Savannah River
NUCLEAR SOLUTIONS℠
FLUOR • NEWPORT NEWS NUCLEAR • HONEYWELL

SRNS/SRR Multiple Employer Pension Plan

Citizen's Advisory Board Subcommittee on Pension

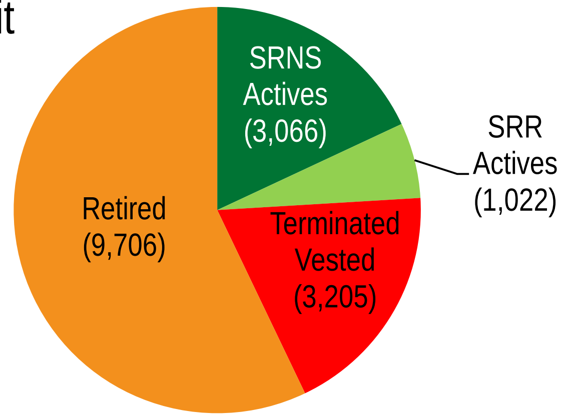
James L. Barry
Sr. Vice President and Chief Financial Officer

December 6, 2017

Key Plan Facts

- Effective in 1989 – Westinghouse assumed management of the site from DuPont
- Key Benefits mimic DuPont's benefits:
  - Primary Benefit: 1.2% of 3-Year Average Salary times Service
  - Five Year Vesting
  - Retirement:
    - Early retirement at age 58 and 30 years service – 100%
    - Optional Retirement: Job elimination
    - Normal Retirement at age 65
  - Death: ERISA minimum death benefit – roughly 50% of benefit
- Covers Employees of SRNS and SRR
  - Closed to new hires of SRNS on August 1, 2008
  - Closed to new hires of SRR on July 1, 2009
  - Employees who subsequently change employers are no longer active participants of the plan

1/1/2017 Pension Plan Participants



Plan Oversight

- Savings and Pension Administrative Committee
  - Seven members – 5 SRNS (including Fluor chair), 2 SRR
  - Meets on at least a quarterly basis
  - Responsible for :
    - *Monitoring plan investment performance*
    - *Determining and monitoring investment strategy*
    - *Determining and approving plan design changes*
    - *Responsible for contracting for services required by the plan*
  - Committee is Plan Administrator; delegated responsibilities for day to day management of the plan to the SRNS Benefits Administration Department
  - Provides oversight for the Defined Contribution Plans and Investments

- Outside consultants who perform services for the Plan/Committee
  - Aon Hewitt – Investment Consultant (plan fiduciary)
  - Conduent (formerly Buck Consultants) – Actuary
  - Davis Wright Tremaine – Legal
  - Elliott Davis Decosimo – Auditor

Recent Activities of the Committee

- Actuarial Experience Study (by Conduent) - 2016
  - Reviewed demographic assumptions used in annual actuarial valuation of the Plan
  - Especially important as SRS retirement trends have been changing
  - Updated retirement and termination assumptions to reflect post-Workforce Restructuring experience
  - Very little change in Pension Liability

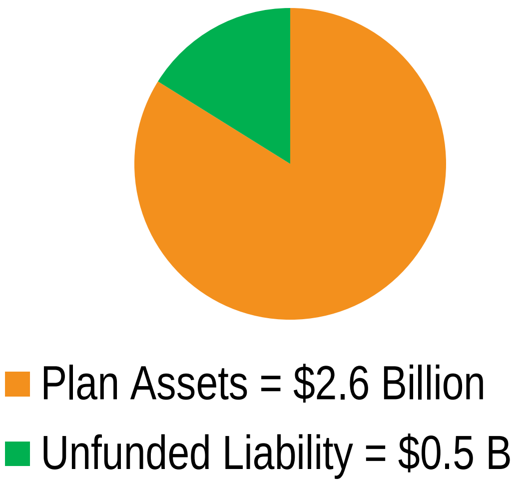
- Diversification of Plan assets – 2010-2012
  - Achieve *reasonable returns* through well-diversified, balanced portfolio with *moderate investment risk*
  - Partial hedge against long-term volatility in pension contributions
  - Monitored quarterly with Aon Hewitt (investment consultant and plan fiduciary)

- Modifications to Plan provisions to reduce costs - 2011
  - Froze employer-paid death benefits
  - Eliminated incapability retirement supplement
  - Eliminated incentive compensation from pensionable earnings

Calculation of Plan Liability

- The Pension Plan Liability is the net present value of the actuarially calculated pension payments over the remaining life of the plan.
  - Actuarial Assumptions
    - *Mortality of participants*
    - *Marital Status and relative age of spouses at retirement*
    - *Age at which retirement benefits commence*
    - *Amount of future salary increases for active participants*
    - *Etc.*
  - Current IRS mandated discount rate of 5.89% is used to convert total ***future*** liability to the liability in ***today's dollars.***
  - Discount rate artificially held high by Congressional action, MAP-21, HATFA, BPA.
  - Future pension payments expected to total $6.7B over the life of the participants
  - Pension liability does not include the future service cost of active participants recognized annually by the Plan

Total Plan Liability = $3.1 Billion



Measures of Plan liability for other purposes such as FASB and PBGC can differ significantly

Liability Analysis as Discount Rate Support Phases Out

Projected IRS Liability								
January 1	2017	2018	2019	2020	2021	2022	2023	2024
IRS Liability	$3.1B	$3.3B	$3.5B	$3.6B	$3.9B	$4.1B	$4.3B	$4.3B
Discount Rate	5.89%	5.72%	5.54%	5.40%	4.97%	4.55%	4.23%	4.19%
Impact of Disc Rate		$70M	$60M	$51M	$166M	$171M	$140M	$12M

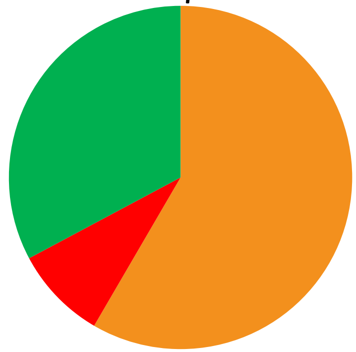
As legislative discount rate support phases out, the Plan liability in today's dollars increases dramatically thereby increasing the annual contributions to the plan

Contribution Components

Component	Description
Normal Cost (Service Cost)	Expected cost of benefit accruals for current year Includes one year of additional service and expected salary increase
Plan Expenses	Expected administrative expenses – 95% is PBGC premium; remainder is trust, actuarial, consulting and administration fees Note: Investment related expenses considered within asset return
Amortization of Past Service Liability (PSL)	Amortization payment for changes in plan liabilities and assets Primarily from asset gain/loss and liability gain/loss New gain/loss determined each year and amortized over seven years

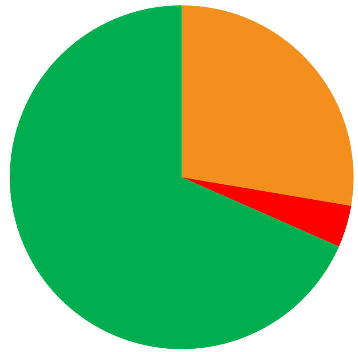
Under ERISA, contributions are determined on a calendar year basis and paid quarterly. They are allocated to fiscal years based on the dates they are paid

FY 2018 - $112M



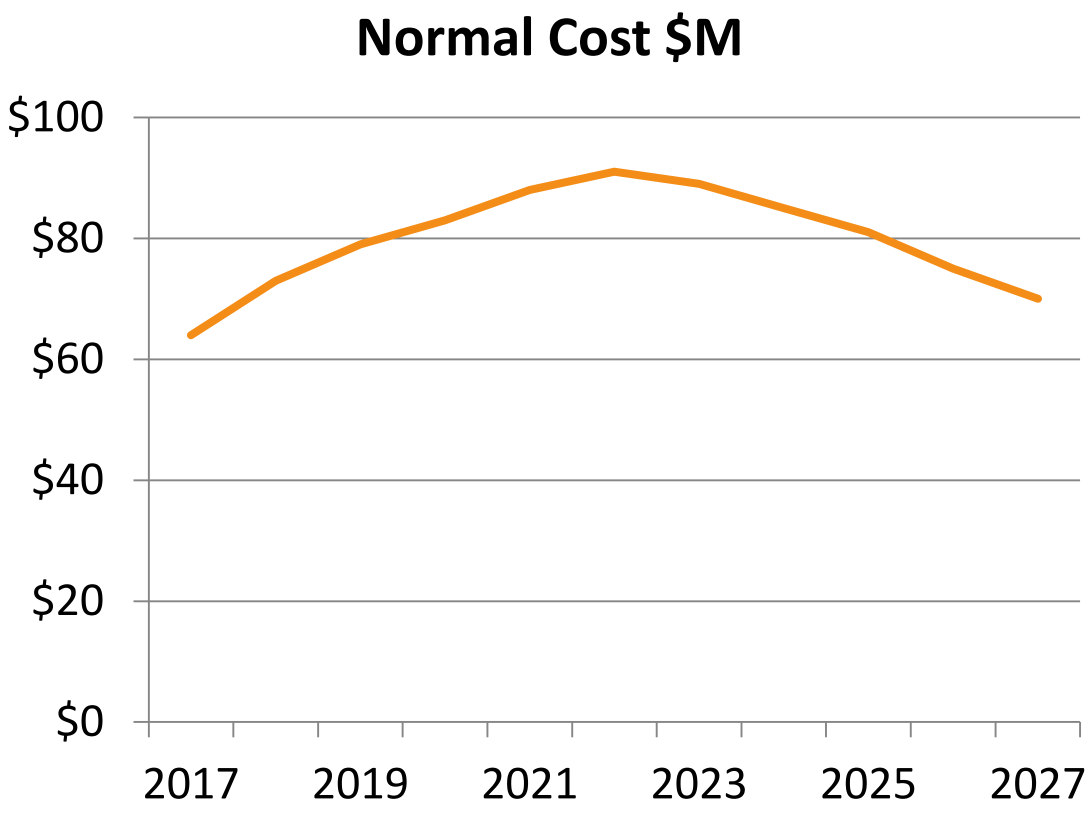
- Normal Cost: $73M
- Expenses: $11M
- Amortization of PSL: $41M

FY 2023 - $329M



- Normal Cost: $91M
- Expenses: $13M
- Amortization of PSL: $225M

How Normal Cost Changes Over Time



Normal Cost climbs significantly in near term

- Accruals late in career have most value
- Discount rates are decreasing (slide 6), impacting Normal Cost similarly to Plan Liability

In early 2020s, Normal Cost begins to decrease as active participants retire

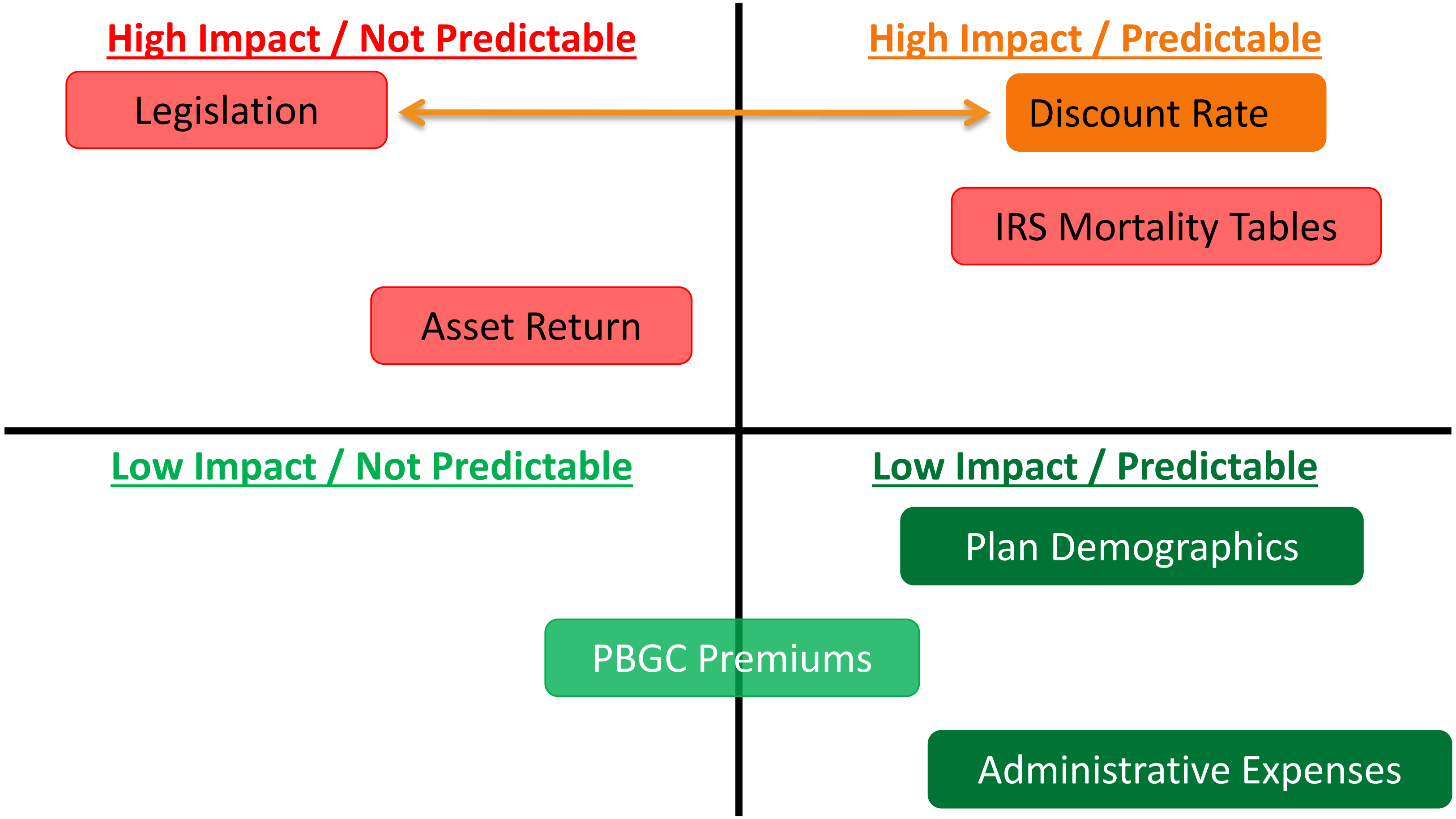
Contribution Forecast – 2017 Mgmt Plan

	Minimum Contribution		Plan Liability	Discount Rate
Fiscal Year	Amount ($m)	Funded %	Amount ($B)	%
2017	$ 112	85%	$3.1	5.89%
2018	125	78%	3.3	5.72%
2019	201	78%	3.5	5.54%
2020	246	80%	3.6	5.40%
2021	244	80%	3.9	4.97%
2022	328	81%	4.1	4.55%
2023	329	83%	4.3	4.23%
2024	327	88%	4.3	4.19%
2025	275	94%	4.3	4.16%
2026	197	97%	4.3	4.13%
2027	138	100%	4.3	4.11%
2028	54	101%	4.3	4.09%

Key Assumptions:

Discount Rate – Based on PPA/MAP-21/HATFA/BBA-2015 averaging using current IRS discount rates with level projection
Asset Return – 7.39% in 2016, actual assets as of December 31, 2016, 5.80% thereafter
Demographic Assumptions – According to 2016 Assumption Study
Mortality Assumption – Current IRS mortality in 2017, updated to RP-2014 with MP-2016 generational projection beginning in 2018

Key Contribution Drivers



Discount Rates

Rule of Thumb: For each one percentage point (100 basis point) change in discount rate, MEPP liabilities increase or decrease by approximately 12% (roughly $375M)

Example – 20 bps Change in Discount Rate (i.e., 6.0% to 5.8%)			
Plan Liability	% Change to Liability	Impact	Amortization of Impact
$3.1 Billion	12% x .2 (20 bps) = 2.4%	$74 Million	$12 Million per Year

The following are projected discount rates assuming interest rates remain at current levels. The significant decrease in the out year discount rates is primarily a result of the phase-out of pension contribution relief legislation passed in 2015

Projected Discount Rates								
Year	2017	2018	2019	2020	2021	2022	2023	2024
Discount Rate	5.89%	5.72%	5.54%	5.40%	4.97%	4.55%	4.23%	4.19%

Asset Returns

Forecasted asset returns are 5.8% per year, based on Aon Hewitt's expectation over a 10-year horizon

Example – 10.8% Return on Assets				
Plan Assets	Expected Return (5.8% x $2.6B)	Actual Return (10.8% x $2.6B)	Asset Gain $281M - $151M	Annual Amortization
$2.6 Billion	$151 Million	$281 Million	$130 Million	$22 Million

Ultimate impact of illustrated asset gain is a decrease of $22 million in the annual contribution

But…

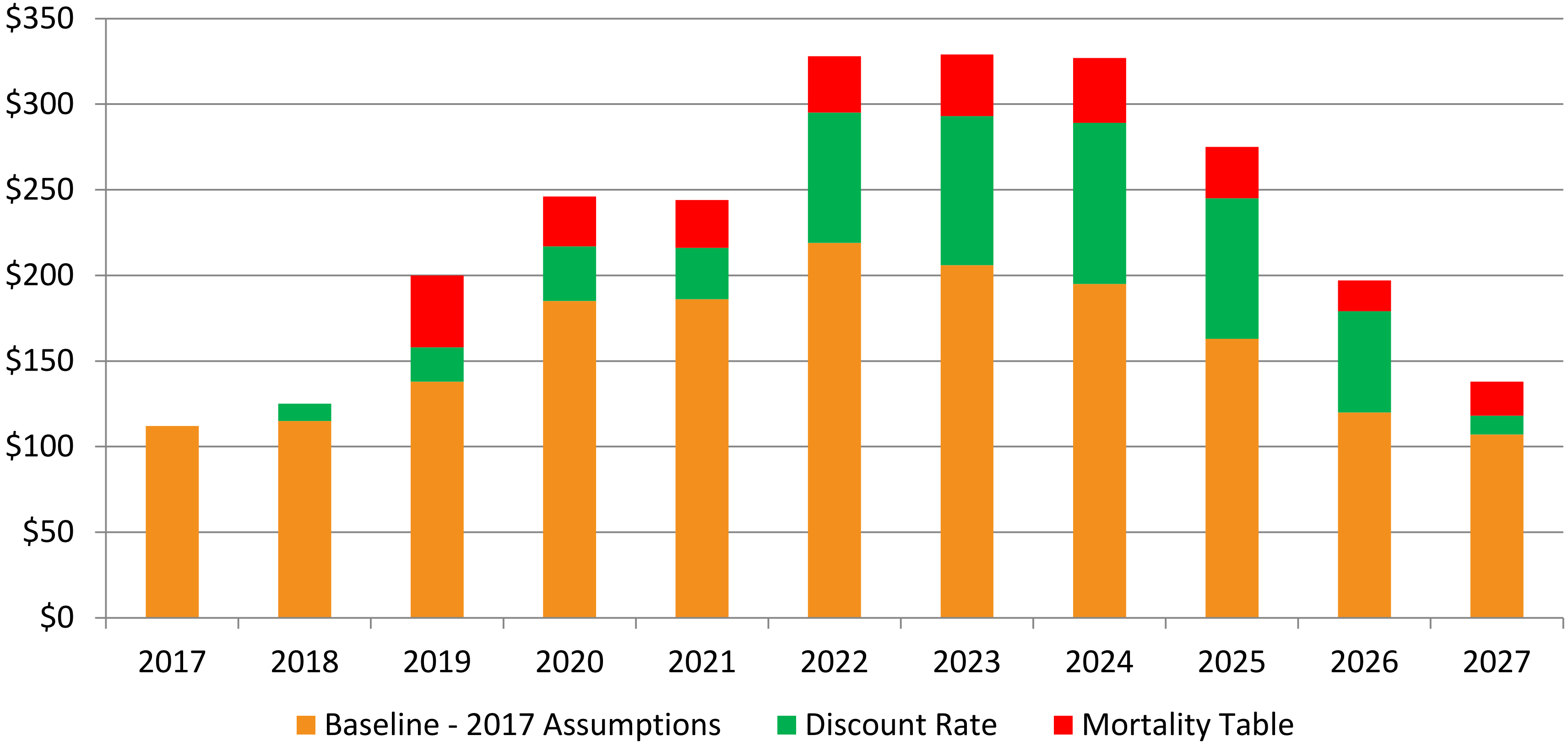
Since assets are smoothed over a two year period, asset gains and losses are gradually reflected into valuation results. Thus, the full impact doesn't make it into the contribution until the third year

Mortality Tables

- In 2014, the Society of Actuaries (SOA) published new mortality tables: the RP-2014 base tables and MP-2014 mortality improvement scales
- Although the new tables have been used since 2014 for corporate financial statements (including DOE accounting statements), the IRS is first adopting the new mortality tables in 2018 for calculating plan contributions
- Compared to the current tables required by the IRS, the new tables increase life expectancy by slightly under *two* years for males age 50 and slightly under *three* years for females age 50
- The new tables increase the plan's liability by approximately 5%. Although the adoption of the new tables is effective in 2018, it is first recognized in FY2019

FY Contribution Reconciliation

ERISA requires that contributions be calculated on a calendar-year basis, but paid on a quarterly basis. Amounts are then allocated to DOE fiscal years based on the dates they are required to be paid



Note: Amortization payments of $38M and $29M are fully amortized by 2019 and 2021, respectively and increase the underlying Baseline – 2017 Assumptions scenario in the following fiscal years