

American Electric Power
Non-UMWA Postretirement Health Care Plan
Actuarial Valuation Report
Postretirement Welfare Cost for Fiscal Year Ending
December 31, 2012 under U.S. GAAP

Employer Contributions for Plan Year Beginning
January 1, 2012

April 2012

TOWERS WATSON The logo for Towers Watson, featuring the company name in a bold, black, sans-serif font followed by a stylized, orange, handwritten-style 'w'.

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Purpose and Actuarial Certification

Purposes of Valuation

American Electric Power retained Towers Watson Pennsylvania Inc. (“Towers Watson”), to perform an actuarial valuation of its postretirement welfare programs for the purpose of determining the following:

- (1) The value of benefit obligations as of January 1, 2012, and American Electric Power’s postretirement welfare cost for fiscal year ending December 31, 2012, in accordance with FASB Accounting Standards Codification Topic 715 (ASC 715-60). It is anticipated that a separate report will be prepared for year-end financial reporting and disclosure purposes.
- (2) Plan reporting information in accordance with FASB Accounting Standards Codification Topic 965 (ASC 965).
- (3) Expected contributions under the plan sponsor’s funding policy for the 2012 plan year.
- (4) The estimated maximum tax-deductible contribution for the tax year in which the 2012 plan year ends as allowed by the Internal Revenue Code. The maximum tax-deductible contribution should be finalized in consultation with American Electric Power’s tax advisor.

This valuation has been conducted in accordance with generally accepted actuarial principles and practices.

Reliances

In preparing the results presented in this report, we have relied upon information regarding plan provisions, participants, claims data, contributions and assets (if any) provided by American Electric Power and other persons or organizations designated by American Electric Power. We have reviewed this information for overall reasonableness and consistency, but have neither audited nor independently verified this information. Based on discussions with and concurrence by the plan sponsor, assumptions or estimates may have been made if data were not available. We are not aware of any errors or omissions in the data that would have a significant effect on the results of our calculations. We have relied on all the information provided as complete and accurate. The results presented in this report are dependent upon the accuracy and completeness of the underlying data and information. Any material inaccuracy in the data and information provided to us may have produced results that are not suitable for the purposes of this report and such inaccuracies, as corrected by American Electric Power, may produce materially different results that could require that a revised report be issued.

Assumptions and Methods under the Internal Revenue Code for Contribution Limit Purposes

The actuarial assumptions and methods employed in the development of the contribution limits have been selected by the plan sponsor, with the concurrence of Towers Watson. The Internal Revenue Code requires the use of reasonable assumptions (taking into account the experience of the plan and reasonable expectations) which, in combination, offer the actuary’s best estimate of anticipated experience under the plan. We believe that the assumptions used in our valuation are reasonable and appropriate for the purposes for which they have been used.

Assumptions and Methods under ASC 715-60

The actuarial assumptions and methods employed in the development of the postretirement welfare cost have been selected by the plan sponsor with the concurrence of Towers Watson, except for the expected rate of return on plan assets selected for fiscal 2012. Evaluation of the expected rate of return assumption was outside the scope of Towers Watson's assignment and would have required substantial additional work that we were not engaged to perform. ASC 715-60 requires that each significant assumption "individually represent the best estimate of a particular future event".

Accumulated other comprehensive (income)/loss amounts shown in the report are shown prior to adjustment for deferred taxes. Any deferred tax effects in AOCI should be determined in consultation with American Electric Power's tax advisors and auditors.

Effects of Health Care Reform

In March 2010, the Patient Protection and Affordable Care Act (PPACA) and Health Care and Education Reconciliation Act (HCERA) were enacted. The key aspects of the Acts affecting American Electric Power's benefit obligation and cost of providing retiree medical benefits are:

- Availability of subsidies from the Early Retiree Reinsurance Program (ERRP)
- Preventive care benefits covered at 100% beginning in 2011
- Mandatory coverage for adult children until age 26 beginning in 2011
- Loss of the tax free status of the Retiree Drug Subsidy (RDS) beginning in 2013
- Excise ("Cadillac") tax on high-cost plans beginning in 2018
- Elimination of lifetime maximums beginning in 2011

All subsequent measurements for tax purposes reflect the new law.

This valuation reflects our understanding of the relevant provisions of PPACA and HCERA. The IRS has yet to issue final guidance with respect to many aspects of this law. It is possible that future guidance may conflict with our understanding of these laws based on currently available guidance and could therefore affect the results shown in this report.

Nature of Actuarial Calculations

The results shown in this report have been developed based on actuarial assumptions that, to the extent evaluated or selected by Towers Watson, we consider reasonable and within the "best-estimate range" as described by the Actuarial Standards of Practice. Other actuarial assumptions could also be considered to be reasonable and within the best-estimate range. Thus, reasonable results differing from those presented in this report could have been developed by selecting different points within the best-estimate ranges for various assumptions.

The results shown in this report are estimates based on data that may be imperfect and on assumptions about future events that cannot be predicted with certainty. The effects of certain plan provisions may be approximated, or determined to be insignificant and therefore not valued. Assumptions may be made, in consultation with American Electric Power, about participant data or other factors. Reasonable efforts were made in preparing this valuation to confirm that items that are significant in the context of the actuarial liabilities or costs are treated appropriately, and are not excluded or included inappropriately. The numbers shown in this report are not rounded. This is for convenience only and should not imply precision; by their nature, actuarial calculations are not precise.

If overall future plan experience produces higher benefit payments or lower investment returns than assumed, the relative level of plan costs or contribution requirements reported in this valuation will likely increase in future valuations (and vice versa). Future actuarial measurements may differ significantly from the current measurements presented in this report due to many factors, including: plan experience differing from that anticipated by the economic or demographic assumptions; increases or reductions expected as part of the natural operation of the methodology used for the measurements (such as the end of an amortization period); and changes in plan provisions or applicable law. It is beyond the scope of this valuation to analyze the potential range of future postretirement welfare contributions, but we can do so upon request.

See Basis for Valuation in Section 1 below for a discussion of any material events that have occurred after the valuation date that are not reflected in this valuation.

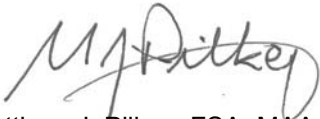
Limitations on Use

This report is provided subject to the terms set out herein and in our engagement letter dated February 13, 2012, and any accompanying or referenced terms and conditions.

The information contained in this report was prepared for the internal use of American Electric Power and its auditors in connection with our actuarial valuation of the postretirement welfare plan as described in Purposes of Valuation above. It is not intended for and may not be used for other purposes, and we accept no responsibility or liability in this regard. American Electric Power may distribute this actuarial valuation report to the appropriate authorities who have the legal right to require American Electric Power to provide them this report, in which case American Electric Power will use best efforts to notify Towers Watson in advance of this distribution, and will include the non-reliance notice included at the end of this report. Further distribution to, or use by, other parties of all or part of this report is expressly prohibited without Towers Watson's prior written consent. In the absence of such consent and an express assumption of responsibility, we accept no responsibility whatsoever for any consequences arising from any third party relying on this report or any advice relating to its contents. There are no intended third-party beneficiaries of this report or the work underlying it.

Professional Qualifications

The undersigned consulting actuaries are members of the Society of Actuaries and meet the "Qualification Standards for Actuaries Issuing Statements of Actuarial Opinion in the United States" relating to postretirement welfare plans. Our objectivity is not impaired by any relationship between American Electric Power and our employer, Towers Watson Pennsylvania Inc.



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Towers Watson Pennsylvania Inc.

April 2012

Section 1: Summary of Results

Summary of Valuation Results

All monetary amounts shown in US Dollars

Fiscal Year Ending		December 31, 2012	December 31, 2011
Benefit Cost/ (Income)	Postretirement Welfare Cost/(Income)	79,411,104	62,394,891
Measurement Date		January 1, 2012	January 1, 2011
Plan Assets	Fair Value of Assets (FVA)	1,409,476,218	1,460,125,038
Benefit Obligations	Accumulated Postretirement Benefit Obligation (APBO)	2,081,914,603	1,984,241,294
Funded Status	Funded Status	(672,438,385)	(524,116,256)
Accumulated Other Comprehensive (Income)/Loss (AOCI)	Net Prior Service Cost/(Credit)	(209,991,409)	(15,612,408)
	Net Loss/(Gain)	882,308,046	539,357,734
	Transition Obligation/(Asset)	0	0
	Total AOCI	672,316,637	523,745,326
Assumptions	Discount Rate	4.75 %	5.25 %
	Expected Rate of Return on Plan Assets	7.25 %	7.50 %
	Rate of Compensation/Salary Increase	4.95 %	4.95 %
	Current Health Care Cost Trend Rate	7.00 %	7.50 %
	Ultimate Health Care Cost Trend Rate	5.00 %	5.00 %
	Year of Ultimate Trend Rate	2020	2016
Census Date		January 1, 2012	January 1, 2011
Plan reporting (ASC 965) for Plan Year Beginning		January 1, 2012	January 1, 2011
	Present value of accumulated benefits	2,090,410,662	1,984,241,294
	Market value of assets	1,409,476,218	1,460,125,038
	Plan reporting discount rate	4.75 %	5.25 %
Employer Contributions (net of Medicare subsidy)		Plan Year 2012	Plan Year 2011
Cash Flow	Funding Policy contributions	79,411,104	62,394,891
	Maximum Tax Deductible contributions	23,948,071 (est.)	36,182,632
	Actual contributions	N/A	71,700,278
	Expected benefit payments and expenses, net of participant contributions	105,293,002	91,785,932

Employer Contributions

Employer contributions are the amounts paid by American Electric Power to provide for postretirement benefits, net of participant contributions and Medicare subsidy. Most participants receiving benefits are required to contribute toward the cost of the plan. In 2012, participant contributions were 23% of benefit payments and expenses.

American Electric Power's funding policy is to contribute an amount equal to the postretirement welfare cost in addition to actual Retiree Drug Subsidy (RDS) payments received. American Electric

Power maximizes its contribution to the 401(h) account and contributes the remainder to the various VEBAs. American Electric Power may deviate from this policy, as permitted by its terms, based on cash, tax or other considerations.

Postretirement Welfare Cost and Funded Position

The cost of the postretirement welfare plan is determined in accordance with generally accepted accounting principles in the U.S. ("U.S. GAAP"). The Fiscal 2012 postretirement welfare benefit cost for the plan is \$79,411,104. Under U.S. GAAP, the funded position (fair value of plan assets less the projected benefit obligation, or "APBO") of each postretirement welfare plan at the plan sponsor's fiscal year-end (measurement date) is required to be reported as a liability. The APBO is the actuarial present value of benefits attributed to service rendered prior to the measurement date, taking into consideration expected future pay increases for pay-related plans. The plan's (underfunded) APBO as of January 1, 2012 was \$(672,438,385), based on the fair value of plan assets of \$1,409,476,218 and the APBO of \$2,081,914,603.

Fiscal year-end financial reporting information and disclosures are prepared before detailed participant data and full valuation results are available. Therefore, the postretirement benefit asset (liability) at January 1, 2012 was derived from a roll forward of the January 1, 2011 valuation results, adjusted for the year-end discount rate and asset values, as well as significant changes in plan provisions and participant population. The next fiscal year financial reporting information will be developed based on the results of the January 1, 2012 valuation, projected to the end of the year and similarly adjusted for the year-end discount rate and asset values, as well as significant changes in plan provisions and participant population.

Change in Postretirement Welfare Cost and Funded Position

The postretirement welfare cost increased from \$62,394,891 in fiscal 2011 to \$79,411,104 in fiscal 2012 and the funded position decreased from \$(524,116,256) on January 1, 2011 to \$(672,438,385) on January 1, 2012, as set forth below:

All monetary amounts shown in US Dollars

	Postretirement Welfare Cost
Prior year	62,394,891
Change due to:	
▶ Expected based on prior valuation and contributions during prior year	(4,036,314)
▶ Unexpected noninvestment experience	(6,066,810)
▶ Unexpected investment experience	23,450,373
▶ Assumption changes	31,969,634
▶ Changes in substantive plan	(28,300,670)
Current year	<u>79,411,104</u>

Significant reasons for these changes include the following:

- On average, per capita claims costs increased more than expected, which increased the postretirement welfare cost.

All monetary amounts shown in US Dollars

	2012	2011
Medical (Overall Average)		
Under age 65		
▶ Aetna	9,129	8,474
▶ Lumenos	8,992	8,272
Age 65 and older		
▶ COB	3,766	3,657
▶ MOB	2,793	2,572
▶ CSP	1,632	1,651
Medicare Part D Subsidy		
▶ MOB/COB	(573)	(557)
▶ CSP	(223)	(203)

See Appendix A for additional details on per capita claims costs assumptions including assumed claims costs by age and/or morbidity adjustments applied.

- Trend rate assumption was increased to an initial rate of 7.00% in 2012, reducing 25 basis points annually before reaching an ultimate trend of 5.00% in 2020.
- The discount rate decreased 50 basis points since the prior year which increased the postretirement welfare cost.
- The expected return on the fair value of assets was decreased from 7.50% to 7.25% which increased the postretirement welfare cost.
- Actual asset returns during 2011 were less than the assumed rate of 7.50% which increased the postretirement welfare cost.
- AEP transitioned delivery of post-65 prescription drug benefits to an Employer Group Waiver Plan (EGWP), effective January 1, 2013. Plan changes were also implemented where AEP changed the retiree cost sharing arrangement so that government payments from EGWP will be retained by AEP.

Basis for Valuation

Appendix A summarizes the assumptions and methods used in the valuation. Appendix B summarizes our understanding of the principal provisions of the plan being valued. The most recent plan change reflected in this valuation was effective on January 1, 2012.

Changes in Assumptions

- Per capita claims costs were updated to reflect more recent retiree claims experience.
- Discount rate was changed from 5.25% to 4.75%.
- Mortality was updated for an additional year of mortality improvements.
- The expected return on assets was decreased from 7.50% to 7.25% for postretirement welfare costs purposes. The expected return on assets used to calculate funding requirements was also reduced by 50 basis points for each funding vehicle.
- The health care cost trend was changed from 7.50% in 2011 decreasing by 0.50% per year until 5.00% in 2016 to 7.00% in 2012 decreasing by 0.25% per year until 5.00% in 2020.

Changes in Methods

None.

Changes in Benefits Valued

None.

Section 2: Actuarial Exhibits

2.1 Balance Sheet Asset / (Liability)

All monetary amounts shown in US Dollars

Measurement Date	January 1, 2012	January 1, 2011
A Development of Balance Sheet Asset/(Liability)¹		
1 Accumulated postretirement benefit obligation (APBO)	2,081,914,603	1,984,241,294
2 Fair value of assets (FVA)	1,409,476,218	1,460,125,038
3 Net balance sheet asset/(liability)	(672,438,385)	(524,116,256)
B Current and Noncurrent Allocation		
1 Noncurrent assets	0	0
2 Current liabilities	0	0
3 Noncurrent liabilities	(672,438,385)	(524,116,256)
4 Net balance sheet asset/(liability)	(672,438,385)	(524,116,256)
C Accumulated Other Comprehensive (Income)/Loss		
1 Net prior service cost/(credit)	(209,991,409)	(15,612,408)
2 Net loss/(gain)	882,308,046	539,357,734
3 Transition obligation/(asset)	0	0
4 Accumulated other comprehensive (income)/loss ²	672,316,637	523,745,326
D Assumptions		
1 Discount rate	4.75%	5.25%
2 Rate of compensation/salary increase	4.85%	4.95%
3 Current health care cost trend rate	7.00%	7.50%
4 Ultimate health care cost trend rate	5.00%	5.00%
5 Year of ultimate trend rate	2020	2016
E Census date	January 1, 2012	January 1, 2011

¹ If the amounts in this table differ materially from those disclosed at year-end, consideration should be given to disclosing the true-up in the quarterly financial statements.

² Amount shown is pre-tax and should be adjusted by plan sponsor for tax effects.

2.2 Summary and Comparison of Postretirement Benefit Cost and Cash Flows

All monetary amounts shown in US Dollars

Fiscal Year Ending	December 31, 2012	December 31, 2011
A Total Postretirement Benefit Cost		
1 Employer service cost	45,618,526	41,019,682
2 Interest cost	98,586,126	103,947,640
3 Expected return on assets	(100,962,629)	(108,097,790)
4 Subtotal	43,242,023	36,869,532
5 Net prior service cost/(credit) amortization	(18,197,236)	(1,271,279)
6 Net loss/(gain) amortization	54,366,317	26,796,638
7 Transition obligation/(asset) amortization	0	0
8 Amortization subtotal	36,169,081	25,525,357
9 Net periodic postretirement benefit cost/(income)	79,411,104	62,394,891
B Assumptions¹		
1 Discount rate	4.75 %	5.25 %
2 Long-term rate of return on assets	7.25 %	7.50 %
3 Rate of compensation/salary increase	4.85 %	4.95 %
4 Current health care cost trend rate	7.00 %	7.50 %
5 Ultimate health care cost trend rate	5.00 %	5.00 %
6 Year ultimate trend rate is expected	2020	2016
C Census Date	January 1, 2012	January 1, 2011
D Assets at Beginning of Year		
1 Fair market value	1,409,476,218	1,460,125,038
E Cash Flow	Expected	Actual
1 Employer contributions	89,319,650	74,227,752
2 Plan participants' contributions	32,113,747	34,427,970
3 Benefits paid from plan assets	145,902,808	145,968,067
4 Expected Medicare subsidy on current year benefit payments	8,496,059	N/A

¹ These assumptions were used to calculate the Net Postretirement Benefit Cost/ (Income) as of the beginning of the year. Rates are expressed on an annual basis where applicable. For assumptions used for interim measurement periods, if any, refer to Appendix A.

2.3 Information for Deferred Tax Calculations

The following information is provided for purposes of determining the deferred portion of the tax provision and the deferred tax asset associated with the postretirement welfare cost and obligation, respectively. This information reflects the tax-exempt status of the Retiree Drug Subsidy ("RDS") payment at the valuation date.

All monetary amounts shown in US Dollars

	Book Basis Net of Part D Subsidy	Tax Basis Net of Part D Subsidy after 2012
A Postretirement Welfare Cost		
1 Fiscal 2012	79,411,104	60,232,651
2 Fiscal 2011	62,394,891	63,111,459
B Funded Position		
1 Overfunded (underfunded) APBO	(672,438,385)	(680,739,578)

2.4 Detailed Results for Postretirement Welfare Cost and Funded Position

All monetary amounts shown in US Dollars

Detailed results	January 1, 2012	January 1, 2011
A Service Cost		
1 Medical	42,695,197	38,523,305
2 Life insurance	2,917,895	2,491,337
3 Dental	5,434	5,040
4 Total	45,618,526	41,019,682
B Accumulated Postretirement Benefit Obligation [APBO]		
1 Medical:		
a Participants currently receiving benefits	918,775,833	931,522,819
b Fully eligible active participants	28,042,063	14,148,833
c Other participants	810,303,446	736,378,051
d Total	1,757,121,342	1,682,049,703
2 Life insurance:		
a Participants currently receiving benefits	235,712,726	225,668,672
b Fully eligible active participants	3,176,542	1,485,200
c Other participants	64,833,547	54,443,050
d Total	303,722,815	281,596,922
3 Dental:		
a Participants currently receiving benefits	20,216,181	19,776,774
b Fully eligible active participants	0	4,192
c Other participants	854,265	813,703
d Total	21,070,446	20,594,669
4 All Benefits:		
a Participants currently receiving benefits	1,174,704,740	1,176,968,265
b Fully eligible active participants	31,218,605	15,638,225
c Other participants	875,991,258	791,634,804
d Total	2,081,914,603	1,984,241,294
C Assets		
1 Fair value [FV]	1,409,476,218	1,460,125,038
D Funded Position		
1 Overfunded (underfunded) APBO	(672,438,385)	(524,116,256)
2 APBO funded percentage	67.7%	73.6%

E Amounts in Accumulated Other Comprehensive Income

1	Prior service cost (credit)	(209,991,409)	(15,612,408)
2	Net actuarial loss (gain)	882,308,046	539,357,734
3	Transition obligation (asset)	0	0
4	Total	<u>672,316,637</u>	<u>523,745,326</u>

F Effect of Change in Health Care Cost Trend Rate

1	One-percentage-point increase:		
	a Sum of service cost and interest cost	22,315,137	21,744,183
	b APBO	247,031,434	232,113,672
2	One-percentage-point decrease:		
	a Sum of service cost and interest cost	(17,691,663)	(17,331,381)
	b APBO	(202,165,118)	(190,489,673)

2.5 ASC 965 (Plan Reporting) Information (Formerly SOP 92-6, as Amended by SOP 01-2)

All monetary amounts shown in US Dollars

Summary of Present Value of Benefits		January 1, 2012	January 1, 2011
A Medical (ignoring Retiree Drug Subsidy)			
1	Current retirees	927,053,773	1,151,922,724
2	Active participants fully eligible for participants	28,042,063	16,881,142
3	Other active participants	810,326,699	867,722,175
4	Total	1,765,422,534	2,036,526,041
B Life Insurance			
1	Current retirees	235,712,726	225,668,672
2	Active participants fully eligible for participants	3,176,542	1,485,200
3	Other active participants	64,833,547	54,443,050
4	Total	303,722,815	281,596,922
C Dental			
1	Current retirees	20,216,181	19,776,774
2	Active participants fully eligible for participants	0	4,192
3	Other active participants	854,265	813,703
4	Total	21,070,446	20,594,669
D Total (ignoring Retiree Drug Subsidy)			
1	Current retirees	1,182,982,680	1,397,368,170
2	Active participants fully eligible for participants	31,218,605	18,370,534
3	Other active participants	876,014,510	922,978,928
4	Total	2,090,215,796	2,338,717,632

Actuarial assumptions and methods

The key actuarial assumptions used for plan reporting calculations are the same as those used to determine the postretirement welfare cost and are shown in the Actuarial Assumptions and Methods section, except that the Retiree Drug Subsidy (RDS) associated with Medicare Part D is not reflected. For the prior valuation, a discount rate of 5.25% was used. The same plan provisions shown in Appendix B were used to determine the present value of accumulated benefits.

Reconciliation of Present Value of Benefits		Fiscal 2011	Fiscal 2010
A Medical (ignoring Retiree Drug Subsidy)			
1	Benefit obligation, beginning of year	2,036,526,041	1,896,086,614
2	Service cost	45,632,251	49,438,986
3	Interest cost	105,958,057	110,336,110
4	Participant contributions	29,426,384	23,435,905
5	Actuarial (gain)/loss	248,044,421	77,818,792
6	Plan amendments	(570,494,402)	0
7	Gross benefits paid	(129,475,351)	(120,590,366)
8	Benefit obligation, end of year	1,765,617,401	2,036,526,041
B Life Insurance			
1	Benefit obligation, beginning of year	281,596,922	291,483,896
2	Service cost	2,491,337	4,758,768
3	Interest cost	14,598,794	16,983,961
4	Participant contributions	1,778,472	1,806,540
5	Actuarial (gain)/loss	15,445,167	14,500,867)
6	Plan amendments	0	(35,929,366)
7	Gross benefits paid	(12,187,877)	(12,007,744)
8	Benefit obligation, end of year	303,722,815	281,596,922
C Dental			
1	Benefit obligation, beginning of year	20,594,669	17,977,206
2	Service cost	5,040	64,119
3	Interest cost	922,458	915,940
4	Participant contributions	3,223,114	2,801,618
5	Actuarial (gain)/loss	2,461,828	3,672,991
6	Plan amendments	0	0
7	Gross benefits paid	(6,136,663)	(4,837,205)
8	Benefit obligation, end of year	21,070,446	20,594,669
D Total (ignoring Retiree Drug Subsidy)			
1	Benefit obligation, beginning of year	2,338,717,632	2,205,547,716
2	Service cost	48,128,628	54,261,873
3	Interest cost	121,479,309	128,236,011
4	Participant contributions	34,427,970	28,044,063
5	Actuarial (gain)/loss	265,951,416	95,992,650
6	Plan amendments	(570,494,402)	(35,929,366)
7	Gross benefits paid	(147,799,891)	(137,435,315)
8	Benefit obligation, end of year	2,090,410,662	2,338,717,632

2.6 Basic Results for Employer Contributions - VEBA's

All monetary amounts shown in US Dollars

	Estimated December 31, 2012	December 31, 2011
A Qualified Asset Account Limits [QAAL]	961,376,622	985,058,881
B Assets		
1 Market value	1,204,427,583	1,167,432,659
2 Unrecognized investment losses (gains)	0	0
3 Actuarial value [AV]	1,204,427,583	1,167,432,659
C Funded Position		
1 Unfunded account limits [QAAL – FV]	(243,050,961)	(182,373,778)
D Employer Contributions (to all funding vehicles)		
1 Maximum deductible available	66,253,563	38,006,201
2 Qualified additions		
a Prior years' carryover	0	0
b Current year additions	1,543,849	36,182,632
c Total deductions available [a + b]	1,543,849	36,182,632
3 Other non-deductible current year additions	64,678,102	3,663,461
4 Total additions [2.c + 3]	66,221,951	39,846,093
a Life insurance VEBA	0	0
b Union medical and dental VEBA's	830,697	683,796
c Nonunion medical and dental VEBA's	65,391,254	39,162,297
d 401(h) – not included in amounts shown above	22,402,415	31,854,184

2.7 VEBA Deduction Limits

All monetary amounts shown in US Dollars

Life Insurance	2011	2010
A Qualified Asset Account Limit (QAAL)		
1 December 31 actuarial accrued liability	171,230,166	166,286,526
2 Unrecognized liability	0	0
3 QAAL	171,230,166	166,286,526
B Assets		
1 Market value as of December 31	133,223,965	137,283,064
2 Unrecognized investment losses (gains)	0	0
3 Actuarial value [AV]	133,223,965	137,283,064
C Funded position		
1 Unfunded account limit [QAAL - AV]	38,006,201	29,003,462
2 Contributions received in trust, but not yet deducted		
2007	0	0
2009	0	0
2010	0	0
2011	0	0
Total	0	0
D Employer deductions for contributions to VEBAs		
1 Maximum deduction available ¹ [C.1 + Total of C.2]	38,006,201	29,003,462
2 Qualified additions		
a Prior years' carryover	0	0
b Current year additions	0	0
c Total deductions available [a + b]	0	0
3 Other non-deductible current year additions	0	0
4 Total additions [2.c + 3]	0	0

¹ Includes amounts not contributed.

All monetary amounts shown in US Dollars

Union Medical and Dental	2011	2010
A Qualified Asset Account Limit (QAAL)		
1 December 31 present value of projected benefits	378,762,035	424,778,002
2 Unrecognized liability	<u>0</u>	<u>0</u>
3 QAAL	378,762,035	424,778,002
B Assets		
1 Market value as of December 31	381,071,661	368,867,684
2 Unrecognized investment losses (gains)	<u>0</u>	<u>0</u>
3 Actuarial value [AV]	381,071,661	368,867,684
C Funded position		
1 Unfunded account limit [QAAL - AV]	(2,309,626)	55,910,318
2 Contributions received in trust, but not yet deducted		
2008	0	0
2009	0	0
2010	0	0
2011	<u>0</u>	<u>N/A</u>
Total	0	0
D Employer deductions for contributions to VEBAs		
1 Maximum deduction available ¹ [C.1 + Total of C.2]	0	55,910,318
2 Qualified additions		
a Prior years' carryover	0	0
b Current year additions	<u>683,796</u>	<u>683,796</u>
c Total deductions available [a + b]	683,796	683,796
3 Other non-deductible current year additions	0	0
4 Total additions [2.c + 3]	683,796	683,796

All monetary amounts shown in US Dollars

Nonunion Medical and Dental		2011	2010
A Qualified Asset Account Limit (QAAL)			
1	December 31 present value of projected benefits	435,066,680	517,669,560
2	Unrecognized liability	0	0
3	QAAL	435,066,680	517,669,560
B Assets			
1	Market value as of December 31	653,137,033	739,707,313
2	Unrecognized investment losses (gains)	0	0
3	Actuarial value [AV]	653,137,033	739,707,313
C Funded position			
1	Unfunded account limit [QAAL - AV]	(218,070,353)	(222,037,753)
2	Contributions received in trust, but not yet deducted		
	2008	0	0
	2009	105,440,603	140,939,439
	2010	73,467,453	73,467,453
	2011	39,162,297	N/A
	Total	218,070,353	214,406,892
D Employer deductions for contributions to VEBAs			
1	Maximum deduction available ¹ [C.1 + Total of C.2]	0	0
2	Qualified additions		
	a Prior years' carryover	0	0
	b Current year additions	35,498,836	0
	c Total deductions available [a + b]	35,498,836	0
3	Other non-deductible current year additions	3,663,461	73,467,453
4	Total additions [2.c + 3]	39,162,297	73,467,453

2.8 Cumulative Nondeductible Contributions

All monetary amounts shown in US Dollars

Nonunion Retiree Medical and Dental VEBAs

	Contributions Made by December 31, 2011, but Not Deducted as of December 31, 2010	Deductible in 2011	Remaining Nondeductible Contributions as of December 31, 2011
2004	0	0	0
2005	0	0	0
2006	0	0	0
2007	0	0	0
2008	0	0	0
2009	140,939,439	35,498,836	105,440,603
2010	73,467,453	0	73,467,453
2011	39,162,297	0	39,162,297
Total	<u>253,569,189</u>	<u>35,498,836</u>	<u>218,070,353</u>

Retiree Life Insurance VEBAs

	Contributions Made by December 31, 2011, but Not Deducted as of December 31, 2010	Deductible in 2011	Remaining Nondeductible Contributions as of December 31, 2011
2004	0	0	0
2005	0	0	0
2006	0	0	0
2007	0	0	0
2008	0	0	0
2009	0	0	0
2010	0	0	0
2011	0	0	0
Total	<u>0</u>	<u>0</u>	<u>0</u>

2.9 Development of Maximum Deductible Contribution – 401(h)

All monetary amounts shown in US Dollars

Plan Year Beginning	January 1, 2012
A Development of Maximum Deductible Contribution	
1 Present value of projected benefits	436,863,115
2 Fair value of assets	242,043,559
3 Unfunded surplus [1 -2]	194,819,556
4 Average present value of future service	12
5 Preliminary maximum deductible contribution	
a 10% of unfunded surplus [10% x A.3]	19,481,956
b Aggregate normal cost [A.3 / A.4]	16,234,963
c Greater of A.5.a and A.5.b	19,481,956
6 Preliminary maximum 2012 contribution [1.0878 x A.5.c]	21,046,357
7 Subordination test (development shown below)	26,254,326
8 Maximum deductible contribution ignoring expenses [lesser of A.6 and A.7]	21,046,357
9 Total trust expenses paid from 401(h) account	1,356,061
10 Maximum deductible contribution including expenses [A.8 + A.9]	22,402,418

B Subordination Test

Year-by-year minimum of actual pension plan contribution and pension plan normal cost with interest

	Year	West Plan	East Plan	Combined Plan
	1992	9,766,169	N/A	N/A
	1993	22,392,743	N/A	N/A
	1994	21,208,326	N/A	N/A
	1995	21,683,436	N/A	N/A
	1996	20,271,648	N/A	N/A
	1997	0	N/A	N/A
	1998	0	N/A	N/A
	1999	0	N/A	N/A
	2000	0	N/A	N/A
	2001	0	N/A	N/A
	2002	0	N/A	N/A
	2003	19,197,145	39,165,054*	N/A
	2004	18,614,338	56,614,811	N/A
	2005	16,222,550	55,872,817	N/A
	2006	0	0	N/A
	2007	0	0	N/A
	2008	N/A	N/A	0
	2009	N/A	N/A	100,540,448
	2010	N/A	N/A	125,586,018
	2011	N/A	N/A	62,751,522
	2012	N/A	N/A	0
Cumulative pension contributions not for past service		149,356,355	151,652,681	589,887,025
		x 1/3	x 1/3	x 1/3
		49,785,452	50,550,894	196,629,008
Cumulative 401(h) contributions before plan year 2012		49,785,452	50,550,894	170,374,682
Subordination limit		0	0	26,254,327

* Includes only portion of normal cost and contributions after 401(h) account adoption for indicated years.

2.10 Expected Benefit Disbursements, Administrative Expenses, and Participant Contributions

All monetary amounts shown in US Dollars

	January 1, 2012	January 1, 2011
A Medical and Dental		
1 Gross disbursements	124,905,081	115,505,729
2 Participant contributions	(28,872,722)	(26,248,354)
3 Net disbursements	96,032,359	89,257,376
B Life Insurance		
1 Gross disbursements	15,472,124	14,765,987
2 Participant contributions	(3,416,581)	(3,293,099)
3 Net disbursements	12,055,543	11,472,887
C Gross without RDS		
1 Gross disbursements	128,402,155	130,271,716
2 Participant contributions	(31,605,212)	(29,541,453)
3 Net disbursements	96,796,943	100,730,263
D RDS*		
1 Gross disbursements	(8,496,059)	(8,944,331)
2 Participant contributions	0	0
3 Net disbursements	(8,496,059)	(8,944,331)
E Net with RDS		
1 Gross disbursements	136,898,214	121,327,385
2 Participant contributions	(31,605,212)	(29,541,453)
3 Net disbursements	105,293,002	91,785,932

* 2011-2012 RDS payments expected to be received in 2013-2014.

Section 3: Participant Data

3.1 Summary of Plan Participants

All monetary amounts shown in US Dollars

Census Date	January 1, 2012	January 1, 2011
A Participating Employees		
1 Number		
a Fully eligible	313	161
b Other	18,369	17,995
c Total participating employees	18,682	18,156
2 Total annual compensation/salary	1,314,068,650	1,243,290,197
3 Average compensation/salary	70,339	68,478
4 Average age	45.8	45.6
5 Average credited service	16.3	16.2
6 Average future working life		
a to expected retirement age	12.400	12.723
b to full eligibility age	11.370	11.574
B Retirees and Surviving Spouses		
1 Retirees and surviving spouses		
a Number under 65	4,230	5,294
b Number 65 and older	12,865	12,139
c Total	17,095	17,433
d Average age	72.3	71.9
e Age Distribution at January 1, 2012		

Age	Number
Under 55	188
55-59	1,038
60-64	3,004
65-69	3,548
70-74	2,625
75-79	2,169
80-84	2,128
85 and over	2,395

C Dependents

1	Number	9,024	9,417
2	Average age	67.2	66.6
3	Age Distribution at January 1, 2012		

Age	Number
Under 55	547
55-59	1,091
60-64	2,244
65-69	1,919
70-74	1,287
75-79	979
80-84	623
85 and over	334

3.2 Age and Service Distribution of Participating Employees

Attained Age		Attained Years of Credited Service and Number								Total
		0-4	5-9	10-14	15-19	20-24	25-29	30-34	Over 34	
Under 25	Count	468	14							482
	Total Earnings	\$18,780,595	\$644,799							\$19,425,394
	Average Earnings	\$40,129	\$46,057							\$40,302
25-29	Count	939	401	3						1,343
	Total Earnings	\$48,383,213	\$22,745,256	\$151,111						\$71,279,580
	Average Earnings	\$51,526	\$56,721	\$50,370						\$53,075
30-34	Count	822	724	201	1					1,748
	Total Earnings	\$45,069,632	\$44,559,438	\$13,067,370	\$65,749					\$102,762,189
	Average Earnings	\$54,829	\$61,546	\$65,012	\$65,749					\$58,788
35-39	Count	677	625	447	105	3				1,857
	Total Earnings	\$39,287,552	\$40,501,407	\$31,513,468	\$7,457,121	\$205,010				\$118,964,558
	Average Earnings	\$58,032	\$64,802	\$70,500	\$71,020	\$68,337				\$64,063
40-44	Count	544	524	439	305	210	6			2,028
	Total Earnings	\$33,513,393	\$34,578,795	\$33,876,592	\$23,666,327	\$16,778,712	\$470,734			\$142,884,553
	Average Earnings	\$61,606	\$65,990	\$77,168	\$77,595	\$79,899	\$78,456			\$70,456
45-49	Count	347	402	432	315	707	549	43		2,795
	Total Earnings	\$21,436,516	\$27,828,616	\$32,076,366	\$22,983,434	\$57,270,992	\$42,807,568	\$3,255,629		\$207,659,121
	Average Earnings	\$61,777	\$69,225	\$74,251	\$72,963	\$81,006	\$77,974	\$75,712		\$74,297
50-54	Count	271	291	301	260	566	1,036	1,228	40	3,993
	Total Earnings	\$17,193,069	\$20,216,565	\$22,248,742	\$19,168,596	\$42,299,005	\$85,720,903	\$96,137,340	\$2,885,373	\$305,869,593
	Average Earnings	\$63,443	\$69,473	\$73,916	\$73,725	\$74,733	\$82,742	\$78,288	\$72,134	\$76,601
55-59	Count	190	185	190	160	344	541	1,128	487	3,225
	Total Earnings	\$11,417,994	\$13,753,831	\$15,027,849	\$11,677,514	\$25,299,699	\$42,893,512	\$91,679,726	\$38,252,926	\$250,003,051
	Average Earnings	\$60,095	\$74,345	\$79,094	\$72,984	\$73,546	\$79,286	\$81,276	\$78,548	\$77,520
60-64	Count	83	100	96	69	120	159	206	237	1,070
	Total Earnings	\$5,160,962	\$7,250,385	\$7,509,306	\$4,695,572	\$8,183,854	\$12,163,911	\$16,731,142	\$20,386,459	\$82,081,591
	Average Earnings	\$62,180	\$72,504	\$78,222	\$68,052	\$68,199	\$76,503	\$81,219	\$86,019	\$76,712
65-69	Count	3	27	29	9	12	16	10	22	128
	Total Earnings	\$239,477	\$3,940,638	\$2,283,970	\$546,538	\$792,294	\$1,425,399	\$937,590	\$1,893,562	\$12,059,468
	Average Earnings	\$79,826	\$145,950	\$78,758	\$60,726	\$66,024	\$89,087	\$93,759	\$86,071	\$94,215
70 & over	Count		4	6	2	1				13
	Total Earnings		\$345,416	\$470,873	\$216,027	\$47,236				\$1,079,552
	Average Earnings		\$86,354	\$78,479	\$108,014	\$47,236				\$83,042
Total	Count	4,344	3,297	2,144	1,226	1,963	2,307	2,615	786	18,682
	Total Earnings	\$240,482,403	\$216,365,146	\$158,225,647	\$90,476,878	\$150,876,807	\$185,482,027	\$208,741,427	\$63,418,320	\$1,314,068,650
	Average Earnings	\$55,360	\$65,625	\$73,799	\$73,798	\$76,860	\$80,400	\$79,825	\$80,685	\$70,339

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Appendix A: Statement of Actuarial Assumptions and Methods

Actuarial Assumptions and Methods — Postretirement Welfare Cost and Funding/Tax Deductions Based on Plan Year beginning January 1, 2012

Economic Assumptions

	Postretirement Welfare Cost	Plan Reporting	Employer Contributions
Discount rate ¹	4.75 %	4.75 %	N/A
Rates of return on assets, pre-tax: ¹			
▶ 401(h) accounts	N/A	N/A	8.03 %
▶ Life insurance and union medical/dental	N/A	N/A	7.10 %
▶ Nonunion medical/dental	N/A	N/A	7.14 %
▶ Aggregate	7.25 %	N/A	N/A
Annual rates of compensation increase ¹			
▶ Representative rates	Age	Rate	
	< 26	11.50%	
	26 – 30	9.50	
	31 – 35	7.50	
	36 – 40	6.50	
	41 – 45	5.00	
	46 – 50	4.00	
	> 50	3.50	
▶ Weighted average	4.85%		
Medical cost trend rate ²	2012	7.00%	
	2013	6.75%	
	2014	6.50%	
	2015	6.25%	
	2016	6.00%	
	2017	5.75%	
	2018	5.50%	
	2019	5.25%	
	2020+	5.00%	
Dental cost trend rate ²	2012+	5.00%	

¹ Only discount rate and asset return assumptions vary between the reporting standards. All other assumptions are consistent throughout.

² 0% trend assumed for nonunion VEBA account limit.

Participation Assumptions

Inclusion Date	The valuation date coincident with or next following the date on which the employee is hired.	
New or rehired employees	It was assumed there will be no new or rehired employees.	
	<i>Current Retirees</i>	<i>Future Retirees</i>
Participation:	Based on valuation census data.	95%.
Percent married	Based on valuation census data.	69% for males, 50% for females.
Spouse age	Based on valuation census data.	Wife three years younger than husband.

Demographic Assumptions

Mortality Preretirement: RP2000, projected to 2027.
Postretirement: RP2000, projected to 2019.

Disabled mortality (through age 65) Rates vary by age and sex.

Representative rates:

Age	Males	Females
30	2.60%	2.60%
40	2.60	2.60
50	3.10	3.10
60	6.20	6.20

Disability Rates apply to employees not eligible to retire and vary by age and sex.

Representative rates:

Percentage becoming disabled during the year		
Age	Males	Females
20	0.060%	0.090%
30	0.060	0.090
40	0.074	0.110
50	0.178	0.270
60	0.690	1.035

Termination
(not due to disability
or retirement)

Rates apply to employees not eligible to retiree and vary by and service.

Representative rates:

Percentage leaving during the year		
Age	0 – 5 Years	5+ Years
20	8.0%	8.0%
30	8.0	5.0
40	8.0	2.5
50	8.0	4.0
60	8.0	4.0

Retirement

Rates vary by age.

Representative rates:

Percentage retiring during the year	
Age	Rate
55 – 57	7.0%
58 – 60	10.0
61 – 63	25.0
64 – 65	50.0
66 – 69	25.0
70	100.0

2012 Per Capita Claims Costs

Medical

▶ Prior to age 65

<i>Age</i>	<i>Aetna</i>	<i>Lumenos</i>
< 50	5,802	5,715
50 – 54	6,778	6,675
55 – 59	7,548	7,434
60 – 64	10,269	10,114
Average	9,129	8,992

▶ Age 65 and after (net of Medicare)

<i>Age</i>	<i>COB</i>	<i>MOB</i>	<i>CSP</i>
65 – 69	3,101	2,475	1,251
70 – 74	3,606	2,859	1,464
75 – 79	3,892	3,058	1,589
80 – 84	4,064	3,158	1,652
85 – 89	4,225	3,252	1,714
90 – 94	4,067	3,098	1,689
≥ 95	3,599	2,697	1,564
Average	3,766	2,793	1,632

▶ Medicare Part D (2012 only for MOB/COB)

<i>Age</i>	<i>MOB/COB</i>	<i>CSP</i>
65 – 69	(490)	(191)
70 – 74	(554)	(216)
75 – 79	(573)	(223)
80 – 84	(569)	(221)
85 – 89	(565)	(219)
90 – 94	(515)	(200)
≥ 95	(417)	(162)
Average	(573)	(223)

Employer Group Waiver Plan (EGWP)

<i>Age</i>	<i>MOB/COB</i>
65 – 69	729
70 – 74	824
75 – 79	853
80 – 84	846
85 – 89	839
90 – 94	766
≥ 95	620
Average	806

Expected EGWP subsidies increase in future years at rates different than the annual trend assumption due to the progressive filling in of the Standard Part D “donut hole” between now and 2020.

2013	7.9%
2014	9.0
2015	7.3
2016	9.6
2017	9.2
2018	8.8
2019	9.0
2020+	5.0

Dental	\$304
Medicare covered charges trend rate	Same as medical cost trend.
Retiree contribution trend rate	Same as medical cost trend.
Administrative expenses	Included in claims costs shown above.

Basis for Per Capita Claims Cost Assumptions

- ▶ Pre-65 retiree medical rates Aetna, Medco, Lumenos and Magellan supplied data on retiree medical claims incurred in 2010. Claim experience rates are calculated for Aetna and Lumenos plans by dividing incurred claims by covered lives and trending forward two years to 2012. Adjustments for benefit, geographic and vendor efficiency differences are also made. Medical and prescription drug claim rates are then multiplied by plan change factors representing the effect of substantive prescription drug plan design changes. Aetna and Lumenos cost models are developed separately by age-grading these claims rates over standard Towers Watson morbidity curves for both medical and prescription drugs to develop the quinquennial cost models.
- ▶ Post-65 retiree medical rates 2012 monthly claim rates are calculated separately for MOB, COB and CSP Medicare-eligible plans by dividing 2010 incurred claims by covered lives and trending forward two years to 2012. Prescription drug claim rates are then multiplied by pricing change factors representing the savings from improvements to PBM contractual terms and changes. MOB and COB cost models are developed separately by age-grading these claim rates over standard Towers Watson morbidity curves for both medical and prescription drugs to develop the quinquennial cost models.
- ▶ Dental rates MetLife supplied data on dental claims incurred in 2010. Experience for all active and retiree employees was analyzed to derive the dental claim rates.
- ▶ Medicare Part D Retiree Drug Subsidy (RDS) We calibrated our modelling tool to reflect the 2012 cost of the current prescription drug plans for AEP’s post-65 retirees. The tool employs a continuance table of annual retiree drug utilization levels, developed from analyzing the experience of several large Towers Watson clients.

After the plan-specific benefit provisions have been calibrated to

current costs, the Modeler trends costs forward to 2012. Actuarial equivalence was determined using the following two-prong approach outlined in the regulations for Medicare Part D:

- ▶ *Gross Value Test* – The Modeler calculates the value of standard Medicare Part D coverage and compares it to AEP’s plan costs. AEP’s plans passed this test by being richer than the projected value of standard Medicare part D coverage for these groups.
- ▶ *Net Value Test* – The net value prong of the test compares the value of Standard Part D coverage in 2012 minus the greater of \$372.96 per year (the national average Part D premium) and 25.5% of the gross value of Part D to the projected 2012 value of AEP coverage minus the average projected 2012 retiree contribution rate. For this purpose, retiree contributions were assumed to apply pro rata between the value of medical benefits and prescription drug benefits.

When the plans are deemed to be actuarially equivalent, the tool calculates the average expected value of the employer subsidy in 2012, using the continuance table calibrated to AEP’s plan costs. This produced a 2012 per person employer subsidy of \$573 for MOB and COB plans and \$223 for CSP.

- ▶ Employer Group Waiver Plan (EGWP)

Projected offsets to plan costs associated with transitioning to EGWP.

Estimated plan cost offsets associated with transitioning to an EGWP arrangement were developed using the same post-65 retiree prescription drug continuance table that was used in the Retiree Drug Subsidy payment estimates. AEP’s plan-specific benefit provisions were calibrated to current costs to estimate the level of pharmaceutical company discounts and reinsurance dollars that the plan would receive for participants who enter or exceed the Standard Medicare Part D “donut hole.” An estimate of direct monthly government payments under the EGWP was provided by Medco based on average Part D plan payments risk-adjusted for AEP’s post-65 retiree population.

To account for the gradual fill-in of the “donut hole” through 2020, higher trend levels are applied to estimated direct monthly EGWP payments between 2013 (effective date of plan change) and 2020, after which EGWP plan cost offsets are assumed to increase at the valuation trend rate assumption.

Additional Assumptions

Excise tax

To determine impact of the excise tax on the non-UMWA postretirement plan, we projected future gross plan costs using the valuation trend assumption and compared these on a year-by-year basis to the excise tax thresholds beginning in 2018 and projected to future years using CPI (CPI + 1% for 2019). The expected cost of each non-UMWA benefit combination, which were blended pre-65/post-65 based on headcounts, exceeded these thresholds at various points in time, but no earlier than 2039.

The amount of the excise tax valued was 40% times the portion of the cost exceeding the thresholds, grossed up by 35% to account for the nondeductibility of these charges for AEP’s administrators.

Timing of benefit payments Benefit payments are assumed to be made uniformly throughout the year and on average at mid-year.

Methods

Census date	January 1, 2012
Measurement date	January 1, 2012
Service cost and APBO	Costs are determined using the Projected Unit Credit Cost Method. The annual service cost is equal to the present value of the portion of the projected benefit attributable to service during the upcoming year, and the Accumulated Postretirement Benefit Obligation (APBO) is equal to the present value of the portion of the projected benefit attributable to service before the valuation date. Service from hire date through the expected full eligibility date is counted in allocating costs.
Market-related value of assets	The fair value of assets on the measurement date.
Amortization of unamortized amounts:	
▶ Prior service cost (credit)	Increase in APBO resulting from a plan amendment is amortized on a straight-line basis over the average expected remaining service of active participants expected to benefit under the plan. Amortization of net prior service cost/(credit) resulting from a plan change is included as a component of Net Periodic Postretirement Benefit Cost/(Income) in the year first recognized and every year thereafter until such time as it is fully amortized. The annual amortization payment is determined in the first year as the increase in APBO due to the plan change divided by the average remaining service period to full eligibility for participating employees expected to receive benefits under the Plan. Reductions in APBO first reduce any unrecognized prior service cost; any remaining amount is amortized on a straight-line basis as described above.
▶ Net loss (gain)	Amortization of the net gain or loss resulting from experience different from that assumed and from changes in assumptions (excluding asset gains and losses not yet reflected in market-related value) is included as a component of Net Periodic Postretirement Benefit Cost/(Income) for a year. Net loss (gain) in excess of 10% of the greater of APBO or the market-related value of assets is amortized on a straight-line basis over the average expected remaining service of active participants expected to benefit under the plan.
ASC 965 (formerly SOP 92-6)	
▶ APBO	Accumulated Postretirement Benefit Obligation (APBO) is equal to the present value of the portion of the projected benefit attributable to service before the valuation date. Service from hire date through the expected full eligibility date is counted in allocating costs.
▶ Funding policy	AEP's funding policy is to contribute an amount equal to the postretirement welfare cost. AEP maximizes its contribution to the 401(h) account and contributes the remainder to the VEBA.

Benefits Not Valued	<p>All benefits described in the Plan Provisions section of this report were valued. Life insurance benefits in excess of \$50,000 and health care benefits for key employees were not included in determining the maximum deductible contribution. Towers Watson has reviewed the plan provisions with AEP and based on that review is not aware of any significant benefits required to be valued that were not included.</p>
Change in Assumptions and Methods Since Prior Valuation	<p>The discount rate for APBO was changed from 5.25% to 4.75%. Mortality was updated to reflect an additional year of mortality improvements.</p> <p>Per capita claims costs were updated to reflect more recent claims experience and improved PBM contractual terms.</p>

Data Sources

American Electric Power (AEP), through its third party administrator, furnished active participant data as of January 1, 2012. AEP provided inactive participant data as of January 1, 2012. AEP also provided the accrued postretirement benefit costs as of December 31, 2011. Health plan vendors furnished the claims cost data. Data were reviewed for reasonableness and consistency, but no audit was performed. Based on discussions with the plan sponsor, assumptions or estimates were made when data were not available, and the data was adjusted to reflect any significant events that occurred between the date the data was collected and the measurement date. We are not aware of any errors or omissions in the data that would have a significant effect on the results of our calculations.

Appendix B: Summary of Substantive Plan Provisions Reflected in Valuation

Health Care Benefits

Eligibility	Participants are eligible upon retirement after age 55 with ten years of service or upon attaining age 55 with ten years of service after becoming permanently disabled. If involuntary termination, then eligible after age 50 with ten years of service.
Surviving spouse	After the death of a retiree or active employee eligible to retire, surviving spouses are eligible until death or remarriage. Surviving children are also eligible, subject to the limiting age provision outlined above.
Dependent	Eligible dependents are spouse, unmarried children under age 19 (age 25 if a full-time student) and unmarried disabled children of any age.
Benefits	The AEP Post-65 Medical Plan provides broad medical coverage with a deductible of \$200, 80% coinsurance and a maximum annual out-of-pocket expense of \$2,000 per person. Discounted charges and different benefits (\$250 deductible, 85% coinsurance and a \$2,500 out-of-pocket maximum) may be obtained by pre-65 retirees electing to use network providers.

Pre-65 retirees who live in areas designated as “Network Area” will have reduced benefits (\$500 deductible, 70% coinsurance, \$5,000 out-of-pocket maximum) if they do not use network providers. Alternatively, these retirees can elect coverage under consumer driven health plan designs.

Prescription drug benefits are provided under a separate plan with the following copayments for those who do not enroll in a consumer driven health plan:

	<i>Generic</i>	<i>Brand Name Formulary</i>	<i>Brand Name Nonformulary</i>
30-day retail	\$5 copay	20% \$20 minimum \$100 maximum	20% \$35 minimum \$100 maximum
90-day retail	\$12 copay	20% \$50 minimum \$200 maximum	20% \$90 minimum \$200 maximum

Prescription drug benefits are also subject to a \$50 deductible and a \$1,000 out-of-pocket maximum per person.

Benefits after age 65 are coordinated with Medicare using the carve-out method. Participants have the option to "buy up" to exclusion coordination of benefits coverage. Exclusion coordination is provided to East retirees who attained age 65 prior to January 1, 2001.

Deductibles and out-of-pocket maximums are assumed to increase over time at approximately the same rate as benefit costs.

Postretirement contributions

Participant contributions are determined as a percentage of plan costs and vary by points (age at retirement plus service) as follows:

<i>Points</i>	<i>Retiree Cost</i>
65-69	46%
70-74	42
75-79	36
80-84	32
85-89	26
90-94	22
95+	20
Grandfathered	20

For East participants who retired prior to January 1, 1989, and West participants who retired prior to January 1, 1993, no contributions are required.

For East participants who retired on or after January 1, 1989, and West participants who retired on or after January 1, 1993, the 20% "Grandfathered" contributions are in effect if they retired by December 31, 2000, or attained age 50 and had ten or more years of service with the company on that date. The percentages described above are applied to plan costs that differ from the per capita claims costs assumed in the valuation as follows:

The Medicare status of dependents is not looked at in determining whether "pre-65" or "post-65" rates apply. The pre-65 plan rates used to calculate participant contributions are a blend of pre-65 retiree costs and active employee costs.

For purposes of determining retiree contribution rates, AEP excludes the government's monthly direct payment amount from offsetting the plan cost to which the contribution percentages are applied.

Disabled employee contributions

Disabled employees have a waiver of premium provision where no contributions are made while an employee remains disabled.

If an employee retires while disabled and became disabled before January 1, 2001, the waiver of premium provision continues for life. If an employee retires while disabled and became disabled after January 1, 2001, the employee will continue to accrue points as if actively-at-work until age 65 and be subject to the same contribution schedule as normal retirees.

Life Insurance Benefits

Grandfathered participants Participants over age 50 with ten years of service as of December 31, 2000.

Grandfathered benefits Grandfathered participants have the option of keeping current coverage. Active employee coverage for grandfathered East participants is one times final base pay at no cost with the option to buy up to two times base pay. The entire amount of coverage (basic plus supplemental) in force prior to retirement can be carried into retirement subject to reduction beginning at age 66. Current coverage for grandfathered West participants is one and one-half times final base pay prior to age 60, one times final base pay from age 60 to 64 and one-half times final base pay after age 65.

*Life Insurance Benefit Reduction Table
for Grandfathered East Participants*

<i>Years of Coverage</i>	<i>Age 66</i>	<i>Age 67</i>	<i>Age 68</i>	<i>Age 69</i>	<i>Age 70 or Over</i>
10 – 11	65%	55%	45%	35%	25%
11 – 12	70	60	50	40	30
12 – 13	75	65	55	45	35
13 – 14	80	70	60	50	40
14 – 15	85	75	65	55	45
15 or more	90	80	70	60	50

Grandfathered contributions Grandfathered East retirees must contribute \$0.60/\$1,000 of coverage (basic + supplemental) per month. West retirees are not required to contribute to the cost of coverage.

Nongrandfathered benefits \$30,000.

Dental Benefits

Eligibility Participants, including retirees and surviving dependents, are eligible upon retirement after age 55 with ten years of service. There is a one-time election and if coverage terminates there is no opportunity to reenroll.

Benefits The AEP Dental Plan provides dental coverage with a deductible of \$50 single/\$150 family, 100% coinsurance for preventive care, 80% coinsurance for basic restorative care, 50% coinsurance for major restorative care and 50% coinsurance for orthodontia.

Most retirees pay the full cost of dental coverage if they enroll. CSW employees who retire before January 1, 1993, contribute nothing to enroll for dental coverage. Former CSW employees retiring after January 1, 1993, who were either retired or had attained age 50 with ten years of service as of January 1, 2001, pay 30%.

Changes in Benefits Valued Since Prior Year

The following benefit changes have been reflected since the prior valuation, as a result of PPACA/HCERA:

- ▶ Elimination of lifetime maximums in 2011
- ▶ Excise ("Cadillac") tax on high-cost plans beginning in 2018.

Transition to Employer Group Waiver Plan (EGWP) and underlying change to post-65 retiree cost sharing.

Overview of Benefits Provided by Funding Vehicles

Funding vehicle	Provides for
Nonunion postretirement medical/dental VEBAs	100% of medical/dental benefits to nonunion employees before 2016 and 50% of benefits thereafter.
Union postretirement medical/dental VEBAs	100% of medical/dental benefits to union employees.
Postretirement life insurance VEBA	Life insurance benefits for all retirees.
401(h) account	50% of benefits after 2015 for nonunion retirees.

Appendix C : Results by Business Unit

Location	Nonretired Participants			Retired Participants			
	Active	Disabled	Total	Retiree	Dependent Spouse	Surviving Spouse	Total
Appalachian Power Co - Distribution	968	57	1,025	1,219	813	368	2,400
Appalachian Power Co - Generation	895	64	959	962	689	201	1,852
Appalachian Power Co - Transmission	136	13	149	147	113	4	264
Appalachian Power Co. - FERC	1,999	134	2,133	2,328	1,615	573	4,516
Cedar Coal Co	0	0	0	15	7	18	40
Central Coal Company	0	0	0	0	0	0	0
Appalachian Power Co. - SEC	1,999	134	2,133	2,343	1,622	591	4,556
AEP Texas Central Company - Distribution	835	35	870	950	603	276	1,829
AEP Texas Central Company - Generation	1	0	1	16	11	0	27
AEP Texas Central Company - Transmission	106	1	107	88	50	30	168
AEP Texas Central Co.	942	36	978	1,054	664	306	2,024
Indiana Michigan Power Co - Distribution	625	7	632	718	415	245	1,378
Indiana Michigan Power Co - Generation	388	9	397	289	198	79	566
Indiana Michigan Power Co - Nuclear	1,105	15	1,120	389	263	58	710
Indiana Michigan Power Co - Transmission	131	4	135	128	89	9	226
Ind Mich River Transp Lakin	276	20	296	151	64	31	246
Indiana Michigan Power Co. - FERC	2,525	55	2,580	1,675	1,029	422	3,126
Price River Coal	0	0	0	0	0	0	0
Indiana Michigan Power Co. - SEC	2,525	55	2,580	1,675	1,029	422	3,126
Kentucky Power Co - Distribution	227	21	248	201	115	63	379
Kentucky Power Co - Generation	113	12	125	118	92	18	228
Kentucky Power Co - Transmission	41	1	42	16	14	0	30
Kentucky Power Co.	381	34	415	335	221	81	637
Cardinal Operating Company	281	10	291	210	146	46	402
Cook Coal Terminal	16	0	16	7	5	1	13
Ohio Power Co - Distribution	1,394	37	1,431	1,831	1,116	448	3,395
Ohio Power Co - Generation	1,002	57	1,059	1,322	905	293	2,520
Ohio Power Co - Transmission	222	8	230	241	173	52	466
Ohio Power Co. - FERC	2,915	112	3,027	3,611	2,345	840	6,796
Conesville Coal Preparation Company	8	0	8	11	10	0	21
Ohio Power Co. - SEC	2,923	112	3,035	3,622	2,355	840	6,817
Public Service Co of Oklahoma - Distributor	635	27	662	582	386	154	1,122
Public Service Co of Oklahoma - Generation	355	8	363	222	145	65	432
Public Service Co of Oklahoma - Transmission	72	2	74	60	42	15	117
Public Service Co. of Oklahoma	1,062	37	1,099	864	573	234	1,671
Southwestern Electric Power Co - Distribution	523	9	532	330	221	85	636
Southwestern Electric Power Co - Generation	483	12	495	280	196	84	560
Southwestern Electric Power Co - Texas - Distribution	225	6	231	159	107	37	303
Southwestern Electric Power Co - Texas - Transmission	0	0	0	0	0	0	0
Southwestern Electric Power Co - Transmission	73	2	75	63	39	18	120
Southwestern Electric Power Co.	1,304	29	1,333	832	563	224	1,619
AEP Texas North Company - Distribution	242	14	256	254	155	70	479
AEP Texas North Company - Generation	0	0	0	128	70	38	236
AEP Texas North Company - Transmission	59	0	59	40	21	9	70
AEP Texas North Co.	301	14	315	422	246	117	785
Kingsport Power Co - Distribution	38	2	40	55	32	19	106
Kingsport Power Co - Transmission	9	1	10	8	3	1	12
Kingsport Power Co.	47	3	50	63	35	20	118
Wheeling Power Co - Distribution	50	2	52	69	45	28	142
Wheeling Power Co - Transmission	0	0	0	3	2	9	14
Wheeling Power Co.	50	2	52	72	47	37	156
American Electric Power Service Corporation	5,594	75	5,669	2,632	1,639	226	4,497
American Electric Power Service Corp	5,594	75	5,669	2,632	1,639	226	4,497
AEP Pro Serv, Inc.	0	0	0	1	1	0	2
CSW Energy, Inc.	22	0	22	8	1	0	9
Elmwood	109	3	112	18	7	0	25
AEP River Operations LLC	874	15	889	56	21	0	77
Miscellaneous	1,005	18	1,023	83	30	0	113
Total	18,133	549	18,682	13,997	9,024	3,098	26,119

American Electric Power
Non-UMWA Postretirement Welfare Plan
5-Year Postretirement Welfare Cost Forecast
Reflects Effect of Medicare Part D

Location	ASC 715-60					
	Cost 2012	2013	2014	2015	2016	2017
Appalachian Power Co - Distribution	\$5,463,363	\$4,810,251	\$4,195,025	\$3,691,274	\$3,343,833	\$3,062,193
Appalachian Power Co - Generation	4,780,060	4,253,039	3,756,361	3,351,130	3,077,322	2,854,225
Appalachian Power Co - Transmission	747,650	665,979	586,345	521,104	474,590	434,949
Appalachian Power Co. - FERC	\$10,991,074	\$9,729,270	\$8,537,732	\$7,563,509	\$6,895,746	\$6,351,368
Cedar Coal Co	24,120	15,704	8,387	2,629	(1,469)	(4,477)
Central Coal Company	0	0	0	0	0	0
Appalachian Power Co. - SEC	\$11,015,194	\$9,744,974	\$8,546,119	\$7,566,138	\$6,894,277	\$6,346,891
AEP Texas Central Company - Distribution	\$4,180,289	\$3,750,743	\$3,349,086	\$3,022,476	\$2,803,810	\$2,626,858
AEP Texas Central Company - Generation	21,269	12,703	5,679	282	(4,020)	(7,115)
AEP Texas Central Company - Transmission	441,150	403,099	368,987	341,515	324,159	310,043
AEP Texas Central Co.	\$4,642,707	\$4,166,544	\$3,723,751	\$3,364,272	\$3,123,948	\$2,929,785
Indiana Michigan Power Co - Distribution	\$2,925,356	\$2,601,148	\$2,301,654	\$2,060,573	\$1,900,340	\$1,777,549
Indiana Michigan Power Co - Generation	1,870,817	1,699,763	1,535,899	1,400,879	1,309,918	1,235,387
Indiana Michigan Power Co - Nuclear	4,445,226	4,285,811	4,123,373	3,996,668	3,935,426	3,897,144
Indiana Michigan Power Co - Transmission	595,524	532,760	473,736	425,750	393,457	366,860
Ind Mich River Transp Lakin	1,061,592	1,012,506	963,274	923,819	902,148	887,928
Indiana Michigan Power Co. - FERC	\$10,898,514	\$10,131,987	\$9,397,935	\$8,807,688	\$8,441,288	\$8,164,867
Price River Coal	0	0	0	0	0	0
Indiana Michigan Power Co. - SEC	\$10,898,514	\$10,131,987	\$9,397,935	\$8,807,688	\$8,441,288	\$8,164,867
Kentucky Power Co - Distribution	\$1,159,582	\$1,039,597	\$924,596	\$828,664	\$762,231	\$704,843
Kentucky Power Co - Generation	649,140	575,304	504,222	444,655	402,195	368,488
Kentucky Power Co - Transmission	186,205	174,712	163,230	153,603	147,904	142,738
Kentucky Power Co.	\$1,994,927	\$1,789,613	\$1,592,048	\$1,426,922	\$1,312,330	\$1,216,069
Cardinal Operating Company	\$1,300,408	\$1,191,244	\$1,087,148	\$1,003,553	\$948,166	\$906,527
Cook Coal Terminal	53,729	47,904	42,423	37,557	33,903	31,016
Ohio Power Co - Distribution	6,941,039	6,148,626	5,413,979	4,820,537	4,419,683	4,100,083
Ohio Power Co - Generation	5,597,351	4,921,228	4,293,815	3,783,279	3,429,284	3,147,995
Ohio Power Co - Transmission	1,089,838	966,302	849,745	752,027	687,028	632,294
Ohio Power Co. - FERC	\$14,982,366	\$13,275,305	\$11,687,111	\$10,396,954	\$9,518,065	\$8,817,916
Conesville Coal Preparation Company	53,515	45,551	37,800	31,217	26,785	23,133
Ohio Power Co. - SEC	\$15,035,881	\$13,320,856	\$11,724,911	\$10,428,171	\$9,544,850	\$8,841,049
Public Service Co of Oklahoma - Distribution	\$2,859,733	\$2,625,967	\$2,407,350	\$2,229,333	\$2,116,373	\$2,028,045
Public Service Co of Oklahoma - Generation	1,614,153	1,508,809	1,404,399	1,319,083	1,265,364	1,224,034
Public Service Co of Oklahoma - Transmission	347,335	318,866	290,986	269,594	255,273	244,581
Public Service Co. of Oklahoma	\$4,821,222	\$4,453,643	\$4,102,736	\$3,818,011	\$3,637,011	\$3,496,661
Southwestern Electric Power Co - Distribution	\$2,523,356	\$2,369,505	\$2,220,010	\$2,099,714	\$2,025,869	\$1,966,470
Southwestern Electric Power Co - Generation	2,171,926	2,029,624	1,888,290	1,772,712	1,699,103	1,640,637
Southwestern Electric Power Co - Texas - Distribution	931,632	853,875	778,341	716,845	676,284	644,097
Southwestern Electric Power Co - Texas - Transmission	0	0	0	0	0	0
Southwestern Electric Power Co - Transmission	301,609	273,151	245,560	224,176	209,764	197,679
Southwestern Electric Power Co.	\$5,928,522	\$5,526,154	\$5,132,200	\$4,813,446	\$4,611,019	\$4,448,882
AEP Texas North Company - Distribution	\$1,258,493	\$1,138,671	\$1,022,505	\$926,965	\$861,882	\$806,680
AEP Texas North Company - Generation	106,915	66,210	30,313	1,554	(20,182)	(37,861)
AEP Texas North Company - Transmission	251,366	238,580	225,797	214,862	208,034	202,600
AEP Texas North Co.	\$1,616,774	\$1,443,731	\$1,278,615	\$1,143,381	\$1,049,734	\$971,419
Kingsport Power Co - Distribution	\$211,879	\$186,000	\$163,321	\$145,246	\$132,937	\$122,812
Kingsport Power Co - Transmission	35,855	32,367	29,046	26,327	24,330	22,799
Kingsport Power Co.	\$247,734	\$218,367	\$192,367	\$171,573	\$157,267	\$145,611
Wheeling Power Co - Distribution	\$275,756	\$241,848	\$210,561	\$184,881	\$167,147	\$152,874
Wheeling Power Co - Transmission	6,427	4,124	2,100	488	(669)	(1,579)
Wheeling Power Co.	\$282,183	\$245,972	\$212,661	\$185,369	\$166,478	\$151,295
American Electric Power Service Corporation	\$19,898,209	\$18,716,922	\$17,572,096	\$16,664,192	\$16,135,913	\$15,735,824
American Electric Power Service Corp	\$19,898,209	\$18,716,922	\$17,572,096	\$16,664,192	\$16,135,913	\$15,735,824
AEP Pro Serv, Inc.	\$3,064	\$2,064	\$1,147	\$322	-\$281	-\$774
CSW Energy, Inc.	62,160	61,056	59,857	59,467	59,763	60,131
Elmwood	435,688	439,763	441,704	444,958	451,211	457,785
AEP River Operations LLC	2,528,328	2,605,187	2,669,427	2,733,705	2,811,686	2,891,134
Miscellaneous	\$3,029,240	\$3,108,070	\$3,172,135	\$3,238,452	\$3,322,379	\$3,408,276
Total	\$79,411,106	\$72,866,832	\$66,647,573	\$61,627,614	\$58,396,493	\$55,856,628

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