2008 Annual Report to Shareowners, and it is intended to be complete and accurate. The contents of this version are qualified in their entirety by reference to the printed version. A reproduction of the printed version is available in PDF format on this website.

# 2007 Annual Report | Shenandoah Telecommunications Company





SHENTEL

in the Net Service Fee (calculated using the same methods employed in setting the original rate) moving by more than two full percentage points higher to 10.8% or more, or lower to 6.8% or less. After June 30, 2010, on an annual basis either party can request a change only if such change results in the Net Service Fee moving by more than one full percentage point higher or lower than the Net Service Fee then in effect. The Net Service fee is capped at 12.0%, unless the Company's use of services under the Services Agreement is disproportionately greater than the use of the services in similar Sprint PCS markets, in which case the parties will negotiate an alternative arrangement.

The Company's PCS subsidiary is dependent upon Sprint Nextel's ability to execute certain functions such as billing, customer care, collections and other operating activities under the Company's agreements with Sprint Nextel. Due to the high degree of integration within many of the Sprint Nextel systems, and the Company's dependency on these systems, in many cases it would be difficult for the Company to perform these services in-house or to outsource the services to another provider. If Sprint Nextel is unable to perform any such service, the change could result in increased operating expenses and have an adverse impact on the Company's operating results and cash flow. In addition, the Company's ability to attract and maintain a sufficient customer base is critical to generating positive cash flow from operations and profits for its PCS operation. Changes in technology, increased competition, or economic conditions in the wireless industry or the economy in general, individually and/or collectively, could have an adverse effect on the Company's financial position and results of operations.

The Sprint Nextel agreements require the Company to maintain certain minimum network performance standards and to meet other performance requirements. The Company was in compliance in all material respects with these requirements as of December 31, 2007.

**NOTE 8. RELATED PARTY TRANSACTIONS**

ValleyNet, an equity method investee of the Company, resells capacity on the Company's fiber network under an operating lease agreement. Facility lease revenue from ValleyNet was approximately $3.5 million, $3.7 million and $3.8 million in the years ended December 31, 2007, 2006 and 2005, respectively. At December 31, 2007 and 2006, the Company had accounts receivable from ValleyNet of approximately $0.3 million and $0.3 million, respectively. The Company's PCS operating subsidiary leases capacity through ValleyNet fiber facilities. Payment for usage of these facilities was $1.3 million, $1.0 million and $1.0 million in the years ended December 31, 2007, 2006 and 2005, respectively.

Virginia Independent Telephone Alliance, an equity method investee of the Company, provides SS7 signaling services to the Company. These transactions are recorded as expense on the Company's books and were less than $30 thousand in each of the years ended December 31, 2007, 2006 and 2005.

**NOTE 9. RETIREMENT PLANS**

The Company maintains a noncontributory defined benefit pension plan and a separate defined contribution 401(k) plan. On November 30, 2006, the Company announced its intention to offer early retirement benefits for certain employees (up to five years of additional age and service for those employees 50 years of age and older with 10 or more years of service); to freeze the defined benefit pension plan as of January 31, 2007; and subsequently, to settle benefits earned under the plan and terminate the plan. Settlement and termination are expected to be finalized during 2008. The Company reflected the effects of freezing the plan during 2006, and recognized costs of the special termination benefits in 2006 for those seven employees who elected to accept the early retirement offer as of December 31, 2006. The Company recognized additional special termination benefits during 2007 as 25 additional employees elected to accept the early retirement offer.

As of December 31, 2006, the Company implemented the reporting and disclosure requirements of SFAS 158. SFAS 158 requires the funded status of retirement plans to be reflected in the Company's statement of financial position, and requires that certain effects of pension transactions be reflected in other comprehensive income. SFAS 158 does not impact the reported cost associated with retirement plans, nor does it require that prior period amounts be restated to conform to the current presentation. After recognizing the effects of the curtailment of the pension plans at November 30, 2006, the implementation of SFAS 158 had no effect upon the Company's statement of financial condition at December 31, 2006, other than the inclusion of the qualified pension plan's funded status shortfall of $377,000 as a current liability rather than a non-current liability.

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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

# FORM 8-K

CURRENT REPORT
PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

DATE OF REPORT – February 5, 2009
(Date of Earliest Event Reported)

# CINCINNATI BELL INC.

(Exact name of registrant as specified in its charter)

Commission File No. 1-8519

| Ohio | 31-1056105 |
|---|---|
| (State of Incorporation) | (I.R.S. Employer Identification No.) |
| 221 East Fourth Street, Cincinnati, Ohio | 45202 |
| (Address of principal executive offices) | (Zip Code) |

Registrant's telephone number, including area code: (513) 397-9900

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (*see* General Instruction A.2. below):

☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

☐ Solicitation material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

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## Item 8.01. Other Events

On February 5, 2009, Cincinnati Bell Inc. ("CBI") announced that its Board of Directors approved at its January 30, 2009 meeting a series of changes to its management pension plan and retiree healthcare plan with the goals of reducing its cost structure and improving the Company's competitive position in the marketplace. The changes include the following.

- Freezing pay-related pension credits under its defined benefit pension plan, effective March 28, 2009, for currently employed managers and non-union employees who, as of January 1, 2009, were accruing benefits under such plan and who were (a) under the age of 50 and (b) were not eligible for the Company s 2007 early retirement option,
- Allowing currently employed managers and non-union employees who, as of January 1, 2009, (a) were age 50 or older or (b) did not accept the Company's 2007 early retirement option, to continue to earn pension credits through December 31, 2018, at which date all future pay-related pension credits will automatically cease;
- Terminating Company provided retiree healthcare benefits generally on December 31, 2018;
- Freezing Company contributions toward the cost of retiree healthcare benefits at 2009 levels. In most cases, increased retiree healthcare costs will be borne by the retirees; and
- Modifying, in some cases, eligibility requirements for receipt of retiree healthcare benefits.

As a result of the foregoing changes, the Company expects savings of approximately $140 million over the next 10 years.

***Safe Harbor Note***

Certain of the statements and predictions contained in this release constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act. In particular, statements, projections or estimates that include or reference the words "believes," "anticipates," "plans," "intends," "expects," "will," or any similar expression fall within the safe harbor for forward-looking statements contained in the Reform Act. Actual results or outcomes may differ materially from those indicated or suggested by any such forward-looking statement for a variety of reasons, including, but not limited to: Cincinnati Bell's ability to maintain its market position in communications services, including wireless, wireline and internet services; general economic trends affecting the purchase or supply of telecommunication services; world and national events that may affect the ability to provide services; uncertainty in U.S. and world securities markets that could result in increased costs for the Company and limit its financing alternatives; changes

---

# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION
**Washington, DC 20549**

# FORM 8-K

## CURRENT REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

Date of report (Date of earliest event reported) September 4, 2007

# WATERS CORPORATION
(Exact name of registrant as specified in its charter)

| **Delaware** | **01-14010** | **13-3668640** |
|---|---|---|
| (State or other jurisdiction of incorporation) | (Commission File Number) | (I.R.S. Employer Identification No.) |

**34 Maple Street**
**Milford, Massachusetts 01757**
(Address of principal executive offices) (Zip Code)

**(508) 478-2000**
(Registrant's telephone number, including area code)

**N/A**
(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

- ☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- ☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- ☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- ☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

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**Item 8.01 Other Events.**

On September 4, 2007, the Board of Directors of Waters Technologies Corporation approved a proposal to make certain changes to the Corporation's qualified and non-qualified retirement plans. The changes include freezing pay credit accruals under the Waters Retirement Plan (the "Retirement Plan") effective as of December 31, 2007 and increasing the employer matching contributions to the Waters Employee Investment Plan and the Waters Employee Investment Plan for Puerto Rico (the "401(k) Plans") beginning January 1, 2008. In connection with these changes, the Corporation will give Retirement Plan participants who are active as of December 31, 2007 a one-time transition benefit equal to the pay credit percentage such participants will receive in 2007 less 3% (which represents the additional employer matching contribution which will be available to participants in the 401(k) Plans in 2008), multiplied by three (3). This one-time transition benefit will be contributed to employees' 401(k) Plan accounts in the first quarter of 2008. The associated estimated expense will be recorded by the Corporation in Q3 2007.

The changes will also freeze pay credit accruals to essentially all participants in the Waters Retirement Restoration Plan (the "Supplemental Retirement Plan") and will update the Waters 401(k) Restoration Plan (the "Supplemental 401(k) Plan") to reflect the increased employer matching contributions and one-time transition benefit under the 401(k) Plans described above. These changes to the Supplemental Retirement Plan and the Supplemental 401(k) Plan are intended to be effective January 1, 2008.

The Board of Directors of Waters Technologies Corporation has delegated its authority to implement these changes to the proper officers of the Corporation who will consider amendments effecting the foregoing changes later in 2007.

At its meeting in December, the Board will consider additional amendments to the Supplemental Retirement Plan and the Supplemental 401(k) Plan as may be necessary to satisfy the requirements of Internal Revenue Code Section 409A. Note, however, that any changes required to comply with Code Section 409A are unrelated to the proposed plan freeze and reorganization described above.

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## SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

Date: September 6, 2007

WATERS CORPORATION

By: /s/ John Ornell
Name: John Ornell
Title: Vice President, Finance and Administration and Chief Financial Officer

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**Pension-Plan Freezes Likely To Ramp Up Next Year**

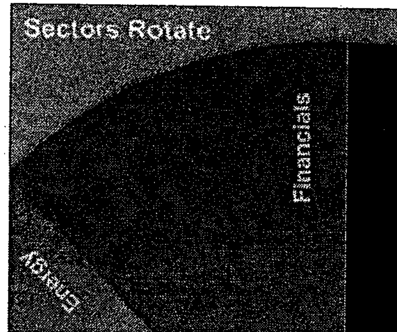
Date : 03/20/2009 @ 9:30AM

Source : Dow Jones News

Stock : AON Corp. (AOC)

Quote : ↑ 39.3 0.16 (0.41%) @ 11:36AM






## Pension-Plan Freezes Likely To Ramp Up Next Year

By Lynn Cowan

Of DOW JONES NEWSWIRES

The number of U.S. companies freezing their pension plans this year will represent the tip of the iceberg compared with the volume in years to come, according to pension experts.

Although a range of well-known corporations already have frozen their pensions - including Motorola Inc. (MOT), newspaper publisher McClatchy Co. (MNI) and insurer Aon Corp. (AOC) - there hasn't been a deluge of such decisions, which keep earned benefits intact but effectively bar employees from accruing more in the future. Actuaries and pension consultants say that many companies are so focused on resolving their overall business issues in the current economic climate that they can't focus on major, permanent shifts in employee benefits right now, but likely will re-evaluate their commitment to pensions beginning next year.

"When you look back at the last bear market from 2000 to 2002, the bulk of the uptick in plan closures and freezes happened after 2002. Companies had to deal with their immediate business issues first before addressing longer-term benefit planning," said Michael Archer, chief actuary at Towers Perrin. "Right now, most companies are saying, yes, pension issues are a problem, but we're not looking to close or freeze plans right away. It's in 2010 and 2011 where we could see higher activity, and get a better handle on the long-term effects of the downturn."

Right now changes to another type of retirement savings tool, 401 (k) plans, are far more common, most likely because any halt in company contributions is seen as a temporary measure that can be relatively easy to reverse in the future. There are also likely more freezes to come for traditional pension plans, experts agree, though the level is unlikely to top the pace seen in 2006, when many corporations decided to change their employee benefits as the Pension Protection Act (PPA), with a host of new regulations, was being signed into law.

"If you look back to 2006 and 2007, when a lot more plans were frozen, there were a few things that were the big drivers," said Scott Jarboe, a principal in benefits consultant Mercer's retirement, risk and finance business. "First, there were new (accounting) rules that drove more transparent reporting of pension details on the balance sheet. The second and more important issue was that the PPA was being finalized, and in most cases, corporations anticipated an increase in plan costs and volatility. A third, less fundamental issue, was that so many plan sponsors were freezing their pensions, that it created an opportunity to do the same and remain competitive," said Jarboe "The activity at that point was not driven by financially distressed companies," he said. "The issue we're going to see today is that plan sponsors who may have reviewed their plan designs and intend to remain committed to defined benefit pensions may be in such financial stress that they may have no choice but to freeze versus other more dramatic cost cutting measures."

There's disagreement among pension experts as to whether this economic climate will sound the death knell for traditional defined benefit plans in the years to come. In companies with unionized workforces, it will be harder to dislodge plans even if management has the desire. And while the market downturn has clearly exposed the risks involved with keeping a pension plan during tough times, there are advantages to having one under better conditions.

"Companies make two assumptions when they provide defined-benefit pensions: one, that contributions are tax-deductible; and secondly, companies count on the prospect that the market will subsidize the cost of the pension during good years," said Caitlin Long, head of the pensions solutions group at Morgan Stanley (MS).

Dan Yu, director of Eisner LLP's wealth management division, says he believes old-fashioned pensions were headed toward extinction even without the jolt they received from the market in 2008. "I would say, over the next decade, whether we are coming out of a recession or not, we'll see fewer. Defined benefit plans are dying dinosaurs. They won't exist in their present form after the next ten to 15 years," he said.

David Speier, a senior retirement consultant at Watson Wyatt Worldwide Inc. (WW), says he doesn't think the end is near, however. "I don't think that's a possibility. There are still private-sector companies out there that are committed to keeping defined benefit plans. There will be some that stick it out, even though we will clearly see more closures and plan freezes. But we won't be down to zero," he said.

-By Lynn Cowan, Dow Jones Newswires; 301-270-0323; lynn.cowan@dowjones.com

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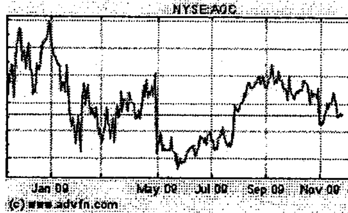
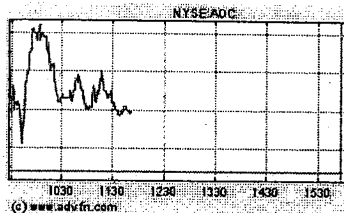
Bookmark With :

**AON Corp. Historical Chart**




**AON Corp. Intraday Chart**




Period
1 year
Line

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All other quotes are delayed by at least 15 minutes unless otherwise stated.
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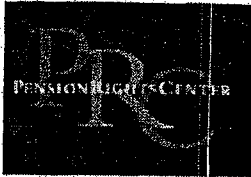
32 site:2us 091125 11:53 Stock Message Boards ( 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 )




# Pension Publications

## Companies That Have Changed Their Defined Benefit Pension Plans

Below is a list of employers that have announced significant changes to their defined benefit pension plans since December 2005. Changes include plan terminations, plan freezes for new and/or current employees, and changes to the formula by which pension benefits are calculated. For specifics, click on the employer's name to see the company's press release, SEC filing or news story announcing the change.

(Note: this is not a comprehensive list. These are only the changes that we are aware of, based on corporate press releases, news reports and other sources. This list does not include changes that have been made through the collective-bargaining process.)

Read our fact sheet on pension freezes. Visit our Reports page for studies on pension freezes and other topics. We have a similar list of companies that have reduced or eliminated their matching contributions to employees' 401(k) plans.

| Announcement Date | Employer | Effective Date |
|---|---|---|
| 03/23/2009 | Advance Publications | 05/15/2009 |
| 03/02/2009 | Talbots, Inc. | 05/01/2009 |
| 02/27/2009 | B&C Trucking Company | unknown |
| 02/25/2009 | Regions Financial Corporation | 04/16/2009 |
| 02/19/2009 | E.W. Scripps Company | unknown |
| 02/16/2009 | Sparton Corporation | 04/01/2009 |
| 02/13/2009 | Atlanta Convention and Visitors Bureau | 01/01/2009 |
| 02/05/2009 | Aon Corporation | 04/01/2009 |
| 02/05/2009 | Cincinnati Bell | 03/28/2009 |
| 02/05/2009 | McClatchy Company | 03/31/2009 |
| 01/15/2009 | Saks, Inc. | 01/30/2009 |
| 12/23/2008 | Albany International Corporation | 02/28/2009 |
| 12/23/2008 | Seattle Times | 02/06/2009 |

| | | |
|---|---|---|
| 12/17/2008 | Motorola | 03/01/2009 |
| 12/17/2008 | GenCorp Inc. | 02/01/2009 |
| 11/21/2008 | Random House, Inc. | 12/31/2008 |
| 11/11/2008 | Evening Post Publishing | 01/10/2009 |
| 11/10/2008 | R.H. Donnelly Corporation | 01/01/2009 |
| 10/22/2008 | New York Times Company | 01/01/2009 |
| 09/24/2008 | Xerium Technologies, Inc. | 12/31/2008 |
| 09/15/2008 | Equifax | 01/01/2009 |
| 07/08/2008 | YRC Worldwide Inc. | 07/01/2008 |
| 06/24/2008 | Boeing | 01/01/2009 |
| 06/11/2008 | Gannett | 08/01/2008 |
| 04/25/2008 | Standard Register | unknown |
| 04/16/2008 | Beneficial Mutual Bancorp Inc. | 06/30/2008 |
| 03/31/2008 | 3M | 01/01/2009 |
| 02/12/2008 | Bryn Mawr Bank Corporation | 03/31/2008 |
| 02/2008 | Northrop Grumman | 07/01/2008 |
| 12/05/2007 | Neiman Marcus, Inc. | 12/31/2007 |
| 11/16/2007 | Milacron Inc. (see p. 22) | 12/31/2007 |
| 11/06/2007 | Foamex International Inc. | 01/01/2008 |
| 10/02/2007 | Haynes International, Inc. | 01/01/2008 |
| 09/24/2007 | State Street Corp. | 01/01/2008 |
| 09/11/2007 | Andersen Corp. | 01/01/2008 |
| 09/07/2007 | Delphi Corporation | TBD |
| 09/04/2007 | Waters Corporation | 12/31/2007 |
| 08/09/2007 | Center Bancorp, Inc. | 09/30/2007 |
| 07/17/2007 | Dow Chemical Company | 01/01/2008 |
| 05/01/2007 | ArvinMeritor, Inc. | 01/01/2008 |
| 04/24/2007 | NASDAQ | 05/01/2007 |
| 04/12/2007 | Dun & Bradstreet Corp. | 06/30/2007 |
| 03/29/2007 | Fidelity Investments | 06/01/2007 |
| 03/20/2007 | Dana Corporation | 07/01/2007 |

| | | |
|---|---|---|
| 02/28/2007 | Tecumseh Products Co. | 05/01/2007 |
| 02/28/2007 | Goodyear Tire & Rubber Company | 01/01/2008 |
| 02/27/2007 | FedEx | 06/01/2008 |
| 02/23/2007 | SureWest Communications | 04/10/2007 |
| 02/20/2007 | HP (Hewlett-Packard) | 01/01/2008 |
| 02/16/2007 | SunTrust Banks Inc. | 01/01/2008 |
| 01/11/2007 | Ryder System, Inc. | 01/01/2008 |
| 11/30/2006 | Shenandoah Telecommunications | 01/31/2007 |
| 11/29/2006 | Kershaw County Medical Center | 01/01/2007 |
| 11/15/2006 | North Pittsburgh Telephone Co. | 12/31/2006 |
| 11/08/2006 | Whirlpool Corporation | 01/01/2007 |
| 11/08/2006 | Vought Aircraft Industries, Inc. | 12/31/2007 |
| 11/03/2006 | Citigroup | 01/01/2008 |
| 11/02/2006 | Belo Corp. | 03/31/2007 |
| 11/01/2006 | Aon Corporation | 01/01/2007 |
| 11/01/2006 | Met-Pro Corporation | 12/31/2006 |
| 11/31/2006 | Lenox Group Inc. | 01/01/2007 |
| 10/30/2006 | MeadWestvaco Corporation | 01/01/2007 |
| 10/30/2006 | Michelin | 01/01/2017 |
| 10/26/2006 | Tredegar Corporation | 12/31/2007 |
| 10/19/2006 | Journal Register Company | 01/01/2007 |
| 10/18/2006 | LSB Corporation | 12/31/2006 |
| 10/17/2006 | Con-Way Inc. | 12/31/2006 |
| 10/11/2006 | Remington Arms Company, Inc. | 01/01/2008 |
| 10/10/2006 | The Hershey Company | 01/01/2007 |
| 09/27/2006 | NCR Corporation | 01/01/2007 |
| 09/20/2006 | Calgon Carbon Corporation | 12/31/2006 |
| 09/07/2006 | Alliant Techsystems | 01/01/2007 |
| 08/31/2006 | Flushing Financial Corporation | 09/30/2006 |
| 08/28/2006 | DuPont | 01/01/2008 |
| 08/23/2006 | Tenneco Inc. | 01/01/2007 |

| | | |
|---|---|---|
| 08/08/2006 | Blount International, Inc. | 01/01/2007 |
| 08/01/2006 | Harry & David Operations Corp. | 07/01/2007 |
| 07/21/2006 | Reynolds and Reynolds Company | 10/01/2006 |
| 06/29/2006 | The Stride Rite Corporation | 12/31/2006 |
| 06/27/2006 | Nortel | 01/01/2008 |
| 06/23/2006 | G&K Services, Inc. | 01/01/2007 |
| 06/15/2006 | Bandag, Incorporated | 12/31/2006 |
| 05/15/2006 | Media General, Inc. | 12/31/2006 |
| 05/01/2006 | Lydall, Inc. | 06/30/2006 |
| 04/27/2006 | A.T. Cross Company | 05/20/2006 |
| 03/22/2006 | Unisys Corporation | 12/31/2006 |
| 03/20/2006 | Lincoln Electric Holdings, Inc. | 01/01/2006 |
| 03/07/2006 | General Motors Corp. | 01/01/2007 |
| 02/23/2006 | Wellpoint, Inc. | 01/01/2006 |
| 02/22/2006 | Coca-Cola Bottling Co. Consolidated | 06/30/2006 |
| 02/20/2006 | Stepan Company | 07/01/2006 |
| 02/15/2006 | Ferro Corporation | 04/01/2006 |
| 01/26/2006 | Harleysville Group Inc. | 04/01/2006 |
| 01/24/2006 | Lexmark International, Inc. | 05/01/2006 |
| 01/19/2006 | Russell Corporation | 04/01/2006 |
| 01/16/2006 | Alcoa | 03/01/2006 |
| 01/13/2006 | Armstrong World Industries, Inc. | 03/01/2006 |
| 01/05/2006 | IBM | 01/01/2008 |
| 12/05/2005 | Verizon Communications Inc. | 07/01/2006 |

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United States Government Accountability Office

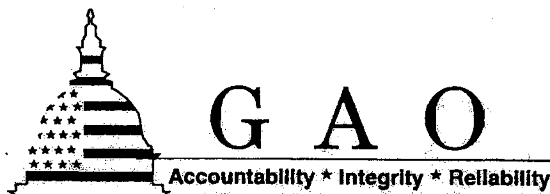
GAO

Report to Congressional Addressees

July 2008

# DEFINED BENEFIT PENSIONS

# Plan Freezes Affect Millions of Participants and May Pose Retirement Income Challenges




GAO-08-817

Highlights of GAO-08-817, a report to congressional addressees

July 2008

# DEFINED BENEFIT PENSIONS

## Plan Freezes Affect Millions of Participants and May Pose Retirement Income Challenges

### Why GAO Did This Study

Private defined benefit (DB) pension plans are an important source of retirement income for millions of Americans. However, from 1990 to 2006, plan sponsors have voluntarily terminated over 61,000 sufficiently funded single-employer DB plans. An event preceding at least some of these terminations was a so-called plan "freeze"—an amendment to the plan to limit some or all future pension accruals for some or all plan participants. Available information that the government collects about frozen plans is limited in scope and may not be recent. GAO conducted a stratified probability sample survey of 471 single-employer DB plan sponsors out of a population of 7,804 (with 100 or more total plan participants) to gather more timely and detailed information about frozen plans. We have prepared this report under the Comptroller General's authority as part of our ongoing reassessment of risks associated with the Pension Benefit Guaranty Corporation's (PBGC) single-employer pension insurance program, which in 2003, we placed on our high-risk list of programs that need broad-based transformations and warrant the attention of Congress and the executive branch. Frozen DB plans have possible implications for PBGC's long-term financial position. This report examines (1) the extent to which DB pension plans are frozen and the characteristics of frozen plans, and (2) the implications of these freezes for plan participants, plan sponsors, and the PBGC.

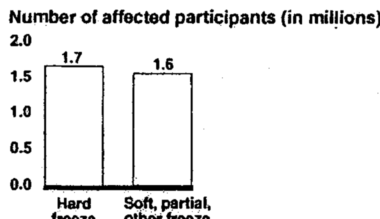
To view the full product, including the scope and methodology, click on GAO-08-817. To view the survey results click on GAO 08-818SP. For more information, contact Barbara Bovbjerg, at (202) 512-7215 or bovbjergb@gao.gov.

### What GAO Found

Frozen plans are fairly common today, with about half of all sponsors in our study population having one or more frozen DB plans. Overall, about 3.3 million active participants in our study population, who represent about 21 percent of all active participants in the single-employer DB system, are affected by a freeze. The most common type of freeze is a hard freeze—a freeze in which all future benefit accruals cease—which accounts for 23 percent of plans in our study population; however, an additional 22 percent of plans are frozen in some other way. Larger sponsors (i.e. those with 10,000 or more total participants) are significantly less likely than smaller sponsors to have implemented a hard freeze, with only 9 percent of plans under a hard freeze among larger sponsors compared with 25 percent of plans under a hard freeze among smaller sponsors. The vast majority of sponsors with frozen plans in our study population, 83 percent, have alternative retirement savings arrangements for these affected participants, but 11 percent of sponsors do not. (An additional 6 percent of sponsors froze plans under circumstances that preclude a replacement plan.) Plan sponsors cited many reasons for freezing their largest plans but most often noted two: the impact of annual contributions on their firm's cash flows and the unpredictability of plan funding. Sponsors of frozen plans generally expressed a degree of uncertainty about the anticipated outcome for their largest plan, but sponsors whose largest plan was hard frozen were significantly more likely to anticipate plan termination as the likely plan outcome.

The implications of a freeze vary for sponsors, participants, and PBGC. For plan sponsors, while hard freezes appear to indicate an increased likelihood of plan termination, a rise in plan terminations has yet to materialize. For participants, a freeze generally implies a reduction in anticipated future retirement benefits, though this may be somewhat or entirely offset by increases in other benefits or a replacement retirement-savings plan. However, because the replacement plans offered to affected participants most frequently are defined contribution, the investment risk and responsibility for saving are shifted to employees. Finally, plan freezes may potentially improve PBGC's net financial position, but the degree to which it is accompanied by sponsor efforts to improve plan funding is unclear. In any event, the shrinking of the single-employer pension insurance program plan base seems likely to continue.

**Estimated Number of Active Participants Affected by Sponsors' Largest Plan Freeze, by Freeze Type**




Source: GAO analysis of survey of DB pension plan sponsors regarding frozen plans

## Frozen Plans Affect about One-Fifth of Active DB Plan Participants

Overall, an estimated 3.3 million active participants[6] in our study population—or 21 percent of all active participants in the private, single-employer DB system—are affected by reported freezes. (See app. I, slide 9 and slide 10.) Active participants are employees that are or may become eligible to accrue or receive additional benefits under a plan; if all participants in the DB system (that is, active participants, retirees, and separated vested participants) are considered, the proportion represented by active participants who are affected by plan freezes falls to 10 percent.[7] (See app. I, Slide 9.) We considered only those participants who are currently accruing benefits (that is, active participants) at the time of freeze implementation to be affected by a freeze. The above calculations, therefore, do not include sponsors whose largest frozen plans are under a new-employee-only soft freeze, where the plan is closed to new entrants and benefit accruals for active participants remain unchanged. The extent to which active participants are affected by a freeze depends on the type of freeze in place. Under hard freezes, future benefit accruals cease for active participants. In contrast, soft freezes may reduce future benefit accruals for some or all active participants. Soft freezes are distinct from hard freezes in that the restrictions on participants' future benefit accruals are less comprehensive than the total cessation of future accruals under hard freezes.[8]

Our survey shows that about half the sponsors in the study population have one or more frozen plans. (See app. I, slide 11.) Overall, about

[6]All estimates based on our sample are subject to sampling error. For example the 95 percent confidence interval of the total participant estimate ranges from 2.25 million to 4.34 million participants. Unless otherwise noted, all percentage estimates based on this survey have 95 percent confidence intervals of within +/- 11 percentage points of the estimate itself. Of the 3.3 million estimated participants affected by a freeze, 1.7 million are affected by a hard freeze, and 1.8 million are affected by a soft, partial, or other freeze. The 95 percent confidence interval for participants affected by hard freeze is from 1.1 million to 2.3 million. The 95 percent confidence interval for participants affected by soft, partial, or other freezes is from 0.7 million to 2.5 million. See appendix II for additional information on sampling error of estimates.

[7]Active participants may continue to accrue benefits because they are currently employed by the sponsoring firm. Retirees are no longer employed by the firm and are collecting their retirement benefits. Separated vested participants are no longer employed by the sponsoring firm and no longer accrue benefits, but they are not yet collecting their retirement benefits.

[8]See appendix I, slide 5 for general freeze type definitions. Exact definitions used in the survey may be found in the special product supplement. See GAO, *Defined Benefit Pensions: Survey of Sponsors of Large Defined Benefit Pension Plans*, GAO-08-818SP (Washington, D.C.: July 21, 2008).

51 percent of plans in the study population were reported as closed to new entrants, the basic requirement of a plan freeze. Nearly half of plans with a reported freeze, or 23 percent of all plans in the study population, were under a hard freeze. (See app. I, slide 12.)[9] In addition, 12 percent reported some type of soft freeze. About 6 percent reported a partial plan freeze, while 4 percent reported an "other" freeze, which include situations where plan participants are separated into plan tiers,[10] or freezes brought on by bankruptcy, plant closure, or plan merger.

The survey results suggest that two factors may influence the likelihood that sponsors will implement a hard freeze: sponsor size and the extent to which a sponsor's plans are subject to collective bargaining (CB) agreements. Larger sponsors, those with 10,000 or more total participants, are significantly less likely than smaller sponsors to have implemented a hard freeze, with only 9.4 percent of plans under a hard freeze among larger sponsors compared with 25.4 percent of plans under a hard freeze among smaller sponsors. (See app. I, slide 13.) Similarly, firms with some or all plans subject to CB are significantly less likely to implement hard freezes than sponsors with no plans subject to CB.[11] (See app. I, Slide 14.) However, these two factors may be related, as larger sponsors in our

[9]Closed and unclassified plans are only included for this analysis (see app. I, slide 12). In other analyses, only those plans reporting a specific freeze type will be included in calculations of frozen plans. Of the 51 percent of all plans reported as closed to new entrants, 44 percent reported a specific freeze type. Another roughly 9 percent of plans were closed to new entrants but were not classified by their sponsors as being frozen. Those plans defining a freeze plus those that reported the plan as closed to new hires, but not defined as frozen, may not sum to the total number of closed plans. This occurs because, in certain instances, a partial freeze may not be closed to all new entrants. For example, a subset of new entrants may be part of the group unaffected by the partial freeze.

[10]An example of a tier might be if an employer were to offer certain participants the option to freeze certain accruals in one DB plan as a condition of participation and accruals in another, alternative plan (either DB or DC).

[11]The statistical significance of this finding applies only to hard frozen plans. Sponsors with some or all plans that were subject to CB did not freeze their plans overall at a statistically different rate from the general population of sponsors. Estimated percentages for sponsors with no CB or some CB have 95 percent confidence intervals of within +/- 11 percentage points of the estimates themselves. For sponsors with all plans subject to CB, the confidence intervals are within +/- 15 percentage points of the estimates themselves.

freeze, or not freeze, any plans in the future. (See app. I, slide 26.) Thirty-five percent of sponsors have considered freezing additional plans in the future but are uncertain if they will, while nearly 50 percent have not yet considered or discussed future freezes.

## Plan Freezes Have Various Implications for Key Stakeholders

The prevalence of frozen DB plans today has different implications for key stakeholders in the single-employer DB system—plan sponsors, participants, and the PBGC.

Our survey found that nearly a third of the sponsors ultimately expect to terminate their largest frozen plan. Further, we found that about half of all frozen plans were hard frozen and that sponsors of hard frozen plans appear more likely to anticipate termination as an eventual outcome. However, the number of plan terminations has not increased recently. For example, from 1990 to 2006, total annual standard terminations averaged about 7 percent of insured single-employer plans. However, from 2002 to 2006, this rate had been far lower. (See app. I, slide 28.) Further, larger plans, or those plans with 100 or more participants, which account for about 36 percent of plans but which account for the overwhelming number of the system's active participants, accounted for only about 9 percent of the terminations during the 2002 to 2006 period. This suggests that the single-employer DB system's decline does not appear to be accelerating, with many large plans continuing in operation.

Plans may freeze for many reasons, and our survey population of frozen plan sponsors cited cost of contributions and volatility of plan funding as the key reasons for freezing their largest plans. However, when we asked all sponsors, including those with no frozen plans, about the key challenges to the future health of the single-employer DB system generally, the very same issues of plan cost and volatility were listed most frequently. Given that these issues seem to be an inherent problem for all sponsors, it may be that each sponsor decision to freeze a plan has a firm-specific reason or is based on other factors not picked up in our survey. In any case, the current prevalence of plan freezes does not present an encouraging landscape for DB plan sponsorship.

For active plan participants, plan freezes imply a possible reduction in anticipated retirement income. In particular, a hard freeze, which ceases future benefit accruals, is especially likely to reduce anticipated retirement income—unless this income is made up through increased savings, possibly from such sources as higher wages or other nonwage benefit increases. Although a majority of the sponsors with frozen plans cited plan

cost considerations as a key motivation for the freeze—suggesting that they may be somewhat reluctant to fully redirect any potential cost savings from the freeze to other areas of compensation or benefits—our survey did not collect information to fully address this issue. For example, while our survey indicated that sponsors most often do offer a replacement plan for frozen participants and this offering is most often a DC or 401(k)-type plan, we did not ask about the generosity of these replacement plans or of the previous frozen DB plan.

The offering of an alternative plan may have different consequences for employees in different stages of their career. Reductions to anticipated accruals for participants affected by a freeze will vary considerably depending on key plan features, participant demographic characteristics, and market interest rate factors.[17] However, for those participants with traditional pension plan formulas[18] that are hard frozen and replaced with a typical DC, or 401(k)-type plan, all else being equal, longer-tenured, midcareer workers are most likely to see the greatest reductions in anticipated retirement income. This effect occurs because older, longer-tenured employees generally have less time remaining in their careers to offset anticipated accrual losses through typical 401(k)-type plan contributions compared to younger workers. Alternatively, depending on the generosity of the frozen, pay-based pension plan, certain younger (or less well-tenured) and more mobile participants might actually see increases in their anticipated retirement incomes by moving to a typical, or average, 401(k)-type plan.

These concerns are not just relevant for the current active participants of a frozen plan. Our survey also shows that roughly a majority of sponsors in our study population have closed their plans to new employees, many of whom will also likely depend on a DC plan as a source of retirement income. Our survey did not collect information on the degree to which affected employees are participating in either the newly offered DC plans

[17]For a discussion on how plan freezes may affect expected retirement income, see Jack VanDerhei, *Defined Benefit Plan Freezes: Who's Affected, How Much, and Replacing Lost Accruals,"* Employee Benefits Research Institute (EBRI) Issue Brief No. 291 (Washington D.C., March 2006). The EBRI study modeled the effect of a universal hard freeze to show how anticipated accruals were affected by key plan, participant, and market characteristics.

[18]Traditional formula is used to refer to pay based plans, which use formulas based on salary and service, such as final average pay plans. These types of plan formulas typically accrue increasingly larger benefits at the end of an employee's active working career.

or any existing, but enhanced, DC plan. DC plans are increasingly the dominant retirement savings vehicle for private sector workers. Like DB plans, DC plans pose their own potential retirement-income challenges, including the need for employees to participate in the plan and to effectively manage the investment risk of their DC accounts if they are to have a secure retirement. Yet for some workers, especially for lower-income workers, this may be difficult to do as they are less likely to participate when offered the opportunity to do so and less able to make even limited contributions.[19]

The effect of plan freezes on PBGC's net financial position is not certain, but it could be modestly positive in both the immediate- and long-term; freezes generally reduce system liabilities and potentially minimize claims among financially weak plans.[20] The possible improvement in PBGC's net position, however, assumes that the aggregate effect of plan freezes does not significantly reduce the agency's premium income over time.[21] The reductions in flat-rate premium[22] income could come from a decline in participants, possibly from the considerable number of plans that we found that were closed to new employees or from terminations that may result from the freeze. Variable-rate premium income[23] could also be reduced to the degree that sponsors of underfunded plans improve funding as a result of a plan freeze.

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[19]See GAO, *Private Pensions: Low Defined Contribution Plan Savings May Pose Challenges to Retirement Security, Especially for Many Low-Income Workers*, GAO-08-8 (Washington, D.C.: Nov. 7, 2007).

[20]Frozen plan sponsors must continue to pay premiums to PBGC for its participants even if those participants' future benefit accruals have been frozen. Frozen plan sponsors must also continue to maintain the plan in accordance with federal pension law, including funding the plan by making minimum required contributions. However, sponsors may find it somewhat easier to bring the frozen plan to full funding if future participant accruals are limited.

[21]PBGC has witnessed a steady decline in the percentage of single-employer participants that are active participants. PBGC has only recently seen a slight decrease in the number of total insured participants, but the large percentage of plans closed to new entrants seems to suggest possible further decline.

[22]The flat-rate premium is a per-participant premium that plans pay to PBGC each year. In 2008, the rate for the flat premium is $33 per participant in insured single-employer plans. This rate is adjusted annually by an average-national-wage index.

[23]The variable-rate premium applies only to insured single-employer plans that have unfunded vested benefits. The rate for the variable-rate premium is $9 per $1,000 of underfunding.

# GAO Freeze Survey: Sampling Summary

| Total Participant Category of Sponsor | Sponsors Sampled | Number of Sponsors | Percent of Sponsors | Number of Plans | Percent of Plans | Number of Participants | Percent of Participants | Liabilities (in billions) | Percent of Liabilities |
|---|---|---|---|---|---|---|---|---|---|
| less than 100 | 0 | 15,156 | 66.0% | 15,344 | 58.0% | 306,757 | 1.0% | $13 | 0.9% |
| 100 - 999 | 126 | 5,010 | 21.8% | 5,801 | 21.9% | 1,730,589 | 5.4% | $53 | 3.5% |
| 1,000 - 4,999 | 123 | 1,829 | 8.0% | 2,711 | 10.3% | 4,171,045 | 13.0% | $138 | 9.2% |
| 5,000 - 49,999 | 117 | 858 | 3.7% | 1,978 | 7.5% | 12,442,522 | 38.6% | $506 | 33.8% |
| 50,000 - plus | 105 | 107 | 0.5% | 600 | 2.3% | 13,553,358 | 42.1% | $786 | 52.5% |
| Study Group Total | 471 | 7,804 | 34.0% | 11,090 | 42.0% | 31,897,514 | 99.0% | $1,483 | 99.1% |

Source: GAO analysis of 2004 PBGC Form 5500 Research Data
Note: sampling columns represent sponsor, participants and liabilities as of 2004

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# Background: What Is a Plan Freeze?

- A plan freeze is a plan amendment that closes the plan to new entrants and may limit future benefit accruals for some or all active plan participants
- General types include:
  - Hard Freeze – the plan is closed to new entrants and participants no longer accrue additional benefits
  - Soft Freeze – at a minimum the plan is closed to new entrants. The plan's prospective benefit formula may or may not be changed in such a way as to limit future benefit accruals for participants.
  - Partial Freeze – the plan is closed to new entrants and, for only a subset of active participants, the plan's prospective benefit formula is changed to limit or cease future benefit accruals.

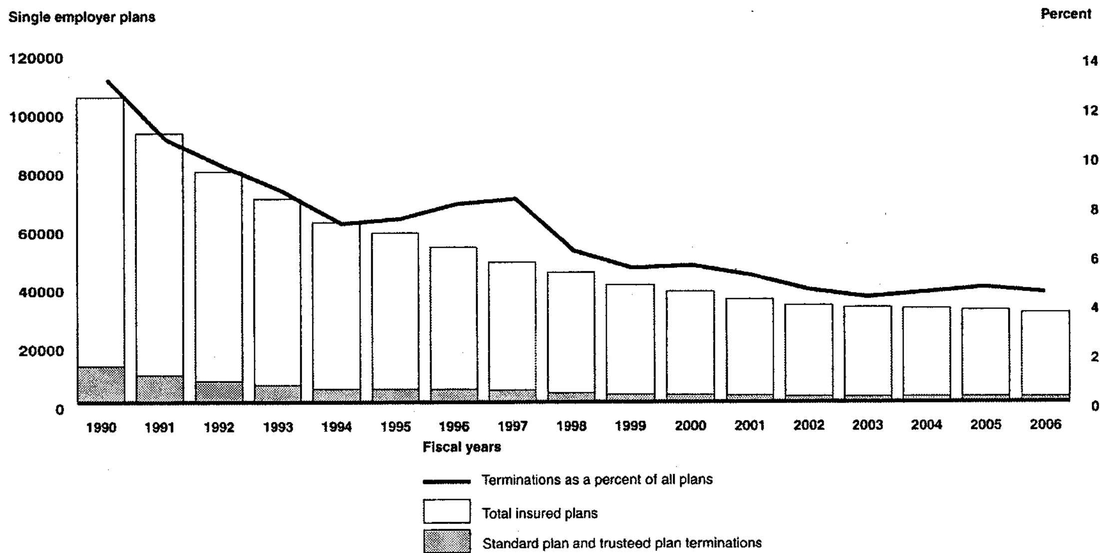
5

# Background: Freeze Data

- Most reports of pre-2003 freezes were based on:
  - limited data obtained from restricted/proprietary client bases of consulting firms and
  - survey questions on freezes that were often indirect or could be misconstrued
- The Pension Benefit Guaranty Corporation (PBGC) began analyzing generalizable information on single-employer, "hard frozen" plans in 2005 (using plan year 2003 data)
- Most recent PBGC data shows that:
  - 14 percent of plans were hard frozen as of 2005
  - There has been a nearly 50 percent increase in frozen plans since 2003
  - Hard freezes are generally more prevalent among smaller plans

6

# Figure 15. Sponsors of Frozen Plans May Terminate at Higher Rates, but the Number and Ratio of Terminations Are Currently Relatively Low




Source: GAO analysis of PBGC data.

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**Table 2. Summary of Study Population by Sampling Stratum**

| Stratum number | Sampling stratum | Sponsor population | Sample selected | Respondents | Out of scope | Response rate % |
|---|---|---|---|---|---|---|
| 1 | 100 - 999 | 5010 | 126 | 99 | 1 | 79 |
| 2 | 1,000 - 4,999 | 1829 | 123 | 101 | 0 | 82 |
| 3 | 5,000 - 49,999 | 858 | 117 | 82 | 1 | 71 |
| 4 | 50,000 + | 107 | 105 | 48 | 0 | 46 |
| **Total** | | **7804** | **471** | **330** | **2** | **78** |

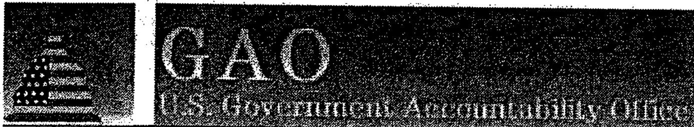
Source: GAO analysis of survey of DB pension plan sponsors regarding frozen plans and 2004 PBGC Form 5500 research data.

The sample was designed to provide acceptably precise estimates of the proportions of sponsors with at least one frozen plan. Further, sponsors in the larger sponsor strata are sampled at a higher rate than sponsors in the smaller strata to improve the precision of estimates of plan-level and participant-level estimates. As shown in table 2, response rates ranged from 46 percent to 82 percent, with an overall weighted response rate of 78 percent.

## Administration of Survey

We developed two questionnaires to obtain information about the experiences of DB pension plan sponsors that have 100 or more participants. One questionnaire—with 18 questions—was mailed in November 2007 to a stratified random sample of 366 pension plan sponsors and asked questions about their experiences with DB plans, benefit freezes, if any, and factors that may have contributed to the decision to freeze. The strata were based on the size of the plan sponsor (as measured by number of participants) and were comprised of three categories. In the initial mailing, we sent a cover letter and questionnaire to pension plan sponsors. To encourage responses, we followed up with another mailing of a copy of the questionnaire in December 2007. In addition, to try to increase the response rate, we called all sponsors who had not responded to the mail survey.

A second, longer questionnaire was sent in December 2007, via the Internet, to the 105 largest pension plan sponsors who were part of the Fortune 500 or Global Fortune 500 and had 50,000 or more participants. This was preceded by an email to notify respondents of the survey and to test our email addresses for these respondents. This web questionnaire asked plan sponsors about their recent experiences with DB plans and benefit freezes. The first 17 questions and last question of this questionnaire mirrored the questions asked in the mail questionnaire




# Defined Benefit Pensions: Survey of Sponsors of Large Defined Benefit Pension Plans (GAO-08-818SP, July 2008), an E-supplement to GAO-08-817

Read the Full Report: Defined Benefit Pensions: Information from GAO Survey on Frozen Defined Benefit Plans (GAO-08-817)
Background Information

Instructions for Viewing This Survey

Table of Contents

## Background

Over the last five years, a number of large, high profile employers have announced their intention to freeze-- an amendment to the plan to limit some or all future pension accruals for some or all plan participants-- their larger defined benefit (DB) plans that represent a significant portion of plan liabilities and plan participants in the private DB system. To better understand the current plan freeze environment and its significance to the DB system going forward, GAO conducted a study of sponsors of tax-qualified, single-employer, defined benefit (DB) plans that had 100 or more total participants. Specifically, we surveyed a stratified probability sample of plan sponsors about their experiences with DB plans and plan freezes. We obtained a weighted response rate of 78 percent. A more detailed discussion of our scope and methodology is contained in our report: Defined Benefit Pensions: Plan Freezes Affect Millions of Participants and May Pose Retirement Income Challenges, GAO-08-817 (Washington, D.C.: July 21, 2008). We administered the survey from November, 2007 through May 2008 in accordance with generally accepted government auditing standards.

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# Instructions for Viewing this Survey

## Special Viewing Instructions

These tables are a product of combining the results of two questionnaires-- the first 17 questions and last question from a web questionnaire to large plan sponsors (with 50,000 or more participants) and a shorter mail questionnaire with the same 18 questions to smaller plan sponsors (100 to less than 50,000 participants). This document presents the results using the web survey format, including the navigation and introduction material from the web survey.

## How to View The Surveys

Click on the Table of Contents link located in the lower right of this screen. To read to the bottom of the screen, you may need to use your scroll bar on the right side of this screen.

The first screen in the survey is an introduction and general information that was sent to and viewed by recipients of the survey. There are no survey results to view on this screen. This screen is for information only and you may by-pass it by clicking on Next located at the bottom of the screen in the lower right.

The survey may have links to allow respondents to bypass inapplicable questions (skip patterns). While these were active links during the data collection period, they have now been disabled.

When a respondent wrote a narrative response to a question, we sometimes present the percent of respondents making a comment.

## How to View the Responses for Each Question

To view the responses to each question, click on the question number (Links to survey questions will look like this: 1., etc.).

After viewing the responses to each question, click on the "x" in the upper right corner of your screen to close that window and return to the questionnaire.

## How to Return to a Page That You Previously Visited

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Consulting

# 2008 Survey of Economic Assumptions

## Used for SFAS No. 87, 106, 132, 158 and Related Measurements

Audit . Tax . Consulting . Financial Advisory .

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# Introduction

Statement of Financial Accounting Standards No. 87 (Statement 87) requires the sponsor of a defined benefit pension plan measure the plan's obligations and annual expense using assumptions that (1) individually reflect best estimates (paragraph 43) and (2) are "consistent [with each other] to the extent that each reflects expectations of the same future economic conditions" (paragraph 46). In general, the benefit obligation is most sensitive to the discount rate assumption; for example, a relatively small change in the discount rate (of say, 25 basis points) could result in a change in the liabilities of perhaps as much as 5 percent.

The Financial Accounting Standards Board (FASB) describes the methodology to select the discount rate (Statement 87 paragraph 44). The discount rate should reflect the rates at which the pension benefits could be effectively settled. Further guidance (paragraph 44A1) provides that the discount rate should reflect the yield of a portfolio of high-quality fixed-income instruments whose coupons and maturities match projected benefit payments However, the literature allows the use of computational shortcuts (cf. paragraph 10 of Statement 87 and paragraph 15 of Statement 106), whose results can be expected to produce results that are not materially different than a more detailed analysis. Because the duration of a plan's benefit obligation is affected by the plan design and by the demographic characteristics of the plan population (e.g., average age, average service, proportion of retirees), one might generally expect that plans with similar plan designs and demographics would use similar discount rates. Conversely, one might expect that plans with dissimilar plan designs or demographics may not use similar discount rates.

Of course, there may be circumstances -- such as a relatively flat yield curve -- in which plans with dissimilar plan designs or demographics would be able to support similar discount rates. In summary, the process to select the discount rate considers the facts and circumstances specific to the plan as well as the prevailing high-quality corporate bond yield rates as of the measurement date.

Statement of Financial Accounting Standards No. 106 (Statement 106) contains similar requirements for the selection of assumptions for Other Postretirement Employee Benefit plans (paragraphs 29 and 42). Similar guidance is also provided for the selection of discount rate (paragraph 31 and 31 A[1]).

Companies also disclose other economic assumptions: the expected rate of return on plan assets, the expected rate of salary increases, and the expected increase in health care costs.

Although the selection of assumptions should be specific to the individual plan, plan sponsors, as well as regulators, often compare their discount rate and other assumptions to those of other plan sponsors.

In this survey, Deloitte's Human Capital service area has compiled information disclosed by many of the Fortune 500 companies in their most recent annual reports. We have focused on 233 companies that sponsor pension and/or other postretirement benefits and who have calendar fiscal years. Of these, 232 companies who have disclosed defined benefit plans; 206 companies disclosed Other Postretirement Employee Benefit plans (OPEB, subject to Statement 106), including one company that disclosed only OPEB benefits. This disclosure information also included assumptions used as of the prior year, enabling us to compare changes in the assumptions from one year to the next.

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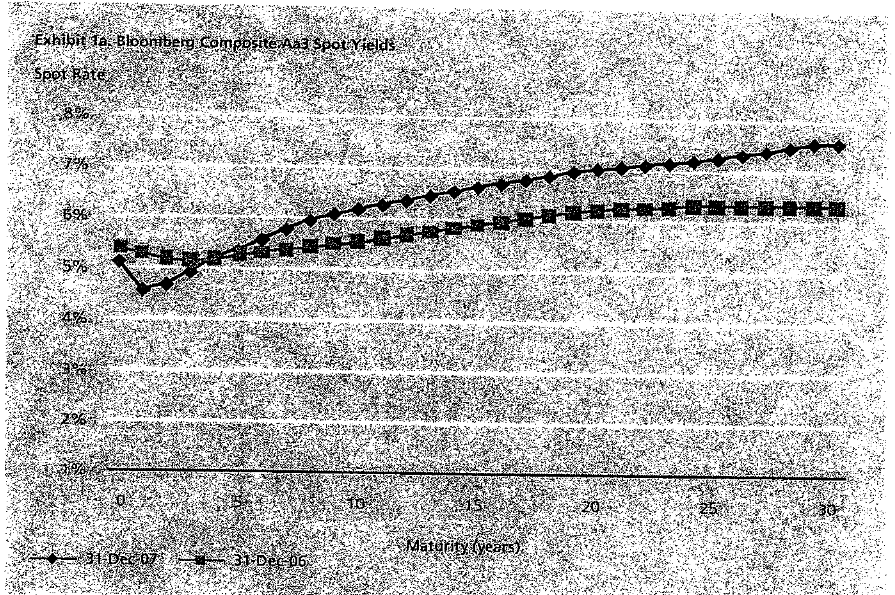
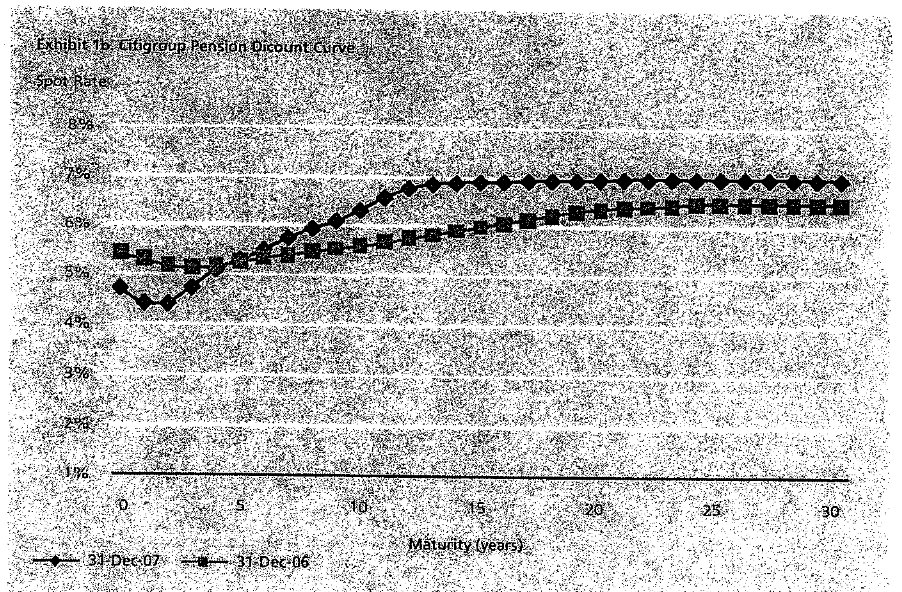
[1] Statement of Financial Accounting Standards No. 158 (Statement 158) amended Statement 87 and 106. These amendments include the addition of paragraph 44A to Statement 87 and 31A to Statement 106; this guidance previously was located in the Basis for Conclusions of Statement 106. Statement 158 also provided that the unfunded benefit obligation be recognized on the balance sheet for fiscal years ending after December 15, 2006 (delayed to June 15, 2007 for non-publicly held entities) and that the measurement date be aligned with fiscal year end for fiscal years ending after December 15, 2008.

# Prevailing Interest Rates

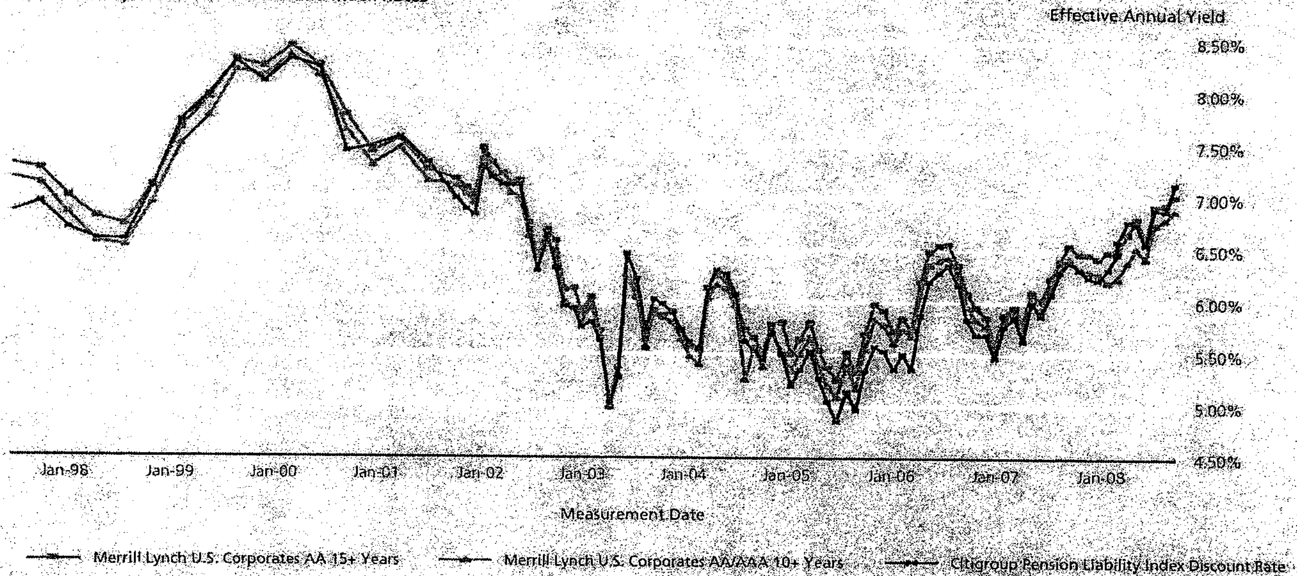
With respect to the guidance regarding the selection of the discount rate, the SEC staff has indicated that it believes the term "high-quality" refers to those fixed-income instruments with at least an Aa3 rating from Moody's (or its equivalent from another rating service)[2]. Exhibit 1a shows the yield curve on the Bloomberg Composite Aa3 bonds at both December 31, 2007, and December 31, 2006. Exhibit 1b shows the Citigroup Pension Discount Curve at the same dates.

Taken together, these Exhibits indicate that the yield curve has inverted more in the early years as compared to last year. Yields after around the 5 year maturity point have increased across the rest of the curve.



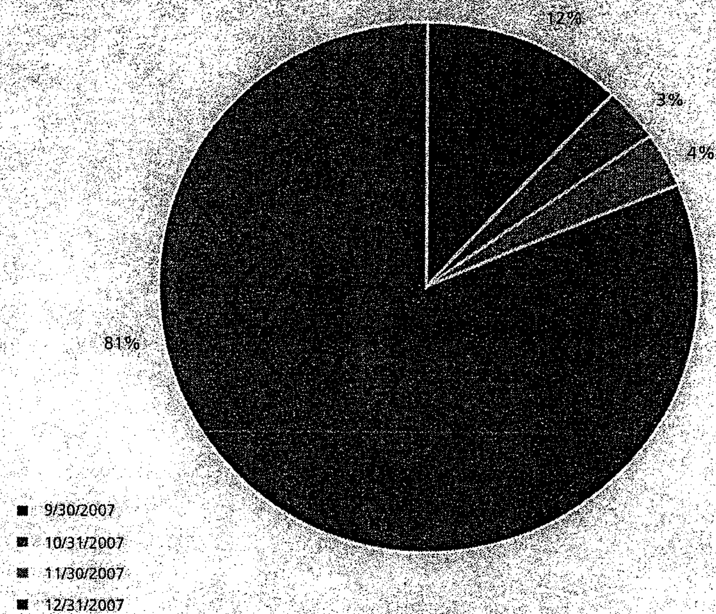




[2] Cf. EITF Topic D-36.




Over the past several years, the rates available on corporate bonds (as suggested by published indices such as Merrill Lynch U.S. Corporates Aa 15+ years, Merrill Lynch U.S. Corporates Aa/Aaa 10+ years, as well as Citigroup's (formerly Salomon's) Pension Liability Index) have varied considerably. The historic yields over the past several years for all of these indices are plotted in Exhibit 2.

This exhibit indicates that these indices finished the year with yields about 50 basis points more than the end of 2006. Furthermore, Exhibit 2 indicates that rates are currently (as of the end of June 2008) up about 35 to 50 basis points since the end of 2007.




# Measurement Date

As shown in Exhibit 3, approximately 19 percent of the companies surveyed used a measurement date prior to December 31, with September 30 being the most common of those. Currently, the measurement date can precede the disclosure date by up to three months (see paragraph 52 of Statement 87; paragraph 72 of Statement 106), although, for fiscal years ending after December 15, 2008, the fiscal year end will have to be used. For purposes of the remainder of this survey, we have only included companies with a December 31 measurement and disclosure date.

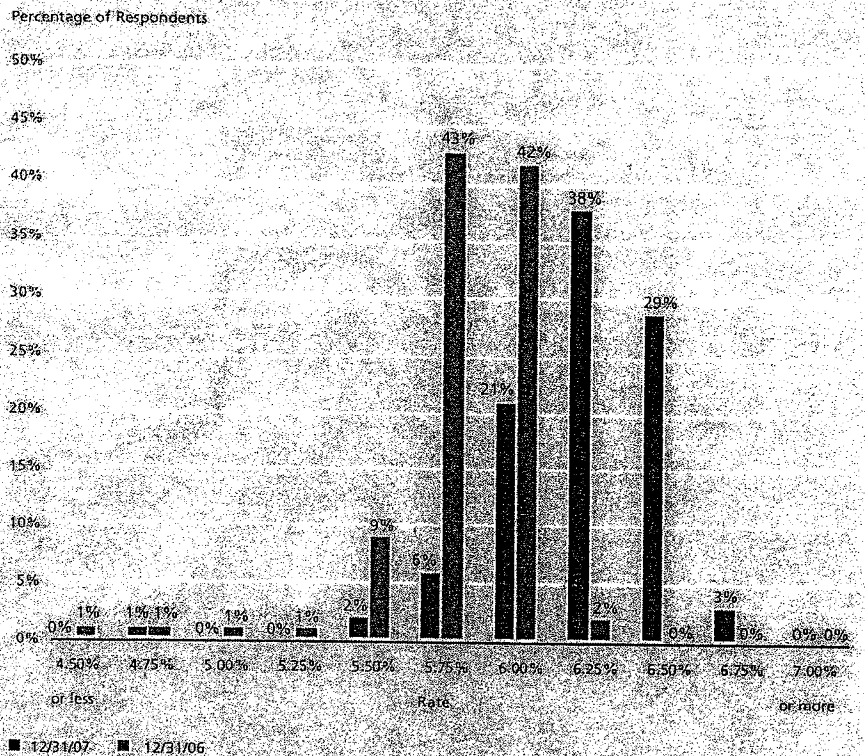
# Discount Rate

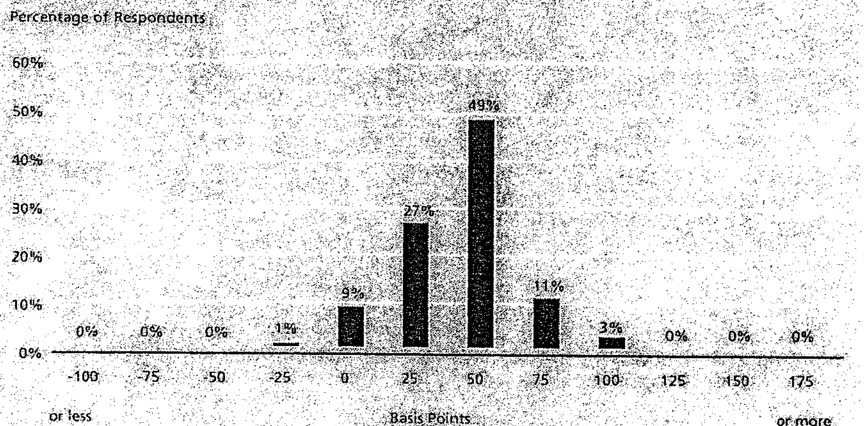
Exhibit 4 summarizes the discount rate for Statement 87 purposes disclosed as of December 31, 2007, and December 31, 2006. The average discount rate disclosed at December 31, 2007, was 6.20 percent, about 41 basis points above that disclosed at the end of 2006. Eighty-eight percent of the companies surveyed were between 6.00 percent and 6.50 percent.

Most of the companies surveyed disclosed a discount rate within a narrow range at both December 2007 and December 2006; in each year, 13 percent or fewer disclosed at a discount rate that was more than 25 basis points from the average.

The FASB and SEC staffs have indicated that they expect discount rates to move with general economic trends[3]. Exhibit 5 presents the change from December 31, 2006, to December 31, 2007. The SEC staff has further indicated that they expect any company that relies on an index to support its selection of the discount rate to provide evidence that such index is appropriate for the particular plan.

If the registrant benchmarks its assumption off of published long- term bond indices, it is expected to explain how it determined that the timing and amount of cash outflows related to the bonds included in the indices matches its estimated defined benefit payments. If there are differences between the terms of the bonds and the terms of the defined benefit obligations (for example if the bonds are callable), the registrant is expected to explain how it adjusts for the difference. Increases to the benchmark rates should not be made unless the registrant has detailed analysis that supports the specific amount of the increase.[4]

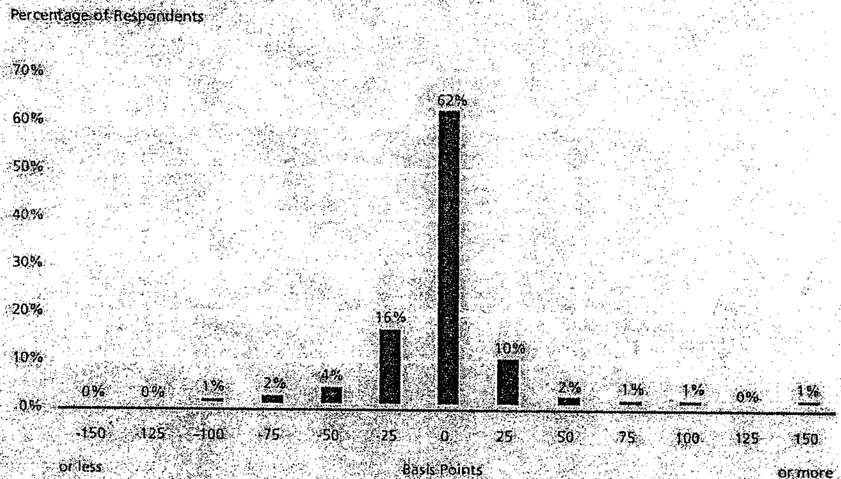



[3] Cf. EITF Topic D-36.
[4] Cf. Section II H 1 at www.sec.gov/divisions/corpfin/acctdis030405.htm

On average, discount rates increased by about 41 basis points from December 31, 2006, to December 31, 2007. While approximately 9 percent of the companies in our survey did not change the discount rate, 49 percent of the companies increased it by 50 basis points.

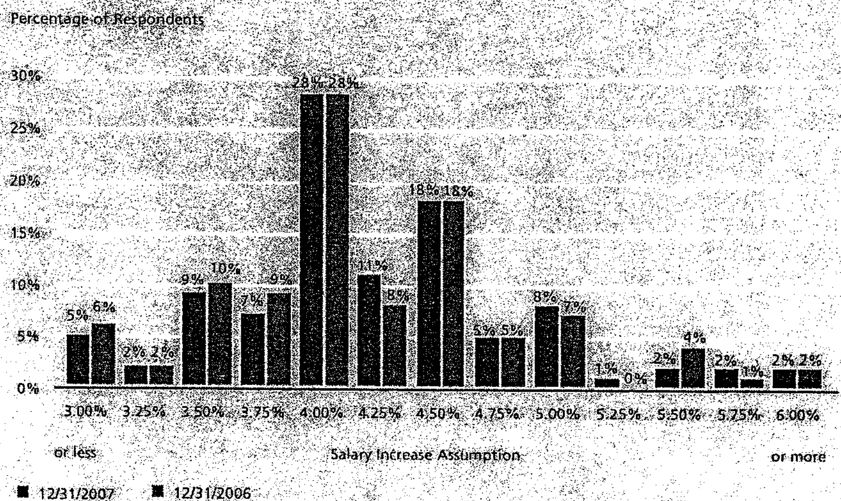
We also compared the discount rate disclosed for Statement 106 purposes with that disclosed for measuring pension liabilities in accordance with Statement 87. As shown in Exhibit 6, 62 percent of the companies surveyed disclosed the same discount rate for both measurements. Fifteen percent of companies disclosed a higher discount rate for measuring postretirement benefits than for measuring pension benefits.




# Salary Increase Assumption

Plans that provide pay-related benefits are required to disclose the salary increase assumption underlying the calculations. Almost all of the companies in the survey disclosed a salary increase assumption. Statement 87 provides relatively little guidance in the selection of the salary increase assumption other than to mention that it should reflect "future changes attributed to general price levels, productivity, seniority, promotion, and other factors" (paragraph 46).

There is a fairly wide range of assumed salary increase as summarized in Exhibit 7. The average salary increase assumption disclosed as of December 31, 2007, was roughly 4.23 percent, a decrease of 6 basis points from 2006. Seventy percent of the companies surveyed used an assumption between 4.0 and 5.0 percent. Twelve percent were 100 or more basis points away from the average. The rates disclosed at December 31, 2006, show a similar pattern of dispersion around the average.



This range of expected salary increase assumption is also seen in the spread between the discount rate and the salary increase assumptions. Exhibit 8 shows this difference as of December 31, 2007, and December 31, 2006. While the average spread increased by roughly 37 basis points, the companies surveyed are dispersed over the range.

Exhibit 9 shows the change in the salary increase assumption from December 31, 2006, to December 31, 2007.

Between these two measurement dates, 79 percent of the companies surveyed reported no change in the salary increase assumption, similar to last year. Roughly 11 percent increased this assumption by 25 or 50 basis points.

Exhibit 8: Spread Between Discount Rate and Salary Increase Assumption

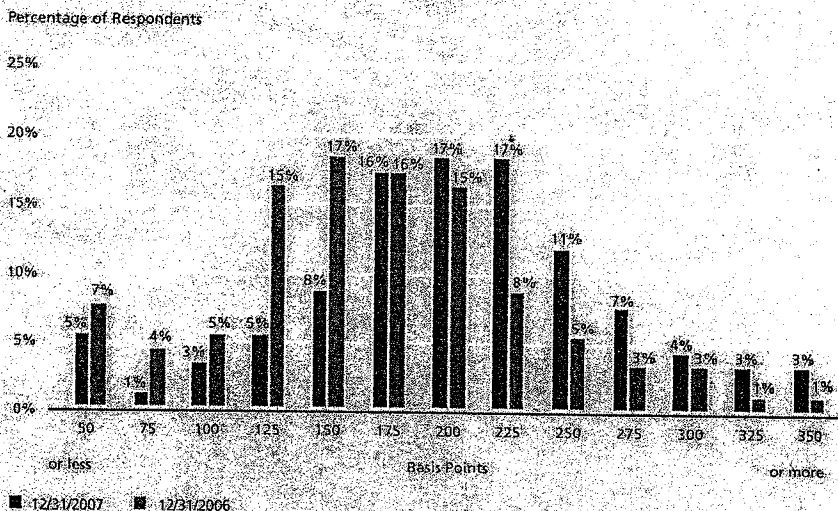
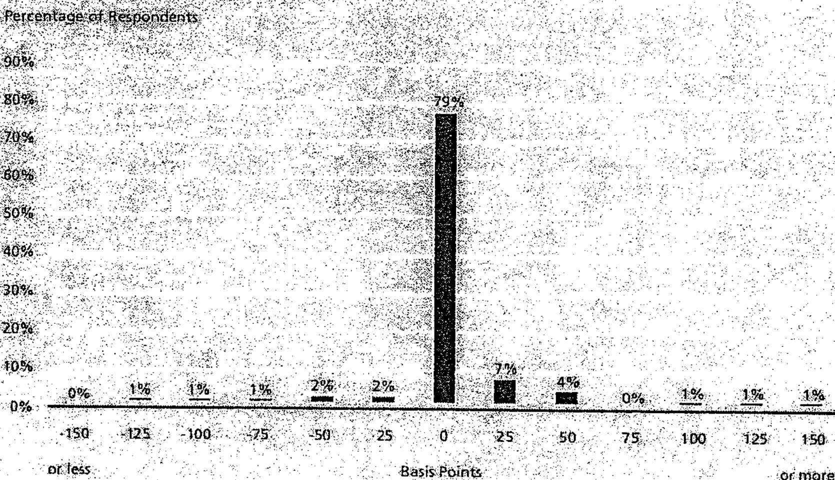



Exhibit 9: Change In Salary Increase Assumption

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# Expected Return Assumption

Paragraph 45 of Statement 87 specifies that the Expected Long-Term Rate of Return assumption (Expected Return) should "reflect the average rate of earnings expected on the funds invested or to be invested to provide for the benefits...." Furthermore, Statement No. 132R requires that plan sponsors provide a narrative description of both a plan's actual investment policy and the basis used to determine the overall expected long-term rate of return. As a result, companies with different asset allocations or different investment philosophies may have different long-term return assumptions.

In this context, we understand that some companies engage in a process (with varying degrees of rigor) for developing the Expected Return assumption.

One method for determining the Expected Return assumption is based on a building block approach. In our experience, the building block approach is used by many in the investment management industry to develop capital market expectations. This approach begins with the development of a long-term level of expected inflation. The level of inflation becomes the "building block" for the development of expected returns for each of the various asset classes (being the difference between real and nominal returns).

Next, an expected return on cash ("risk free" asset) is developed, typically using 90 day Treasury bills as a proxy. Risk premiums above cash are developed as the primary determinant of expected return for the various asset classes (e.g., US equities, US core fixed income, etc.) included in the portfolio. Risk premiums should reflect the risk of each asset class (the riskier the asset class, the larger the risk premium).

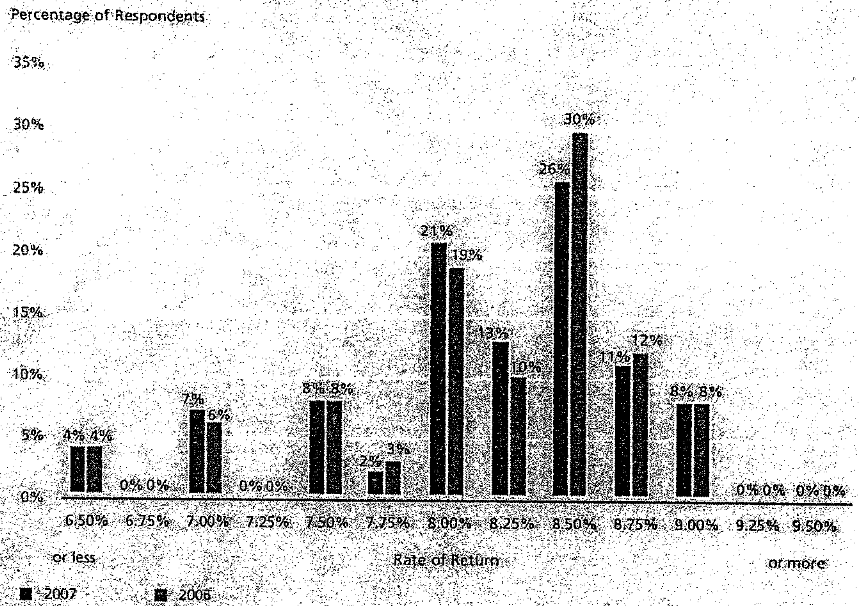
Finally, under the building block approach, the expected return of the total portfolio is calculated using the asset class returns developed and taking into account the overall strategic asset allocation of the portfolio. Some companies engaging in active investment management may choose to incorporate a return premium to reflect their belief that active management will provide an additional incremental return. It is important to note that management fees for actively managed investments are typically higher than passively managed products, and that the premium assigned for active management should be net of additional investment management fees.

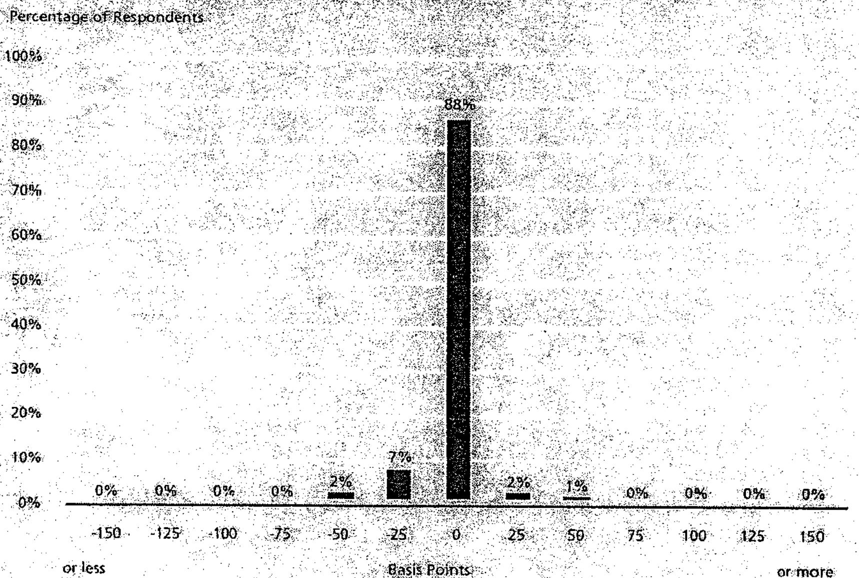
Another approach to developing the long-term rate of return assumption is to develop a consensus forecast, whereby the company gathers long-term capital market forecasts from multiple, reputable organizations in the financial services industry (such as investment consultants, investment managers, or other financial institutions). Typically these capital market forecasts include long-term expected return assumptions for various asset classes. The company can calculate the expected return of the portfolio by "averaging" the expected return forecasts gathered by asset class, and using these inputs to calculate the total expected return on the overall portfolio.

Alternatively, some companies may choose to determine the projected range of returns for the overall portfolio by using stochastic simulation. Stochastic simulation is a tool that allows the company to forecast the overall portfolio return under various potential economic environments. The inputs to the model typically include mean-variance assumptions for each asset class (which can be generated by using the building block methodology or consensus forecast), as well as assumptions relating to future levels of inflation and interest rates. The results of the stochastic simulation will provide the company with the range of potential returns for the portfolio over a long-term horizon (although it is worth noting that the output of the analysis is largely predicated upon the assumptions).

Exhibit 10 shows the range of the Expected Return used in calculating pension expense for 2007 and 2006. While Statement 106 has a similar requirement (paragraph 32), most OPEB plans are unfunded; this assumption is not used in the case of an unfunded plan.

The average Expected Return was 8.13 percent for 2007 (roughly 3 basis points lower than was used for 2006), with 79 percent of the companies surveyed using between 8.00 and 9.00 percent. Twenty one percent reported an Expected Return of less than 8 percent; no companies reported an Expected Return of 9.25 percent or more. As compared to 2006, approximately 9 percent of companies surveyed lowered this assumption in 2007. As shown in Exhibit 11, seven percent of the companies reduced this assumption 25 basis points and another 2 percent reduced it 50 basis points. Three percent of the companies surveyed increased this assumption.

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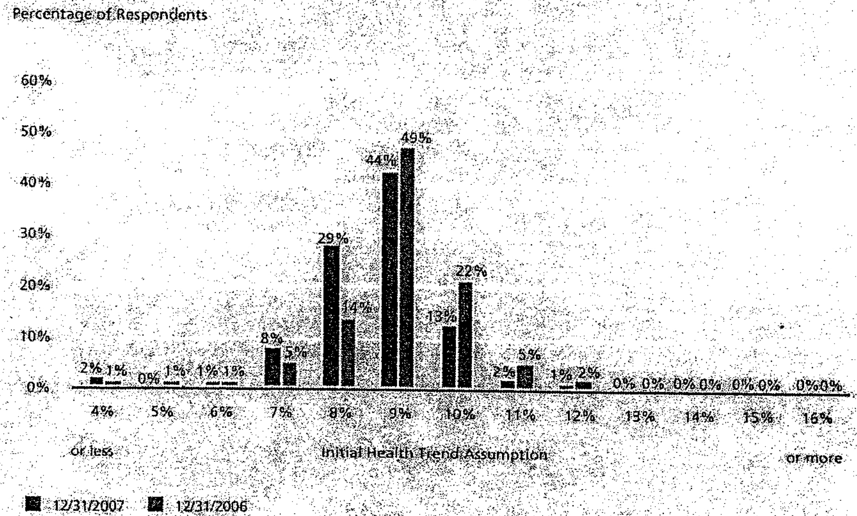
# Health Care Cost Trend

Paragraph 39 of Statement 106 describes the Health Care Cost Trend assumption as representing "the annual change in the cost of health care benefits... for each year from the measurement date until the end of the period in which benefits are expected to be paid." This paragraph also makes the observation that "health care cost trend rates may be assumed to continue at the present level for the near term, or increase for a period of time, and then grade down over time to an estimated health care cost trend rate ultimately expected to prevail."

As of December 31, 2007, 73 percent of the companies surveyed disclosed an initial Health Care Cost Trend assumption of between 8.00 percent and 9.00 percent. Sixteen percent used a higher initial trend and the remaining plans disclosed a lower trend assumption. A comparison of the current and prior year is shown in Exhibit 12.

The average initial trend rate was 8.75 percent, down 34 basis points from the 9.09 percent disclosed for the prior year. Just 33 percent of companies surveyed used the same rate (as shown in Exhibit 13). Thirty-six percent changed their initial rate by 100 basis points or more (in either direction).



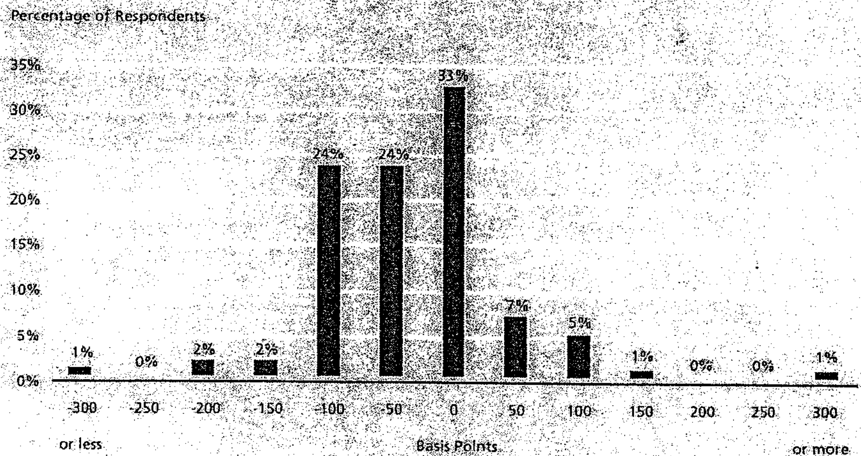




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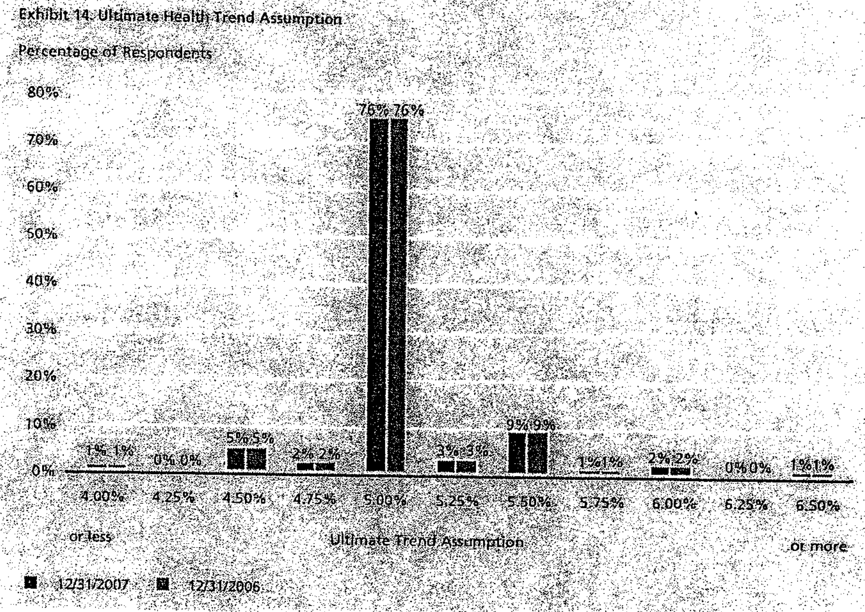
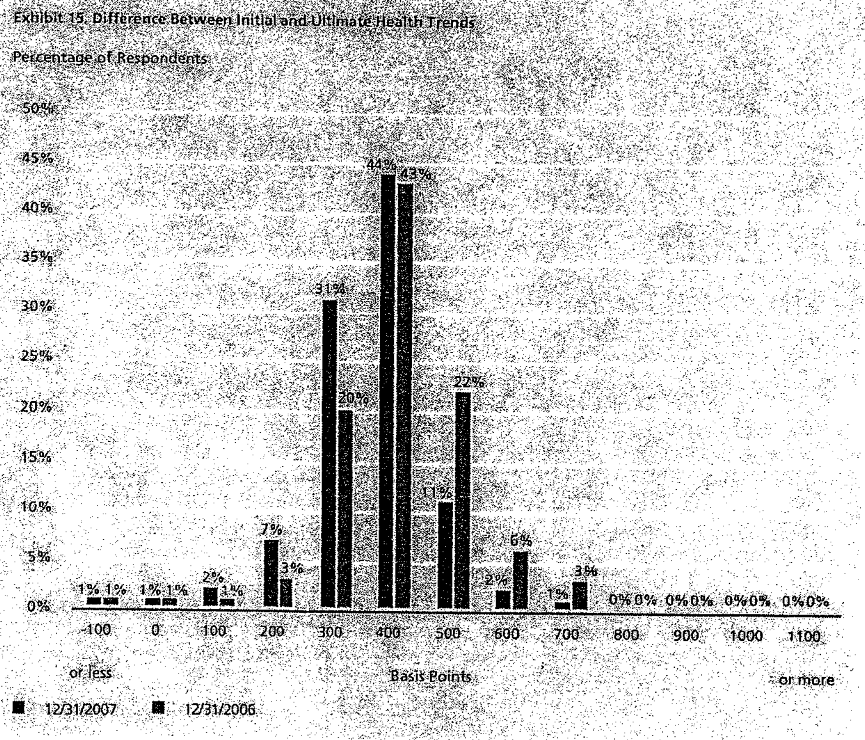
Exhibit 14 summarizes the ultimate health care cost trend disclosed as of December 31, 2007. At the end of 2007, the average ultimate Health Care Cost Trend rate was roughly 5.04 percent, approximately the same as disclosed at the end of the prior year.

Exhibit 15 compares the difference between the initial and ultimate trends at year-end 2007 compared with year-end 2006. Over the year, on average this difference decreased by about 36 basis points from 405 basis points to 369 basis points.

### About the Survey

A number of factors influence each company as it selects the appropriate assumptions to measure its pension and benefits liabilities. This survey is intended to provide information regarding the assumptions disclosed by a wide range of companies and, as such, can provide an indication of the trends in the marketplace.



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