From: Paul Kende, October 1, 2018
To: DuPont Retirees Chapter Members
DuPont Pension Plan Funding Status Update

In my May 9, 2018 note (emailed to all and also posted below, on the financial status of the DuPont Pension Plan, I indicated that our funding level was 86.56%, based on its Fair Market Value as of year-end 2017, as stated in DuPont's April, 2018 Annual Funding Notice (AFN - page 2). But based on the February, 2018 10 K Report, the funding level was 82.15%; the difference in valuations is mostly attributable to different discount rates and mortality tables, required to be used by the two reports. Both the AFN/FMV and the 10K Report funding level calculations recognize the $2.8 billion contribution ($2.6 billion of which was discretionary) that DuPont made to the Pension Plan in May, 2017.

In a letter to all Plan Participants, on May 31, 2018, management stated that *"A significant portion of these contributions was considered discretionary, meaning that they were above the minimum level required by law. These excess contributions created a "credit", and Federal pension laws specify that the credit must be subtracted from the plan assets when calculating the Funding Target Attainment Percentage. If the credit was not subtracted, the funded percentage would be over 100%. Because of the 2017 discretionary contributions, no additional contributions are expected to be made in 2018."*

The 1/1/17 MAP-21-based Funding Target Attainment Percentage (FTAP), shown in the April '18 Annual Funding Notice, was 85.14% (page 1); adding the $2.6 billion Credit Balance to the net assets shown, does increase the calculated funding level to just over 101%. However, I believe that the most meaningful valuation of a pension plan's funding level is based on its Fair Market Value (FMV), rather than on the actuarial average, MAP-21-based funding level calculation. The FMV-based funding levels at year-end 2014-2017 were 79.20%, 73.96%, 72.25%, and 86.56%, respectively. The jump in 2017 is attributable to the large $2.8 billion total contribution in May, 2017.

As a further note of interest, in the 2nd Quarterly Report in 2018, management indicated that an additional discretionary contribution is intended in the 3rd Quarter, at less than half of the 2017 contribution (i.e. less than $1.4 billion). While this intended contribution may be driven mostly by tax deduction considerations, it will further strengthen the funding level and tacitly acknowledges the need for it. I expect that the additional 3rd quarter Pension Fund contribution and the decisions around the capital structure of the spinoffs, including allocation of the Pension Fund assets and obligations, is underway now; they should become clear in mid-to-late October, before the announced Investor Day takes place on Nov 8.

Risk Assessment

DuPont and DowDuPont management have repeatedly assured us that our pensions are secure and Participants will receive their promised pension benefits. This is comforting, but the allocation of Pension Plan assets and obligations, across the spinoffs, is just underway now, and potential further splits in the future is a subject of discussion/speculation in the general investment community. So we do not really know who the Plan Sponsors will be and what their commitments to Plan Participants will be in the long-term. And secondly, the business success of the new Sponsor(s), as well as the general market forces impacting pension finance, are key factors in the security of our pensions; both of these uncertainties represent risks. The intended 2018 contribution to the DuPont Pension Plan is good news for from the viewpoint of pension security; while at 86%, our plan is above the 80% funding level, generally considered “at risk”, its continuing financial health will probably require additional future contributions, in amounts strongly dependent on future market conditions, as well as on the corporate tax rate.

It appears unlikely that our Pension Plan would fail and would have to be terminated and taken over by the Pension Benefit Guaranty Corporation (PBBC - the Federal Government’s pension insurance agency). However, if that were to occur, it is fair to ask what would happen to our pensions? My understanding on this question is summarized below:

- If a pension plan terminates because it has insufficient money to pay all benefits, the PBGC’s insurance program will pay the benefits provided by the original Pension Plan, but possibly reduced, based on legally defined limitations on a) “maximum guaranteed limits” (mostly based on age: higher maximum benefits at older ages; for details, see https://www.pbgc.gov/wr/benefits/guaranteed-benefits/maximum-guarantee), and b) partial, phased-in coverage for pension enhancements, that were granted by the employer in the 5 years prior to Plan termination (smaller percentage coverage for more recent enhancements)
- If the guaranteed benefits are reduced by one of the limitations above, then the Plan’s funding level becomes a factor in determining what PGBC will pay. The PBGC would pay the reduced guaranteed benefits,

if the Plan’s assets are less than what is required to pay that amount; but if the assets are sufficient to pay more than the reduced guaranteed benefit, then the PGBC will pay the higher benefits that the Plan’s assets can cover

- The actual PGBC benefits, that participants would receive, are based on well-defined but complex rules, and are highly plan-specific

Maximizing Pension Plan funding is vital for its financial health to 1) keep it from sliding into termination, and 2) if it ever does terminate, higher Plan assets would increase the benefits many would receive from the PBGC.

Your comments and questions are always welcome.....paul