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Securing Your Pension Promises by Mitigating Risk and Creating Shareholder Value

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Today's Discussion

- Today's market
- The increasing cost of hope
- Corporate finance implications
- Looking forward: tax reform

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Means and Markets Have Aligned

- **Equities have gained over 14%, and the 10-year UST has increased by 25bps since the election[1]**
- **Funded status is 83.0% as of August 31, 2017, up from 75.6% one year ago[2]**
- **Costs of maintaining a plan continue to rise**
  - PBGC premiums: **flat-rate** from \$69 today to \$80 in 2019
    variable-rate from 3.4% today to at least 4.2% in 2019

[1] S&P Capital IQ as of 8/29/2017 [2] Milliman 100 Pension Funding Index

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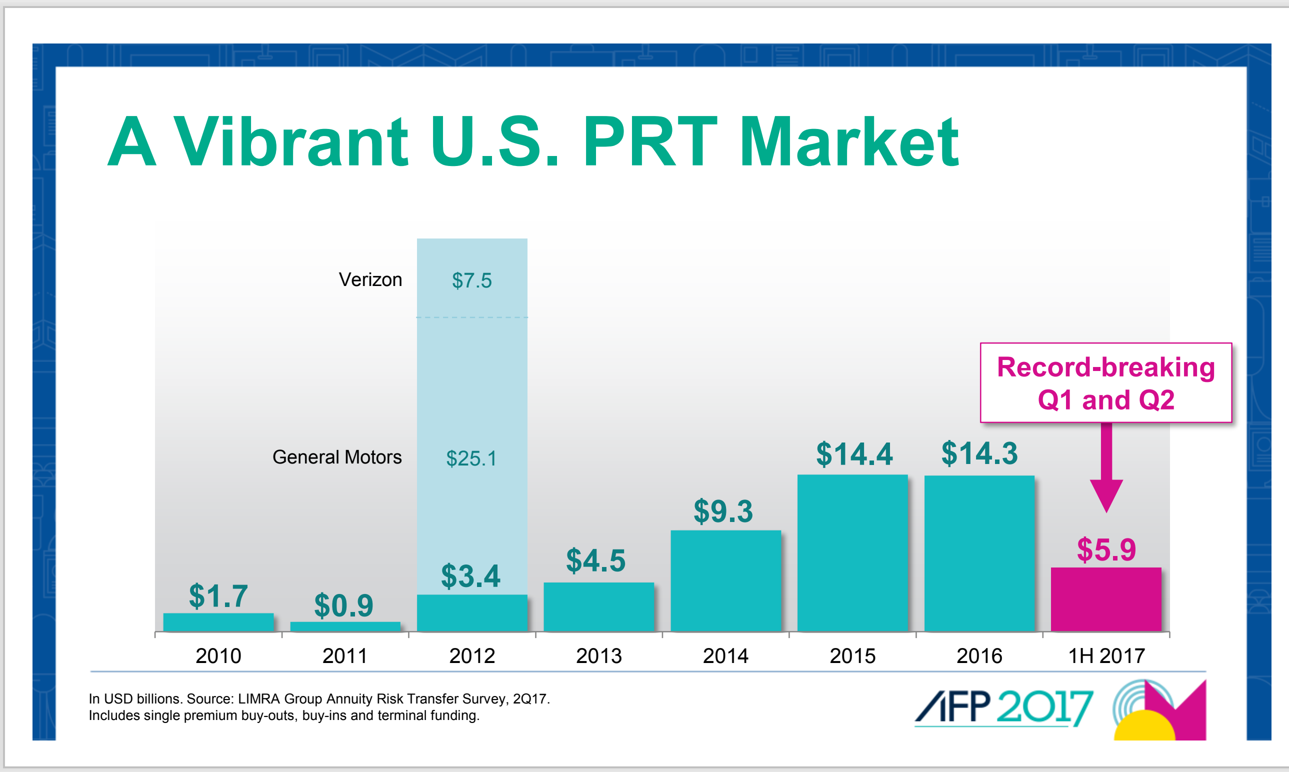

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A Vibrant U.S. PRT Market

2016 PRT Market Players by Size

Market Size	Transactions	Bidders	Liability
Small (<$100M)	359	14	$3.9B
Mid ($100M-$1B)	26	9	$7.3B
Jumbo (>$1B)	1	5	$2.5B
Total	386	15	$13.7B

Significant Buy-outs Since 2012

Over $50 billion and 450,000 participants

- General Motors
- Verizon
- Bristol-Myers Squibb
- Motorola Solutions
- Kimberly-Clark
- Philips
- Timken
- J.C. Penney
- PPG
- WestRock Co.
- United Technologies Corp.
- Sears Holdings Corp. (**2017**)
- Hartford Financial (**2017**)
- International Paper (**2017**)

Source: Obtained through company filings and other publicly available sources.

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PBGC Premiums

PBGC premiums, for a plan with liability of $1B[1] and 11,000 employees, will increase 580% between 2013 and 2019.

	2013	2017	2019
PBGC Funded Status	95%	95%	90%
Flat Rate Premium (Number of employees) x (Per Person Premium)	$462,000	$759,000	$880,000
Variable Rate Premium (Unfunded Vested Liability) x (Variable Rate)	$450,000	$1,700,000	$4,410,000
Total PBGC Premium	**$912,000**	**$2,459,000**	**$5,290,000**
Premium Per Participant	$83	$224	$481
Increase Over 2013	n/a	**270%**	**580%**

5% increase in liabilities for mortality change in 2018

2019 Premium Impact of Mortality Change

Pre-Change
$271

Post-Change
$481

Source: Prudential analysis

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Mortality Table Updates

IRS has announced a new mortality basis effective January 1, 2018.

New tables will increase liability for three important calculations

- Funding requirements (Target Liability)
- PBGC variable premium
- Calculation of minimum lump sum values

Impact on PRT Market

Will increase PBGC variable premiums for sponsors not at the cap, increasing the value of transferring risk.

The increase in lump sum amounts will likely slow down vested terminated lump sum programs, freeing up company and administration time to focus on PRT transactions as the next most logical risk transfer option.

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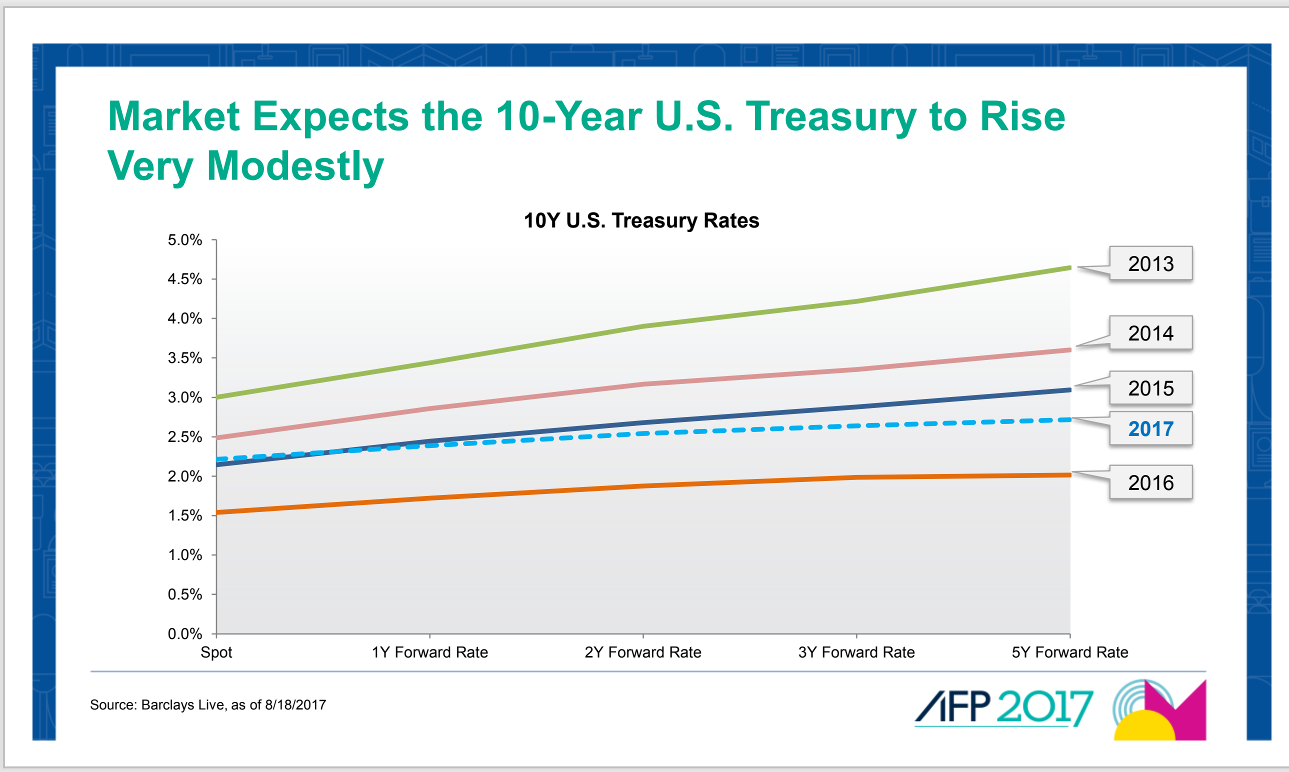
Market Expects the 10-Year U.S. Treasury to Rise Very Modestly
10Y U.S. Treasury Rates
5.0%
4.5%
4.0%
3.5%
3.0%
2.5%
2.0%
1.5%
1.0%
0.5%
0.0%
Spot
1Y Forward Rate
2Y Forward Rate
3Y Forward Rate
5Y Forward Rate
2013
2014
2015
2017
2016
Source: Barclays Live, as of 8/18/2017
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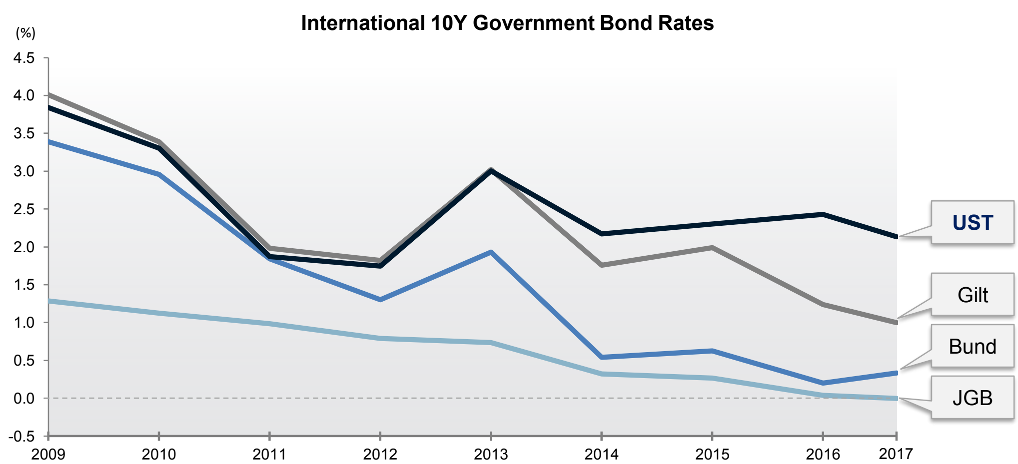
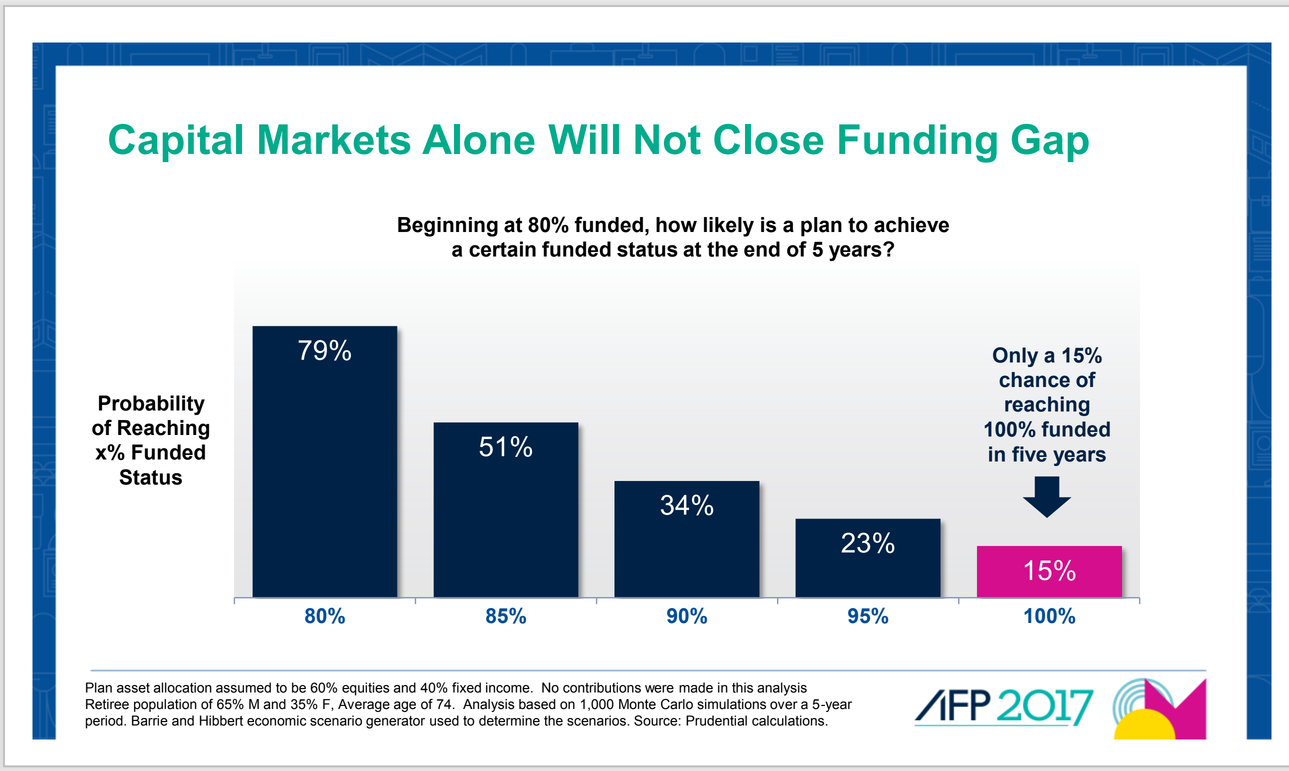
U.S. Remains the Highest Yielding Country



Source: Barclays Live, as of 8/29/2017


Capital Markets Alone Will Not Close Funding Gap
Beginning at 80% funded, how likely is a plan to achieve a certain funded status at the end of 5 years?
Probability of Reaching x% Funded Status
79%
51%
34%
23%
15%
Only a 15% chance of reaching 100% funded in five years
80%
85%
90%
95%
100%
Plan asset allocation assumed to be 60% equities and 40% fixed income. No contributions were made in this analysis
Retiree population of 65% M and 35% F, Average age of 74. Analysis based on 1,000 Monte Carlo simulations over a 5-year period. Barrie and Hibbert economic scenario generator used to determine the scenarios. Source: Prudential calculations.
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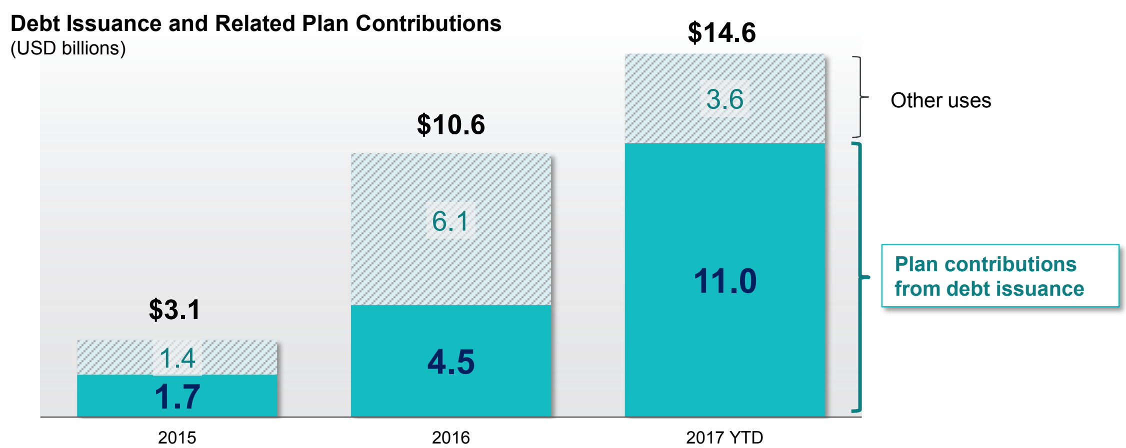
150% Increase in Voluntary Contributions since 2016



Source: As of August 9, 2017. Debt issuance detail and related plan contributions using company SEC filings, plan DOL 5500 filings, company press releases, Bloomberg and Prudential estimates.

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What Can Companies Do?
Borrow to Fund Continues to be Viable

Company	Issue Date	Amount Issued	Related Plan Contribution
International Paper	8/9/2017	$1,000	$1,250
Valvoline Inc.	8/8/2017	$400	$395
The Kroger Co.	7/24/2017	$1,500	$1,000
E. I. du Pont de Nemours and Company	5/1/2017	$2,000	$2,000
Verizon Communications	3/16/2017	$6,500	$3,400
Delta Air Lines	3/14/2017	$2,000	$2,000
FedEx Corp.	1/6/2017	$1,200	$1,000

Company	Issue Date	Amount Issued	Related Plan Contribution
Northrop Grumman Corp.	12/1/2016	$750	$20
CSX Corp.	10/18/2016	$2,200	$220
Altria Group, Inc.	9/16/2016	$2,000	$500
Cox Communications, Inc.	9/13/2016	$1,000	$1,000(1)
Premier Health Partners	8/31/2016	$300	$217(2)
International Paper	8/11/2016	$2,300	$500
General Motors Company	2/23/2016	$2,000	$2,000

In USD millions; Debt issuance detail and related plan contribution information from company SEC filings, plan DOL 5500 filings, company press releases, Bloomberg, and Prudential estimates. (1) Intended use of proceeds from Fitch and Moody's reports dated 9/8/16. Related plan contribution from the Cox Enterprises, Inc. Pension Plan 2015 DOL Form 5500 filing dated 10/16/16. (2) Intended use of proceeds from Fitch report dated 8/10/16. Related plan contribution from the Premier Health Partners Employee Retirement Plan 2015 DOL Form 5500 filing dated 10/11/16.

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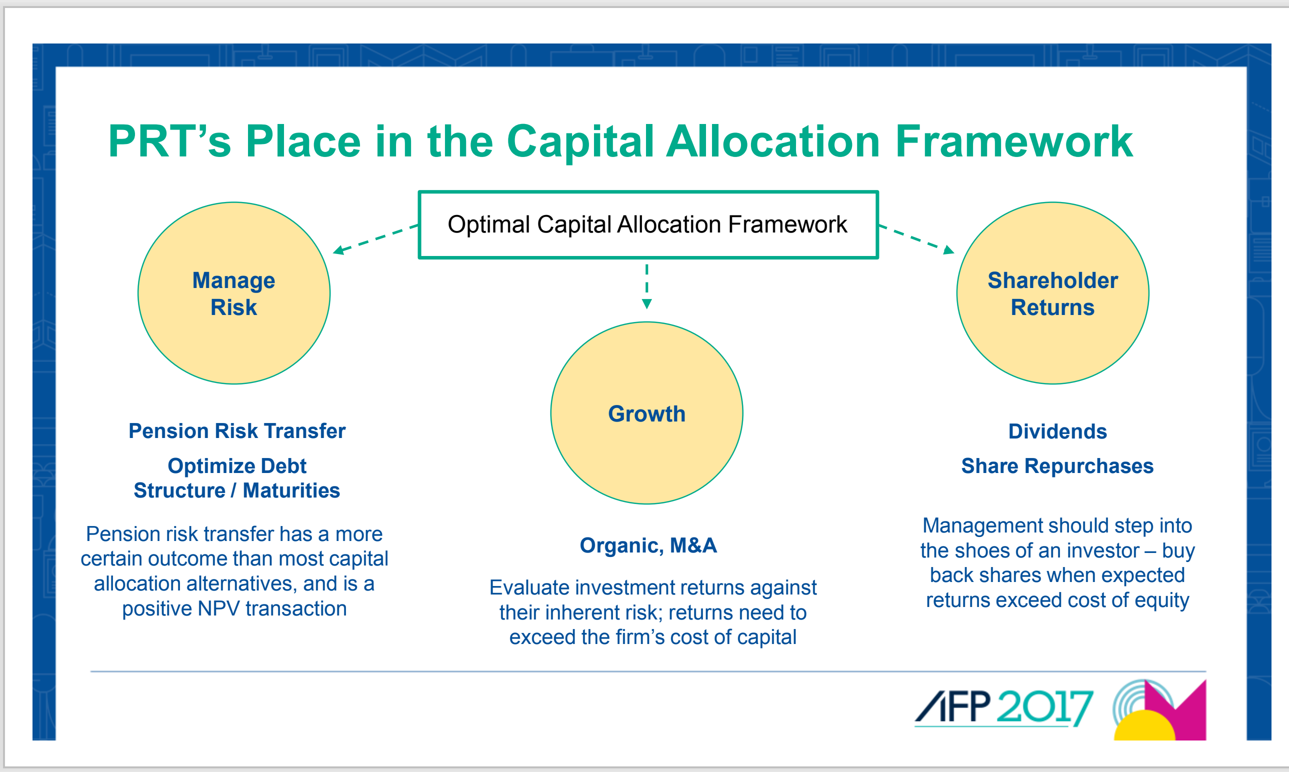
Corporate Finance Implications


PRT's Place in the Capital Allocation Framework
Optimal Capital Allocation Framework
Manage Risk
Growth
Shareholder Returns
Pension Risk Transfer
Optimize Debt Structure / Maturities
Pension risk transfer has a more certain outcome than most capital allocation alternatives, and is a positive NPV transaction
Organic, M&A
Evaluate investment returns against their inherent risk; returns need to exceed the firm's cost of capital
Dividends
Share Repurchases
Management should step into the shoes of an investor – buy back shares when expected returns exceed cost of equity
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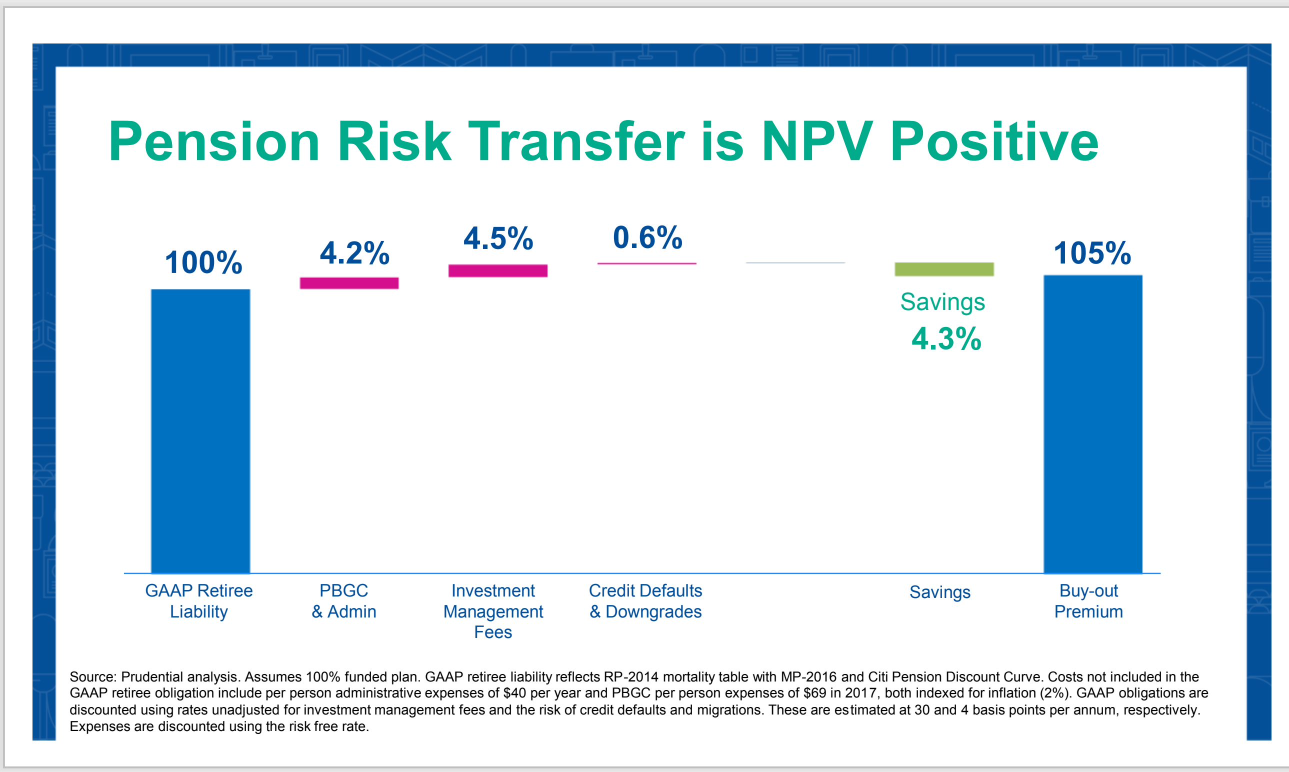

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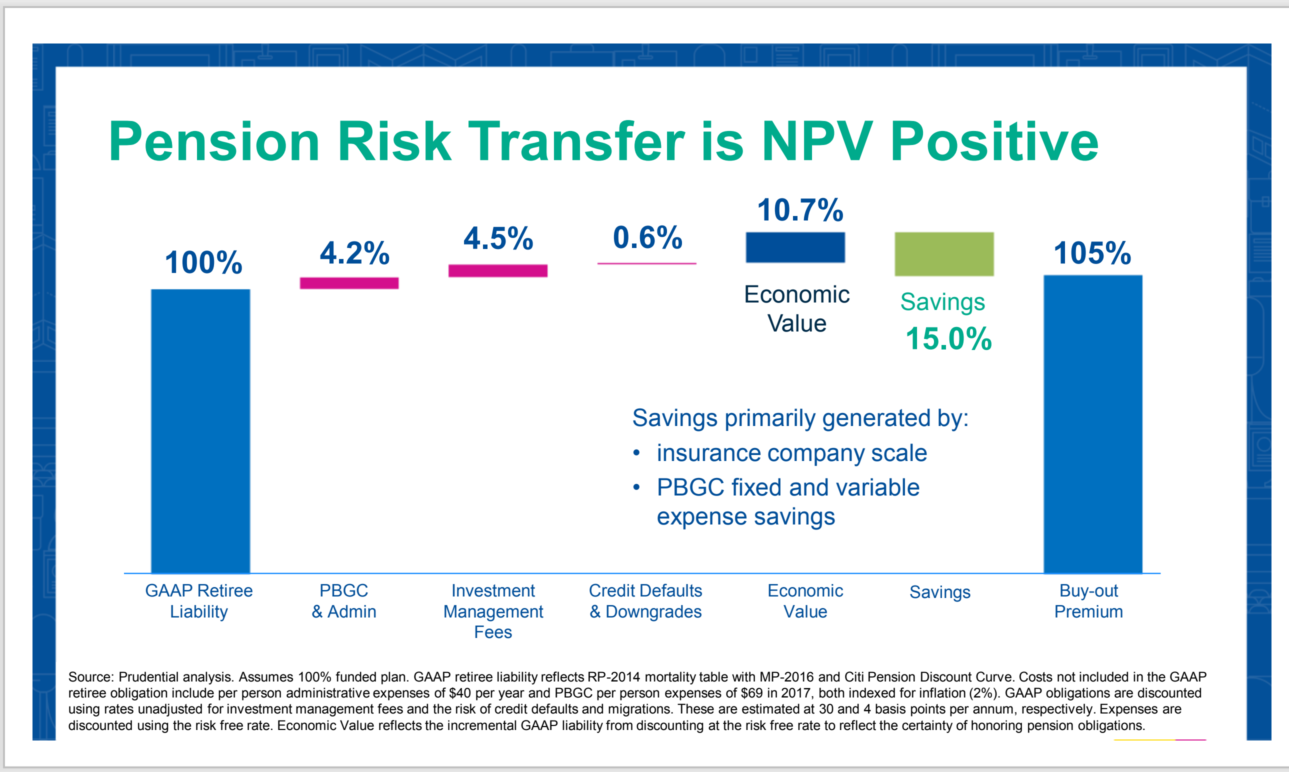

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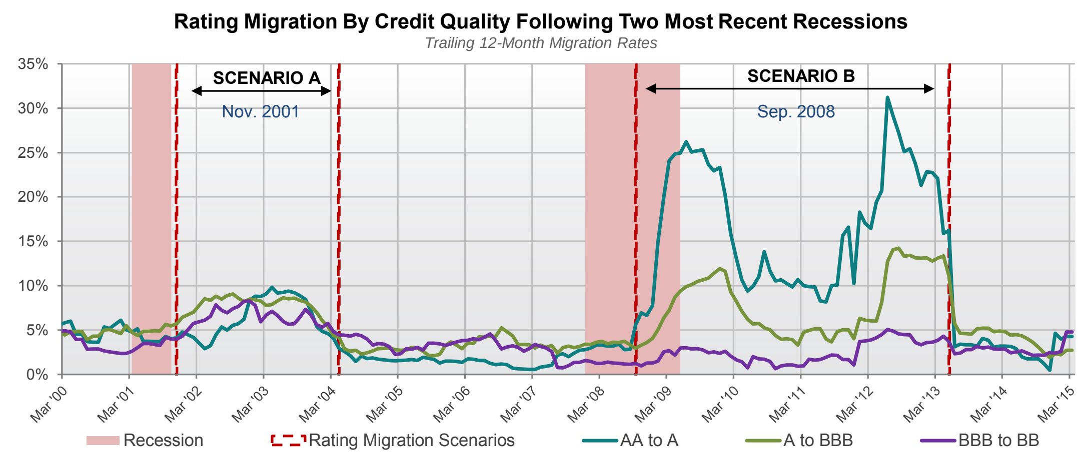
Insurance Solutions Provide Risk Reduction Under Tail Risk Scenarios



Sources: Moody's and Prudential Fixed Income. As of March 31, 2015. Shown for illustrative purposes only.

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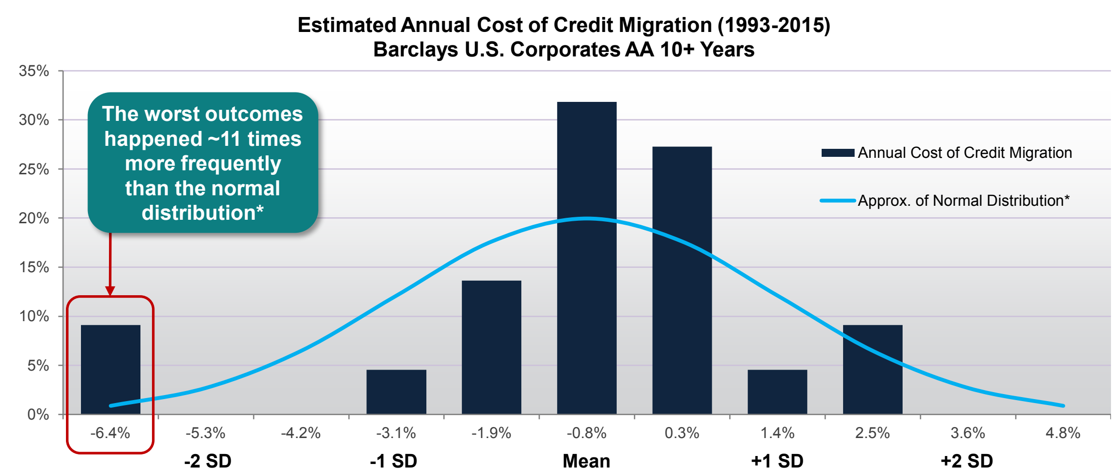
Credit Migration Has a Fat Downside Tail



SD = Standard Deviation. Source: Barclays POINT, PGIM Fixed Income. As of December 31, 2015.
*Normal distribution with same mean and standard deviation as the annual estimated cost of credit migration.

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Stock Performance Relative to Market

Company Name	Announcement Date	Transaction Size (currency in millions)	Transaction Type	PBO ÷ Market Cap prior to transaction	Performance Relative to Market
General Motors	6/1/2012	$25,000	Buy-out	386%	1.61%
Verizon Communications, Inc.	10/18/2012	$8,000	Buy-out	24%	2.61%
Motorola Solutions, Inc.	9/25/2014	$3,100	Buy-out	59%	2.33%
WestRock Company	9/9/2016	$2,500	Buy-out	58%	-1.08%
Kimberly-Clark	2/23/2015	$2,500	Buy-out	17%	0.06%
The Hartford	6/26/2017	$1,600	Buy-out	30%	1.08%
PPG Industries	6/28/2016	$1,600	Buy-out	20%	0.12%
Bristol-Myers Squibb	10/1/2014	$1,400	Buy-out	9%	0.75%
Philips	10/1/2015	$1,100	Buy-out	9%	1.22%
J.C. Penney	10/2/2015	$840	Buy-out	166%	5.58%
NCR	11/20/2013	£670	Buy-in	104%	0.59%

Source: Capital IQ. Returns are adjusted for dividends. In USD millions; Announcement day returns relative to relevant market index. Pension overhang defined as PBO ÷ Market Capitalization

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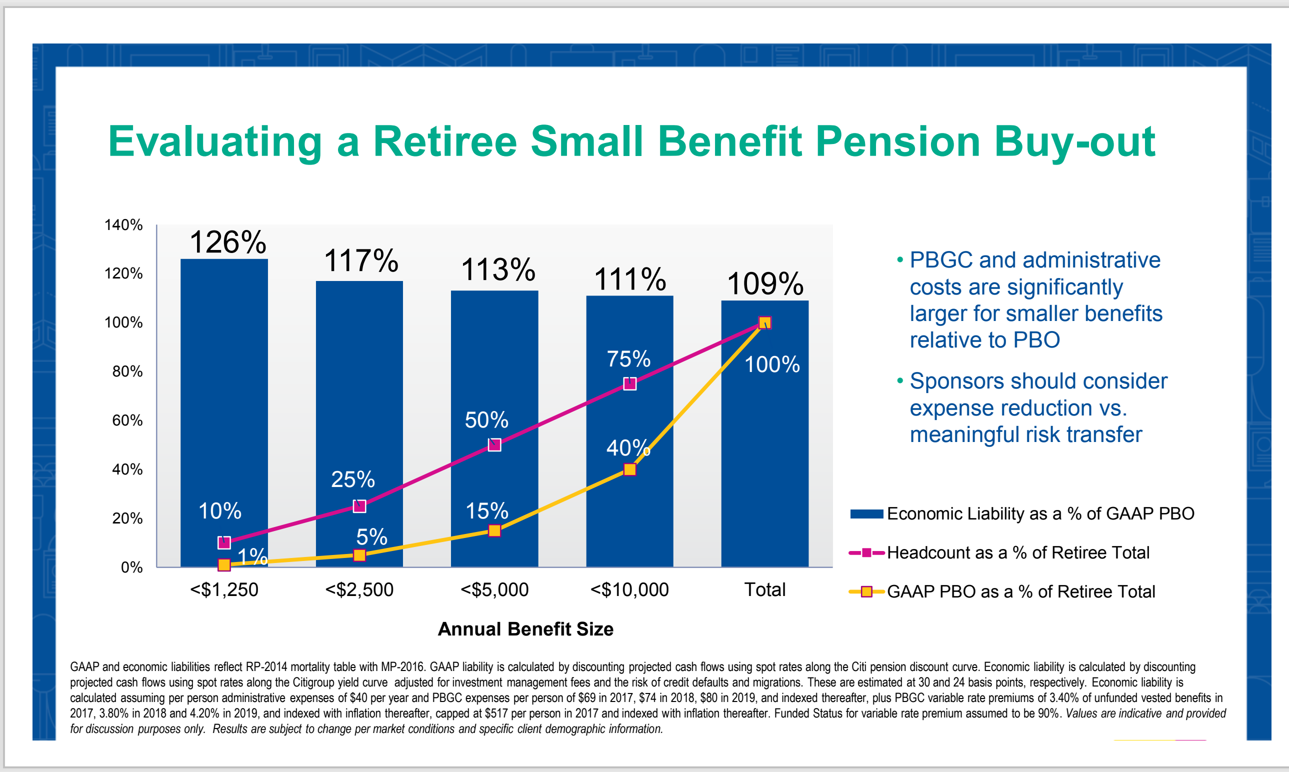

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Looking Forward: Tax Reform

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Key Tax and Regulatory Reform Proposals

Reduced corporate tax rate

35% U.S. corporate tax rate may be lowered to 15% or 20%[1]

Fewer Tax Deductions

GOP Blueprint proposes to limit or eliminate tax deductibility of interest expense

Repatriation

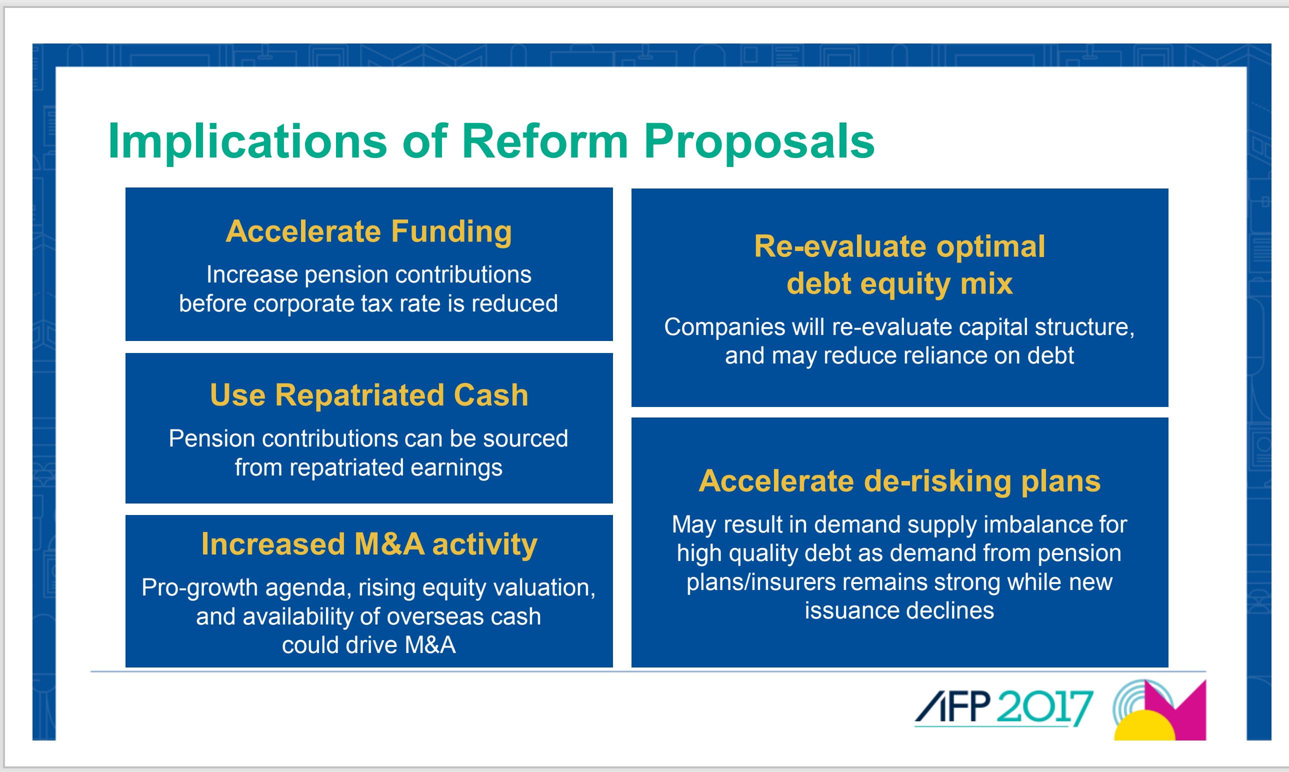
One-time tax on accumulated deferred foreign earnings expected to be between 8.75% to 10%[2]

Move to a territorial tax system that exempts foreign business earnings of U.S. companies from U.S. taxes

Deregulation

Likely to see a decrease in regulations

[1]White House proposal 15%, GOP Blueprint 20%. “A Better Way: Our Vision for a Confident America.” Policy paper, Tax Reform Task Force, GOP, June 24, 2016. “Briefing by Secretary of the Treasury Steven Mnuchin and Director of the National Economic Council Gary Cohn,” April 26, 2017.
[2]Trump’s campaign proposal included a 10% tax rate on repatriated earnings. “Tax Reform that will Make America Great Again,” https://assets.donaldjtrump.com/trump-tax-reform.pdf. GOP Blueprint proposes 8.75%.


Implications of Reform Proposals
Accelerate Funding
Increase pension contributions before corporate tax rate is reduced
Use Repatriated Cash
Pension contributions can be sourced from repatriated earnings
Increased M&A activity
Pro-growth agenda, rising equity valuation, and availability of overseas cash could drive M&A
Re-evaluate optimal debt equity mix
Companies will re-evaluate capital structure, and may reduce reliance on debt
Accelerate de-risking plans
May result in demand supply imbalance for high quality debt as demand from pension plans/insurers remains strong while new issuance declines
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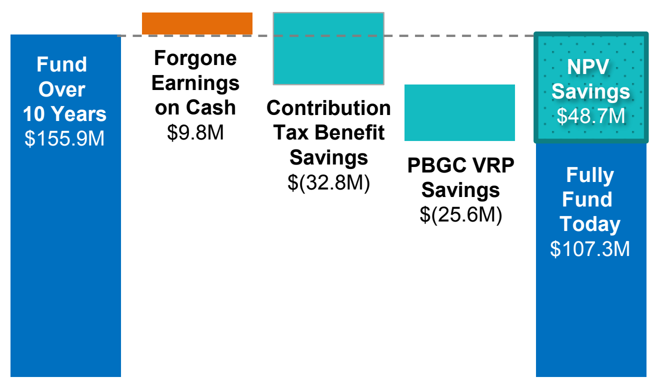
Economic Benefit of Funding Today

A sponsor with a $1 billion plan that is 85% funded could generate a $48.7 million NPV benefit by fully funding its plan today versus funding the plan deficit over a 10-year period.

Funded Status	Tax Rates	
	15%	20%
75%	$81.1	$68.1
80%	$64.9	$54.5
85%	**$48.7**	**$40.9**
90%	$32.5	$27.3
95%	$16.2	$13.6



In USD billions. Prudential analysis.

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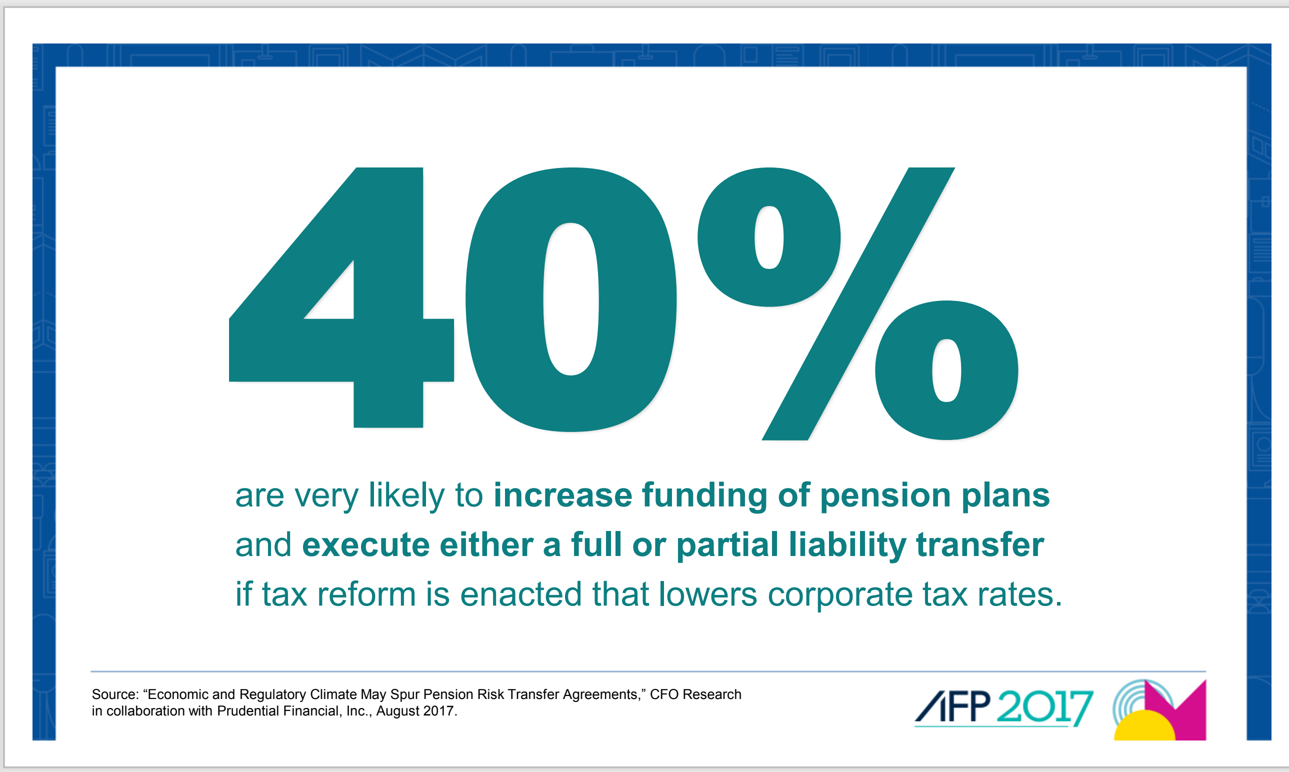

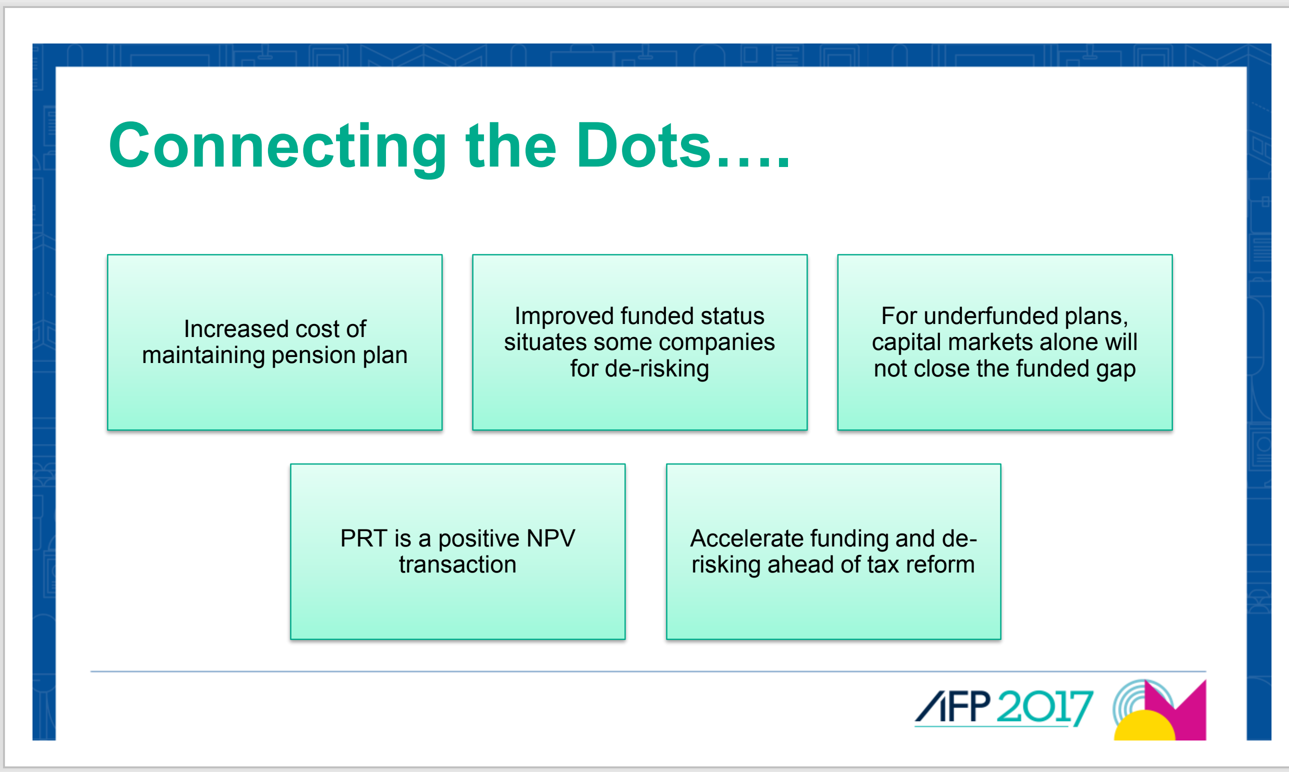
Connecting the Dots….
Increased cost of maintaining pension plan
Improved funded status situates some companies for de-risking
For underfunded plans, capital markets alone will not close the funded gap
PRT is a positive NPV transaction
Accelerate funding and de-risking ahead of tax reform
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Notes:

Notes:

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