

FUNDED RATIO STABLE IN MARCH

Bond yields moved up slightly in March, offsetting the effect of negative investment returns. As a result, the funded ratio for our benchmark pension plan nudged downward by 0.2 percentage points. On a year-to-date basis, however, the funded ratio has declined a more significant 2.9 percentage points.

EQUITY RESULTS

All equity classes reported negative returns in March, with international stocks reporting the biggest monthly decline, at -2.9%. All equity classes are also in negative territory for the year, with small/mid cap stocks the year-to-date return laggard, at -3.1%.

BOND RESULTS

Long bond yields increased in March, but the amount of the increase varied widely by index. The Moody's Aa yield increased a mere two basis points for the month, to 5.61%, while other long corporate bond indexes moved up by 15 basis points or more.

The rising yields in March brought negative bond returns. Nonetheless, long bond returns remain slightly positive for the year.

ABOUT THIS REPORT

The monthly *Capital Market Update* is designed to support our clients in the ongoing financial management of their U.S. retirement plans. Towers Perrin has been tracking the asset/liability performance of a hypothetical benchmark pension plan since 1990. This report reviews how capital market performance affected pension plan financing, with a focus on linked asset/liability results. Specific plan results will vary based on such factors as liability characteristics, contribution policy, portfolio composition and management strategy.



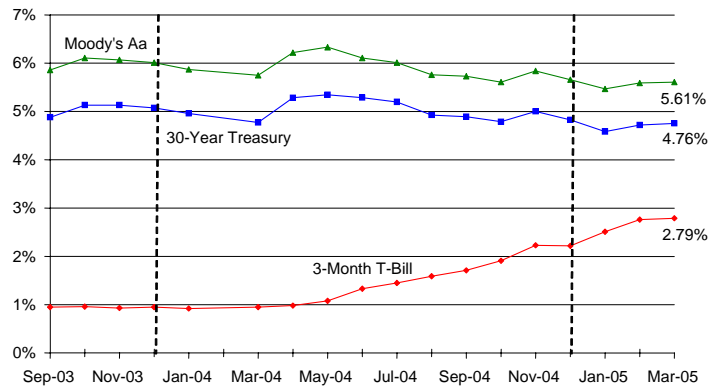
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Bond Yields

	Mar. 2005	Dec. 2004	Mar. 2004
U.S. Treasuries			
30-Year*	4.76	4.83	4.77
10-Year	4.50	4.24	3.86
3-Month	2.79	2.22	0.95
Corporate Bonds			
Aaa Corp	5.40	5.43	5.37
Aa Corp	5.61	5.66	5.75
Baa Corp	6.14	6.10	6.15
M/L 10+ Hi Qual	5.73	5.62	5.51
LB Aggregate	4.86	4.42	3.87
Benchmark Discount Rate	5.79	5.83	5.76

Key Bond Yields

(at end of month)



Asset Class Returns

	March 2005	YTD	Last 12 Months
Stock Returns			
S&P 500 (Large Cap)	-1.8%	-2.2%	6.7%
Russell 2500 (U.S. Small/Mid-Cap)	-2.0%	-3.1%	8.2%
EAFE (International)	-2.9%	-0.8%	14.6%
Fixed-Income Returns			
3-Month T-Bills	0.2%	0.6%	1.6%
Long Treasury Bonds	-0.7%	0.5%	2.8%
LB Aggregate Bond Index	-0.5%	-0.5%	1.2%
Long Corporate Bonds (AAA/AA)	-1.2%	0.5%	4.0%

Benchmark Plan Returns

	March 2005	YTD	Last 12 Months
Portfolio Returns			
40% Stocks/60% Fixed Income	-1.0%	-1.0%	4.1%
60% Stocks/40% Fixed Income	-1.4%	-1.3%	5.5%
80% Stocks/20% Fixed Income	-1.7%	-1.7%	6.9%
Liability Growth			
Towers Perrin PBO Liability Index	-1.2%	2.0%	5.7%

*Reflects the yield on the longest actively traded Treasury bond, which matures in February 2031.

EFFECT ON FUNDED STATUS

The benchmark plan's 60% equity/40% fixed-income portfolio reported a -1.4% return for March. The more conservative 40% equity portfolio came in at -1.0% for the month, while the more aggressive 80% equity portfolio returned -1.7%.

Pension plan liabilities under FAS 87 are measured based on yields available on high-quality corporate bonds as of the measurement date. Using our RATE:Link methodology — which matches high-quality corporate rates to projected cash flows — the discount rate for our benchmark plan increased 15 basis points for the month, to 5.79%.

Similar to bond prices, values for pension obligations move in the opposite direction of interest rates. Our liability index (based on projected benefit obligations) decreased 1.2% in March, reflecting the net impact of interest accumulation and the increase in the discount rate.

Despite the reduction in liability value, March's negative portfolio return caused a 0.2 percentage point dip in the PBO funded ratio for our benchmark plan. It is noteworthy that the March funded ratio of 82.2% remains within the 80% to 90% range in which it has fluctuated since October 2003.

PBO Funded Ratio - 12/31/94 to Present



DEFINITION OF TERMS

Bond Yields

- The 30-year T-bond yield is based on the longest actively traded Treasury bond, which matures in February 2031.
- Aaa, Aa and Baa corporate bond yields refer to Moody's Long-Term Corporate Bond indexes.
- LB Aggregate refers to the Lehman Brothers Aggregate Bond Index. This index is comprised of government and corporate bonds, as well as mortgages.
- M/L 10+ Hi Qual refers to the AA-AAA Rated/10+ Years component of the Merrill Lynch U.S. Corporate Master Index.
- Note: Reported yields are yield to maturity.

Asset Class Returns

- Total return incorporates the combined effect of price changes and interest or dividend income. This will typically differ from the daily results published in financial journals, which are based only on price changes.
- Russell 2500 refers to the Russell 2500 Index, which tracks companies ranked 501 to 3000 ordered by market value of equity. These are considered to be small and mid-capitalization stocks.
- EAFE refers to the Morgan Stanley Capital International Europe, Australasia, Far East Index of equity securities. Total return is reported in terms of the U.S. dollar and therefore includes the effect of currency changes.
- 3-Month T-Bill returns are based on the Citigroup 3-Month T-Bill Index.
- Long Treasury Bonds refers to the Lehman Brothers Long Treasury Bond Index.
- Long Corporate Bonds refers to the Citigroup High-Grade Credit Index, which includes AAA- and AA-rated corporate bonds with 10+ years to maturity.

Benchmark Portfolio Returns

- The 60% equity portfolio reflects a diversified asset allocation of 60% equity (40% large cap, 10% small/mid-cap, 10% international) and 40% fixed income (35% LB Agg, 5% T-bills). This is roughly the average portfolio for the 300 large companies included in Towers Perrin's RFM Benchmarking Database.
- The 80% and 40% equity portfolios are constructed with similar ratios within their equity and fixed-income components.

Benchmark Discount Rate

- The discount rate is determined each month for our benchmark plan by analyzing the yield curve for high-quality corporate bonds. This calculation uses our RATE:Link methodology to develop an appropriate discount rate based on this plan's projected cash flows. Higher or lower discount rates might be appropriate for other plans.*

Towers Perrin PBO Liability Index

- The liability growth factor for the PBO Liability Index is the percentage change in the benchmark plan's PBO due to the accumulation of interest and changes in financial assumptions.*

PBO Funded Ratio

- The PBO funded ratio is the ratio of market value of assets to PBO for the benchmark plan. Assets change from month to month based on the investment performance of the 60% equity portfolio, contributions (assumed equal to service cost) and benefit payments. Liabilities change from month to month due to accumulated service cost and interest, benefit payments and the effects of any changes in financial assumptions.

*Discount rate and salary increase assumptions are adjusted to reflect changes in market interest rates. Our benchmark plan is a traditional final-pay pension plan covering a relatively mature population. Plans with different designs or demographics will see different results in terms of both the level of appropriate discount rate and the plan's response to changes in financial assumptions. For example, a cash balance plan paying lump sum benefits will generally have a lower effective liability duration than other typical plan designs, which may entail a lower discount rate and a reduced response to interest rate changes.
