Financial Review

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

	1997	1996	1995
Service cost—benefits earned during year	$ (64)	$ (58)	$ (51)
Interest cost on projected benefit obligation	(111)	(105)	(104)
Actual return on assets	375	350	347
Net amortization and deferral	(211)	(200)	(214)
	(11)	(13)	(22)
Curtailment loss	(1)		
Settlement gain	68	6	6
	$ 56	$ (7)	$ (16)

In 1997, the curtailment loss and settlement gain relate primarily to the sales of AIL Systems Inc. and the Appliance Controls business.

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

	1997		1996	
	Over-funded	Under-funded	Over-funded	Under-funded
Accumulated pension benefit obligation				
Vested	$1,127	$ 178	$1,186	$ 177
Nonvested	91	8	94	7
	1,218	186	1,280	184
Value of future salary projections	134	25	152	14
Total projected pension benefit obligation	1,352	211	1,432	198
Fair value of plan assets	1,931	89	1,852	92
Plan assets in excess of (less than) projected benefit obligation	579	(122)	420	(106)
Unamortized				
Initial net asset	(7)	(4)	(14)	(5)
Net (gain) loss	(431)	36	(326)	12
Prior service cost	18	14	15	16
Adjustment to recognize minimum liability		(8)		(11)
	$ 159	$ (84)	$ 95	$ (94)

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

	1997	1996	1995
Discount rate	7.00%	7.25%	7.25%
Compensation growth rate	4.50%	4.70%	4.70%
Long-term rate of return on plan assets	10%	10%	9.50%

Plan assets are invested in equity and fixed income securities and other instruments. Underfunded plans are associated principally with operations outside the United States. The changes in assumed rates at the end of 1997 had the effect of increasing the accumulated pension benefit obligation by $29 million with an offsetting increase in the unamortized net loss. This change will not have a material effect on future expense.

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.

Expense for postretirement benefits other than pensions for the years ended December 31 follows (in millions):

	1997	1996	1995
Service cost—benefits earned during year	$(13)	$(12)	$(12)
Interest cost on projected benefit obligation	(49)	(47)	(49)
Amortization	3	5	8
	(59)	(54)	(53)
Curtailment gain	16		
Settlement loss	(12)		
	$(55)	$(54)	$(53)

The curtailment gain and settlement loss relate primarily to the sales of AIL Systems Inc. and the Appliance Controls business.

The liability for postretirement benefit plans other than pensions at December 31 follows (in millions):

	1997	1996
Accumulated postretirement benefit obligation		
Retirees	$470	$465
Eligible plan participants	90	58
Non-eligible plan participants	177	182
Unamortized		
Prior service cost	29	53
Net loss	(184)	(138)
	$582	$620

Actuarial assumptions used in the calculation of the liability for postretirement benefits other than pensions are as follows:

	1997	1996	1995
Discount rate	7.00%	7.25%	7.25%
Projected health care cost trend rate	8%	9%	10%
Ultimate trend rate	4.75%	5%	5%
Year ultimate trend rate is achieved	2002	2001	2001

The changes in assumed rates had the effect of increasing the accumulated postretirement benefit obligation (APBO) by $13 million with an offsetting increase in the unamortized net loss. These changes will have an immaterial effect on future expense. An increase of 1% in assumed health care cost trend rates would increase the accumulated postretirement benefit obligation as of December 31, 1997 by $37 million and the net periodic cost for 1997 by $3 million.

Protection of the Environment

The Company has several policies in place to ensure that its operations are conducted in keeping with good corporate citizenship and with a positive commitment to the protection of the natural and workplace environments. For example, the Company has, at each of its facilities, a person responsible for environmental, health and safety (EHS) matters.