Actuarial Report

Gulf Power Company

ASC 715-60 Valuation
For 2010 Fiscal Year

Preparation of this Actuarial Valuation

For 2010 Fiscal Year

Gulf Power Company

This report has been prepared to present to management the financial accounting and reporting requirements for the fiscal period January 1, 2010 to December 31, 2010 for postretirement benefits other than pensions under U.S. Generally Accepted Accounting Principles as set forth in Accounting Standards Codification (ASC) Topic 715. Determinations for purposes other than financial accounting requirements may be significantly different from the results reported herein. Thus, the use of this report for purposes other than those expressed here may not be appropriate. The results as of other dates may also be significantly different from the results reported herein, and the scope of this report does not include an analysis of the potential range of results as of other dates.

In conducting the valuation, we have relied on personnel, plan design, health care claim cost, and asset information supplied by the Company (and its health plans) as of the valuation date. While we cannot verify the accuracy of all this information, the supplied information was reviewed for consistency and reasonability. As a result of this review, we have no reason to doubt the substantial accuracy or completeness of the information and believe that it has produced appropriate results. This information, along with any adjustments or modifications, is summarized in various sections of this report. In calculating fiscal year 2010 expense for postretirement benefits other than pensions, we have measured liabilities as of December 31, 2009. In calculating projected year-end disclosure results, we have measured liabilities as of December 31, 2009. Except as specifically noted elsewhere in this report, these projected results do not reflect changes in assumptions and other significant events between January 1, 2009 and the December 31, 2009 year-end measurement date.

This valuation has been conducted in accordance with generally accepted actuarial principles and practices, including the applicable Actuarial Standards of Practice (ASOPs) as issued by the Actuarial Standards Board. In addition, the valuation results are based on our understanding of ASC 715. The information in this report is not intended to supersede or supplant the advice and interpretations of the Company's auditors.

The actuarial assumptions and methods used in this valuation are described in the Actuarial Assumptions section of this report. The economic, demographic and health care claim cost assumptions were prescribed by the company for purposes of compliance with ASC 715. Hewitt Associates provided guidance with respect to these assumptions, and it is our belief that they represent reasonable expectations of anticipated plan experience. The actuarial cost method used is prescribed by ASC 715.

The preparation of this report included both health care and pension actuaries familiar with the near-term and long-term aspects of postretirement benefits. The undersigned are familiar with the near-term and long-term aspects of postretirement benefit valuations and meet the Qualification Standards of the American Academy of Actuaries necessary to render the actuarial opinions herein. Each section of this report is considered an integral part of the actuarial opinions.

Preparation of this Actuarial Valuation

To our knowledge, no associate of Hewitt Associates providing services to the Company has any direct financial interest or indirect material interest in the Company. Thus, we believe there is no relationship existing that might affect our capacity to prepare and certify this actuarial report for the Company.

Hewitt Associates LLC

Scott C. Twery	Matthew J. Phillips	Ellen Chow
Fellow of the Society of Actuaries	Fellow of the Society of Actuaries	Enrolled Actuary

October 2010

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Summary

Summary

About This Report

This report summarizes the results of nonpension postretirement benefit valuations under the Accounting Standards Codification (ASC) Topic 715 (formerly known as the Statement of Financial Accounting Standards No. 106 (FAS 106)) for Gulf Power Company (GULF). Specifically, the report shows the December 31, 2009 benefit obligations and the development of annual accounting cost under the ASC 715 guidelines for the retiree medical plan and the retiree life plan.

Note that cost determinations for other purposes, such as funding, differ from these ASC 715 results. Also note that none of the amounts in this material have been adjusted for any tax effects or for any other accounting rules.

A number of different measures of each plan's obligations are shown. These include the:

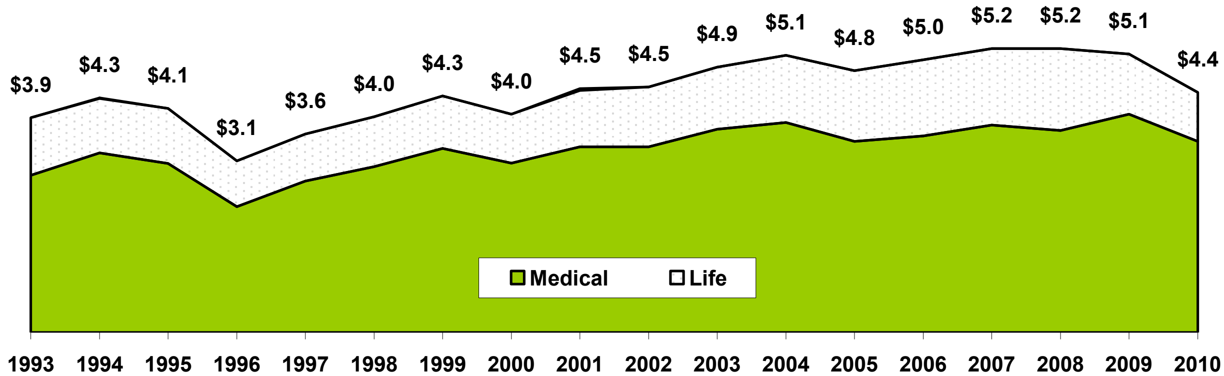
- *Expected Postretirement Benefit Obligation (EPBO)* which is the present value of all future benefit payments;
- *Accumulated Postretirement Benefit Obligation (APBO)* which is the portion of the EPBO attributed to employees'/retirees' past service;
- *Service Cost* which is the portion of the EPBO attributed to the current year; and
- *Net Periodic Postretirement Benefit Cost (Expense)* which is the net charge against income for these benefits.

A full description of these terms and the ASC 715 methodology appear in the Section entitled "Overview of ASC 715."

The results in this report exclude any events or remeasurements that occur after the measurement date, December 31, 2009.

ASC 715 Costs

GULF's total 2010 ASC 715 cost for retiree medical and life benefits is $4,350,122. This chart shows the trend in ASC 715 costs since 1993, in millions. Note that part of the change in cost from year to year is due to assumption changes.



Changes Since The Last Valuation

This year's valuation was, for the most part, done on the same basis as the last valuation; however, the following changes are being reflected for the first time with this valuation:

■ Data

— New personnel data was collected as of January 1, 2009 and projected to the December 31, 2009 measurement date for this valuation.

■ Plan

— Updated data on required retiree contribution levels was obtained and is reflected.

— The retiree life plan was changed to reduce post-65 benefits for all employees who retire after January 1, 2011. This change was effective September 1, 2009.

■ Assumptions

— The discount rate was decreased to 5.80% from 6.75% for the Retiree Medical Plan and decreased to 6.00% from 6.75% for the Retiree Life Plan to reflect the decrease in yields on high quality fixed income investments between the December 31, 2008 and December 31, 2009 measurement dates.

— The salary increase rate (average over a career) was changed to average 4.48% for noncovered employees, 3.56% for covered employees, and 4% for SERP eligible employees. These are averages over a full career for an employee hired at age 25 and retiring at age 61.

Summary

Changes Since the Last Valuation

- Assumptions

  — The expected return on assets for the 401(h) account and Provident Reserve was increased from 8.5% to 8.75%.

  — Net per capita annual health care claims cost assumptions were updated based on 2009 claims data.

  — The medical trend rates assumption was also changed to better reflect anticipated experience.

The discount rates were decreased to comply with the ASC 715 requirements that the assumptions reflect market conditions as of the measurement date and changes in the assumptions between measurement dates reflect changes in the market conditions. The other assumptions were changed to reflect emerging experience and revisions to future expectations. As required by ASC 715, the impact of all of these changes was treated as an experience item.

Other changes included retirement rates, withdrawal rates, percent married, and participation rates and were reflected in the 2010 fiscal year costs. See the Actuarial Assumptions section for details.

- Assets

  — The MetLife reserve as reported by Southern Company as of August 31, 2009 was treated as an experience gain in the retiree life plan. The amount was used to reduce company contributions and is expected to run out in 2011.

Results Summary

Primary results of the current year's ASC 715 valuation appear below. Prior year's results are shown for comparative purposes.

Fiscal Year	2009	2010
Medical Plans		
EPBO	$ 66,451,789	$ 68,061,293
APBO	$ 57,904,354	$ 58,407,845
Service Cost	$ 1,042,948	$ 1,072,909
Assets	$ 13,052,702	$ 14,092,409
Accrued Costs	$ 32,899,468	$ 34,680,909
Annual Cost	$ 3,987,435	$ 3,470,157
Personnel Counts		
Actives	1,286	1,301
Retirees and Surviving Spouses	577	595
Spouses of Retirees	293	299
Total	2,156	2,195
Life Plans		
EPBO	$ 15,929,574	$ 15,313,225
APBO	$ 14,486,409	$ 14,232,478
Service Cost	$ 285,399 [1]	$ 230,692
Assets	$ 127,029	$ 881,253 [2]
Accrued Costs	$ 16,389,904	$ 17,124,652
Annual Cost	$ 1,157,423 [1]	$ 879,965
Personnel Counts		
Actives	1,286	1,301
Retirees	503	519
Total	1,789	1,820
Total		
EPBO	$ 82,381,363	$ 83,374,518
APBO	$ 72,390,763	$ 72,640,323
Service Cost	$ 1,328,347 [1]	$ 1,303,601
Assets	$ 13,179,731	$ 14,973,662
Accrued Costs	$ 49,289,372	$ 51,805,561
Annual Cost	$ 5,144,858 [1]	$ 4,350,122

[1] Reflects remeasurement as of August 31, 2009 triggered by retiree life plan change.
[2] Includes MetLife reserve, which will run out in 2011.

Accounting Requirements

Accounting Requirements: ASC 715 Expense/(Income)

Accounting Information under ASC 715

The following pages contain information about the Benefit Obligations and the Expense/(Income) calculated under U.S. Generally Accepted Accounting Principles as set forth in Accounting Standards Codification (ASC) Topic 715.

In particular, the following pages present:

- A brief description of ASC 715 requirements (more detail appears in the section titled "Overview of ASC 715");
- A list of ASC 715 obligations by plan and by participant category;
- A summary of assets and contributions;
- The development of market-related value of assets;
- A reconciliation of the plan's funded status;
- The development of ASC 715 costs;
- The development of plan experience and gain/loss amortization; and
- A discussion of plan experience and gain/loss amortization.

Benefit Obligations

The Accumulated Postretirement Benefit Obligation (APBO) represents the actuarial present value of benefits based on service earned through the measurement date reflecting the effect of anticipated increases of medical claims and assumed future pay increases on ultimate benefit amounts, as applicable.

The Service Cost represents the actuarial present value of benefits that are attributed to the 2010 fiscal year, reflecting the effect of anticipated increases of medical claims and assumed future pay increases, as applicable. The Service Cost includes interest to the end of the measurement period at the ASC 715 discount rate.

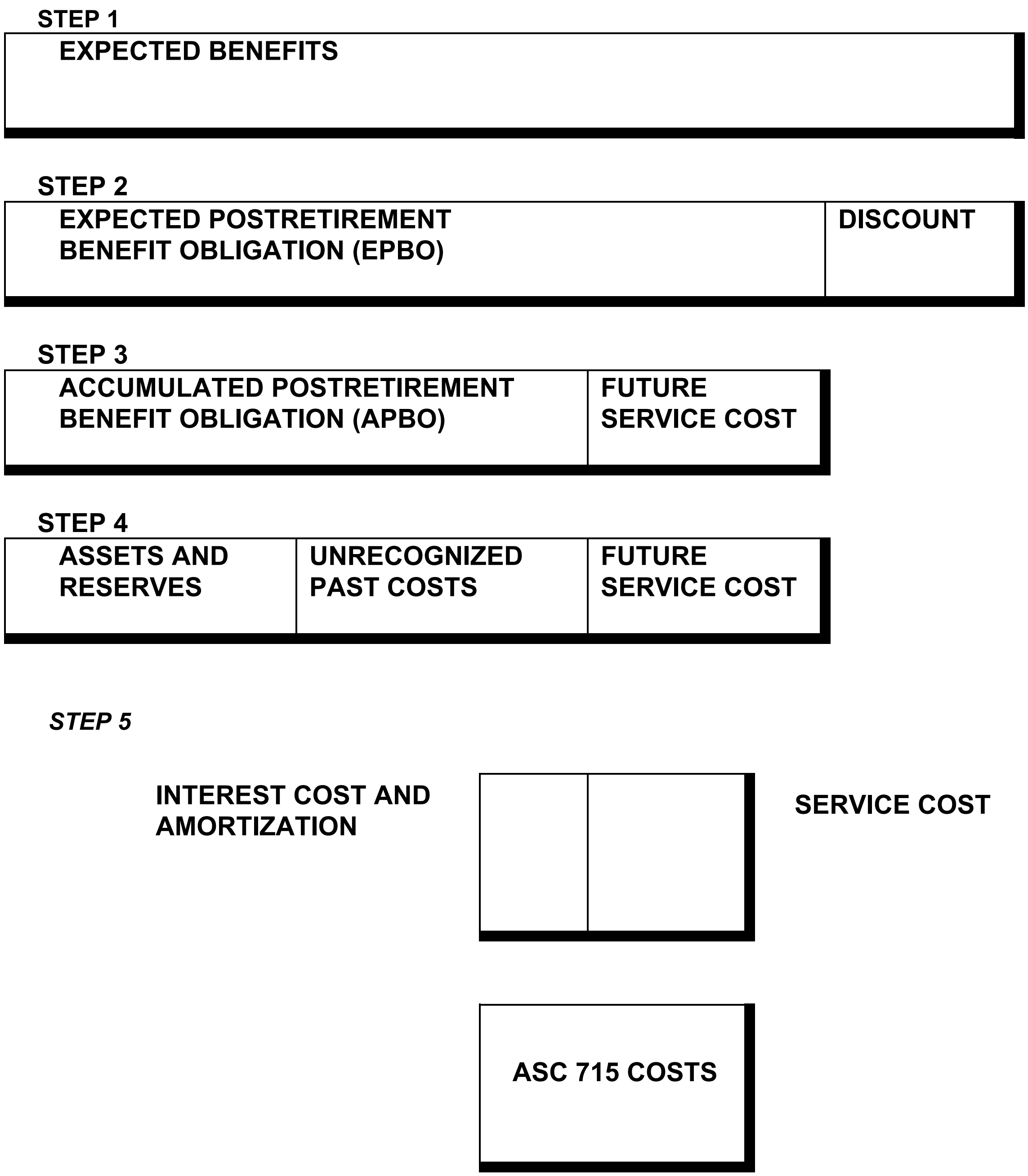
ASC 715 Expense/(Income)

The Net Periodic Postretirement Benefit Expense/(Income) is the annual amount to be recognized in the income statement as the cost of postretirement welfare benefits for this plan for the period ending December 31, 2010.

Settlement/Curtailment Expense/(Income) is the amount to be recognized in the income statement as the cost of special events such as settlements, curtailments, and the provision of certain termination benefits during fiscal 2010.

ASC 715 Valuation Process

This chart illustrates the five-step valuation process described on the facing page.



Accounting Requirements: ASC 715 Expense/(Income)

Accounting Information Under ASC 715

The Financial Accounting Standards Board issued Statement No. 106 (Employers' Accounting for Postretirement Benefits Other Than Pensions) now known as the Accounting Standards Codification Topic 715 issued under U.S. Generally Accepted Accounting Principles in December of 1990.

The expense and disclosure portions of ASC 715 are generally effective for fiscal years beginning after December 15, 1992. The non-U.S. plans portion of Topic 715 is effective for fiscal years beginning after December 15, 1994.

Gulf Power Company adopted the expense and disclosure portions of ASC 715 for its 1993 fiscal year based on a January 1 measurement date. The Transition Obligation as of January 1, 1993 was spread over the average remaining service period (but not less than 20 years).

ASC 715 Obligation and Expense Determination—The Process

The outline below describes the process used for determining benefit obligations and expenses under ASC 715:

(1) Postretirement benefits for each year in the future are projected for each individual participant based on the assumptions made about the future, plan provisions, and census data.

(2) The expected benefits for each participant are discounted to the valuation date. This yields the present value of expected future benefits called the *Expected Postretirement Benefit Obligation (EPBO).*

(3) The present value is attributed ratably to past and future years of service for each participant. The past service cost is called the *Accumulated Postretirement Benefit Obligation (APBO).*

(4) The total past service cost is compared to plan assets and reserves. The difference is the unrecognized past service cost. In the first year ASC 715 is implemented, the unfunded and unreserved past service cost is called the *Transition Obligation.*

(5) The expense consists of the current year's portion of the future service cost, called the *Service Cost*, and payment on the unfunded and unreserved past service cost. The payment is the net of interest on the past service cost, less expected return on assets, plus a principal payment on the unfunded and unreserved amount. To smooth the net ASC 715 costs, the expected asset return is often based on a *Market-Related Value of Assets* that spreads the recognition of asset (gains)/losses over a few years.

A graphic on the facing page illustrates this process.

ASC 715 Obligations, December 31, 2009

The obligations shown below are based on the personnel information and plan provisions supplied by the Company, actuarial assumptions described in later sections of this report, and the cost allocation method mandated by ASC 715.

	Retiree Medical	Retiree Life	Total
EPBO			
Actives			
Fully Eligible	$ 8,249,528	$ 1,772,165	$ 10,021,693
Other	30,802,220	3,803,749	34,605,969
Total	$ 39,051,748	$ 5,575,914	$ 44,627,662
Retirees	29,009,545	9,737,311	38,746,856
Total	$ 68,061,293	$ 15,313,225	$ 83,374,518
APBO			
Actives			
Fully Eligible	$ 8,249,528	$ 1,772,165	$ 10,021,693
Other	21,148,772	2,723,002	23,871,774
Total	$ 29,398,300	$ 4,495,167	$ 33,893,467
Retirees	29,009,545	9,737,311	38,746,856
Total	$ 58,407,845	$ 14,232,478	$ 72,640,323
Service Cost			
Actives			
Fully Eligible	$ 0	$ 0	$ 0
Other	1,072,909	230,692	1,303,601
Total	$ 1,072,909	$ 230,692	$ 1,303,601
Retirees	0	0	0
Total	$ 1,072,909	$ 230,692	$ 1,303,601

Accounting Requirements: ASC 715 Expense/(Income)

Assets for Fiscal 2010

The Company has established funds to pay a portion of its retiree medical and life benefits. This summary of assets was supplied by the Company.

	Retiree Medical	Retiree Life	Total
Assets, December 31, 2009			
401(h)/Provident Reserves[1]	$ 13,635,382	$ 53,916	$ 13,689,298
VEBA	457,027	72,365	529,392
MetLife Reserves	0	754,972	754,972
Total	$ 14,092,409	$ 881,253	$ 14,973,662

[1] The 401(h) account includes amounts that have been funded for future retiree medical benefits through a separate account in the pension plan. The Provident reserves are amounts reserved for certain supplemental life insurance benefits.

Accounting Requirements: ASC 715 Expense/(Income)

Development of Market-Related Value of Assets, December 31, 2009

The 401(h) and any VEBA accounts are to be valued using a smoothing method. This asset valuation method is designed to spread unexpected asset gains or losses over a period of five years. Each year, 20% of the prior five years' asset gains and losses are recognized. Effectively, the market-related value is equal to the difference between the market value and nonadmitted asset gains and losses from prior years. The market-related value is used for determining the expected return on assets component of ASC 715 costs.

	401(h) Account	VEBAs Medical	VEBAs Life
Asset (Gain)/Loss Calculation			
(1) Market Value, 12/31/2008	$ 12,586,342	$ 466,360	$ 76,424
(2) Benefit Payments from Account	(941,098)	(39,188)	(14,355)
(3) Contributions to Account	0	39,188	14,355
(4) Expected Return on Assets	1,397,301	28,852	5,967
(5) Expected Market Value, 12/31/2009, (1)-(2)+(3)+(4)	$ 13,042,545	$ 495,212	$ 82,391
(6) Actual Market Value, 12/31/2009	13,635,382	457,027	72,365
(7) Asset (Gain)/Loss During 2009, (5)-(6)	$ (592,837)	$ 38,185	$ 10,026
Market-Related Value of Assets Calculation			
(1) Market Value, 12/31/2009	$ 13,635,382	$ 457,027	$ 72,365
(2) Nonadmitted (Gains)/Losses			
(a) 1/1/2009 to 12/31/2009	$ (474,270)	$ 30,548	$ 8,021
(b) 10/1/2007 to 12/31/2008	4,362,896	46,883	13,787
(c) 10/1/2006 to 9/30/2007	(661,201)	13,209	7,042
(d) 10/1/2005 to 9/30/2006	(150,017)	9,333	3,348
(e) Total	$ 3,077,408	$ 99,973	$ 32,198
(3) Market-Related Value, 12/31/2009, (1)+(2e)	$ 16,712,790	$ 557,000	$ 104,563

Accounting Requirements: ASC 715 Expense/(Income)

Reconciliation of Funded Status, December 31, 2009

The following reconciles the funded status of the Company's plans with amounts accrued on its financial statements. Unfunded and unaccrued amounts will generally be accrued over the average remaining service period of active participants expected to benefit from the plan.

	Retiree Medical	Retiree Life	Total
December 31, 2009			
APBO	$ (58,407,845)	$ (14,232,478)	$ (72,640,323)
Plan Assets	14,092,409	881,253	14,973,662
Funded Status	$ (44,315,436)	$ (13,351,225)	$ (57,666,661)
Unrecognized Amounts			
Transition Obligation	706,740	0	706,740
Prior Service Cost	2,745,528	(1,864,433)	881,095
(Gain)/Loss	6,182,259	(1,908,994)	4,273,265
Accrued Postretirement Benefit Cost	$ (34,680,909)	$ (17,124,652)	$ (51,805,561)

Accounting Requirements: ASC 715 Expense/(Income)

2010 Fiscal Year Net Postretirement Benefit Cost

The following develops the net periodic postretirement benefit cost or expense for the fiscal year. This cost reflects the decision by the Company to amortize its transition obligations. In addition, the Company utilizes a smoothed market-related value of assets and a 10% gain/loss corridor in determining its net cost. As you can see, the fiscal year cost is the net of several amounts that are described elsewhere in this report. All amounts shown are annual.

	Retiree Medical	Retiree Life	Total
2010 Fiscal Year Net Postretirement Benefit Cost			
Service Cost	$ 1,072,909	$ 230,692	$ 1,303,601
Interest on APBO	3,288,244	832,391	4,120,635
Expected Return on Assets	(1,470,213)	(9,700)	(1,479,913)
Amortization of Unrecognized Amounts			
Transition Obligation	257,000	0	257,000
Prior Service Cost	322,217	(136,422)	185,795
(Gain)/Loss	0	(36,996)	(36,996)
Net Periodic Postretirement Benefit Cost	$ 3,470,157	$ 879,965	$ 4,350,122
Supplemental Data, December 31, 2009			
Market-Related Asset Value	$ 17,269,790	$ 158,479	$ 17,428,269
Expected Benefit Payments	$ 3,427,981	$ 718,595	$ 4,146,576
Average Remaining Service for (Gain)/Loss Amortization	14.00 Years	14.00 Years	
Amortization Schedule			
Unrecognized Transition Obligation	$ 706,740		$ 706,740
Amortization of Transition Obligation	$ 257,000		$ 257,000
Remaining Amortization Period	2.75 Years		
Unrecognized Prior Service Cost	$ 2,745,528	$ (1,864,433)	$ 881,095
Amortization of Prior Service Cost	$ 322,217	$ (136,422)	$ 185,795
Remaining Amortization Period	8.52 Years	13.67 Years	

Development of Gain/Loss Amortization, December 31, 2009

The actuarial gain or loss is a measure of unexpected changes in the plan's funded status. The gain/loss is found by comparing the expected funded status of the plan at year-end (based on the beginning of year actuarial assumptions) and the actual funded status at year-end before recognizing any plan changes. The total unrecognized gain/loss is the accumulation of all gains/losses since adoption of ASC 715, less any amounts included in the prior years' costs. If the total unrecognized gains/losses (adjusted for nonadmitted asset gains/losses) exceed 10% of the greater of the APBO or market-related asset values, then a portion of the excess is included in the current year's costs.

		Retiree Medical	Retiree Life	Total
Actuarial Experience Determination				
(1)	Funded Status, 12/31/2008	$ (44,851,652)	$ (14,359,380)	$ (59,211,032)
(2)	Service Cost, 12/31/2008 to 12/31/2009	1,042,948	285,399	1,328,347
(3)	Interest Cost, 12/31/2008 to 12/31/2009	3,791,423	913,685	4,705,108
(4)	Expected Return, 12/31/2008 to 12/31/2009	(1,426,153)	(10,093)	(1,436,246)
(5)	Contributions, 12/31/2008 to 12/31/2009	2,500,604	422,908	2,923,512
(6)	Effects of Special Accounting	0	0	0
(7)	Expected Funded Status, 12/31/2009, (1)-(2)-(3)-(4)+(5)+(6)	$ (45,759,266)	$ (15,125,463)	$ (60,884,729)
(8)	Impact of Amendments	0	2,416,030	2,416,030
(9)	Effect of Transfers	0	0	0
(10)	Actual Funded Status, 12/31/2009	(44,315,436)	(13,351,225)	(57,666,662)
(11)	Total (Gain)/Loss, 12/31/2008 to 12/31/2009, (7)+(8)+(9)-(10)	$ (1,443,830)	$ 641,792	$ (802,038)
Development of Total Unrecognized (Gains)/Losses				
(12)	(Gain)/Loss Amortized[1]	294,610	(67,521)	227,089
(13)	Prior Unrecognized (Gain)/Loss, 12/31/2008	7,920,699	(2,618,307)	5,302,392
(14)	(Gain)/Loss Allocated to Transfers	0	0	0
(15)	Unrecognized (Gain)/Loss, 12/31/2009, (11)-(12)+(13)-(14)	$ 6,182,259	$ (1,908,994)	$ 4,273,265
Calculation of (Gain)/Loss Amortization				
(16)	Nonadmitted Asset (Gains)/Losses	3,177,381	32,198	3,209,579
(17)	Unrecognized (Gain)/Loss Subject to Amortization, (15)-(16)	$ 3,004,878	$ (1,941,192)	$ 1,063,686
(18)	10% of Greater of APBO or Market-Related Asset Value	$ 5,840,785	$ 1,423,248	$ 7,264,033
(19)	(Gain)/Loss to be Amortized, Excess of (17) Over (18), if Any	$ 0	$ (517,944)	$ (517,944)
(20)	Average Remaining Service to Expected Retirement	14.00 Years	14.00 Years	
(21)	(Gain)/Loss Amortization, (19)÷(20)	$ 0	$ (36,996)	$ (36,996)

[1] Includes adjustments when/where necessary to compensate for rounding and to match reported (accrued)/prepaid costs.

Comments on Plan Experience

The annual valuation quantifies the differences between the plan's actual experience and anticipated experience since the last valuation. The experience is favorable if the plan's past service liabilities are lower than what would have been anticipated this year using last year's actuarial assumptions. If this is the case, an actuarial gain has occurred. If liabilities exceed the expected level, a loss has occurred as a result of unfavorable experience. Losses generally lead to increased costs; gains usually result in lower costs.

During the period between January 1, 2009 and December 31, 2009 for the retiree medical plan, the Company experienced a gain of about $1.4 million, and for the retiree life plan, a loss of about $0.6 million. The primary factors leading to these gains and losses are:

- Economic Assumption Changes—Per capita claims were adjusted to reflect the most recently available data on actual claims and premiums. The discount rate was decreased to reflect the increase in returns on high-quality, fixed-income investments. The medical trend rates assumption was also updated. Initial trend rates were adjusted and ultimate trend rates were decreased.

- Asset Gains/Losses—Assets were expected to yield 8.50% on 401(h) and Provident reserves accounts and a 5.0% annual return on VEBA accounts. The actual return on assets from January 1, 2009 to December 31, 2009 for retiree medical was about 15.74%, and for retiree life was about (0.59%), resulting in a net gain of about $0.5 million.

- Personnel and Miscellaneous Changes—This item normally reflects changes in the overall composition and demographics of the plan population. This item also typically includes gains/losses that resulted from other events during the year being different than anticipated, and gains/losses that resulted from any data changes.

Appendix

Personnel Information

This section contains a summary of personnel data submitted and used for the measurement of cost for fiscal 2010. The benefit obligations as of the December 31, 2009 measurement date were based on projections using personnel data supplied as of the preceding January 1 supplemented by pay data as of the preceding March. Summaries of the data as of January 1, 2008 and January 1, 2009 are on the following pages.

Personnel Information

Personnel Counts by Status

The table below shows the number of retired and active participants by eligibility category.

	January 1, 2008	January 1, 2009
Retiree Medical		
Retirees and Surviving Spouses[1]		
Under Age 65	201	195
Age 65 or Older	376	400
Total	577	595
Spouses of Retirees	293	299
Actives	1,286	1,301
Total	2,156	2,195
Retiree Life		
Retirees	503	519
Actives	1,286	1,301
Total	1,789	1,820

[1] Research is ongoing to identify survivors of retirees with nongrandfathered coverage. For conservatism, all survivors have been assumed to have grandfathered coverage. It is anticipated that around 50 survivors, system wide, will be determined to have nongrandfathered coverage once the research is complete.

Personnel Information

Personnel Characteristics of Active Participants

This chart shows key demographic statistics of the active participants included in the valuation.

	January 1, 2008	January 1, 2009
Number		
Males	948	952
Females	338	349
Total	1,286	1,301
Average Present Age		
Males	45.9	45.8
Females	44.8	45.1
Total	45.6	45.6
Average Years of Vesting Service		
Males	19.2	19.1
Females	15.3	15.3
Total	18.2	18.1
Average Entry Age		
Males	26.7	26.7
Females	29.5	29.8
Total	27.4	27.5
Average Compensation[1]	$ 61,291	$ 61,721

[1] Reflects increases in base rate of pay through March 1.

Distributions of Active and Retired Personnel

The following two charts show distributions of active participants and retired participants. The actives distribution shows participants by attained age and completed years of service as of the valuation date. The retirees distribution shows participants by attained age and completed years since retirement date.

These charts may be useful in obtaining various types of information:

- The number of participants who will become eligible for early or normal retirement benefits in the next few years;
- The number of participants who continue to work past age 65;
- The age at which active participants were hired;
- The retirement ages of current retirees;
- The number of participants who will be affected by changes in plan provisions or other benefits based on eligibility requirements; and
- The distribution of participants around certain averages.

DISTRIBUTION OF PERSONNEL BY AGE AND YEARS OF SERVICE

Gulf Power Company

Active Participants

- This distribution shows personnel by age last birthday and completed years of service as of 01/01/2009. For instance, the cell at age 25 and 1 year of service contains 1 employee.
- Individual careers progress along a diagonal (stair-step) line; e.g., all employees commencing service at age 25 appear on the diagonal which starts at age 25 with 0 service and runs through 26 and 1, 27 and 2, etc.
- The average age and service of this group is 45.6, 18.1.

Years of Service

Age	0	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	32	33	34	35	36	37	38	39	40+	M	F	T
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21			3	1	2																																					6		6
22		1	9		2																																					11	1	12
23		3	7	2																																						9	3	12
24		3	4	1		1																																				6	3	9
25		1	1	4	1	1																																				5	3	8
26			3	2	2	2	2	1	2																																	11	3	14
27			4	5	2	2	1	1																																		11	4	15
28			5	1	4	2	4	2	3																																	15	6	21
29		2	1	6	2	4	4	4		1	1	1																														20	6	26
30			2	2		3	2	2	1		3																															9	6	15
31			2	2	2	5	1	1	2	3																																18		18
32			2			3	6	5	1	1	2	2	1	1																												18	6	24
33		1	4	1	3	2	2	3	1	3	7		1	1																												19	10	29
34		1			1	2	2	4	2	2	2	1	2																													14	5	19
35		2	1			1	1	3		4	6	2	2			2																										17	7	24
36			2	1	1	1	1	2	1	4	3	1				1	2				1																					16	5	21
37			2	1	3	2	1	2		1	3	4	1	2	1		1	4	1																							17	12	29
38			1		4	2	1	4	2		5	1					2	1	2	5	1																					22	9	31
39			4	3		1	3	1	2	1	5		2	1	1			1	2	2	2	1	1																			19	14	33
40		2	3			1	2	1		3	3	1		1		1	2	1		3	3		1																			19	9	28
41			4				3		3	2	1	1				1		1	1	1	1	1	4																			16	8	24
42			2	2	1			1		1	3	1	1		1	2	3	3	1	4	1	5	2	1	1	1	2															27	12	39
43			1	1		2		2	2	2	2	1				2	1		2	2	2	3	3				1															20	9	29
44				1	1			4	1	2	1		3	2			1	2	4	3	4	4	2	3	5	1																26	18	44
45		1	3		1	1	2	1	1	1	3	1	1		1	2	1	1	5	2	5	5	4	3					2	1												32	16	48
46		1						4	1	6	1	1				1		1	2	3	2	4	4	3	2	3		1	2	1												29	14	43
47			1	2	1	1			1	1	1	1				1	1		3	3	4	3	4	1	2	2		2	4		1											29	11	40
48		1	4		1	2			3	2	1	1		1	1			1	5		2	5	6	7	2	3	5	1	3	3	3											45	18	63
49			1			1	1			1	1		1	1	1		1		3	2	1	3	4	4	4	1	1	3	3	3	5	2	1									33	16	49
50		1	1		1						1								3	1	1	3	3	3	4	4	5	3	4	6	5	2	2									39	14	53
51						1	2		1		1						1			2		2	5	2	2	7	2	6	4	7	4	6	6	2								52	11	63
52			2	1		1					2		1			1		1	1		2	2	5	1	2			2	3	6	12	7	5	1								41	17	58
53			1	2						3	2			1		1	1	1				2	4		4	2	2	5	2	4	7	7	4	3		2						45	15	60
54				1	1			1	2	1			1				1			1			3		2	1	2	1	6	5	1	3	7	2	1	4						39	8	47
55					1		1														1		3		2	1	1	2	3	3	1	5	4	5	1	3	2	2	1			32	10	42
56											1						1					1	1	1		2	1	2	2	2	3	1	8		1	1	2	1	1			26	6	32
57								1										1		2	1	1	3		1		1	5	2		3	1	2	3		2	5	1	2	1		32	6	38
58				1				1	1												1	1	2	1		1				1	2	1	2	1	1	3	5	2	2	1	1	23	8	31
59																			1	1			1			1		1		3	2	5	2		1		1	3	1		1	21	3	24
60		1																				2			2		1		1			1	1	1		1		2	2	2	1	15	3	18
61												1			2	1		1		2	1	1	1							1	1	1	2	1	2	1	1	1		4	3	19	9	28
62									1									1					1				1				1	1					1	2	1	1	1	9	3	12
63												1														1			1									1			1	4	1	5
64																									1							1			1	1				1	1	6		6
65																1																1										1	1	2
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67																																												
68																																												
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M		13	61	28	24	35	29	34	23	31	39	10	10	5	2	12	9	11	28	31	27	35	55	23	30	24	17	24	32	40	46	34	40	14	4	15	16	14	8	10	9	952		
F		8	23	19	13	9	13	17	11	14	22	12	7	6	6	5	10	10	8	8	9	14	12	7	7	7	8	10	10	6	5	11	6	5	4	3	1	1	2				349	
T		21	84	47	37	44	42	51	34	45	61	22	17	11	8	17	19	21	36	39	36	49	67	30	37	31	25	34	42	46	51	45	46	19	8	18	17	15	10	10	9			1,301

0 Service 5 10 15 20 25 30 35 40+

Personnel Information

DISTRIBUTION OF PERSONNEL BY AGE AND YEARS SINCE RETIREMENT

Gulf Power Company

Retiree Medical Participants

- This distribution shows personnel by age last birthday and completed years since retirement as of 01/01/2009. For instance, the cell at age 65 and 2 years since retirement contains 2 retirees.
- Individuals retiring at the same age progress along a diagonal (stair-step) line; e.g., all employees retiring at age 65 appear on the diagonal which starts at age 65 with 0 years since retirement and runs through 66 and 1, 67 and 2, etc.

Years since Retirement

Age	0	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	32	33	34	35	36	37	38	39	40+	M	F	T
45																																												
46																																												
47																																												
48																																												
49																																												
50																																												
51																																												
52		2																																								2		2
53	1		1	1																																						3		3
54	3		2		2																																					5	2	7
55	2	1	2					1																																		1	5	6
56	3	1	2		1	1																																				6	2	8
57	1	4			1	1	2	2		1																																8	4	12
58		4	2	2					1																																	8	1	9
59	1	5	6			3	1	1	2	1																																12	8	20
60	1	7	1	1	1	4	3				3		1																													16	6	22
61	2	3	2	1		6	1	3	3		1	1	1																													18	6	24
62	2	1	5	2	2	1			2		1																															13	3	16
63	6	2	5	2	2		1	2	2	1	3		1																													19	8	27
64	1	7	6	3	2	3	2	2	2	7	1		1							1																						26	12	38
65	2		2	2	3	8	2	1	1	3	2		2																													21	7	28
66	3	2	2	1	7	2		1		1	3	5	3					1																								24	7	31
67			1		2	1	1	3	1		4	1	6	1																												15	6	21
68				1	2	1			1	1		2	4	2	1																											9	6	15
69		2			1		1	1	1	1	5	2	3		1								1		1																	10	10	20
70				1	1		1		2		4	1	8			1																										17	2	19
71							1	1	1	2		1	5		2	2	1																									10	6	16
72						2				1	2		7	1	1		1			1																						8	8	16
73													6		2	1	1		1		1																					6	6	12
74										2			4	1	2		1	2			1																					10	3	13
75										1			5	4	2		3	1	1	3	1					1																14	8	22
76													2		1		2	2		3			1									1										7	5	12
77							1					1			2	2		3	1	2		1	1		1								1									8	8	16
78														1	1	3	3	3	1		1	3	1	2					1													11	9	20
79													3		1	1	2	3	2	2		1				1																11	5	16
80													2		1	3	2	2	1	1	1	3	1			1																13	5	18
81																1	3	3	3	6		2		2	1																	16	5	21
82																1				3	4			1	1	1		4														8	7	15
83																	1	2	1		1	1	1		2			1	1													4	7	11
84																				1	2	2		1	4		1			1												6	6	12
85																			1	1	1		2	2	2	1		1		1	2											11	3	14
86																						1	2	2	2			1				1										7	2	9
87																						1	2				1						2									3	3	6
88																							1			1	1	1														3	1	4
89																												1				1			1							1	2	3
90																									1	1		2														4		4
91																													1				1										2	2
92																																		1			1						2	2
93																																												
94																																								1			1	1
95																																												
96																																		1									1	1
97																																	1									1		1
98																																												
99																																												
100+																																												
M	25	31	28	15	21	23	9	13	13	14	22	8	44	5	11	10	14	15	9	17	9	8	9	4	6	2	2	3		1	1	1	1		1							395		
F	3	10	11	2	6	10	8	5	6	8	7	6	20	5	6	5	6	7	3	7	4	7	4	6	9	5	1	8	3	1	1	2	4	2			1			1			200	
T	28	41	39	17	27	33	17	18	19	22	29	14	64	10	17	15	20	22	12	24	13	15	13	10	15	7	3	11	3	2	2	3	5	2	1		1			1				595

0 Years 5 10 15 20 25 30 35 40+

Postretirement Medical Plan

Eligibility	Retirement from active service.
Continuation of Benefits	Continued for life to the surviving spouse of a retiree or active eligible for retirement.
Plan	
Under 65	Multiple self-insured options—Standard PPO shown below.
Age 65 and Older	Medicare Supplement.
Deductible	
Under 65	$250 per individual; $750 maximum per family.
Age 65 and Older	Medicare Part B Deductible.
Coinsurance	
Under 65	Plan pays 100% after applicable copays in-network. Plan pays 60% coinsurance out-of-network.
Age 65 and Older	Plan pays remaining 20% of Medicare approved charges.
Maximum Out-of-Pocket	
Under 65	$1,500 per individual; $4,500 per family.
Age 65 and Older	Not applicable.
Maximum Lifetime Coverage	
Under 65	$2,000,000
Age 65 and Older	Limited to 365 days of inpatient hospital services in benefits or 730 days if requirements met.
Outpatient Visit	
Under 65	Plan pays 100% after $25 copay.
Age 65 and Older	Plan pays the remaining 20% of the Medicare approved amount after deductible is met.
Outpatient Surgery	
Under 65	Plan pays 100% after $50 copay.
Age 65 and Older	Plan pays the remaining 20% of the Medicare approved amount after deductible is met.

Postretirement Medical Plan

Inpatient Hospital	
Under 65	Plan pays 100% after $200 copay per admission (Participant pays $50 copay per day; limited to days two through six).
Age 65 and Older	Plan pays Part A deductible in full and applicable coinsurance.
Emergency Room	
Under 65	Plan pays 100% after $50 copay if not followed by admission.
Age 65 and Older	Plan pays the remaining 20% of the Medicare approved amount after deductible is met.
Prescription Drugs	
Under 65	Retail: $50 deductible applies; Participant pays 10% for generic drugs and 20% for formulary brands, and 30% for nonformulary brands (all subject to $5 minimum copay). Mail order: Participant pays $10 generic, $30 formulary brands, and $60 nonformulary brands.
Age 65 and Older	Plan covers prescription drugs up to a maximum of $5,000 per person annually. $50 deductible applies. Retail: Participant pays 10% coinsurance generic, 20% formulary brand, and 30% coinsurance non-formulary brand (all subject to $5 minimum copay). Mail order: Participant pays $10 copay generic, $30 copay formulary brands, and $60 copay non-formulary brands.
Retiree Contributions	
Prior Plan (Grandfathered)	Monthly contributions required from current retirees follow:

Coverage Category	Monthly Contribution
Retiree Only Under 65	$ 39.54
Retiree Under 65 Plus Spouse Under 65	$ 298.30
Retiree Only 65 or Over	$ 7.40
Retiree 65 or Over Plus Spouse 65 or Over	$ 45.20
Surviving Spouse Under 65	$ 258.76
Surviving Spouse 65 or Over	$ 37.80

Postretirement Medical Plan

Retiree Contributions

Current Plan (Nongrandfathered)

All retirees will contribute the difference between the annual cost of coverage and the "Company's share of that cost" which equals:

	Annual cost of coverage
x	50% + [1% x years of accredited service (max 40)]
=	Company's share

The maximum annual cost of coverage which the Company will consider in determining its share of the cost is as follows:

Category	Amount
Single	
Under 65	$ 7,500
Over 64	$ 2,000
Family	
Retiree & Spouse Under 65	$ 15,000
One Under 65 & One Over 64	$ 9,500
Retiree and Spouse Over 64	$ 4,000

The Company's share of the annual cost will be reduced 3.6% per year for each year retirement precedes age 55.[1]

However, retiree contributions will be determined pursuant to the prior plan for all current retirees who retired before 2002 but after attaining age 55[2] and all current employees who met these conditions as of January 1, 2002:

(1) Had at least 25 years of accredited service (and retired after attaining age 55); or

(2) Were age 55 and had at least 10 years of accredited service.

[1] Does not apply to employees who retire prior to January 1, 2006.
[2] The current plan contributions will not apply to anyone before 2006.

Postretirement Medical Plan

Details Related To Measurement of Anticipated Impact of 2003 Medicare Act
The cost measurements reflect the expected impact of the 2003 Medicare Act on the existing substantive plan provisions. Gulf Power Company's (GULF's) expectations are based on its current understandings of the Act and what final regulations are anticipated to allow.

- The company expects to apply for and receive the new 28% federal prescription drug ("Rx") subsidy, because the company believes its Rx benefits will be deemed actuarially equivalent to Medicare Part D benefits.[1] However, some Medicare-eligible retirees may enroll in Part D making it impossible for the company to collect the federal subsidy for their benefits. For those retirees, the company's benefits are expected to integrate[2] with whatever payments the Part D plans make.

- For grandfathered employees/retirees,[3] the company will automatically inflate the maximum annual prescription drug benefit so that its Rx benefits will be deemed actuarially equivalent to Medicare Part D benefits for all future years.

- For nongrandfathered employees/retirees,[4] the company expects that its Rx benefits will be deemed actuarially equivalent to Medicare Part D benefits for the next 20 years.

The following provides more details on how GULF has interpreted its grandfathered benefits in light of the Medicare Act.

Actuarial Equivalence

GULF's Rx coverages are expected to be actuarially equivalent to Part D benefits. This testing was done by a qualified group actuary familiar with GULF's Rx benefits. Each Rx coverage was tested separately and deemed actuarially equivalent if (a) equaled or exceeded (b), where (a) and (b) are:

(a) The average, annual, anticipated claims expected to be paid by the coverages less an allocation of the contributions retirees must pay for healthcare benefits.

(b) The average, annual, anticipated claims expected to be paid pursuant to the basic Part D benefits less the average anticipated cost of Part D benefits to retirees ($35/month per covered individual).

[1] Rx benefits created by the 2003 Medicare Act which will be delivered by private companies.
[2] This integration is often referred to as the "wraparound" approach. The form of integration has been based on the methodologies (carve-out or coordination) that the companies have used historically to integrate with Medicare Parts A and B.
[3] The company pays for the cost of medical and Rx benefits for the grandfathered group to the extent that cost exceeds a modest contribution these retirees pay.
[4] The company has committed to pay a fraction of the cost of coverage up to a fixed dollar amount or cap ($7,500, or $2,000 if Medicare eligible).

Postretirement Medical Plan

Actuarial Equivalence	Note that only a fraction of the contributions retirees must pay for healthcare coverages were attributed to Rx benefits. That fraction was based on the relative anticipated cost of retiree medical and Rx coverages for Medicare eligible retirees. The $5,000 annual limit on payments from GULF's Rx coverages is expected to increase when necessary to keep the plans actuarially equivalent as an operational consequence of the Medicare Act. The Company's benefits for nongrandfathered employees are also anticipated to be actuarially equivalent to the Medicare benefit for 20 years. The pricing of coverage will reflect subsidies received for this group.
Integration with Part D Benefits	By law, GULF will not receive the 28% federal Rx benefit subsidy for those Medicare eligible retirees who enroll in a Medicare Part D plan. GULF's Rx coverages for these employees will be the same as they are for those who do not enroll in a Part D plan. However, GULF's benefits will integrate with Part D benefits using the same methodologies that have been used for years to integrate with Medicare Parts A & B.

Postretirement Life Plan

Eligibility

Retirement from active service.

Benefits

Current Plan

The benefit is determined by the following formula:

$2,000
x Years of accredited service (max 25)
= Benefit

The benefit will be 1/2 this amount if the employee retires before age 55.[1]

However, retiree benefits will be determined pursuant to the prior plan for all current retirees who retired before 2002 but after attaining age 55[2] and all current employees who met these conditions as of January 1, 2002:

(1) Had at least 25 years of accredited service (and retired after attaining age 55); or

(2) Were age 55 and had at least 10 years of accredited service.

Prior Plan

Retirements On or After December 1, 1986

Age 65 or Older

Multiple of pay based on age.

Age	If > 49 on January 1, 1987	If < 50 on January 1, 1987
65	229%	100%
66	212%	95%
67	194%	90%
68	179%	85%
69	165%	80%
70+	75%	75%

[1] Does not apply to employees who retire prior to January 1, 2006.
[2] The current plan benefits will not apply to anyone before 2006.

Postretirement Life Plan

Benefits

Prior Plan

Retirements On or After
December 1, 1986

Before Age 65

Either (1) or (2):

(1) Age 65 benefit from the schedule above during the first year of retirement, reduced for each successive year of retirement reaching age 70 levels shown above upon attainment of age 70.

(2) Continued preretirement coverage to age 65:

Basic (noncontributory) $12,500, and

Elective (contributory) 1, 2, or 3 x pay.

Reduced coverage according to above schedule after age 65.

Retirements Prior
to December 1, 1986

Age 65 or Older

Multiple of preretirement coverage based on type of coverage.

Age	Contributory	Basic	Supplemental
65	92%	92%	92%
66	85%	85%	85%
67	78%	78%	78%
68	72%	72%	72%
69	66%	66%	66%
70+	20%	$ 1,000	30%

Postretirement Life Plan

Benefits

Prior Plan

Retirements Prior to December 1, 1986

Before Age 65

Either (1) or (2):

(1) Benefit reducing immediately, according to a schedule which starts at 92% of preretirement benefit in first year of retirement and reaches age 70 levels shown above upon attainment of age 70.

(2) Continued preretirement coverage to age 65, reduced according to "Age 65 or Older" schedule after age 65.

Maximum Benefits

Effective September 1, 2009, the age 65 or older coverage for all noncovered employees who retire after January 1, 2011 will be limited to the following:

Year of Death	Maximum Coverage
2011-2013	$ 100,000
2014-2016	$ 50,000
2017-2019	$ 25,000
2020+	$ 12,500

Retiree Contributions

Coverage under the current plan is provided at Company cost. Under prior plan coverage, the continuation of preretirement coverage requires contributions of 9.9¢ per $1,000 coverage per month. Only required if Option (2) is selected; no charge for basic coverage.

Actuarial Assumptions

The following assumptions have been reviewed and approved.

Measurement Date

December 31, 2009.

Discount Rate

5.80% compounded annually for the Retiree Medical Plan.
6.00% compounded annually for the Retiree Life Plan.

Expected Long-Term Return on Assets

Varies by asset type:

Asset	Annual Return
401(h)	8.75%
Provident Reserve	8.75%
Medical VEBA Account	5.00%
Life VEBA Account	5.00%

Salary Increase Rate

According to rates which vary by age and/or service and average 4.48% for noncovered employees, 3.56% for covered employees, and 4.0% for SERP eligible employees over a full career. See Table A for specific rates.

Retirement Rates

Vary by age:

Age	Percent Retiring	Age	Percent Retiring
50-54	0.5%	63	30.0%
55	5.0%	64	25.0%
56	5.0%	65	75.0%
57	5.0%	66	75.0%
58	7.5%	67	25.0%
59	10.0%	68	25.0%
60	12.5%	69	25.0%
61	15.0%	70	100.0%
62	45.0%		

Actuarial Assumptions

Mortality Rates	
Healthy	Retired Pensioners' 2000 Combined Healthy Participant Mortality Table Fully Generational with Scale AA.
Disabled	Retired Pensioners' 2000 Combined Healthy Participant Mortality Table.
Withdrawal Rates	According to select and ultimate rates based on Company experience. See Table C for specific rates.
Disability Rates	According to rates which vary by age. See Table B for specific rates.
Market-Related Value of Assets	The market-related value of assets is equal to the difference between the market value of assets and nonadmitted asset gains and losses from prior years. Asset gain/losses are identified for each year as the difference between expected and actual asset return. Each year's asset gains and losses are recognized or admitted over a five-year period.
New Entrants	None.
Spouses of Participants	
Actives	75% of males and 65% of females married at retirement; wives assumed to be two years younger than their husbands.
Retirees	Based on medical coverage codes (if dependent birth dates not provided, wives assumed to be two years younger than husbands).
Remarriage Assumption	None.
Net Per Capita Annual Health Care Claims Costs	Net per capita annual claim cost is shown by Medicare eligibility:

	Medical	Drugs
Medicare Ineligible	$ 8,305	Included in Medical
Medicare Eligible	$ 1,167	$ 2,089

Net per capita annual claim levels are the average levels of total claims expected to be incurred for each covered individual in the year following the valuation date.

Projected claim levels for spouses of active employees discounted 10% to reflect coordination of benefits with other plans and lower expected claim levels.

Net Per Capita Annual Health Care Claims Costs

Per capita claims were based on an averaging of prior expectations and the Company's own experience based on the actual plan elections made by retirees. All amounts were adjusted for anticipated trend.

Medical Cost Age Factors

Net per capita claims are adjusted to reflect expected increases with age as follows:

- Medicare Ineligible: 4.0% per year.
- Medicare Eligible: 3.0% per year declining 1% every five years.

Net Per Capita Annual Medical Trend Rates

The trend rate is the anticipated annual increase in the net per capita company-paid claims. The anticipated gross claims trend rates match the trend rates shown below due to substantive plan provisions:

- Medicare Ineligible: 8.50% per year in 2010, grading down to 5.25% by 2016.
- Medicare Eligible: 8.50% per year in 2010, grading down to 5.25% by 2016.
- Prescription Drugs: 8.50% per year in 2010, grading down to 5.25% by 2016 (post-65 only).

Trend rates are adjusted as necessary to reflect fixed maximums.

Retiree Medical Contributions Trend

Same rates as Company-paid medical.

Future Medical Plan Participation Rates

Future retirees/spouses are expected to participate at these levels:

	Grandfathered Retirees	Nongrandfathered Retirees
Retirees	100%	80%
Spouses	100%	75%

Federal Subsidy of Rx Benefits	The annual federal subsidy of Rx benefits per Medicare-eligible individual per year is anticipated to be $610 starting in 2009. This amount was anticipated to trend upwards after 2009 at the rates used for Rx claims.
Medicare Part D Participation Rates	5% of grandfathered retirees eligible for Medicare will be assumed to enroll in a Medicare Part D plan starting in 2009.
Impact of Wrapping Around Part D	Prescription drug claims for Medicare eligible retirees were anticipated to decrease by $1,228 in 2009 due to integration with Medicare Part D. This amount was anticipated to trend upwards after 2009 at the rates used for Rx claims.
Expense Loads	
Retiree Medical	None explicitly.
Retiree Life	10% of current year's expected retiree life benefit payments.
Cost Allocation Method	As described in Accounting Standards Codification Topic 715. Basically, projected unit credit cost method with cost attributed to first eligibility for full benefits.
ASC 715 Compliance	ASC 715 compliance elected for fiscal year 1993. Delayed recognition of ASC 715 transitional obligation as of initial measurement date.
Attribution Period	Date of hire to date of first full eligibility based on applicable plan. See the Plan Provisions section for more details.
Plan Changes	Retiree medical and life plans expected to remain unchanged based on substantive plan (indexing, deductibles, coinsurances, maximum out-of-pocket amounts, and other forms of cost sharing assumed to be part of the substantive plan).
Personnel Data	Participant data as of January 1 prior to the measurement date supplied by the Company projected to the measurement date assuming that the actuarial assumptions correctly anticipate actual events.

Table A

Salary Increases

	Years of Service							
Age	**Under 5**	**5 to 9**	**10 to 14**	**15 to 19**	**20 to 24**	**25 to 29**	**30 to 34**	**35 or more**
Noncovered Employees								
Under 20	10.00%							
20 to 24	8.00%	7.50%						
25 to 29	7.50%	7.00%	6.50%					
30 to 34	7.00%	6.50%	6.00%	5.50%				
35 to 39	6.50%	6.00%	5.50%	5.00%	5.00%			
40 to 44	6.00%	5.50%	5.00%	4.50%	4.00%	3.00%		
45 to 49	5.50%	5.00%	4.50%	4.00%	3.00%	2.50%	2.25%	
50 to 54	5.00%	4.50%	4.00%	3.50%	2.25%	2.25%	2.25%	2.25%
Over 55	5.00%	4.00%	3.50%	3.00%	2.25%	2.25%	2.25%	2.25%
Covered Employees								
All Ages	6.00%	5.00%	4.00%	3.00%	2.50%	2.25%	2.25%	2.25%

Table B

Disability Rates

Age	Disabilities Per 1,000 Participants
Under 40	0.85
40 to 44	1.76
45 to 49	3.80
50 to 54	6.39
55 to 59	11.60
60 to 64	15.52
65 & Over	0.00

Table C

Withdrawals per 1,000 Participants

	Years of Service					
Age	0	1	2	3	4	Ultimate
20 & Under	180.0	130.5	115.0	99.0	84.5	70.0
21	176.0	130.5	115.0	99.0	82.5	66.0
22	171.0	126.9	115.0	99.0	80.0	61.0
23	166.0	122.4	111.0	99.0	77.5	56.0
24	163.0	117.9	106.0	94.6	73.8	53.0
25	159.0	115.2	101.0	89.1	69.1	49.0
26	156.0	111.6	98.0	83.6	64.8	46.0
27	152.0	108.9	94.0	80.3	61.2	42.0
28	149.0	105.3	91.0	75.9	57.5	39.0
29	146.0	102.6	87.0	72.6	54.3	36.0
30	144.0	99.9	84.0	68.2	51.1	34.0
31	141.0	98.1	81.0	64.9	48.0	31.0
32	139.0	95.4	79.0	61.6	45.3	29.0
33	137.0	93.6	76.0	59.4	43.2	27.0
34	135.0	91.8	74.0	56.1	40.6	25.0
35	133.0	90.0	72.0	53.9	38.5	23.0
36	131.0	88.2	70.0	51.7	36.4	21.0
37	129.0	86.4	68.0	49.5	34.3	19.0
38	128.0	84.6	66.0	47.3	32.7	18.0
39	126.0	83.7	64.0	45.1	30.6	16.0
40	125.0	81.9	63.0	42.9	29.0	15.0
41	123.0	81.0	61.0	41.8	27.4	14.5
42	122.0	79.2	60.0	39.6	25.8	14.0
43	121.0	78.3	58.0	38.5	24.8	13.5
44	119.5	77.4	57.0	36.3	22.9	13.0
45	118.5	76.1	56.0	35.2	21.9	12.5
46	117.5	75.2	54.5	34.1	20.8	12.0
47	116.5	74.3	53.5	32.5	19.5	11.5
48	115.5	73.4	52.5	31.4	18.5	11.0
49	115.0	72.5	51.5	30.3	17.7	10.5
50	114.0	72.0	50.5	29.2	16.6	10.5
51	113.0	71.1	50.0	28.1	15.6	10.5
52	112.5	70.2	49.0	27.5	15.0	10.5
53	111.5	69.8	48.0	26.4	14.0	10.5
54	110.0	68.9	47.5	25.3	13.2	10.5
55	110.0	67.5	46.5	24.8	12.4	10.5
56	110.0	67.5	45.0	23.7	11.9	10.5
57 & Over	110.0	67.5	45.0	22.0	11.0	10.5

Medical Claims Cost Development

Valuing Postretirement Medical Benefits

Determining a present value of promised health care benefits is made difficult because assumptions must be made about potentially volatile future health care costs. Two basic types of assumptions must be made:

- Per capita claims costs; and
- Cost trend rates.

Projections of health care costs start with the development of an anticipated cost per covered individual for the current year. Ideally, this assumed per capita claims level is derived from actual past experience. But, historical data may not be usable because of:

- Credibility of historical claims data. Historical claims experience is not a statistically adequate sample on which to base future claims experience until the number of covered lives exceeds about 1,000;
- Integrity of historical claims data. Historical data collected for purposes other than ASC 715 valuations may not be adequate to use in determining future costs due to inaccuracies or insufficient detail;
- Plan changes. Plan changes may render historical data less useful;
- Applicability of historical data. High turnover can make historical claims data a less reliable predictor of future claims; and
- Large catastrophic claims. Occasional large claims can unduly influence the experience portrayed by historical data.

When historical retiree claims data cannot be used alone, expected claims levels based on normative claims distributions and current plan design can be used. These expected claims levels are usually called "manual rates." Alternatively, active claims data can be used after adjustments to reflect the higher cost of retiree health care. Or, each approach can be weighted and combined.

Valuing Postretirement Medical Benefits

The health care cost trend rate deserves careful consideration. It affects costs significantly but, unfortunately, recent experience and possible future changes in external health care cost factors make precise predictions of each year's benefits difficult. Future increases in health care costs are affected by many factors:

- Medical inflation;
- Changes in utilization patterns;
- Technological advances;
- Cost shifting (i.e., increase in costs incurred by nonmanaged programs due to noninsured claims, changes in the Medicare payments, and increased emphasis on managed care programs);
- Cost leveraging (i.e., erosion of fixed deductibles and out-of-pocket maximums); and
- Changes to government medical programs, such as Medicare.

Medicare exerts significant control over hospital and physician costs for patients age 65 and older. This is largely a result of changes made by Medicare in 1983 to tighten its control over hospital inpatient charges, as well as more recent changes made in OBRA 1989 and OBRA 1990 that restrict and control charges for physicians' services for Medicare-eligible patients. As an aside, this further complicates projecting cost increases for pre-65 retirees (and even active plans) because of cost-shifting from Medicare's new cost-containment policies.

ASC 715 costs are also heavily influenced by demographic assumptions, including:

- Active turnover rates (How many actives will remain employed until retirement?);
- Retirement patterns (At what ages will employees retire?);
- Percent of employees with covered dependents (Will an employee cover any dependents at retirement and what will be the characteristics of the dependent(s)?); and
- Mortality rates (When will employees die?).

Overview of ASC 715

Background
In December 1990, the Financial Accounting Standards Board finalized the accounting rules for postretirement benefits other than pensions in Statement of Financial Accounting Standard No. 106 (“FAS 106”). These rules, generally effective for the first fiscal year beginning after December 15, 1992, require employers to charge the cost of postretirement benefits (most notably postretirement medical benefits) against income over the working lifetimes of employees. This is in sharp contrast to the prior practice of expensing postretirement benefit costs only when the related benefits were paid, which is after employees retire.

The FAS 106 expense calculation considers expected future medical costs, not just the cost of benefits today. It also includes an accrual for all eligible active employees, valuing the benefits they are anticipated to receive in retirement based on the likelihood that they will stay employed until eligible for postretirement benefits.

In February 1998, the Financial Accounting Standards Board revised the disclosure requirements for postretirement benefit plans with Statement 132, “Employers’ Disclosures about Pensions and Other Postretirement Benefits.” The revised rules did not affect either the measurement or recognition of benefit costs.

In September 2006, the Financial Accounting Standards Board again revised the disclosure requirements for postretirement benefit plans with Statement 158, “Employers’ Accounting for Defined Benefit Pension and Other Postretirement Plans, and Amendment of FASB Statements No. 87, 88, 106, and 132(R).” The revised rules also require that the funded status of the plan be recognized in the statement of financial position. The rules did not affect the measurement of benefit costs or calculation of annual cost.

In July 2009, the Financial Accounting Standards Board introduced the FASB Accounting Standards Codification (ASC) as a single source of authoritative non-governmental U.S. Generally Acceptable Accounting Principles. Codification does not change any provisions of the underlying accounting standards but reorganizes them and changes the terminology used to reference them.

Scope of ASC 715
ASC 715-60 applies to all postretirement benefits other than pensions, including:

■ Health care benefits—medical and dental,

■ Life insurance outside of the pension plan, and

■ Other welfare benefits—day care, legal services, housing subsidies, tuition assistance, etc.

The statement applies to any arrangement that is in substance a postretirement benefit plan. It can be written or unwritten.

Substantive Plan
The accounting for postretirement benefits is based upon the substantive plan, which is the plan as understood by the employer and employees. Generally, it is the written plan, but an employer’s cost sharing policies as evidenced by past practice or communication to employees may differ from the written plan.

ASC 715-60 Terminology

- The **Expected Postretirement Benefit Obligation (EPBO)** is the actuarial present value of all postretirement benefits expected to be paid to each employee and his/her covered dependents in the future. The calculation considers the probability that the employee will remain with the Company until retirement, the expected retirement age, and the anticipated level of medical claims at that time.

  The EPBO is not used directly in the expense calculation nor is it disclosed. It is, however, a good measure of total exposure.

- The **Accumulated Postretirement Benefit Obligation (APBO)** is the portion of the EPBO that is attributed to employee service rendered prior to the valuation date:

  — For retired employees and actives who have reached their Full Eligibility Date, the APBO equals the EPBO.

  — For active employees not yet eligible for full benefits, the APBO equals a pro rata portion of the EPBO based on years of service worked prior to the valuation date (but after the employee's participation date) to those expected to be worked at the Full Eligibility Date.

  The APBO is used in the accounting calculations to establish the plan's funded status and to develop postretirement benefit expense.

- The **Transition Obligation** is the unfunded and unreserved portion of the APBO as of the date of initial application of the accounting standards.

- The **Prior Service Cost** is the increase or decrease in the APBO due to a plan amendment subsequent to initial application of the accounting standards.

- The **Service Cost** is one-year's pro rata share of the EPBO for current active employees. There is no Service Cost for retirees or active employees who have already met the eligibility conditions for full benefits.

- The **Discount Rate** is the interest rate selected as of the measurement date to determine the present value of future cash outflow of postretirement payments. FASB suggests that employers should look to rates of return on high-quality, fixed-income investments currently available whose cash flows match the timing and amount of expected benefit payments.

- A **Settlement** is an irrevocable action that relieves the employer (or the Plan) of primary responsibility for a postretirement benefit obligation. Making lump sum cash payments to plan participants in exchange for their rights to benefits or purchasing nonparticipating insurance contracts for some or all participants are examples of settlements.

ASC 715-60 Terminology

- A **Curtailment** is an event that significantly reduces the remaining service period of active plan participants or eliminates the accrual of benefits for future service for some or all active participants. A plant shutdown or benefit freeze will trigger a curtailment.

- The **Full Eligibility Date** is the date at which an employee has rendered all service necessary to receive all of the benefits expected to be received by that employee.

- The **Attribution Period** is the period to which EPBO is assigned. It begins at the employee's participation date and ends at the employee's Full Eligibility Date.

Recognition of Funded Status

FAS 158 requires that companies recognize a balance sheet asset or liability for their postretirement benefit plans that is equal to the difference between the fair value of plan assets and the benefit obligation as of the measurement date. For a postretirement benefit plan, the benefit obligation is the Accumulated Postretirement Benefit Obligation (APBO). The difference between a plan's funded status and its current (accrued)/prepaid position will be recognized, **net of tax**, as a component of Accumulated Other Comprehensive Income (AOCI).

This requirement is generally effective for fiscal years ending after December 15, 2006.

Statement of Financial Position Classification

For balance sheet presentation, all overfunded plans will be aggregated and recognized as an asset. Similarly, all underfunded plans will be aggregated and recognized as a liability.

If a company presents a classified statement of financial position, the current and noncurrent portions of an asset or liability will be reported separately, in accordance with existing standards. The asset for overfunded plans is always classified as noncurrent. For underfunded plans, the current portion of the liability will be determined on a plan-by-plan basis, and will equal the excess (if any) of: (1) the present value of benefits included in the benefit obligation that are expected to be paid in the next twelve months (or operating cycle, if longer); over (2) the fair value of plan assets.

Components of Expense
The components of expense ("net periodic postretirement benefit cost" using ASC 715-60 terminology) are:

- The **Service Cost** is the portion of the EPBO attributed to employee service during the fiscal period (again, attributing costs to full eligibility instead of over the whole service period).

- The **Interest Cost** accounts for the increase in the APBO due to the passage of time. It is calculated as interest on the APBO, less interest on expected benefit payments.

- The **Expected Return on Plan Assets** accounts for the expected earnings on certain plan assets set aside to provide benefits under these plans.

- The **Transition Obligation** is amortized on a straight-line basis over the average remaining service period of active plan participants, or 20 years if greater. Alternatively, an employer can choose to recognize the transition obligation immediately in the net income of the compliance year as the effect of a change in accounting principle. Note that a single method of transition must be used for all postretirement plans. Also, any phase-in recognition may not be less than pay-as-you-go accounting.

- The **Prior Service Cost**, if any, is generally amortized over the remaining service to full eligibility of each plan participant active on the date of the amendment.

- Any **Gain or Loss** exceeding 10% of the APBO (or, alternatively, the entire gain or loss) is subject to amortization. The minimum amortization is the excess divided by the average remaining service period of active plan participants.

- The effect of a temporary deviation from the Substantive Plan to increase or decrease the employer's share of the benefit costs is recognized immediately as a loss or gain.

- The amount of gain or loss recognized due to **Settlement** or **Curtailment**.

Using the components above, the annual expense under ASC 715 equals:

- Service Cost; plus
- Interest Cost; minus
- Expected Return on Plan Assets, if any; plus
- Amortization of Transition Obligation, if any; plus
- Amortization of Prior Service Cost, if any; plus
- Required Amortization of (Gains) or Losses; plus
- Immediate Recognition of a Loss or (Gain) caused by deviation from the Substantive Plan; plus
- Gain or Loss recognized due to a Settlement or Curtailment

Disclosures
The disclosures required by ASC 715, as changed by FAS 132(R) and FAS 158, include:

- Reconciliation of changes in the APBO and reconciliation of changes in fair value of assets.
- The plan's funded status, and the amounts recognized in the statement of financial position, showing separately the assets and current/noncurrent liabilities recognized.
- Information about plan assets (for a funded plan), including the value of plan assets in each major asset category, a description of investment strategies and target asset allocations (if used), and a description of the basis for determining the expected long-term rate of return on assets assumption.
- Projected benefit payments and projected retiree drug subsidy receipts for each of the next five fiscal years and the total aggregate amount for the subsequent five fiscal years.
- The employer's best estimate, as soon as it can reasonably be determined, of total contributions to be paid to the plan for the next fiscal year.
- Components of expense, including settlement and curtailment amounts.
- The gain/loss and prior service cost/credits recognized in Other Comprehensive Income for the period, and any amounts reclassified as components of expense.
- The amounts in Accumulated Other Comprehensive Income that have not yet been recognized as components of expense.
- Economic assumptions, including assumed health care cost trend rate, used to develop costs and disclosures.
- The effect of a one percentage point increase and the effect of a one percentage point decrease in the assumed health care cost trend rate on (i) the aggregate of the service and interest cost components of expense, and (ii) APBO.
- The amounts in Accumulated Other Comprehensive Income expected to be recognized as components of expense for the next year.
- Cost and description of special termination benefits.
- Interim disclosure of the components of net periodic postretirement benefit cost.
- Interim period updates of contributions paid and expected to be paid during the current fiscal year, if that expectation has changed significantly from the previous annual or interim period disclosure.