

TREASURY & RISK  
THE FUTURE OF FINANCE TODAY

PRESENTS THE 16<sup>TH</sup> ANNUAL

ALEXANDER HAMILTON  
BEST PRACTICES SUMMIT & AWARDS

● ● ● OCTOBER 25-26, 2011 | NEW YORK MARRIOTT DOWNTOWN



# Honeywell

Pensions

October 2011

[WWW.ALEXANDERHAMILTONAWARDS.COM](http://WWW.ALEXANDERHAMILTONAWARDS.COM)

Presented by:



# MTM Pension Accounting

## Annually Recognize Mark-To-Market Gains or Losses Outside Corridor in Income Statement (MTM Accounting)

– Corridor Calculated as 10% of the Greater of Fair Value Plan Assets or PBO\*

### Pension Expense Will Be Presented as Two Elements:

<u>Elements</u>	<u>Components</u>	<u>Period of Recognition</u>
1) Ongoing Expense	Service Cost Interest Cost Assumed Asset Return	Quarterly
2) MTM Adjustment - Gain/Loss Outside of Corridor	Discount Rate Changes Actual Returns vs. Assumed Returns	Potential Q4 Each Year

IFRS Today and IASB Proposal Treat Gains / Losses as Non-Operating (OCI)\*

\* PBO – Pension Benefit Obligation; OCI – Other Comprehensive Income

Isolate Possible Pension Variability From Ongoing Results



# Key Accounting Differences

## Current Accounting

(\$B)

Pension Expense Components		<u>2010E</u>
Ongoing	Asset return *	1.2
	Interest cost	(1.0)
	Service cost	(0.3)
	G/(L) Amortization	<u>(0.7)</u>
	Pension Income/ (Expense)	<u><u>(0.8)</u></u>

\*Based on Smoothed Value of Assets; 9% Assumed Rate of Return (RoA)

- Smoothed Value of Assets – 3 Years
- Deferred Gains / Losses Outside the Corridor Amortized Over 6 Years
- Recognized Gains/Losses More Rapidly in Earnings vs. Peers
- \$7.5B Losses Yet to be Amortized

## MTM Accounting

(\$B)

Pension Expense Components		<u>2010E</u>
Ongoing	Asset return *	1.1
	Interest cost	(1.0)
	Service cost	(0.3)
	4Q MTM Adjustment **	~ (1.4)
	Pension Income/ (Expense)	<u><u>~ (1.6)</u></u>

\*Based on Fair Value of Assets; Utilizes 9% Assumed Rate of Return (RoA)

\*\*MTM Adj. Assumes 4.75% Discount Rate and 10% RoA

- Fair Value of Assets – No Smoothing
- Gains/Losses Outside Corridor Recognized Annually in Q4
- Ongoing Pension Expense Plus Transparent 4Q MTM Adjustment
- Recognize ~\$5.5B Losses in Prior Periods

No Longer Amortizing Deferred Losses Going Forward

# Accounting Change Considerations

- **MTM Accounting Preferable**
  - Concurrence of Independent Auditors
- **Aligns to International Accounting Trends**
  - Both IFRS Today and IASB Proposal Utilize MTM (Adjustment Through OCI)
- **Adds Transparency to Operating Performance**
  - Recognize any Pension Gains/Losses Annually in 4Q (MTM)
- **Interest Rates at Historic Lows...Unique Opportunity**
  - Mitigates Pension Expense Downside Volatility – Rates Stable, Likely to Rise
- **Change Retrospectively Applied to Prior Periods – Financials Recast**
  - Recognize ~\$5.5B of Deferred Losses in 2010 and Prior Periods

Shift To MTM Accounting In 2010