

Other Post-Employment Benefits: Overview

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Overview and Objectives

Overview and Objectives

- Many firms provide benefits to retired workers
 - Mostly retiree health insurance
- Assets and obligations for Other Post-Employment Benefits (OPEB) reported on financial statements
 - Reported OPEBs may include post-retirement medical, pharmacy, dental, vision, life, long-term disability and long-term care benefits that are not associated with a pension plan
- Review OPEB assets and obligations
 - Provide in-depth look at funding status for US firms
- Document patterns and trends in the data
 - Present OPEB data across time, industry, and firm size

The background of the slide is a light blue color with several dark blue puzzle pieces scattered across it. The puzzle pieces are of various shapes and sizes, some overlapping each other. The text 'Data and Methodology' is written in a white, serif font, centered horizontally and positioned in the upper left quadrant of the slide.

Data and Methodology

Capital IQ Data

- Source of historical information for wide range of companies*
 - See www.capitaliq.com for additional information on this data
- Used widely for market studies
- Collects balance sheet and income statement information from companies both American and foreign, public and private
 - Information captured includes OPEB assets and obligations
- In 2008, Capital IQ reported on approximately 18,000 US public companies

* This data has not been independently verified by Deloitte FAS.

Definitions

- Net Obligations = Obligations – Assets (\$ millions)
- Funding Status Ratio = Assets/Obligations
- Over- and Underfunded
 - Overfunded if Assets \geq Obligations, otherwise Underfunded
 - Underfunded Percent = Net Obligations/Obligations
 - 100% means no Assets to cover Obligations
 - Close to 0% means Assets nearly cover Obligations
- Companies listed on US exchanges as of August 3, 2009 that had positive OPEB obligations in at least one year between 1991 and 2009, and had reported Assets > 0 or Market Capitalization (shares outstanding x share price) > 0
 - 2009 Capital IQ data are incomplete, so 2008 used as base year
 - Analysis does not include updates beyond August 3, 2009
 - Excludes companies that were no longer listed in 2008

Findings

The background of the slide features a pattern of interlocking puzzle pieces. The pieces are rendered in two shades of blue: a medium blue and a darker, navy blue. The pieces are scattered across the right side of the slide, with some overlapping. The word 'Findings' is written in a white, serif font on the left side of the slide.

Historical View of OPEB

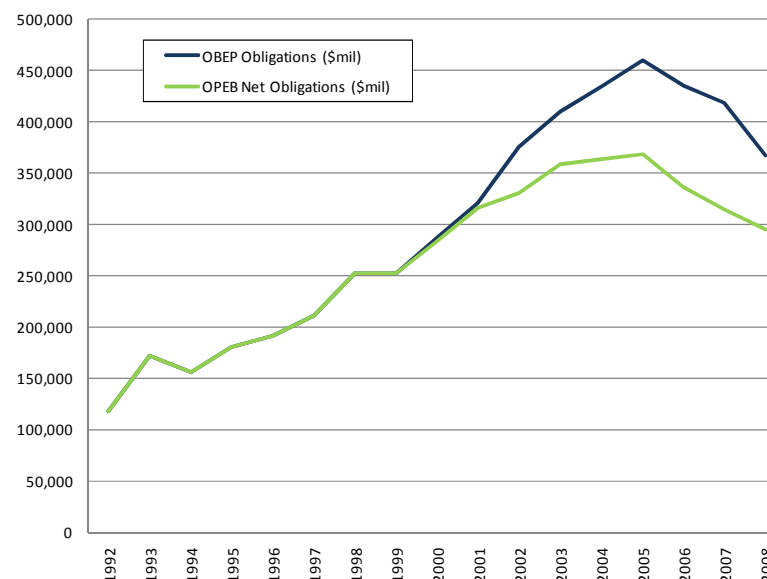
Historical View of OPEB Assets and Obligations

Year	Number of Companies with OPEB Obligations	OPEB Assets (\$mil)	OPEB Obligations (\$mil)	OPEB Net Obligations (\$mil)	OPEB Funding Status Ratio
1992	150	0	117,495	117,495	0%
1993	371	0	171,768	171,768	0%
1994	459	0	155,112	155,112	0%
1995	558	0	179,685	179,685	0%
1996	569	0	190,376	190,376	0%
1997	667	0	210,298	210,298	0%
1998	754	326	252,376	252,050	0%
1999	783	333	251,905	251,572	0%
2000	809	3,493	286,287	282,794	1%
2001	828	5,178	320,646	315,468	2%
2002	873	45,151	375,258	330,107	12%
2003	903	51,467	409,499	358,032	13%
2004	914	70,711	434,280	363,569	16%
2005	947	91,622	459,697	368,076	20%
2006	964	99,438	435,699	336,261	23%
2007	963	103,950	418,344	314,394	25%
2008	970	72,069	367,120	295,051	20%

Notes:

1. Data source Cap IQ.
2. Population restricted to companies listed on US exchanges as of August 3, 2009 that had positive OPEB obligations in at least one year between 1991 and 2009, and had 2008 reported Assets > 0 or Market Capitalization > 0.
3. Companies with OPEB Obligations > \$0.
4. Net Obligations = Obligations - Assets.
5. Funding Status Ratio = Assets / Obligations.

OPEB Gross and Net Obligations, Historical



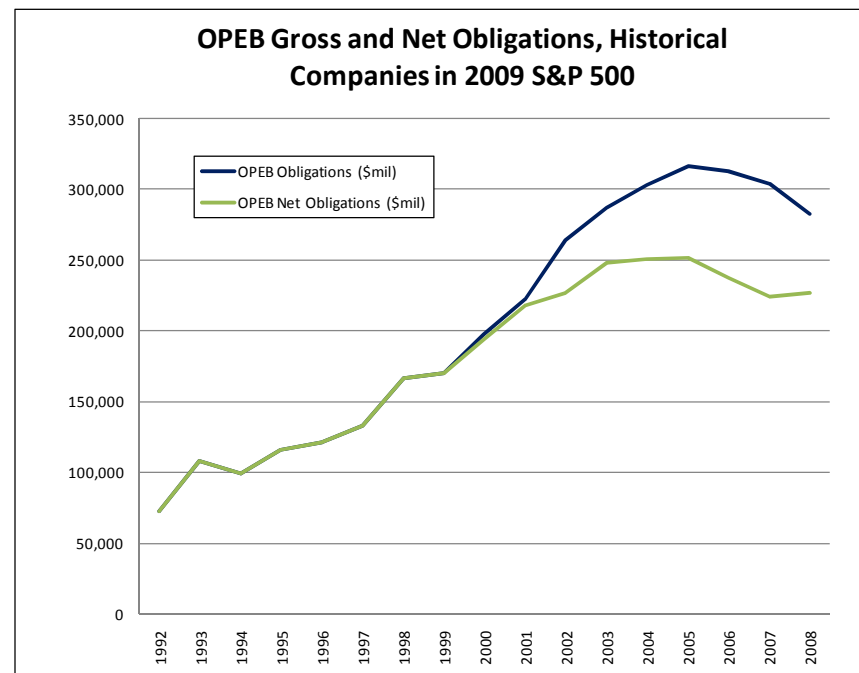
- Long term growth in Obligations recently reversed
- Lack of Assets in early period could reflect pay-as-you-go funding
- Recent downturn in Assets
- Entry and exit of companies affects totals

Historical View of OPEB, S&P 500 in 2009

Historical View of OPEB Assets and Obligations Companies in S&P 500 in 2009						
Year	Number of Companies with OPEB Obligations	OPEB Assets (\$mil)	OPEB Obligations (\$mil)	OPEB Net Obligations (\$mil)	OPEB Funding Status Ratio	Obligations as a % of Companies in 2008
1992	88	0	72,497	72,497	0%	62%
1993	183	0	107,720	107,720	0%	63%
1994	198	0	99,091	99,091	0%	64%
1995	216	0	116,047	116,047	0%	65%
1996	211	0	121,144	121,144	0%	64%
1997	232	0	133,045	133,045	0%	63%
1998	260	326	166,962	166,636	0%	66%
1999	268	333	170,442	170,109	0%	68%
2000	275	3,493	197,577	194,084	2%	69%
2001	282	5,088	222,877	217,788	2%	70%
2002	296	37,740	264,280	226,540	14%	70%
2003	301	39,679	287,491	247,813	14%	70%
2004	306	52,709	303,107	250,399	17%	70%
2005	317	64,983	316,669	251,687	21%	69%
2006	318	75,290	312,791	237,502	24%	72%
2007	315	79,842	304,142	224,300	26%	73%
2008	319	56,257	283,350	227,093	20%	77%

Notes:

1. Data source Cap IQ.
2. Population restricted to companies listed on US exchanges as of August 3, 2009 that had positive OPEB obligations in at least one year between 1991 and 2009, and had 2008 reported Assets > 0 or Market Capitalization > 0.
3. Companies with OPEB Obligations > \$0.
4. Net Obligations = Obligations - Assets.
5. Funding Status Ratio = Assets / Obligations.
6. Companies further restricted to those on the S&P500 list in 2009; data limitations prevent gathering OPEB data for the all companies in the historical S&P 500 lists from Capital IQ.



- Similar pattern as in larger sample
- S&P 500 accounts for majority of obligations in population of companies in 2008 with OPEB obligations

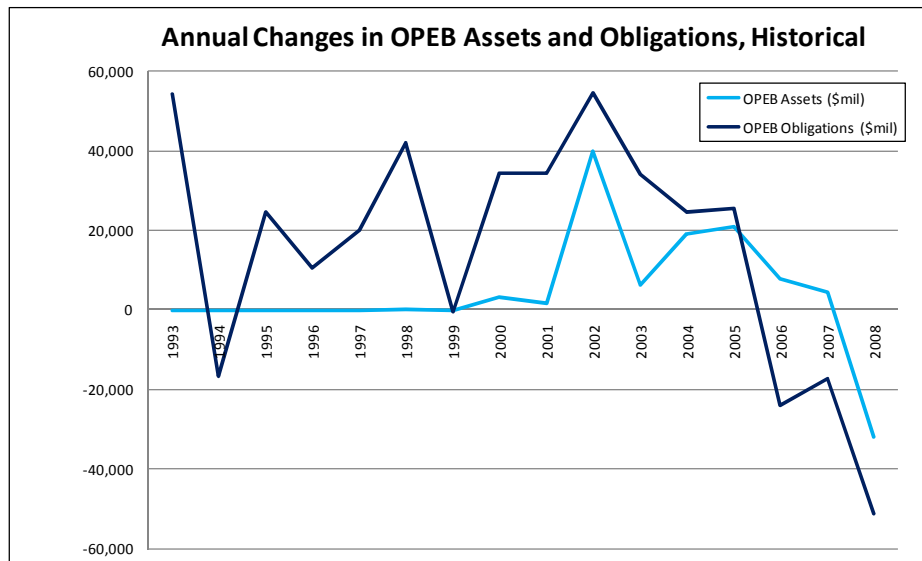
Annual Changes in OPEB

OPEB Assets and Obligations, Changes over Time

Year	Number of Companies with OPEB Obligations	Annual change in			
		OPEB Assets (\$mil)	OPEB Obligations (\$mil)	OPEB Net Obligations (\$mil)	OPEB Funding Status Ratio
1992	150				
1993	371	0	54,273	54,273	0%
1994	459	0	-16,656	-16,656	0%
1995	558	0	24,573	24,573	0%
1996	569	0	10,691	10,691	0%
1997	667	0	19,922	19,922	0%
1998	754	326	42,078	41,752	0%
1999	783	7	-471	-478	0%
2000	809	3,160	34,383	31,223	1%
2001	828	1,685	34,359	32,673	0%
2002	873	39,973	54,612	14,639	10%
2003	903	6,316	34,241	27,925	1%
2004	914	19,244	24,780	5,537	4%
2005	947	20,910	25,418	4,507	4%
2006	964	7,816	-23,999	-31,815	3%
2007	963	4,512	-17,355	-21,867	2%
2008	970	-31,881	-51,224	-19,343	-5%

Notes:

1. Data source Cap IQ.
2. Population restricted to companies listed on US exchanges as of August 3, 2009 that had positive OPEB obligations in at least one year between 1991 and 2009, and had 2008 reported Assets > 0 or Market Capitalization > 0.
3. Companies with OPEB Obligations > \$0.
4. Net Obligations = Obligations - Assets.
5. Funding Status Ratio = Assets / Obligations.



- Assets and Obligations generally move together
- Asset jump in 2002 due to large initial asset allocations for a small number of companies

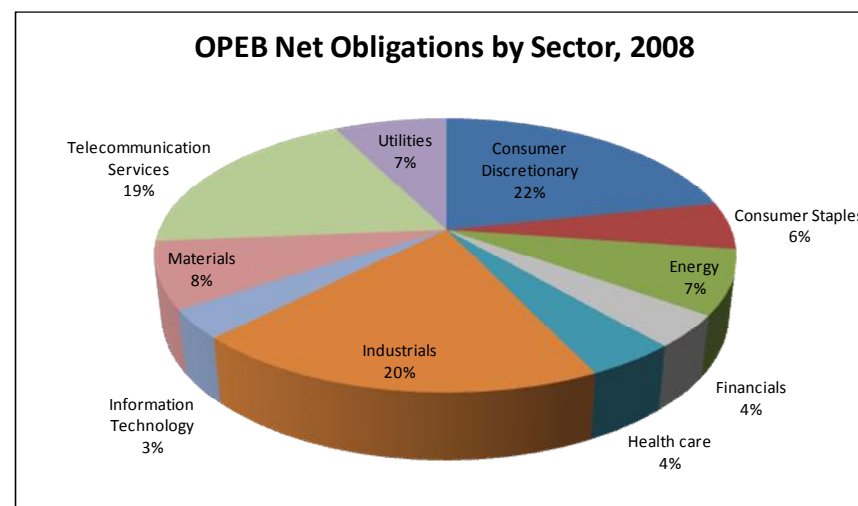
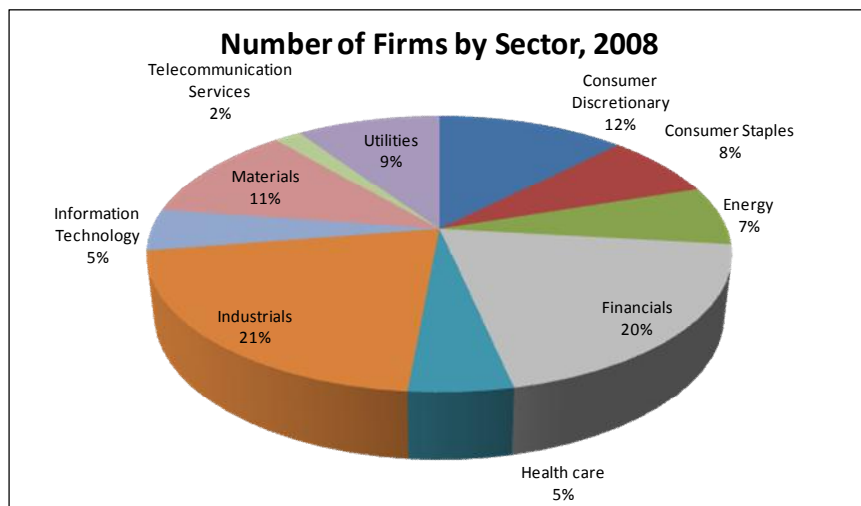
OPEB Trends for Fixed Sample of Companies

OPEB Assets and Obligations, Changes over Time for Fixed Set of Companies								
Year	Annual Total				Annual change in			
	OPEB Assets (\$mil)	OPEB Obligations (\$mil)	OPEB Net Obligations (\$mil)	OPEB Funding Status Ratio	OPEB Assets (\$mil)	OPEB Obligations (\$mil)	OPEB Net Obligations (\$mil)	OPEB Funding Status Ratio
2003	51,360	406,462	355,102	13%				
2004	63,806	390,991	327,186	16%	12,446	-15,471	-27,917	4%
2005	84,702	412,941	328,239	21%	20,896	21,950	1,054	4%
2006	93,984	396,907	302,923	24%	9,282	-16,034	-25,316	3%
2007	99,376	382,795	283,419	26%	5,392	-14,112	-19,504	2%
2008	68,623	339,442	270,819	20%	-30,753	-43,353	-12,600	-6%
					5-year change			
					17,263	-67,020	-84,283	8%

Notes:

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3. Companies with OPEB Obligations > \$0.
4. Net Obligations= Obligations- Assets.
5. Funding Status Ratio= Assets/Obligations.
6. Companies further restricted to 809 companies with OPEB obligations in each year, 2003- 2008.

OPEB by Sector, 2008



- Financial sector accounts for a large share of companies with OPEB obligations, but a relatively small part of total OPEB obligations
- Opposite is true for the Telecom and Consumer Discretionary sectors
- Industrial sector represents a large share of companies and funding deficits

OPEB Status by Sector, Historical

OPEB Funding Status by Sector, Historical

GICS Sector	2008 OPEB Funding Status (\$mil)	2007 OPEB Funding Status (\$mil)	2006 OPEB Funding Status (\$mil)	2001 OPEB Funding Status (\$mil)	1996 OPEB Funding Status (\$mil)	1992 OPEB Funding Status (\$mil)
Consumer Discretionary	-63,978	-98,604	-106,501	-99,494	-72,956	-57,479
Consumer Staples	-16,476	-16,178	-16,924	-17,515	-8,661	-3,904
Energy	-22,255	-20,886	-21,979	-12,677	-5,528	-4,711
Financials	-11,373	-9,785	-12,373	-12,849	-3,854	-1,075
Health care	-12,533	-11,626	-12,236	-9,330	-5,463	-3,858
Industrials	-57,666	-56,399	-56,764	-56,481	-37,048	-19,392
Information Technology	-10,156	-10,543	-11,646	-11,468	-8,355	-8,055
Materials	-23,166	-24,532	-25,803	-28,719	-19,838	-12,940
Telecommunication Services	-55,613	-49,804	-53,551	-40,700	-16,208	-3,918
Utilities	-21,982	-16,714	-18,786	-26,269	-12,464	-2,163
Total	-295,199	-315,071	-336,565	-315,501	-190,367	-117,495
Number of Firms with OPEB Obligations	961	951	955	827	569	150

OPEB Over- and Underfunding, 2008

OPEB Assets and Obligations by Sector, 2008									
GICS Sector	2008 Companies with OPEB Obligations	OPEB Net Obligations (\$mil)	OPEB Funding Status Ratio	Companies with Overfunded OPEB	Underfunded %				
					Less than 20%	20% to 80%	More than 80%		
Consumer Discretionary	120	63,978	17%	0	0	5	115		
Consumer Staples	73	16,476	22%	0	1	4	68		
Energy	67	22,241	5%	1	0	5	61		
Financials	192	11,301	35%	4	2	16	170		
Health care	47	12,528	20%	1	0	6	40		
Industrials	204	57,666	16%	0	0	19	185		
Information Technology	47	10,142	13%	1	1	5	40		
Materials	111	23,123	10%	1	0	9	101		
Telecommunication Service	17	55,613	20%	1	0	5	11		
Utilities	92	21,982	40%	0	1	66	25		
Total	970	295,051	20%	9	5	140	816		

Notes:

1. Data source Cap IQ.
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3. Companies with OPEB Obligations > \$0.
4. Net Obligations = Obligations - Assets.
5. Funding Status Ratio = Assets / Obligations.
6. "Overfunded" = Assets are at least as large as Obligations. Underfunded % is Net Obligations / Obligations: 0% = no funding deficit, 100% = no assets to cover obligations.

- Most companies that are underfunded have a deficit greater than 80% of their obligations.

OPEB Underfunding by Sector, Historical

OPEB Underfunding for Underfunded Companies, Historical by Sector						
GICS Sector	OPEB Underfunded Percent					
	2008	2007	2006	2001	1996	1992
Consumer Discretionary	83%	82%	83%	97%	100%	100%
Consumer Staples	78%	76%	78%	100%	100%	100%
Energy	96%	94%	95%	99%	100%	100%
Financials	71%	61%	67%	100%	100%	100%
Health care	80%	72%	75%	100%	100%	100%
Industrials	84%	78%	79%	98%	100%	100%
Information Technology	87%	82%	88%	100%	100%	100%
Materials	91%	91%	93%	100%	100%	100%
Telecommunication Services	80%	69%	70%	100%	100%	100%
Utilities	60%	48%	51%	100%	100%	100%
Average, Weighted by Obligations	81%	76%	77%	99%	100%	100%
Notes:						
1. Data source Cap IQ.						
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3. Companies with OPEB Obligations > \$0.						
4. "Underfunded" = Assets are less than Obligations. Underfunded % is Net Obligations/Obligations for underfunded companies: 0% = no funding deficit, 100% = no assets to cover obligations.						

OPEB by Market Capitalization

OPEB Funding Status by Market Capitalization (Shares Outstanding x Share Price), Historical							
GICS Sector	2008		OPEB Net Obligations (\$mil)				
	Companies with OPEB Obligations	OPEB Net Obligations (\$mil) 2008	2007	2006	2001	1996	1992
Q1 (lowest market cap quartile)	243	6,178	10,956	2,538	4,632	1,715	1,117
Q2	243	11,984	10,434	21,363	8,626	7,265	3,851
Q3	243	60,578	34,487	37,410	38,212	16,702	16,791
Q4 (highest market cap quartile)	243	216,467	256,826	268,602	249,248	151,640	89,335
			OPEB Net Obligations as % of Market Capitalization				
Q1 (lowest market cap quartile)		27%	23%	5%	24%	10%	13%
Q2		7%	4%	7%	7%	9%	10%
Q3		11%	3%	4%	8%	6%	12%
Q4 (highest market cap quartile)		4%	3%	3%	4%	6%	11%

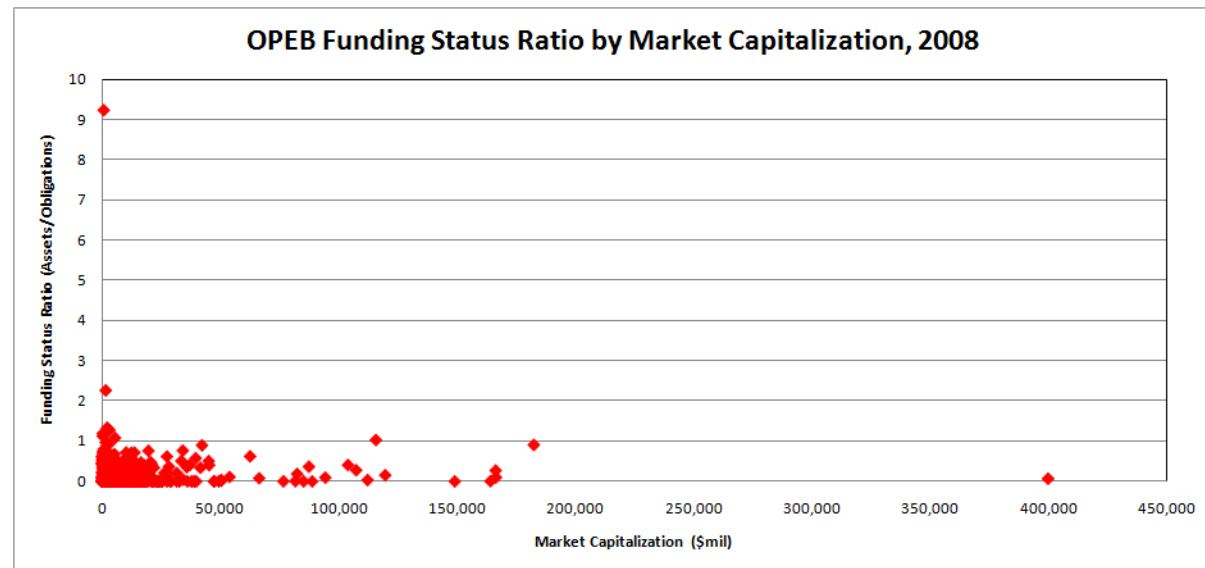
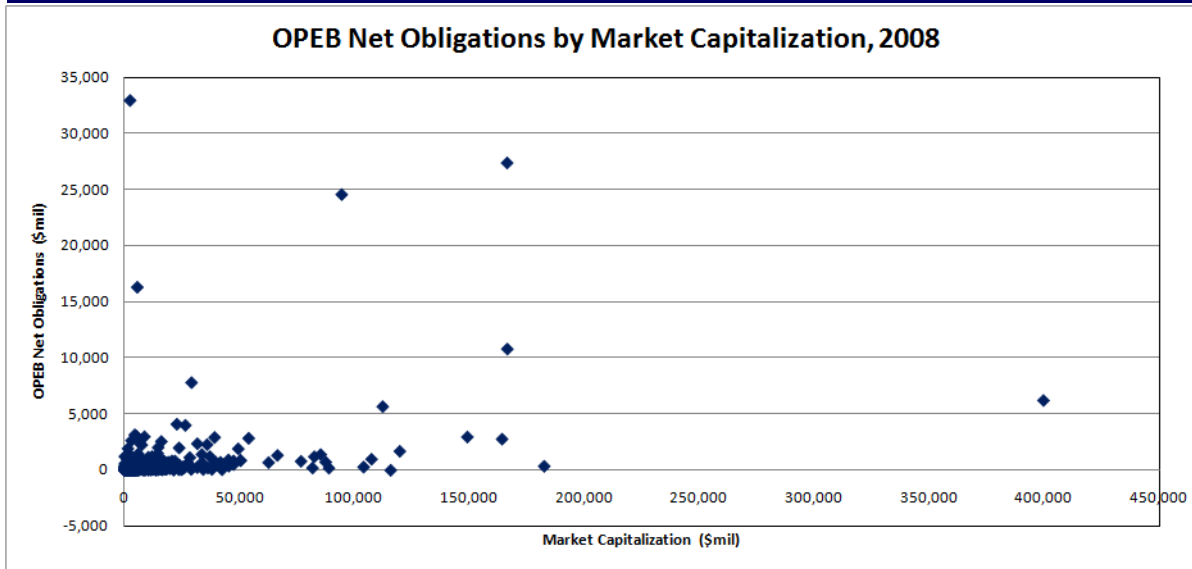
Notes:

1. Data source Cap IQ.
2. Population restricted to US publicly listed companies as of August 3, 2009 that had positive OPEB obligations in at least one year between 1991 and 2009 and that reported data in 2008.
3. Companies with OPEB Obligations > \$0.
4. Net Obligations= Obligations- Assets.
5. Quartiles are defined on the basis of market capitalization with equal numbers of companies in each quartile.

Thresholds are calculated each year for companies with reported OPEB obligations > \$0 and with Market Capitalization > \$0.

- In recent years, small companies have proportionately larger OPEB funding deficits

OPEB by Market Capitalization



OPEB by Total Revenue

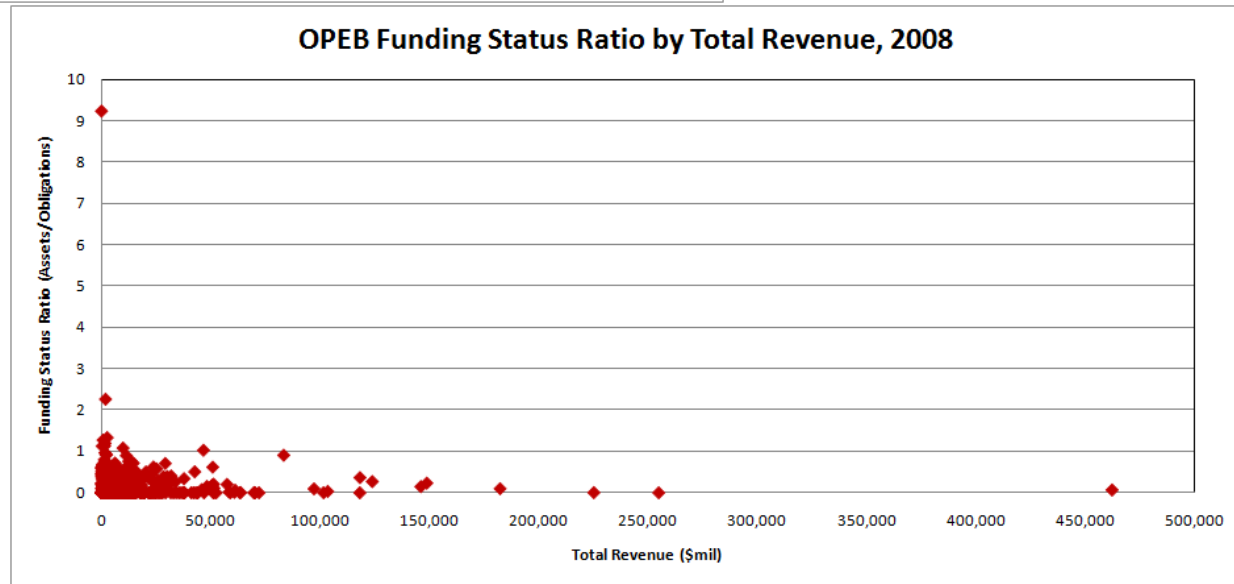
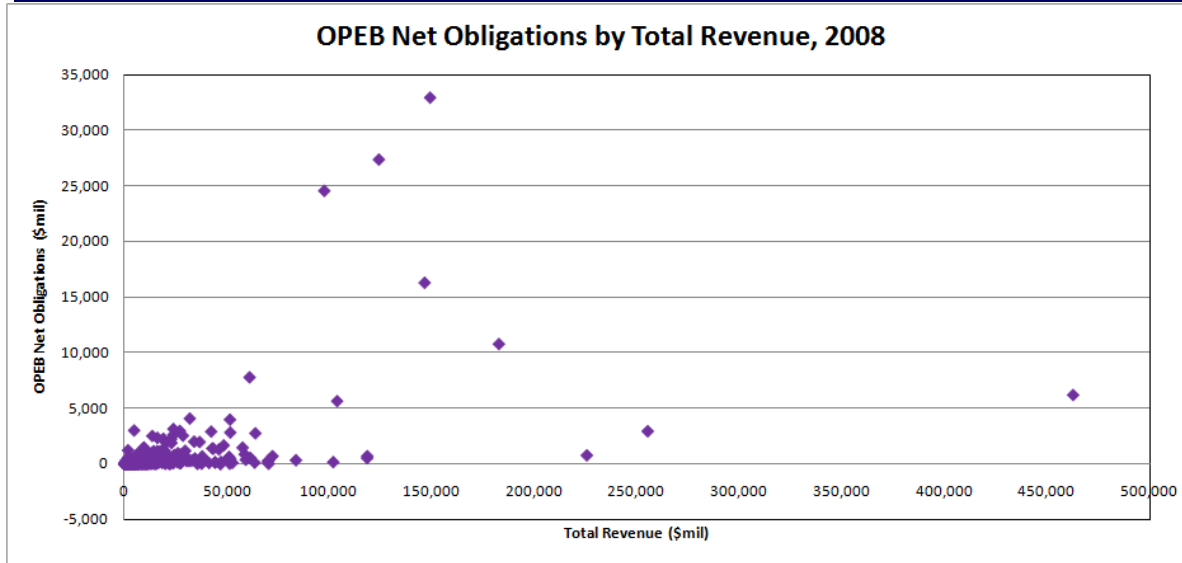
OPEB Funding Status by Total Revenue, Historical							
GICS Sector	2008 Companies with OPEB Obligations	OPEB Funding Status (\$mil) 2008	OPEB Net Obligations (\$mil)				
			2007	2006	2001	1996	1992
Q1 (lowest revenue quartile)	241	1,770	1,681	1,841	1,817	1,009	742
Q2	241	8,366	7,878	9,548	6,195	4,136	2,942
Q3	241	26,789	24,780	24,715	27,598	16,543	15,437
Q4 (highest revenue quartile)	241	257,833	279,919	300,157	279,844	168,688	98,375
OPEB Net Obligations as % of Total Revenue							
Q1 (lowest revenue quartile)		4%	4%	4%	6%	4%	5%
Q2		3%	3%	4%	4%	4%	6%
Q3		3%	3%	3%	5%	5%	8%
Q4 (highest revenue quartile)		4%	4%	5%	7%	7%	10%

Notes:

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3. Companies with OPEB Obligations > \$0.
4. Net Obligations= Obligations- Assets.
5. Quartiles are defined on the basis of total revenue with equal numbers of companies in each quartile. Thresholds are calculated each year for companies with reported OPEB obligations > \$0 and with Total Revenue > \$0.

- Measured by revenue, small companies face roughly the same level of obligations as larger ones

OPEB by Total Revenue



OPEB Assets by Asset Class

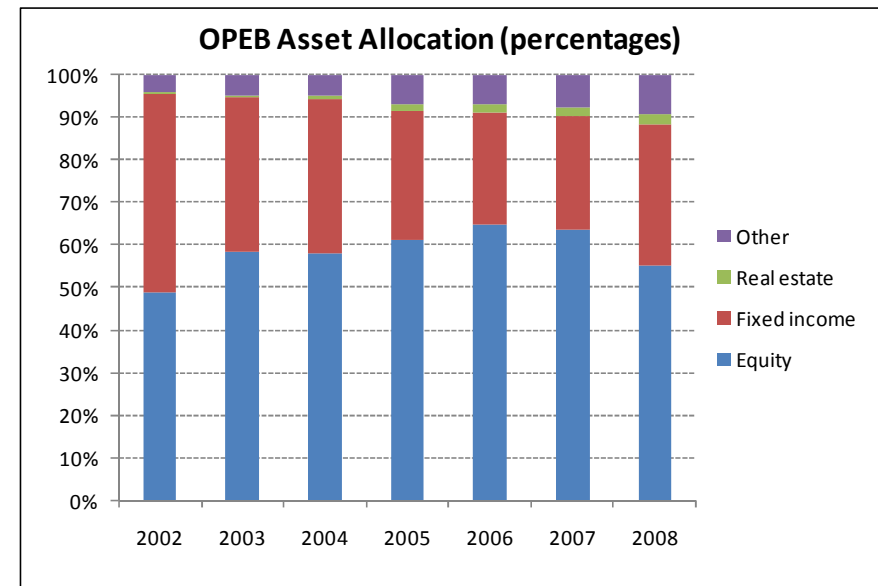
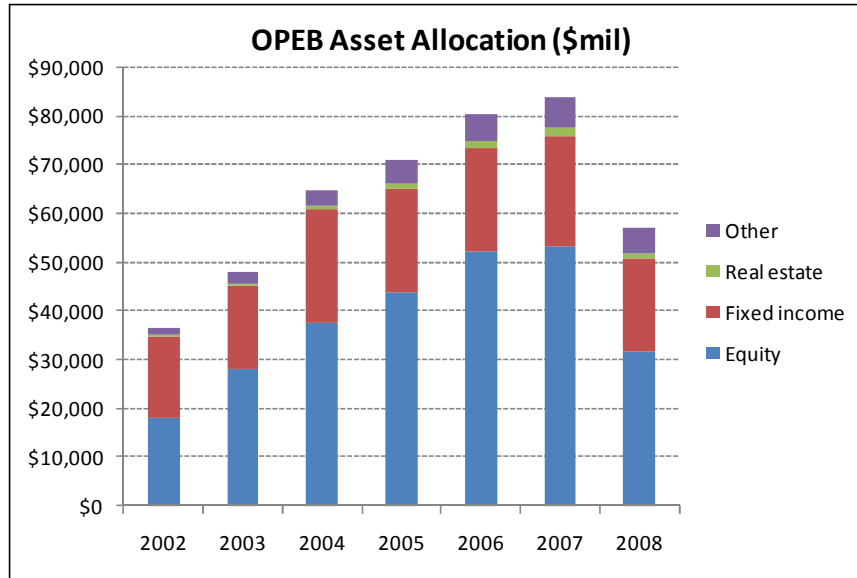
OPEB Assets by Asset Class, Historical							
Year	OPEB Assets (\$mil)	Assets with Asset Class Reported (\$mil)	Fraction of Assets with Asset Class Reported	OPEB Asset Class (\$mil)			
				Equity Assets	Fixed Income	Real Estate	Other
2002	45,151	36,581	81%	17,987	16,935	192	1,466
2003	51,467	47,785	93%	28,030	17,283	235	2,236
2004	70,711	64,705	92%	37,601	23,367	518	3,219
2005	91,622	71,005	77%	43,679	21,357	1,025	4,943
2006	99,438	80,164	81%	52,051	21,232	1,470	5,412
2007	103,950	83,652	80%	53,334	22,468	1,533	6,316
2008	72,069	57,131	79%	31,739	18,854	1,232	5,306

Notes:

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2. Population restricted to companies listed on US exchanges as of August 3, 2009 that had positive OPEB obligations in at least one year between 1991 and 2009, and had 2008 reported Assets > 0 or Market Capitalization > 0.
3. Companies with OPEB Obligations > \$0.

- Equity Assets and Fixed Income dominate asset classes

OPEB Assets by Asset Class



OPEB Assets Flows, Historical

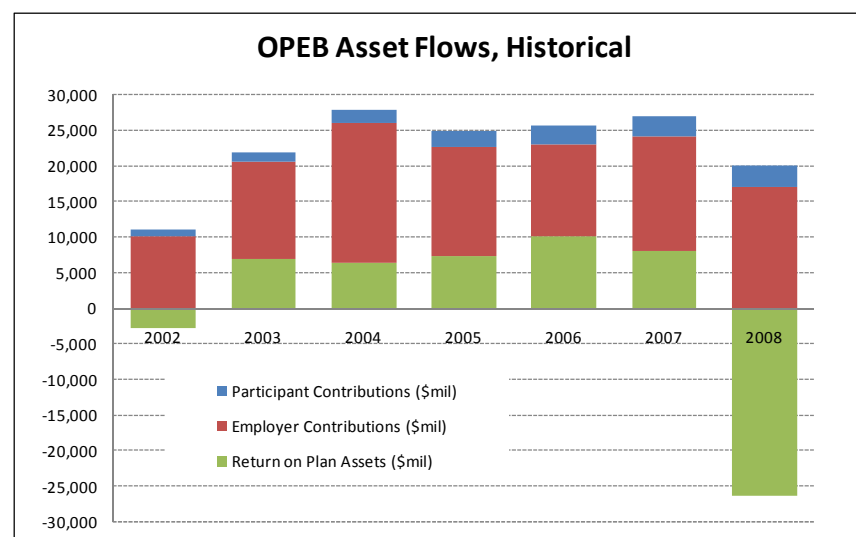
OPEB Asset Flows, Historical

Year	Beginning Plan Assets (\$mil)	Return on Plan Assets (\$mil)	Employer Contributions (\$mil)	Participant Contributions (\$mil)	Benefits Paid (\$mil)	Other Plan Adjustments (\$mil)	Total Plan Assets (\$mil)
2002	48,489	-2,684	10,194	1,002	-12,011	-295	45,151
2003	40,706	7,029	13,656	1,254	-11,671	-46	51,467
2004	55,236	6,391	19,709	1,882	-13,453	36	70,711
2005	81,375	7,360	15,423	2,112	-17,174	-39	91,622
2006	91,559	10,213	12,900	2,541	-23,354	3	99,438
2007	99,620	8,085	16,098	2,908	-24,225	1,037	103,950
2008	103,890	-26,226	17,020	3,090	-24,345	-278	72,069

Notes:

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2. Population restricted to companies listed on US exchanges as of August 3, 2009 that had positive OPEB obligations in at least one year between 1991 and 2009, and had 2008 reported Assets > 0 or Market Capitalization > 0.
3. Companies with OPEB Obligations > \$0.

- Participant contributions relatively small but growing



Top 20 OPEB-Obligated Companies in 2008

Top 20 Companies by OPEB Obligations in 2008											
Company Name	2008 Values					2007 Values					Status Ratio Decrease by 10% Pts or More
	OPEB Obligation Rank	OPEB Assets (\$mil)	OPEB Obligations (\$mil)	OPEB Net Obligations (\$mil)	Funding Status Ratio	OPEB Obligation Rank	OPEB Assets (\$mil)	OPEB Obligations (\$mil)	OPEB Net Obligations (\$mil)	Funding Status Ratio	
Motors Liquidation Company (OTCPK:MTLQ.Q)	1	9,969	42,890	32,921	23%	1	16,303	64,013	47,710	25%	
AT&T, Inc. (NYSE:T)	2	10,175	37,531	27,356	27%	2	16,999	40,385	23,386	42%	x
Verizon Communications Inc. (NYSE:VZ)	3	2,555	27,096	24,541	9%	4	4,142	27,306	23,164	15%	
Ford Motor Co. (NYSE:F)	4	2,840	19,119	16,279	15%	3	3,890	28,111	24,221	14%	
General Electric Co. (NYSE:GE)	5	1,175	11,949	10,774	10%	5	1,804	12,983	11,179	14%	
Boeing Co. (NYSE:BA)	6	79	7,859	7,780	1%	7	96	7,662	7,566	1%	
Exxon Mobil Corp. (NYSE:XOM)	7	443	6,633	6,190	7%	8	659	6,828	6,169	10%	
International Business Machines Corp. (NYSE:IBM)	8	192	5,832	5,640	3%	9	625	6,241	5,616	10%	
Caterpillar Inc. (NYSE:CAT)	9	1,042	5,017	3,975	21%	10	1,584	5,455	3,871	29%	
United States Steel Corp. (NYSE:X)	10	1,102	4,235	3,133	26%	12	1,166	4,089	2,923	29%	
Deere & Co. (NYSE:DE)	11	1,623	4,158	2,535	39%	11	2,185	5,250	3,065	42%	
El DuPont de Nemours & Co. (NYSE:DD)	12	0	4,072	4,072	0%	14	0	3,796	3,796	0%	
Procter & Gamble Co. (NYSE:PG)	13	3,225	3,553	328	91%	15	3,390	3,558	168	95%	
Exelon Corp. (NYSE:EXC)	14	1,224	3,480	2,256	35%	16	1,616	3,335	1,719	48%	x
Qwest Communications International Inc. (NYSE:Q)	15	915	3,424	2,509	27%	13	1,588	3,814	2,226	42%	x
Delta Air Lines Inc. (NYSE:DAL)	16	1,052	3,276	2,224	32%	20	1,764	2,993	1,229	59%	x
United Parcel Service, Inc. (NYSE:UPS)	17	349	3,166	2,817	11%	18	598	3,153	2,555	19%	
Alcoa, Inc. (NYSE:AA)	18	162	3,121	2,959	5%	17	203	3,260	3,057	6%	
CONSOL Energy Inc. (NYSE:CNX)	19	0	2,999	2,999	0%	23	0	2,830	2,830	0%	
Chevron Corp. (NYSE:CVX)	20	0	2,931	2,931	0%	22	0	2,939	2,939	0%	

Notes:

1. Data source Cap IQ.
2. Population restricted to US publicly listed companies as of August 3, 2009 that had positive OPEB obligations in at least one year between 1991 and 2009 and that reported data in 2008.
3. Companies with OPEB Obligations > \$0.
4. Funding Status Ratio= Assets/Obligations.

- Motors Liquidation Company reflects General Motors

The background of the slide is a light blue color with several dark blue puzzle pieces scattered across it. The puzzle pieces are of various shapes and sizes, some overlapping each other. The text is positioned on the left side of the slide, overlaid on the light blue background.

Potential Future Research Topics

Potential Future Research Topics

- Examine role of:
 - OPEB implications of recent mass layoffs
 - OPEB funding by union status
 - Effects of recent low interest rates on asset returns and on discounting of future obligations
 - Delayed retirement:
 - Economy driven: can't afford to retire
 - Life expectancy driven
- Health care reform: implications for OPEB obligations
- Importance of other sources of financing
 - Captive insurance coverage
 - Voluntary Employees' Beneficiary Association (VEBA)
 - New for 2010: VEBA in trust
- Obligations associated with other ownership models
 - State and local governments and entities
 - Non-publicly traded companies
 - International companies

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