

## **Change in Pension Interest Rate Employee FAQs**

### **1. What is changing?**

AT&T is changing the interest rate that is used to calculate lump sum distributions from our pension plans pursuant to the Pension Protection Act (PPA), which was passed by Congress in 2006. Today, many AT&T pension calculations use the 30-year Treasury bond interest rate to determine lump sums. The new interest rate will be based on corporate bond rates.

### **2. What action should I take?**

The AT&T pension administrators have updated their online modeling calculators to reflect the use of the corporate bond rate. If you are contemplating retirement in the next few years, we encourage you to visit your pension administrator's website to model how different pension commencement dates would impact your pension benefit. For some employees, commencing their pension in late 2011 versus 2012 could result in a higher lump sum or annuity payment. You may want to discuss this change with your personal financial adviser.

### **3. How is AT&T implementing the use of the corporate bond rate?**

AT&T is phasing in the use of the corporate bond rate over the next four years for most of our plans. This is similar to what other companies that still offer pension plans are doing, although our phase-in schedule is more favorable for our employees than is described in the PPA. During the phase-in period, we will use a blended interest rate that is a composite of the 30-year Treasury rate and the corporate bond rate. In 2012, the composite rate will be 75 percent 30-year Treasuries and 25 percent corporate bonds. The composite rate will shift toward the corporate bond rate in 25 percent increments over the four-year period. The phase-in will be complete in 2015.

### **4. When does the use of the corporate bond rate begin?**

The use of the corporate bond rate will start to be phased-in beginning with pension distributions commencing on Jan. 1, 2012. Some bargained employees will not experience the change until later in 2012 or 2013, depending upon the applicable collective bargaining agreement.

### **5. What is the difference between the corporate bond rate and the 30-year Treasury rate?**

Generally, corporate bond rates are higher than 30-year Treasury rates.

### **6. How will I be impacted by the use of the corporate bond rate?**

Employees will not be impacted uniformly because AT&T has many different pension formulas and our employees have varying work histories and tenures. Some employees will not be impacted at all. If you take your pension benefit solely in the form of an annuity, you will experience no change in your annuity. However, if you take all or part of your benefit in the form of a lump sum, you may experience either a reduction in your lump sum or the annuity portion of your benefit from the level it would have been without the change.

**7. How do changes in market interest rates impact pension benefits?**

AT&T does not use a fixed interest rate to calculate lump sum pension benefits. Consequently, fluctuations in interest rates will impact pension benefits for employees whose pension formulas use interest rates to calculate lump sum payments. Interest rates and lump sum payments move in opposite directions. So, as interest rates rise, lump sum payment amounts may decline if that lump sum amount is derived by the higher interest rate. It's important to remember that your actual lump sum amount might be different from the amount provided in the calculator due to a change in interest rates in the intervening period or other factors such as the actual pay you received or your benefit commencement date.

**8. When are the interest rates for my lump sum determined?**

The following table provides details on when rates are set for the different pension plans.

AT&T Pension Program	How often is the lump sum interest rate re-set?	The lump sum interest rate is determined by reference to the 30-year Treasury rate and the PPA corporate bond rate as of ...	The pension administrator changes the lump sum interest rate on its online calculator on...
Nonbargained <sup>1</sup> (Legacy SBC managers) Wireless (including Puerto Rico) <sup>1</sup> Wireless Bargained <sup>3</sup> (District 6) Bargained Cash Balance <sup>1</sup>	Quarterly	The middle month of the prior quarter (Nov., Feb., May, Aug.)	Generally within 10 business days following the month used to establish the rate.
Southeast Management <sup>1</sup> Southeast (Bargained) Southwest <sup>2</sup> (Bargained) West <sup>2</sup> (Bargained) Midwest <sup>2</sup> (Bargained)	Annually	Nov. of the prior year	Legacy B: Updated mid-Dec. for commencement dates modeled in the upcoming year. Legacy S: Generally within the first 10 business days of Dec.
AT&T Legacy Management (including Puerto Rico) AT&T Legacy Bargained (including Puerto Rico)	Annually	Aug. of the prior year	Updated mid-Oct. for commencement dates modeled starting in the upcoming year.

<sup>1</sup> Interest rate impacts only grandfathered pension formulas.

<sup>2</sup> PPA interest rate change effective April 1, 2012, for some participants.

<sup>3</sup> PPA interest rate change effective Jan. 1, 2013.

Notes:

- A. Bargained Cash Balance Program #2: Lump sum amounts are not impacted by changes in rates.
- B. The East Program is not impacted by the PPA interest rate change.
- C. The Wireless Bargained Program transitions to the PPA corporate bond rate in 2013 with no phase-in.