The fair values of short-term investments, marketable equity investments and debt securities, short-term and long-term debt, and interest rate swaps and caps are principally based on quoted market prices. The fair value of foreign currency forward exchange contracts and options, which primarily mature in 1997, and foreign currency principal and interest rate swaps are estimated based on quoted market prices of comparable contracts, adjusted through interpolation where necessary for maturity differences.

Pension Plans

The Company has non-contributory defined benefit pension plans covering the majority of employees. Plans covering salaried and certain hourly employees provide benefits that are generally based on years of service and final average compensation. Benefits for other hourly employees are generally based on years of service. Company policy is to fund at least the minimum amount required by applicable regulations. In the event of a change in control of the Company, excess pension plan assets of North American operations may be dedicated to funding of health and welfare benefits for employees and retirees.

The components of pension expense for the years ended December 31 follow (in millions):

	1996	1995	1994
Service cost—benefits earned during year	$ 68	[illegible]	$ 55
Interest cost on projected benefit obligation	105	[illegible]	94
[illegible] return on assets	[illegible]	[illegible]	[illegible]
[illegible] amortization and deferral	[illegible]	[illegible]	[illegible]
	$ (7)	[illegible]	[illegible]

The pension asset (liability), by funded status of the plan, at December 31 follows (in millions):

	1996		1995	
	Over-funded	Under-funded	Over-funded	Under-funded
Accumulated pension benefit obligation				
Vested	[illegible]	$ 287	$1,059	$ 218
Nonvested	[illegible]	[illegible]	64	29
	[illegible]	[illegible]	(1,123)	247
Value of future salary projections	[illegible]	[illegible]	132	10
Total projected pension benefit obligation	[illegible]	[illegible]	[illegible]	257
Fair value of plan assets	[illegible]	[illegible]	[illegible]	[illegible]
Plan assets in excess of (less than) projected benefit obligation	[illegible]	[illegible]	[illegible]	[illegible]
Unamortized				
Initial net (asset) obligation	[illegible]	[illegible]	(32)	[illegible]
Net (gain) loss	[illegible]	[illegible]	(130)	(6)
Prior service cost	[illegible]	[illegible]	(5)	8
Adjustment to recognize minimum liability	[illegible]	(11)	[illegible]	(12)
	[illegible]	$ (90)	$ 77	$ (101)

As a result of the merger of several underfunded pension plans into overfunded pension plans, the vested accumulated pension benefit obligation for underfunded plans decreased by $116 million in 1996, with an offsetting increase in the overfunded plans.

Actuarial assumptions used in the calculation of the pension asset (liability) are as follows:

	1996	1995	1994
Discount rate	7.25%	7.25%	8.50%
Compensation growth rate	4.70%	4.70%	5.95%
Long-term rate of return on plan assets	[illegible]10%	9.50%	[illegible]10%

Plan assets are invested in equity and fixed income securities and other instruments. Underfunded plans are associated principally with operations outside the United States.

Postretirement Benefit Plans Other Than Pensions

Generally, United States employees become eligible for postretirement benefits other than pensions, primarily health care and life insurance, upon retirement. These benefits are payable for life, although the Company retains the right to modify or terminate the plans providing these benefits. The plans are contributory, with retiree contributions adjusted annually, and contain other cost-sharing features, including deductibles and co-payments. Certain plans limit the annual amount of the Company's future contributions towards employees' postretirement health care benefits. Company policy is to pay claims as they are incurred since, unlike pensions, there is no effective method to obtain a tax deduction for prefunding of these benefits under existing United States income tax regulations.