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**From:** Allen, Barry  
**Sent:** Friday, October 03, 2003 7:21 AM  
**To:** Notebaert, Dick  
**Subject:** RE: Bi-monthly update on Pension Trust ABO Funded Status

Will do, probably will announce in late oct.  
barry

-----Original Message-----

**From:** Notebaert, Dick  
**Sent:** Friday, October 03, 2003 6:32 AM  
**To:** Allen, Barry; Shaffer, Oren G  
**Subject:** RE: Bi-monthly update on Pension Trust ABO Funded Status

Go ahead as discussed  
dick

-----Original Message-----

**From:** Allen, Barry  
**Sent:** Friday, October 03, 2003 6:19 AM  
**To:** Notebaert, Dick; Shaffer, Oren G  
**Subject:** FW: Bi-monthly update on Pension Trust ABO Funded Status

I wanted to get one more look before we proceed with the death benefit decision. As you can see, there is no alternative and tough sledding even with it.  
barry

-----Original Message-----

**From:** Lutito, Kathleen  
**Sent:** Thursday, October 02, 2003 5:49 PM  
**To:** Allen, Barry  
**Cc:** Shaffer, Oren G; Cooper, Janet; Sanford, Jill R; O'Herron, Felicity A; McDermott, Kris; Walker, Kim G.; 'Sommer-Larsen, Cindy'  
**Subject:** Bi-monthly update on Pension Trust ABO Funded Status

Please see the attached documents.

<< File: BA-9-30-03.xls >> << File: Memo - BA -9-30-03.doc >>

**Kathleen M. Lutito**  
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**303-382-6012**

# Memorandum



**To:** Barry Allen

**From:** Kim Walker  
Qwest Asset Management Co.

**C:** Oren Shaffer  
Janet Cooper  
Jill Sanford  
Felicity O'Herron  
Kathy Lutito

**Date:** October 2, 2003

**Re:** Bi-weekly Funded Status Update

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The attached spreadsheet shows the estimated year-end funded status of the Pension Trust as of 9/30/03, based on the forecast liability as measured on an accumulated benefit obligation (ABO) basis. In summary:

- Asset values and interest rates have declined by -1.2% and -43 b.p., respectively, since the last update on 9/15/03. The adverse market moves have negatively impacted the funded status projection.
- We are forecasting a funded ratio at year-end of 97%, down from 101% at the last update.
- This funded ratio equates to a dollar amount of projected under-funding of \$257 million.
- Incorporated in our funded status forecast is the assumption that we maintain investment returns of 12.3% realized through the end of September, but earn no further returns from now through year-end
- We also assume that interest rates do not change between now and year-end.

The table at the bottom of the spreadsheet indicates the sensitivity of our funded status in dollar terms to any changes in interest rates or Pension Trust returns. For example, if our forecast is accurate, reading down the "0 bps" column and across the "0%" row, we will have a deficit of \$257 million. However, if, say, rates decline by 25 b.p. and the Pension Trust loses 5% between now and year-end (neither of which are unreasonable outcomes), the Pension Trust would be under-funded by an estimated \$867 million. Consequently, the funded status is very sensitive to minor adverse moves in rates and the market.

We will continue to update this information on a bi-weekly basis. Please let me know if you have any questions.

## ABO Funded Status Projected for 12/31/2003

	<b>Projected 12/31/2003</b>
ABO Liability @ current discount rate of: 6.10%	\$8,582.0 mil.
MV Assets minus expected benefit payments	\$8,325.3 mil
12/31/03 Funded Ratio	97 %
Amt. (Under) Over Funded	(\$257) mil.

**Memo:**

YTD return on Total Fund through 9/30/03 (est.) 12.3 %

**Assumptions:**

- \*Includes death benefit reduction for active employees of \$45 million
- \*Remaining Benefits Payments for 2003 (351.46) mil.
- \*Return on assets assumed to be 0%
- \*Assumes no change in interest rates
- \*Liability continues to grow on monthly basis
- \*Assumes no other plan changes

Change in Total Fund Returns  
from 10/01/03-12/31/03



<b>Projected dollar amount of over/(under) funding</b>					
<b>Rate Changes</b>					
<b>from 10/01/2003 through 12/31/2003</b>					
	+50 bps	+25 bps	0 bps	-25 bps	-50 bps
10%	\$963	\$778	\$593	\$408	\$223
5%	\$538	\$353	\$168	(\$17)	(\$202)
0%	\$113	(\$72)	(\$257)	(\$442)	(\$627)
-5%	(\$312)	(\$497)	(\$682)	(\$867)	(\$1,052)
-10%	(\$737)	(\$922)	(\$1,107)	(\$1,292)	(\$1,477)

**Notes:**

- Current funding projection of \$257 million underfunded assumes 0 b.p. change in interest rates and 0% additional returns.
- Shaded area shows amount of contributions needed to remain fully funded on ABO basis

*Information compiled by Watson Wyatt (liabilities) and Qwest Asset Management (assets).*

Prepared 10/01/03 as of 9/30/03