KPSC Case No. 2014-00396
AG's Initial Set of Data Requests
Dated January 29, 2015
Item No. 294
Attachment 4
Page 1 of 4

Pension Forecast Update

March 2004

Projected Pre-Tax Cash Funding Requirements

Congress has still not passed a final version of a bill that would provide interest rate relief to corporate pension plans. Current law requires companies to use the yield on the 30 Year Treasury bond to calculate pension liabilities. The relief proposed would allow companies to use a higher interest rate, thus lowering the pension liability. Possible action this year could be retroactive to January.

Without interest rate relief, large cash contributions are forecasted to be needed in 2005 and 2006. The estimates in the table below include both the contributions for the qualified plans and the payments from the company for the non-qualified plans. For 2004, the contribution to the qualified plan will be about $31.2 million.

These estimates were prepared using updated demographic data. The impact of the updates was mostly favorable to our expense and contribution estimates. A comparison to our previous forecast is shown for reference. The interest rate used for funding purposes was also updated to the most currently available. Since the yield on the 30-year Treasury bond has continued to drop since the start of the year, the forecasted amount of cash contributions has increased from our previous forecast. In the current forecast, a large Deficit Reduction Contribution would be required in 2006.

Cash Contributions

Current Forecast, March 2004

$ in Millions, pretax	2004	2005	2006	2007	2008	2009
With Relief	42	76	103	222	93	81
No Relief	41	137	337	266	50	49

Previous Forecast, January 2004

$ in Millions, pretax	2004	2005	2006	2007	2008	2009
With Relief	26	77	102	105	80	
No Relief	41	132	146	256	61	

Income Statement Impact

KPSC Case No. 2014-00396
AG's Initial Set of Data Requests
Dated January 29, 2015
Item No. 294
Attachment 4
Page 2 of 4

Pension expense will be higher as investment losses from past years are amortized. One effect of the large cash contributions that may be required without interest rate relief is that they would increase the total assets in the pension fund, which would in turn reduce future pension expense. Because of this effect, the amount of pension expense in the table below is lower in the scenario without interest rate relief than with interest rate relief. The following table summarizes the pre-tax impact on the income statement.

Pension Expense, Pre-tax

Current Forecast, March 2004

$ in millions	2004	2005	2006	2007	2008	2009
With Relief	39	76	104	107	89	82
No Relief	39	75	99	87	51	49

Previous Forecast, January 2004

$ in millions	2004	2005	2006	2007	2008
With Relief	41	78	103	103	82

Balance Sheet Impact on Equity Account

A charge to equity results when the current value of pension assets is lower than the present value of future liabilities. Without interest rate relief, the large contributions that will be required will reduce the AOCI charge in future years. The following table shows the estimated amounts of AOCI pre-tax.

Cumulative AOCI, Pre-tax

Current Forecast, March 2004

$ in Millions,	2004	2005	2006	2007	2008	2009
With Relief	786	775	738	695	669	645
No Relief	786	775	737	708	17	16

Previous Forecast, January 2004

$ in Millions,	2004	2005	2006	2007	2008
With Relief	786	770	731	690	665

Post Retirement Welfare Expense

KPSC Case No. 2014-00396
AG's Initial Set of Data Requests
Dated January 29, 2015
Item No. 294
Attachment 4
Page 3 of 4

The expense and funding of the retiree medical and life insurance benefits are not affected by the proposed pension interest rate relief legislation. The amount of expense and cash contributions are substantially the same, and the current forecast for post-retirement welfare expense is shown below.

Current Forecast, March 2004

$ in Millions,	2004	2005	2006	2007	2008	2009
Pre-Tax	169	164	155	146	139	131

KPSC Case No. 2014-00396
AG's Initial Set of Data Requests
Dated January 29, 2015
Item No. 294
Attachment 4
Page 4 of 4

These estimates are based on the following assumptions:

Accounting Assumptions	2003	2004
Return on Assets	9.00%	8.75%
Discount Rate	6.75%	6.25%
Basis for Discount Rate	Moody's AA Corporate Bond Index	Moody's AA Corporate Bond Index

Funding Assumptions	2003	2004
Discount Rate	8.50%	8.50%
Current Liability Interest Rate	6.65%	5.43%
Maximum Interest Rate Allowed	120% of 4 year average of 30 Year Treasury Bond	105% of 4 year average of 30 Year Treasury Bond