Actuarial Report
Gulf Power Company
The Southern Company Pension Plan
For 2010 Fiscal Year

Preparation of this Actuarial Valuation

For 2010 Fiscal Year

The Southern Company Pension Plan
Gulf Power Company—Allocable Portion

This report has been prepared to present to management the financial accounting and reporting requirements allocable to Gulf Power Company ("GULF") for the 2010 fiscal year for pension benefits under U.S. Generally Accepted Accounting Principles as set forth in Accounting Standards Codification (ASC) Topic 715. This cost is a portion of The Southern Company Pension Plan's total cost. GULF's cost is based on the benefit obligations of its employees and assets in its separately maintained account within The Southern Company Pension Plan trust. In addition, this material describes how well funded GULF's benefit obligations are and GULF's anticipated funding responsibilities for the 2010 plan year. Determinations for purposes other than financial accounting requirements may be significantly different from the results in this report. 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 shown in this report, 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, and asset information supplied by the Company as of the valuation date. While we cannot verify the accuracy of all the 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 2010 pension expense, 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 as issued by the Actuarial Standards Board. In addition, the valuation results are based on our understanding of the requirements 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 Company selected the economic and demographic assumptions and prescribed them for use for purposes of compliance with ASC 715. Hewitt Associates provided guidance with respect to these assumptions, and it is our belief that the assumptions represent reasonable expectations of anticipated plan experience. The actuarial cost method used is prescribed by ASC 715. While the method used to value assets is prescribed by the Company, Hewitt Associates provided guidance with respect to the use of this method, and it is our belief that the method is appropriate for financial accounting purposes.

Preparation of this Actuarial Valuation

The undersigned are familiar with the near-term and long-term aspects of pension 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 to be an integral part of the actuarial opinions.

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
Fellow of the Society of Actuaries
Enrolled Actuary

Joy L. Ferguson
Associate of the Society of Actuaries
Enrolled Actuary

March 2011

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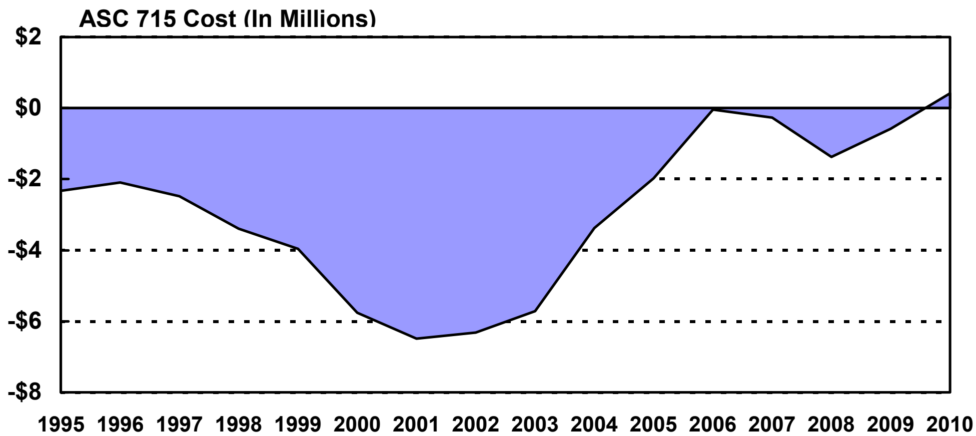
Summary

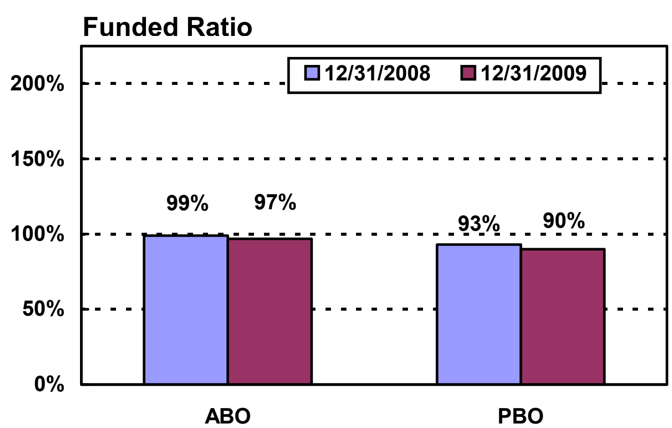
Summary

Overview of Results

GULF's ASC 715 (formerly known as FAS 87) cost for fiscal 2010 is $416,453. No contribution is expected to be required for 2010. The chart below shows the trend in ASC 715 costs since 1995. The changes in costs over this period have been attributable to a variety of factors; however, much of the change can be attributed to plan experience that differed from expectations.



The comparison of the assets in GULF's account within The Southern Company Pension Plan's trust to key measures of GULF's current benefit obligations is favorable. The chart below shows the ratio of the Company's assets' market value to two measures of benefit obligations for its current and former employees. Ratios are shown as of the cost measurement dates for 2009 and 2010. The accumulated benefit obligation (ABO) represents benefit obligations based on employees' current pays and current service levels; the projected benefit obligation (PBO) represents obligations based on the same service levels but with projected pays.



Changes Since 2009
In general, the 2010 fiscal year costs are based on the same plan provisions and actuarial basis used to determine 2009 costs.

However, the following changes were recognized as of the December 31, 2009 measurement date.

- Two plan changes were recognized in this valuation due to indexing of the pay and benefit limits.

  - The IRC Section 415 benefit limit increased to $195,000 from $185,000.

  - The IRC Section 401(a)(17) pay limit increased to $245,000 from $230,000.

  These automatic increases in the limits were previously anticipated, so their impact has been treated as an experience item.

- The following assumptions have been changed.

  - The discount rate was decreased to 5.95% from 6.75%.

  - The salary increase rate (average over career for average employees) was changed to average 4.48% for non-covered employees, 3.56% for covered employees, and 4.00% for SERP eligible employees.

  - The expected return on assets was increased to 8.75% from 8.50%.

  - Withdrawal rates, retirement rates, percent married, and optional forms of payment assumptions were updated to better reflect anticipated experience.

The discount rate was lowered 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 salary increase rate was updated to remain consistent with the discount rate and reflect emerging and expected future experience with respect to Southern's pay practices. As required by ASC 715, the impact of all of these changes was treated as an experience item.

No other changes were reflected in the 2010 fiscal year costs.

Summary

Significant results of the 2010 valuation are shown below. Comparable results of the 2009 valuation are also shown.

	2009	2010
Benefit Obligations		
Projected Benefit Obligation	$ 247,879,115	$ 283,855,418
Accumulated Benefit Obligation	$ 231,299,859	$ 261,706,252
Vested Benefit Obligation	$ 226,616,365	$ 259,203,339
Service Cost	$ 6,257,766	$ 7,580,218
As % of Covered Payroll	*7.92%*	*9.41%*
Asset Values		
Market	$ 229,406,957	$ 254,058,825
Market Related	$ 306,764,801	$ 306,776,609
Pending Asset Transfer	$ 0	$ 0
Contributions and Costs		
Allocated Contribution	$ 0	$ 0
Pension Cost	$ (581,094)	$ 416,453
As % of Covered Payroll	*(0.74%)*	*0.52%*
Participant Counts and Payroll		
Retirees and Beneficiaries	733	753
Terminated Vested	279	291
Surviving Spouses—Deferred	3	3
Actives	1,291	1,306
Total	2,306	2,353
Total Covered Payroll	$ 79,015,926	$ 80,532,259

Funding Requirements

Funding Requirements

At the end of the 1996 plan year, the Company’s pension plan was merged with other pension plans sponsored by the Southern Company to form The Southern Company Pension Plan. Due to the consolidation, funding requirements will be determined for The Southern Company Pension Plan in total. The total plan requirement will then be allocated to the component plans that were merged on a consistent basis.

For 2010, the actuarial valuation for the entire consolidated plan is expected to indicate that total plan assets exceed a number of critical measures of aggregate benefit liabilities. As a result, the consolidated plan is expected to be considered *fully funded*. **Therefore, the funding requirement allocable to GULF for 2010 should be $0.**

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:

- Benefit Obligations as of the Measurement Date;
- Reconciliation of Funded Status;
- Pension Cost;
- Plan Experience During Prior Plan Year;
- Amortizable Gain or Loss;
- Market-Related Value of Assets; and
- Unrecognized Prior Service Cost.

Benefit Obligations
The Accumulated Benefit Obligation (ABO) represents the actuarial present value of benefits based on service and pay earned as of the measurement date. The Projected Benefit Obligation (PBO) represents the actuarial present value of benefits based on service earned through the measurement date reflecting the effect of assumed future pay increases on ultimate benefit amounts.

The Service Cost represents the actuarial present value of benefits that are attributed to the 2010 fiscal year, reflecting the effect of assumed future pay increases. 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 Pension Expense/(Income) is the annual amount to be recognized in the income statement as the cost of pension 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.

Accounting Requirements: ASC 715 Expense/(Income)

Benefit Obligations as of the Measurement Date for Fiscal 2010 (December 31, 2009)
The obligations shown below are based on personnel information and plan provisions supplied by the Company and actuarial assumptions as described in the Actuarial Assumptions section of the report. Obligations have been allocated to plan participants' years of service based on the method mandated by ASC 715. Assets were reported by the Company and are discussed more in the following pages.

	Vested Benefit Obligation	Accumulated Benefit Obligation	Projected Benefit Obligation
Retirees and Beneficiaries	$ 106,140,124	$ 106,140,124	$ 106,140,124
Terminated Vested	10,680,356	10,680,356	10,680,356
Actives	142,382,859	144,885,772	167,034,938
Total	$ 259,203,339	$ 261,706,252	$ 283,855,418
Net Assets As a % of Total Obligations	*98.02%*	*97.08%*	*89.50%*

Accounting Requirements: ASC 715 Expense/(Income)

Reconciliation of Funded Status
This schedule reconciles the funded status of the plan with amounts already accrued by the Company as of the current and prior measurement dates. The difference between the funded status and the prepaid/accrued pension cost represents amounts to be recognized in future periods as amortization payments.

A reconciliation of funded status is shown as of the current year's measurement date and at the prior year's measurement date.

	Fiscal 2009 (December 31, 2008)	**Fiscal 2010 (December 31, 2009)**
Projected Benefit Obligation	$ (247,879,115)	$ (283,855,418)
Pending Asset Transfer	0	0
Market Value of Assets	229,406,957	254,058,825
Funded Status	$ (18,472,158)	$ (29,796,593)
Unrecognized Amounts		
■ Transition Liability/(Asset)	0	0
■ Prior Service Cost	8,406,721	7,186,593
■ (Gain)/Loss	58,476,009	71,601,666
Fourth Quarter Cashflows	0	0
Prepaid/(Accrued) Pension Cost	$ 48,410,572	$ 48,991,666

Accounting Requirements: ASC 715 Expense/(Income)

Pension Cost

The development of the pension cost for the fiscal year consists of payments for benefit accruals (service cost), interest on the current projected benefit obligation (interest cost), expected return on assets, and amortizations of unrecognized amounts.

	Fiscal 2009 Cost	Fiscal 2010 Cost
Service Cost	$ 6,257,766	$ 7,580,218
Interest Cost	16,298,636	16,488,429
Expected Return on Assets	(24,357,624)	(24,695,548)
Amortization of Unrecognized Amounts		
■ Transition Liability/(Asset)	0	0
■ Prior Service Cost	1,220,128	1,043,354
■ (Gain)/Loss	0	0
Total Pension Cost	**$ (581,094)**	**$ 416,453**
As % of Covered Payroll	***(0.74%)***	***0.52%***
Supplemental Data and Expected Values		
■ Market-Related Value of Assets	$ 306,764,801	$ 306,776,609
■ Annual Benefit Payments	$ 12,835,674	$ 13,477,927
■ Average Remaining Service	13 Years	13 Years
■ Contributions	$ 0	$ 0
■ Annual Trust Expense	$ 1,124,094	$ 1,492,451

Accounting Requirements: ASC 715 Expense/(Income)

Plan Experience

During the current valuation, actual experience during the prior fiscal year is compared to anticipated experience. This comparison identifies experience gains or losses. These are measured as the difference between the expected funded position of the plan at year-end (based on the beginning of year actuarial assumptions and adjusted for plan changes) and the actual funded position of the plan at year-end.

		January 1, 2009 to December 31, 2009
(1)	Funded Status, As of Last Measurement Date	$ (18,472,158)
(2)	Service Cost for Period	(6,257,766)
(3)	Interest Cost for Period	(16,298,636)
(4)	Expected Return for Period	24,357,624
(5)	Contributions During Period	0
(6)	Impact of Plan Amendment	0
(7)	Expected Funded Status, As of Current Measurement Date, (1)+(2)+(3)+(4)+(5)+(6)	$ (16,670,936)
(8)	Actual Funded Status, At Current Measurement Date	(29,796,593)
(9)	Experience (Gain)/Loss, (7)-(8)	$ 13,125,657

Accounting Requirements: ASC 715 Expense/(Income)

Plan Experience
The table below reconciles funded status and pension costs at the last measurement date with the corresponding figures at the current measurement date. Descriptions of each item of change appear on the following pages along with some quantitative analysis of experience items.

	Funded Status
Levels as of Measurement Date for Fiscal 2009	$ (18,472,158)
Effects of:	
■ Expected Plan Experience	$ (4,762,096)
■ Actuarial (Losses)/Gains	
— Obligation Experience[1]	$ (26,255,575)
— Asset Experience	19,693,236
— Total	$ (6,562,339)
■ Plan Changes	0
■ Total Change	$ (11,324,435)
Levels as of Measurement Date for Fiscal 2010	$ (29,796,593)

[1] Includes assumption changes, personnel changes, and other miscellaneous items.

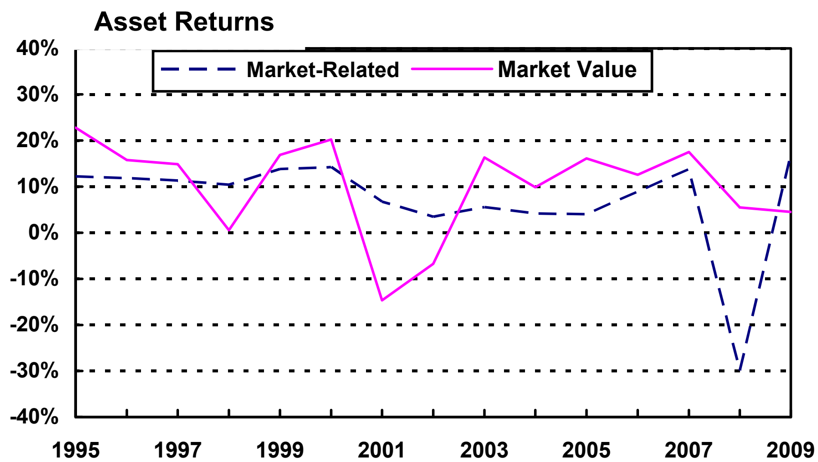
Plan Experience

Expected Plan Experience	PBO is expected to increase with Service Cost and Interest Cost, less benefit payments. Assets are expected to grow with contributions and expected return on assets, less benefit payments. The Service Cost is expected to grow with interest.
Gains and Losses	
Assumption Changes	The discount rate was decreased to 5.95% from 6.75%. The salary increase rate (average over a career for an average employee) was changed to average 4.48% for non-covered employees, 3.56% for covered employees, and 4.00% for SERP eligible employees.
Personnel Changes and Miscellaneous	Gains and losses may be caused by withdrawals, deaths, retirements, and new entrants as well as any data changes which are different than expected.
Asset Experience	The market value of assets earned 17.07% for the period from January 1, 2009 through December 31, 2009 versus the long-term rate of return of 8.75%. This item includes the effect of trust expenses different from expected. See a later page for more details.
Limit Changes	Neither the IRC §401(a)(17) recognizable pay limit nor the IRC §415 defined benefit plan maximum annual benefit increased as expected. Since changes in these limits are anticipated, the difference between the actual and expected limits has been treated as an experience item.
Plan Changes	None.

Asset Experience

Historical asset returns are shown below for several periods. The 2009 expected long-term rate of return was 8.75% compounded annually reduced by the anticipated trust expenses.

Year	Return on Market Value	Return on Market-Related Value
2009	17.07%	4.48%
2008[1]	-29.85%	5.52%
2007	17.50%	13.74%
2006	12.56%	8.87%
2005	16.10%	4.04%
2004	9.89%	4.14%
2003	16.29%	5.59%
2002	-6.77%	3.44%
2001	-14.62%	6.76%
2000	20.21%	14.26%
1999	16.86%	13.85%
1998	0.59%	10.45%
1997	14.88%	11.32%
1996	15.74%	11.86%
1995	22.75%	12.20%
15-Year Average	7.50%	8.63%



[1] Returns for the 15-month period October 1, 2007 thru December 31, 2008.

Accounting Requirements: ASC 715 Expense/(Income)

Development of (Gain)/Loss Amortization

Only gains and losses in excess of a corridor limit are subject to amortization. The corridor is 10% of the greater of:

- Market-Related Value of Assets (MRV); or
- Projected Benefit Obligation (PBO).

Only asset gains or losses which have been incurred and admitted into the market-related value of assets are subject to amortization. Gains and losses outside of the corridor, if any, are amortized over the average remaining service period of employees expected to receive benefits from the plan.

		Fiscal 2010
(1)	Unrecognized Net (Gain)/Loss	$ 71,601,666
(2)	Nonadmitted Asset (Gain)/Loss	52,717,784
(3)	(Gain)/Loss Subject to Corridor, (1)-(2)	$ 18,883,882
(4)	Corridor, 10% of Greater of PBO or MRV	
	(a) PBO	283,855,418
	(b) MRV	306,776,609
	(c) Pending Asset Transfer	0
	(d) Corridor, 10% of Max [(a) or (b)+(c)]	30,677,661
(5)	(Gain)/Loss to be Amortized, Excess of (3) over (4d), If Any	$ 0
(6)	Average Remaining Service Period	13 Years
(7)	(Gain)/Loss Amortization, (5)÷(6)	$ 0

Accounting Requirements: ASC 715 Expense/(Income)

Market-Related Value of Assets for Fiscal 2010

For the FAS 87 pension cost valuation, a market-related value of assets is designed to dampen the effect of market value swings by spreading unexpected asset gains or losses over a period of five years. In general, each year, 20% of the prior five years' asset gains and losses are recognized. The market-related value is equal to the difference between the market value and nonadmitted asset gains and losses from prior years.

		Fiscal 2010 (December 31, 2009)
Development of Asset (Gain)/Loss from January 1, 2009 to December 31, 2009		
(1) Market Value of Assets, At Last Measurement Date		$ 229,406,957
(2) Net Transfers During Prior Period		(1,256,769)
(3) Actual Benefit Payments During Prior Period		12,188,411
(4) Contributions During Prior Period		0
(5) Expected Return on Assets During Prior Period		24,357,624
(6) Expected Market Value, At Current Measurement Date, (1)+(2)-(3)+(4)+(5)		$ 240,319,401
(7) Actual Market Value		254,058,825
(8) Asset (Gain)/Loss During Prior Period, (6)-(7)		$ (13,739,424)
Development of Market-Related Value of Assets		
(1) Market Value of Assets		$ 254,058,825
(2) Nonadmitted (Gains)/Losses		
(a) 10/01/2004 to 09/30/2005	$ 0	
(b) 10/01/2005 to 09/30/2006	(2,742,709)	
(c) 10/01/2006 to 09/30/2007	(12,155,605)	
(d) 10/01/2007 to 12/31/2008	78,607,637	
(e) 01/01/2009 to 12/31/2009	(10,991,539)	
(f) Total		52,717,784
(3) Market-Related Value, (1)+(2f)		$ 306,776,609

Development of Unrecognized Prior Service Cost

Increases in the projected benefit obligation (PBO) attributable to plan amendments are amortized over the remaining service period of employees benefiting under the Plan. Prior service costs that are being amortized are shown below.

Date Established	Original Amounts to be Amortized[1]	Remaining Amortization Period	Remaining Amounts to be Amortized	Annual Amortization Amount
06/01/1991	$ 3,391,107	0.1667 Years	29,752	29,752
07/01/1996	$ 3,309,817	3.25 Years	632,759	194,695
01/01/2001	$ 7,112,167	7 Years	3,111,577	444,510
09/30/2002	$ 4,115,395	7.75 Years	2,126,285	274,360
09/30/2005	$ 1,269,632	9.75 Years	884,208	90,688
09/30/2006	$ 523,548	10.75 Years	402,012	9,349
			$ 7,186,593	$ 1,043,354

[1] Reflects spin-off of prior service cost to SNC on January 1, 1991 and January 1, 1992, COMM on January 1, 1995, and SCS on January 1, 1996.

Appendix

Personnel Information

This section contains a summary of personnel data submitted and used for the measurement of cost for fiscal 2010. Benefit obligations as of the December 31 measurement date are based on projections using personnel data supplied as of the preceding January 1 complemented with pay data which includes the preceding March updates. See the actuarial assumptions and methods section for more details. The information is organized to be useful for a variety of purposes:

- Averages of age, service, and pay provide quick comparisons of the differences from year to year in the employee group.

- Detailed information on active personnel by age and service isolates the number of employees eligible for specific employee benefits. For example, if employees with fifteen or more years of service are to receive additional vacation, this distribution indicates the number of employees currently eligible for additional vacation and the number potentially becoming eligible for additional vacation in each of the next several years.

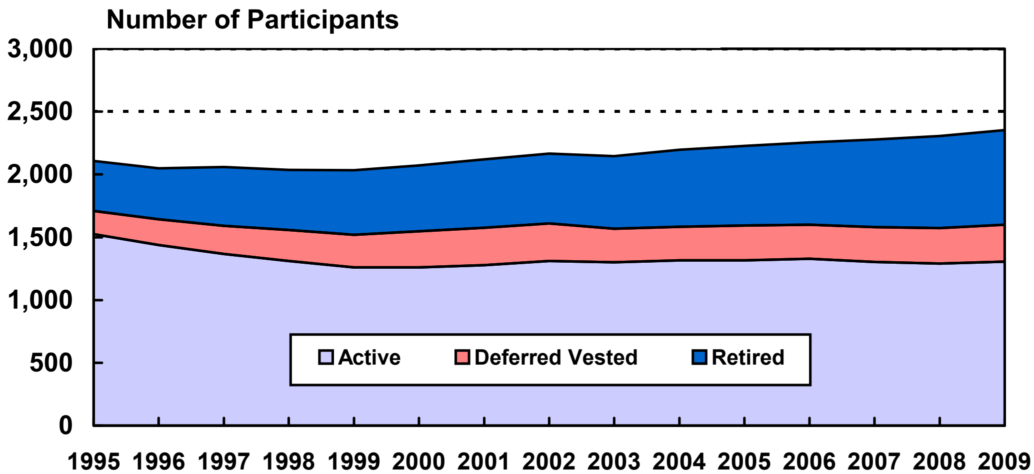
- Information on pay by age in successive years may be useful in analyzing compensation trends.

Personnel Information

	For Fiscal 2009 (As of January 1, 2008)	For Fiscal 2010 (As of January 1, 2009)
Active Participants		
Number		
Male	918	926
Female	327	338
Total	1,245	1,264
Average Age		
Male	45.6	45.5
Female	44.7	44.9
Total	45.4	45.4
Average Service		
Male	18.9	18.8
Female	15.3	15.2
Total	17.9	17.8
Average Age at Hire		
Male	26.7	26.7
Female	29.4	29.7
Total	27.5	27.6
Average Pay	$ 61,745	$ 62,017
Participants On Leave or Disabled		
Accruing Service	41	37
Not Accruing Service	5	5
Inactive Participants		
Retirees and Beneficiaries		
Number	733	753
Average Monthly Benefit	$ 1,314	$ 1,306
Terminated Vesteds		
Number	279	291
Average Monthly Benefit	$ 562	$ 567
Surviving Spouses—Deferred		
Number	3	3
Average Monthly Benefit	$ 250	$ 250

Personnel Information

Personnel History
The graph below shows the number of pension participants from 1995 to the current census collection date.



The table below shows the average age and service of active pension participants from 1995 to the current census collection date. Participants on leave or disabled are excluded from the averages.

Year	Average Age	Average Service
1995	41.4	15.1
1996	42.3	16.0
1997	42.4	16.3
1998	42.9	17.0
1999	43.4	17.4
2000	43.5	17.3
2001	43.7	17.4
2002	44.1	17.6
2003	44.7	18.0
2004	44.6	17.7
2005	44.6	17.8
2006	45.1	18.2
2007	45.3	18.1
2008	45.4	17.9
2009	45.4	17.8

Personnel Information

Distribution of Personnel
The following chart shows the distribution of active participants presented by age last birthday and completed years of service on the valuation date. All participants hired at the same age lie along the same diagonal line.

This chart 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 number of participants who will meet the vesting requirements in the next few years;
- The number of participants who will be affected by changes in plan provisions or other benefits based on eligibility requirements;
- The ages at which participants were hired during the past year; and
- The distribution of participants by age and service around median age and median service.

Supplementing the age/service distribution are three graphs. The first shows the percentage of active employees in each of several 5-year age classifications and the second shows the percentage of active participants age 55 and over by expected service at age 65. This second chart is useful in determining the level of retirement benefits. The chart will also determine the proportion of the participants approaching retirement who are considered “full career” employees. The last graph contains a tracking of average pay by age over the last three years.

DISTRIBUTION OF PERSONNEL BY AGE AND YEARS OF SERVICE

- 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, service, and pay of this group is 45.4, 17.8, and 62,017.

Years of Service 0–19

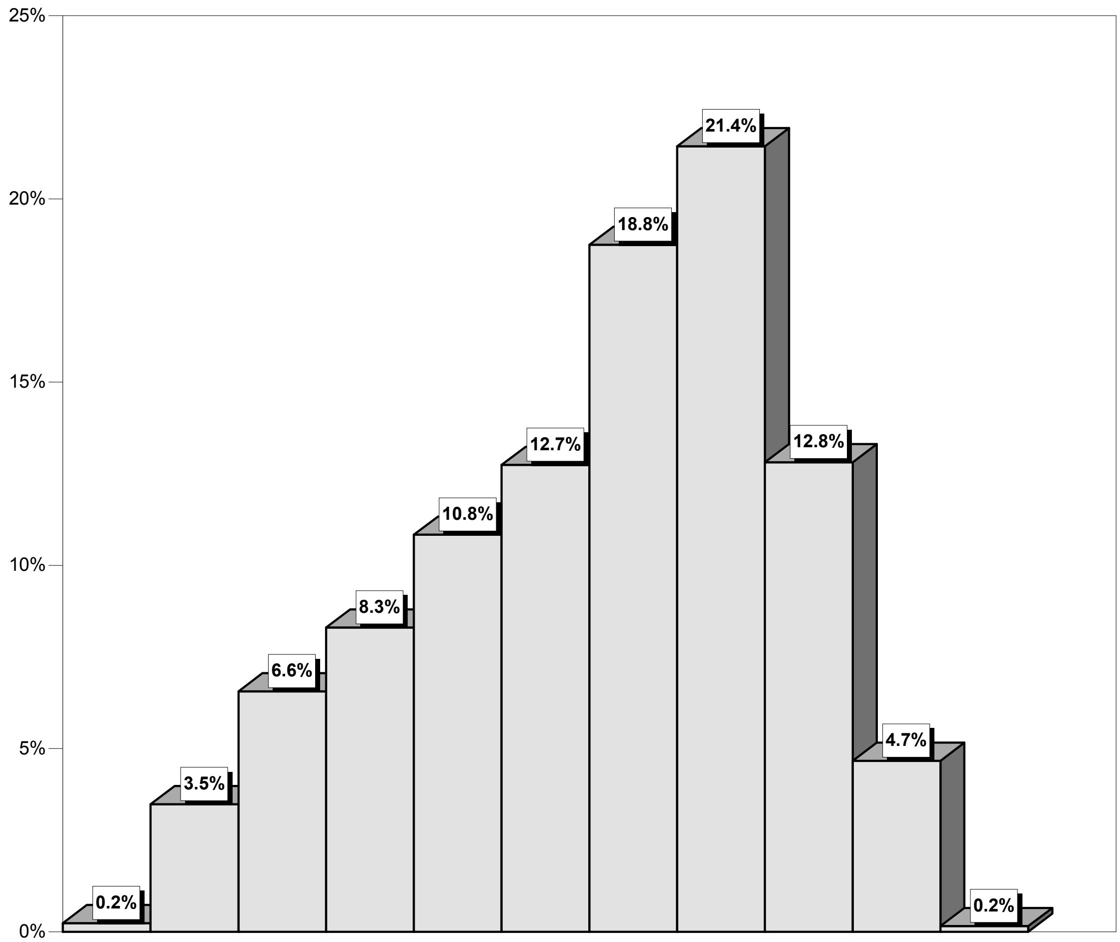
Age	0	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19
15																				
16																				
17																				
18																				
19			3																	
20			1	4																
21			3	1	2															
22		1	9		2															
23		3	7	2																
24		3	4	1		1														
25		1	1	4	1	1														
26			3	2	2	2	2	1	2											
27			4	5	2	2	1	1												
28			5	1	4	2	3	2	3											
29		2	1	6	2	4	4	4		1	1	1								
30			2	2		3	2	2	1		3									
31			2	2	2	5	1	1	2	3										
32			2			3	6	5	1	1	2	2	1	1						
33		1	4	1	3	2	2	3	1	3	7		1	1						
34		1			1	2	2	4	2	2	2	1	2							
35		2	1			1	1	3		4	6	2	2			2				
36			2	1	1	1	1	2	1	4	3	1				1	2			
37			2	1	3	2	1	2		1	3	4	1	2	1		1	4	1	
38			1		4	2	1	4	2		5	1					2	1	2	4
39			4	3		1	3	1	2	1	5		2	1	1			1	2	2
40		2	3			1	2	1		3	3	1		1		1	2	1		3
41			4				3		3	2	1	1				1		1	1	1
42			2	2	1			1		1	3	1	1		1	2	3	3	1	4
43			1	1		2		2	2	2	2					2			2	2
44				1	1			4	1	2	1		3	2			1	2	4	3
45		1	3		1	1	2	1	1	1	3	1	1		1	2	1	1	5	2
46		1						4	1	6	1	1				1		1	2	3
47			1	2	1	1			1	1	1	1				1	1		3	3
48		1	4		1	2			3	2	1	1		1	1			1	5	
49			1			1	1			1	1		1	1	1		1		3	2
50		1	1		1						1								3	1
51						1	2		1		1						1			2
52			2	1		1					2		1			1			1	
53			1	2						3	2			1		1	1	1		
54				1	1			1	2	1			1				1			1
55					1		1													
56											1						1			
57								1										1		2
58				1				1	1											
59																			1	1
60		1																		
61															2	1		1		2
62									1									1		
63												1								
64																				
65																1				
66																				
67																				
68																				
69																				
70+																				
M		13	61	28	24	35	29	34	23	31	39	10	10	5	2	12	9	11	28	30
F		8	23	19	13	9	12	17	11	14	22	10	7	6	6	5	9	9	8	8
T		21	84	47	37	44	41	51	34	45	61	20	17	11	8	17	18	20	36	38

Years of Service 20–40+ and totals

Age	20	21	22	23	24	25	26	27	28	29	30	31	32	33	34	35	36	37	38	39	40+	M	F	T
15																								
16																								
17																								
18																								
19																						3		3
20																						5		5
21																						6		6
22																						11	1	12
23																						9	3	12
24																						6	3	9
25																						5	3	8
26																						11	3	14
27																						11	4	15
28																						15	5	20
29																						20	6	26
30																						9	6	15
31																						18		18
32																						18	6	24
33																						19	10	29
34																						14	5	19
35																						17	7	24
36	1																					16	5	21
37																						17	12	29
38	1																					21	9	30
39	2	1	1																			19	14	33
40	3		1																			19	9	28
41	1	1	4																			16	8	24
42	1	5	2	1	1	1	2															27	12	39
43	2	3	3				1															20	7	27
44	4	4	2	3	5																	25	18	43
45	5	5	3	3					1	1												30	16	46
46	1	4	4	3	2	3		1	2	1												28	14	42
47	3	3	4	1	2	2		2	4		1											29	10	39
48	2	4	6	7	2	3	5	1	3	2	3											44	17	61
49	1	3	4	4	4	1	1	3	3	3	5	2	1									33	16	49
50	1	3	3	3	4	4	5	3	4	6	4	2	2									38	14	52
51		2	5	2	2	7	2	6	4	7	4	6	5	2								51	11	62
52	2	1	4	1	2			2	3	6	12	7	5	1								41	14	55
53		2	4		3	2	1	4	2	4	6	7	4	3		2						41	15	56
54			3		2	1	2	1	6	5	1	2	7	2	1	4						38	8	46
55	1		3		2		1	2	3	3	1	5	4	5	1	3	2	2	1			31	10	41
56		1	1	1		2	1	2	2	2	3	1	8		1	1	2	1	1			26	6	32
57	1	1	3				1	5	2		3	1	2	3		2	4	1	2	1		30	6	36
58	1	1	2			1				1	2	1	2	1	1	3	5	2	2	1	1	22	8	30
59			1			1		1		3	2	4	2		1		1	3	1		1	20	3	23
60		2					1					1	1	1		1		2	2	2		11	3	14
61	1		1							1	1		2	1	2	1	1	1		3	3	17	7	24
62			1				1				1	1					1	2	1	1	1	9	3	12
63						1			1													2	1	3
64					1							1			1	1				1	1	6		6
65																						1		1
66					1																	1		1
67																								
68																								
69																								
70+																								
M	26	35	54	22	26	22	16	23	30	39	44	31	39	14	4	15	15	13	8	9	7	926		
F	8	11	11	7	7	7	8	10	10	6	5	10	6	5	4	3	1	1	2				338	
T	34	46	65	29	33	29	24	33	40	45	49	41	45	19	8	18	16	14	10	9	7			1,264

Personnel Information

Distribution of Personnel by Age

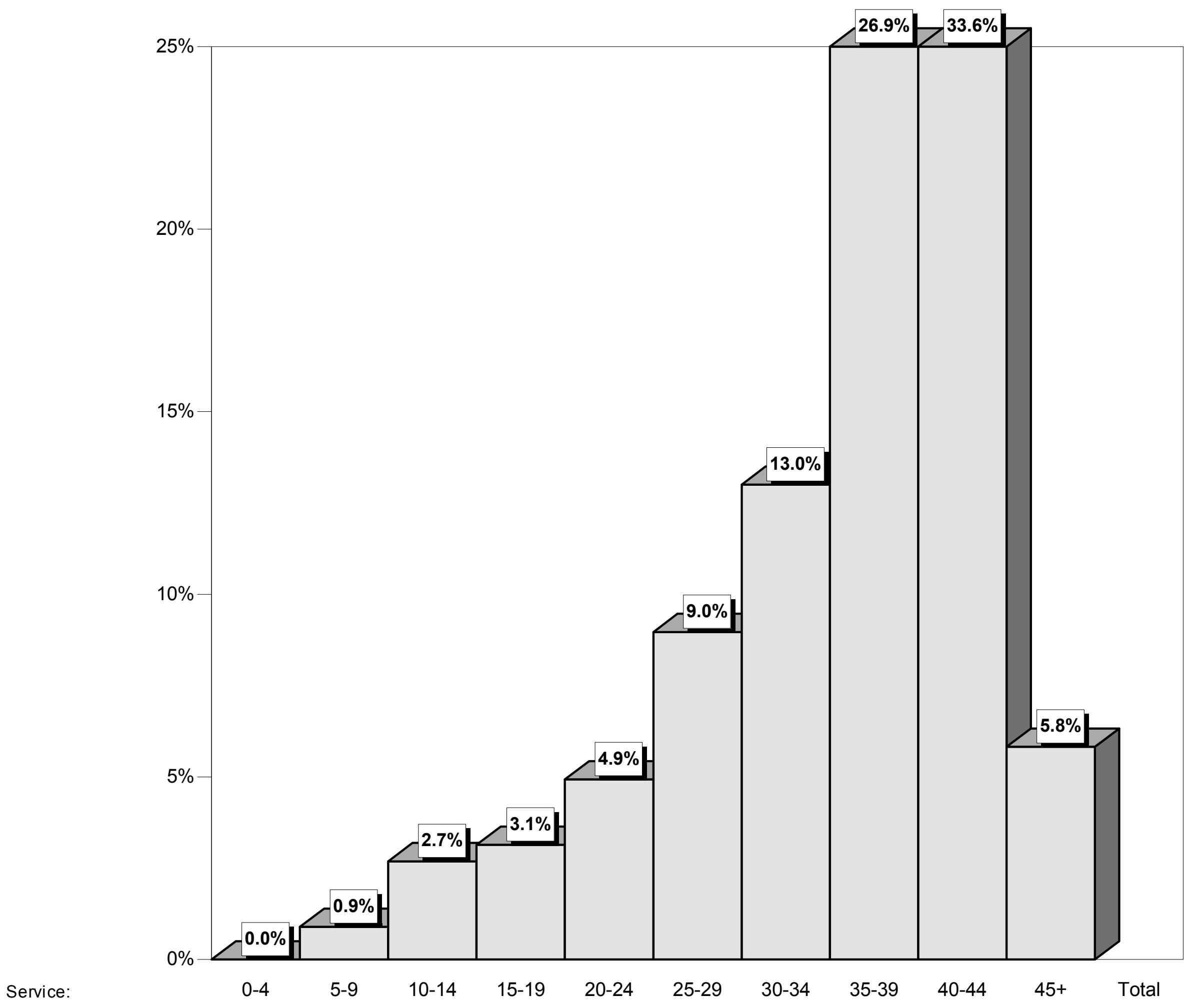


Age:	15-19	20-24	25-29	30-34	35-39	40-44	45-49	50-54	55-59	60-64	65+	Total
Number	3	44	83	105	137	161	237	271	162	59	2	1,264
Average Pay	34,208	35,938	46,801	53,057	56,523	60,033	64,767	70,574	70,042	65,936	64,076	62,017
Average Service	2.0	2.3	4.5	6.7	9.8	14.3	18.6	24.9	29.4	29.9	19.5	17.8

Detail of Employees 55 & Over

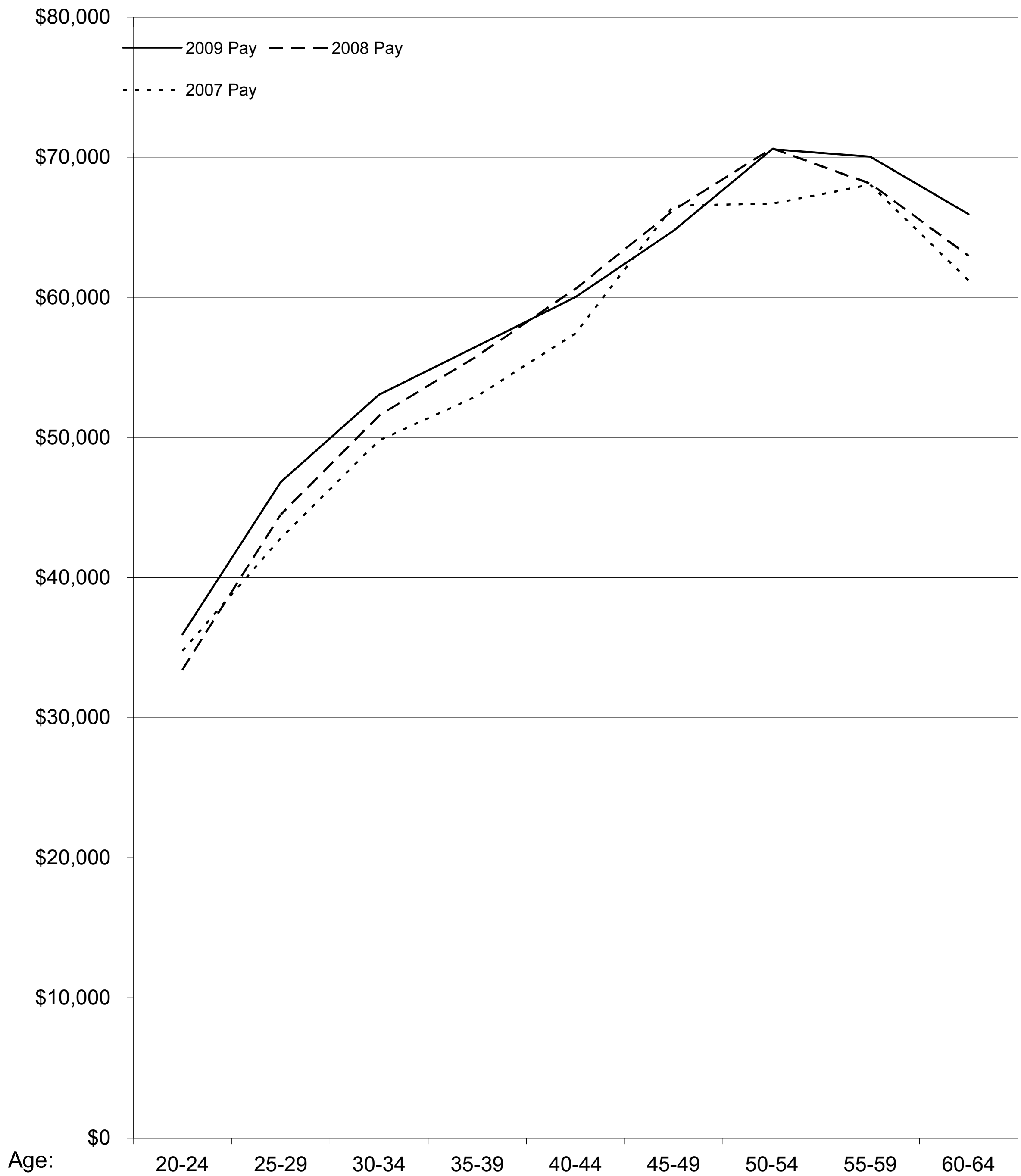
Age	55	56	57	58	59	60	61	62	63	64	65	66+
Number	41	32	36	30	23	14	24	12	3	6	1	1
Average Pay	70,678	68,309	71,901	67,400	71,858	64,541	69,383	67,260	48,120	61,663	$	$
Average Service	29.2	29.0	28.8	29.8	30.7	30.6	29.6	30.1	21.3	33.8	15.0	24.0

Distribution of Personnel
By Expected Service At Age 65
(Based Upon Personnel Age 55 And Over)



Number	0	2	6	7	11	20	29	60	75	13	223
Average Pay	0	40,027	47,046	43,402	60,375	58,804	66,649	72,169	74,640	76,763	68,902
Average Service At Age 65*	0.0	7.6	13.3	17.4	23.5	27.9	33.0	37.4	42.2	46.2	35.9

Average Compensation By Age



Plan Provisions

History
The Pension Plan for Employees of Gulf Power Company was originally effective July 1, 1944. The plan was consolidated with other pension plans of the Southern Company to form The Southern Company Pension Plan at the end of the 1996 plan year. The plan was most recently restated and amended as of January 1, 2002. The effect of plan amendments on the plan's liabilities is measured on the valuation date. Amendments and changes reflected in recent valuations are described below.

Changes Reflected in the 2010 Valuation
The following plan changes were reflected as of the December 31, 2009 measurement date:

- The IRC Section 415 benefit limit increased to $195,000 from $185,000.
- The IRC Section 401(a)(17) pay limit increased to $245,000 from $230,000.

Changes Reflected in the 2009 Valuation
The following plan changes were reflected as of the December 31, 2008 measurement date:

- The IRC Section 415 benefit limit increased to $185,000 from $180,000.
- The IRC Section 401(a)(17) pay limit increased to $230,000 from $225,000.

Changes Reflected in the 2008 Valuation
The following plan changes were reflected as of the September 30, 2007 measurement date:

- The IRC Section 415 benefit limit increased to $180,000 from $175,000.
- The IRC Section 401(a)(17) pay limit increased to $225,000 from $220,000.

Changes Reflected in the 2007 Valuation
The following plan changes were reflected as of the September 30, 2006 measurement date:

- The IRC Section 415 benefit limit increased to $175,000 from $170,000.
- The IRC Section 401(a)(17) pay limit increased to $220,000 from $210,000.

An additional plan change was recognized in this valuation due to legislative changes. The Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA) increased benefit and pay limits for purposes of determining qualified pension plan benefits. However, these increases were scheduled to return to pre-EGTRRA levels in 2011. The Pension Protection Act of 2006 made the EGTRRA increases permanent.

Plan Provisions

Changes Reflected in the 2006 Valuation
The following plan changes were recognized as of the September 30, 2005 measurement date.

- The IRC Section 415 defined benefit plan maximum annual benefit was increased to $170,000 from $165,000.

- The IRC Section 401(a)(17) recognizable pay limit increased to $210,000 from $205,000.

Retirees in pay status as of April 1, 2005 were provided a pension supplement of $250 per month starting August 1, 2005 payable until they turn age 62.

Changes Reflected in the 2005 Valuation
The following plan changes were recognized as of the September 30, 2004 measurement date:

- The IRC Section 415 defined benefit plan maximum annual benefit was increased to $165,000 from $160,000.

- The IRC Section 401(a)(17) recognizable pay limit increased to $205,000 from $200,000.

Changes Reflected in the 2004 Valuation
No changes in plan provisions were recognized in the 2004 valuation.

Changes Reflected in the 2003 Valuation
The following plan changes were recognized as of the September 30, 2002 measurement date:

- As a result of the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA), the following changes were recognized:

  - The IRC section 401(a)(17) recognizable pay limit increased to $200,000 from $170,000. The Company elected to apply the new limit on a retrospective basis.

  - The IRC section 415 defined benefit plan maximum annual benefit increased to $160,000 from $140,000. In addition, the adjustment of the limit for early commencement was changed.

- Plan changes impacting two groups of participants were recognized. The changes impacted all covered employees and only noncovered employees under the “New Retirement Program” (i.e., noncovered employees under age 35 as of January 1, 1997, and noncovered employees hired after 1996). As a result of these changes, all employees have basically the same pension provisions.

Changes Reflected in the 2002 Valuation
The maximum benefit limit was changed due to automatic indexing. The IRC Section 415 defined benefit plans maximum annual benefit was increased to $140,000 from $135,000.

Plan Provisions

Changes Reflected in the 2001 Valuation
The following plan changes were recognized as of the September 30, 2000 measurement date:

- The IRC Section 415 defined benefit plans maximum annual benefit was increased to $135,000 from $130,000.

The IRC Section 401(a)(17) recognizable pay limit increased to $170,000 from $160,000.

Additionally, several plan changes occurring at year-end 2000 were reflected as of a December 31, 2000 remeasurement:

- A 1.25% of final average total pay (base plus incentives) formula was added.
- The 43-year service cap was removed.
- Early retirement reductions for employees starting receipt of pension benefits before age 55 were lowered to 0.3% (from 0.333%) for each month benefit commencement precedes age 55.
- The $325 reduction in the Social Security benefit for the Social Security offset was changed to $350.
- An ad hoc benefit increase was made for retirees (1.5% per year of retirement; 7.5% maximum).

The first four changes above apply to noncovered employees only.

Changes Reflected in the 2000 Valuation
No changes in plan provisions were recognized in the 2000 valuation.

Changes Reflected in the 1999 Valuation
The maximum benefit limit was changed due to automatic indexing. The IRC Section 415 defined benefit plans maximum annual benefit was increased to $130,000 from $125,000.

Changes Reflected in the 1998 Valuation
No changes in plan provisions were recognized in the 1998 valuations.

Changes Reflected in the 1997 Valuation
The Pension Plan for Employees of Gulf Power Company was consolidated with other pension plans sponsored by Southern Company to form The Southern Company Pension Plan at the very end of the 1996 plan year. Additional plan changes which were recognized July 1, 1996 for ASC 715 purposes were first recognized for funding purposes.

The maximum pay and benefit limits were changed due to automatic indexing. The IRC section 415 defined benefit plans maximum annual benefit was increased to $125,000 from $120,000 and the IRC section 401(a)(17) recognizable pay limit increased to $160,000 from $150,000.

Plan Provisions

Changes Reflected in the 1996 Valuation
Participant transfers from the GULF plan to the SCS plan occurred December 31, 1995. For funding purposes, this special transfer was reflected in the same manner as the regular transfers among the system plans. For ASC 715 purposes, this transfer was reflected as a special spin-off/merger with liabilities and unrecognized amounts transferred to the SCS plan as of January 1, 1996. Assets will be transferred at the end of the year.

For ASC 715 purposes, amendments adopted during the year were reflected in a July 1, 1996 remeasurement. For funding purposes, these changes will be recognized as of January 1, 1997.

Significant changes include:

- Ad hoc benefit increases for retirees (1.5% per year of retirement; 7.5% maximum).
- Transition to 1% of final average pay formula for noncovered employees who were under age 35 as of January 1, 1997.
- The $250 reduction in the Social Security benefit for the Social Security offset was changed to $325 for other noncovered employees.
- Earliest retirement eligibility and benefit payment age for surviving spouses were changed from age 55 to age 50.

For funding purposes, these changes were reflected January 1, 1997.

Changes Reflected in the 1995 Valuation
The maximum pay and benefit limits were changed. The IRC section 415 defined benefit plan maximum annual benefit was increased to $120,000 from $118,800 due to automatic indexing. In addition, the definition of actuarial equivalence used to adjust the limit for payment at ages other than the Social Security Retirement Age was changed by the Retirement Protection Act of 1994. For ERISA funding purposes, these changes were treated as a plan amendment since no increases were expected for the funding valuation. A de minimis spin-off from the GULF plan to the new Southern Communications Services, Inc. (COMM) plan occurred January 1, 1995. Even though the spin-off was de minimis, Funding Standard Account entries, unfunded frozen accrued liability, and actuarial value of assets were allocated to the new plan.

Changes Reflected in the 1994 Valuation
The IRC section 415 benefit limit was changed from $115,641 in 1993 to $118,800 in 1994. Also, the pay cap was changed from $235,840 in 1993 to $150,000 in 1994. These changes were recognized in the January 1, 1994 valuation.

Changes Reflected in the 1993 Valuation
The IRC section 415 benefit limit was changed from $112,221 to $115,641 in 1993. Also, the pay cap was changed from $228,860 to $235,840. These changes were recognized in the January 1, 1993 valuation.

Changes Reflected in the 1992 Valuation
The IRC section 415 benefit limit was changed from $108,963 to $112,221 in 1992. Also, the pay cap was changed from $222,220 to $228,860. These changes were recognized in the January 1, 1992 valuation.

Plan Provisions

Changes Reflected in the 1991 Valuation
The IRC section 415 benefit limit was changed from $102,582 to $108,963 in 1991. Also, the $200,000 pay cap was changed from $209,200 to $222,220. These changes were recognized in the January 1, 1991 valuation.

The following plan changes were adopted on or about June 1, 1991, and also reflected in the 1991 valuations:

- An ad hoc retiree benefit increase was made, according to the following schedule:

Year of Retirement	Benefit Increase	Year of Retirement	Benefit Increase
1990	2%	1976-1986	10%
1989	4%	1971-1975	20%
1988	6%	1966-1970	30%
1987	8%	1965 or earlier	40%

- The minimum benefit was increased from $240 per year of service to $300 per year of service.

- The death benefit for survivors of active employees was changed to 45% of the participant's accrued benefit. The benefit had previously been 50% of the accrued benefit, actuarially reduced to age 55.

- The $168 reduction in the Social Security benefit for the FAP formula's Social Security offset was changed to $250.

- The 40-year service cap was increased to 43 years.

Changes Reflected in the 1990 Valuation
The IRC section 415 benefit limit was changed from $98,064 to $102,582 in 1990. Also, the $200,000 pay cap was changed to $209,200. These changes were recognized in the January 1, 1990 valuation.

Plan Provisions

Participation	Completion of one year of service.
Normal Retirement	
Eligibility	Later of attainment of age 65 and completion of five years of participation.
Benefit	Accrued benefit.
Early Retirement	
Eligibility	Later of attainment of age 50 and completion of ten years of participation.
Benefit	Accrued benefit reduced by 0.3% for each month benefit commencement precedes normal retirement date.
Disabled Retirement	
Eligibility	Completion of five years of service.
Benefit	Accrued benefit based on compensation at disablement and service at normal retirement date.
Terminated Vested Benefits	
Eligibility	Completion of five years of service.
Benefit	Accrued benefit payable at age 65. Benefits may commence as early as age 50 with actuarial reduction to age 55 and 0.3% reductions for each month benefit commencement precedes age 55.
Preretirement Spouse's Benefit	
Eligibility	Fully vested status.
Benefit	45% of the accrued benefit, payable on the participant's earliest retirement date. Participants may elect to upgrade the benefit to a 100% Joint and Survivor. The cost of this upgrade is paid through a reduction in benefits payable. Terminated employees with vested benefits receive the coverage free of charge prior to being eligible for early retirement. Thereafter, benefits are reduced if coverage is elected.

Normal Form of Annuity	
Single	Life Annuity.
Married	50% Joint and Survivor; benefits are reduced 10% for this form (terminated vested employees' benefits are adjusted based on actuarial equivalent tables).
Optional Forms of Payment	Life Annuity, 50% Joint and Survivor Annuity, 50% Joint and Survivor Annuity with Pop-up, 100% Joint and Survivor Annuity, 100% Joint and Survivor Annuity with Pop-up, and Social Security Level Income Annuity.
Benefit Limits	Benefits cannot exceed the limits set by IRC Section 415.

Plan Provisions

Definitions

Accrued Benefits	Greater of (A) less (B), (C), or (D): (A) 1.7% times final average pay times years of participation as of calculation date. (B) 50% times offset based on PIA times a ratio of years of participation at calculation date to years of participation attainable at normal retirement. (C) $300 times years of participation as of calculation date (career average pay benefit for service prior to 1986, if larger). (D) 1.25% times final average total pay times years of participation as of the calculation date.
Final Average Pay	Average pay over the three plan years of participation which produce the highest average out of the last ten plan years. Pay for benefit purposes cannot exceed the limits set by IRC Section 401(a)(17). Final average total pay includes incentives paid during each plan year in the average.
Offset Based on Primary Insurance Amount (PIA)	Estimated Social Security benefit (determined using only actual Southern Company earnings) reduced by $4,200 ($350 per month). The offset is limited by the maximum allowable under integration rules in IRC Section 401(1).
Pay	Highest base rate of earnings during year.
Years of Participation for Benefit Purposes	Years of service as a participant, prorated for hours less than 1,680.
Year of Service	12-month period with 1,000 hours.

Actuarial Assumptions

Measurement Date for Fiscal 2010

December 31, 2009.

Discount Rate

5.95% compounded annually.

Expected Long-Term Rate of Return

8.75% compounded annually reduced by the anticipated trust expenses based on prior years' actual expenses.

Pay Increases

4.00% for SERP participants. For other noncovered employees, according to rates which vary by age and service and average 4.48% over a full career. For covered employees (IBEW), according to rates which vary by age and calendar year and average 3.56% over a full career. See Table A for specific rates.

Social Security

Projected based on the Social Security Act in effect during 2009 assuming:

(1) 2.75% per year increases in the formula breakpoints.

(2) 2.25% per year cost-of-living increases.

Retirement Age

According to the rates of retirement below:

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%		

These rates produce a weighted average retirement age of 60.

Actuarial Assumptions

Retirement Age	
Terminated Vesteds	Age 57.
Mortality Rates	
Healthy Lives	Retired Pensioners 2000 Combined Healthy Mortality Table, Fully Generational.
Disabled Lives	Retired Pensioners 2000 Combined Healthy 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.
Expenses	An explicit adjustment for trust expenses is included. The adjustment is based on the prior three years' trust expenses. For fiscal 2010, $1,492,451 of expenses have been assumed payable in the middle of the measurement period.
Incentive Payments	Incentives are anticipated to pay out at 130% of target in future years. Incentive targets varying by salary grade are provided by the Company. Covered employees (IBEW) are assumed to have a 5% target.
Marital Status	75% of males and 65% of females are married. Husbands are two years older than wives.
Payment Form	All single participants are assumed to elect single life annuities. For married male participants, 25% are assumed to elect single life annuities, 25% are assumed to elect 50% joint and survivor annuities, 25% are assumed to elect 100% joint and survivor annuities, and 25% are assumed to elect level income annuities. For married female participants, 40% are assumed to elect single life annuities, 10% are assumed to elect 50% joint and survivor annuities, 10% are assumed to elect 100% joint and survivor annuities, and 40% are assumed to elect level income annuities.
Cost Method	Projected Unit Credit.

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.
Section 415 Limits	The annual benefit payable at Social Security retirement age has been limited to $195,000 based on the provisions of IRC Section 415(b).
Pay and Benefit Limits Indexing	2.25% per year.
Participants Included	All employees designated by the Company as active or transfers-in and eligible to participate, plus any others currently receiving benefits or entitled to benefits in the future.
Participant Data	Benefit obligations are based on reasonable and normal actuarial projections of participant data supplied prior to the measurement date. For the development of fiscal 2010 costs, demographic information as of January 1, 2009 and pay data including the March 2009 updates were used.
Asset Data	Asset data was supplied by the Company as of the measurement date.

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

Actuarial Assumptions

Discussion of Actuarial Assumptions and Methods
Ultimate Cost
The ultimate cost of a pension plan can be measured only when the obligation to all participants has been fully discharged. The cost will then be:

The benefits paid from the plan
plus
administrative expenses
less
investment gains
plus
investment losses.

The actuarial process assigns pension costs to the current year by estimating, based on both current and future service, the benefits to be paid to current plan participants. These estimates are determined through an actuarial valuation which uses three basic elements to project payments from the plan:

- Benefit provisions of the plan.
- Data on the present workforce, terminated vested, and retired employees.
- Certain predictions (actuarial assumptions) about the future as it applies to this workforce.

Actuarial Assumptions
The first step in the actuarial process is to determine the magnitude of the pension liability by determining the benefits expected to be paid. To determine how many employees will become eligible for benefits, what benefits will be paid, and how long benefits will be paid, it is necessary to make some economic and demographic predictions (usually called *actuarial assumptions*) such as:

- An assumed retirement age predicting when employees will begin to receive retirement benefits.
- A mortality rate predicting the number of employees who will die before retirement and the duration of benefit payments after retirement.
- A withdrawal rate predicting the number of employees who will leave the workforce before retirement. (Sometimes certain kinds of withdrawal such as disabilities are predicted separately.)
- If the benefits are based on compensation, an assumed rate of pay increases predicting employees' compensation in future years.

Actuarial Assumptions

These assumptions are applied to the data for each employee to predict the amount of benefits expected to be paid each year in the future. The total future benefit payments in each year are then discounted at a selected interest rate to determine the current amount which with future investment return, will be sufficient to pay the expected benefits as they become payable. The discounted payments are usually called the present value of future benefits.

Total Future Benefit Payments	
Future Investment Return	**Present Value of Future Benefits**

Actuarial Method
The actuarial method is the mathematical process which determines the contributions required to pay for the present value of future benefits, by allocating costs to the years of an employee's career. Some costs are allocated to future years in an employee's career (*future service liability*) and other costs are allocated to past years (*past service liability*).

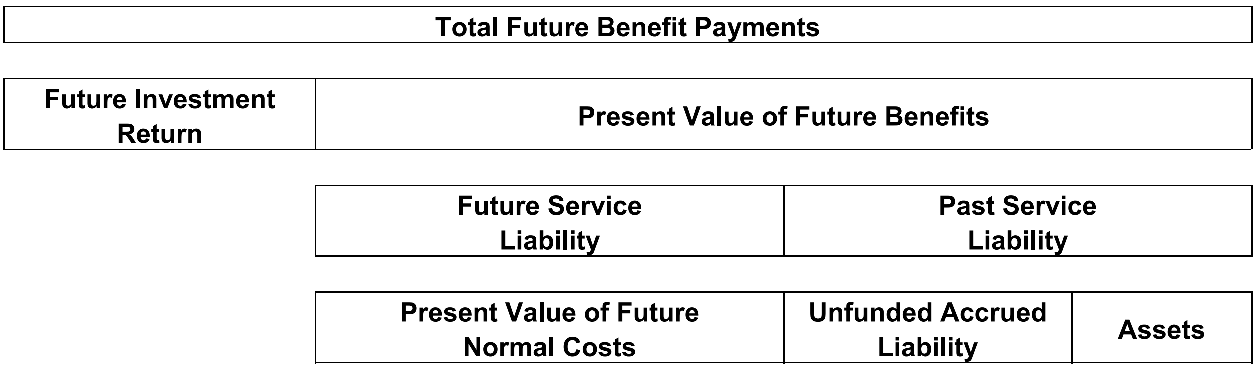
Total Future Benefit Payments		
Future Investment Return	**Present Value of Future Benefits**	
	Future Service Liability	**Past Service Liability**

There is a fair amount of flexibility in this allocation of costs between future and past. Some methods assign relatively little cost to past years in an employee's career, others assign a more significant portion to the past. All methods produce allocations of contributions which will accumulate to an amount sufficient to provide the benefits at retirement. However, the various methods produce widely different allocation of contributions to past and future employment.

Many actuarial methods are acceptable under the Employee Retirement Income Security Act of 1974 (ERISA) for calculating cash contributions. However, once an actuarial method has been selected and filed for minimum funding purposes, a change in method may be made only if approved by the Secretary of the Treasury or his delegate. The Secretary has granted automatic approval for some changes in actuarial method.

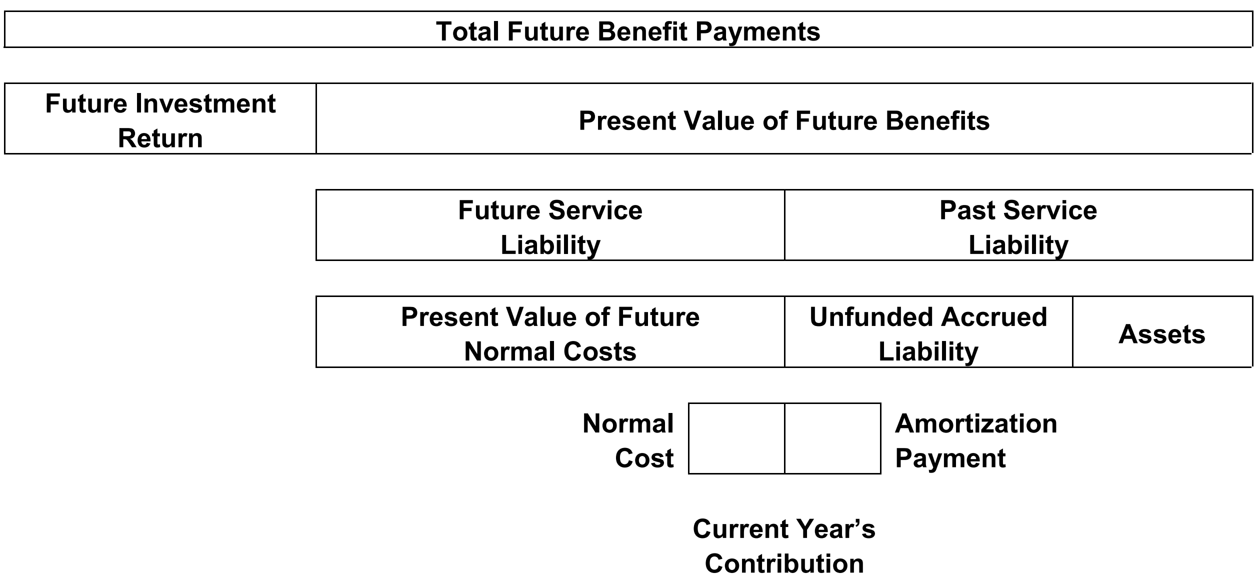
Usual terminology refers to the future allocation as the *present value of future normal costs* and the past allocation as the *accrued liability*.

The portion of the accrued liability which is not covered by the assets of the plan is called the *unfunded accrued liability*. The value of the assets used in the actuarial process under ERISA must take into account fair market value, but this may be done in a way which eliminates much of the short-term fluctuation of market value from one valuation to the next.



For the current year, the method produces a *normal cost*. Payment of the normal cost each year would eventually discharge all future service liability.

The unfunded accrued liability must also be discharged, and this is done by an *amortization payment*. The amortization payment is flexible, and may be increased or decreased within certain allowable bounds. The sum of both the normal cost and the amortization payment is the current year's pension cost.



Actuarial Assumptions

Valuations to determine expense for the ongoing plan use the *Projected Unit Credit Cost Method.*

Under this actuarial method, the costs attributable to past service and the current year's service are determined by prorating over all years of service the benefits expected to be paid upon normal retirement.

- The expected pension benefit (based on past and future service) at normal retirement is determined for each employee.

- The *normal cost* is determined equal to the present value of the current year's portion of the employee's expected pension benefit. The current year's portion is equal to the expected pension benefit divided by the total credited service at the anticipated retirement date.

- The *accrued liability* is determined equal to the present value of the past years' portion of the employee's expected pension benefit. The past years' portion is equal to the expected pension benefit times the ratio of the participant's credited service to the total credited service at the anticipated retirement date.

- The sum of such values for all employees determines the normal cost and accrued liability for the plan.

The *unfunded accrued liability* is the amount by which the accrued liability exceeds the valuation assets.

The calculations for any disability, termination or death benefits take into consideration that the entitlement to benefits may begin at various future times. Each age prior to retirement has associated with it appropriate probabilities of disability, termination and death.