

## ANNUAL FUNDING NOTICE for the AT&T PENSION BENEFIT PLAN

### Introduction

This Annual Funding Notice (Notice) includes important funding information about the funding status of your single-employer pension plan titled the AT&T Pension Benefit Plan (the Plan). It also includes general information about the benefit payments guaranteed by the Pension Benefit Guaranty Corporation ("PBGC"), a federal insurance agency. All traditional pension plans (called "defined benefit pension plans") must provide this notice every year regardless of their funding status. This notice does not mean that the Plan is terminating. It is provided for informational purposes and you are not required to respond in any way. This Notice is for the plan year beginning Jan. 1, 2018 and ending Dec. 31, 2018 (the Plan Year).

### How Well Funded Is Your Plan

The law requires the administrator of the Plan to tell you how well the Plan is funded, using a measure called the "Funding Target Attainment Percentage." The Plan divides its Net Plan Assets by Plan Liabilities to get this percentage. In general, the higher the percentage, the better funded the plan. The Plan's Funding Target Attainment Percentage for the Plan Year and each of the two preceding plan years is shown in the chart below. The chart also shows you how the percentage was calculated.

	2018	2017	2016*
1. Valuation Date	1/1/2018	1/1/2017	1/1/2016
2. Plan Assets			
a. Total Plan Assets	\$51,826,080,000	\$51,771,753,000	\$52,277,249,000
b. Funding Standard Carryover Balance	\$0	\$0	\$0
c. Prefunding Balance	\$9,145,119,000	\$8,933,952,000	\$9,226,361,000
d. Net Plan Assets (a) – (b) – (c) = (d)	\$42,680,961,000	\$42,837,801,000	\$43,050,888,000
3. Plan Liabilities	\$46,438,050,000	\$44,461,475,000	\$43,673,337,000
4. Funding Target Attainment Percentage (2d)/(3)	91.9%	96.5%	98.5%

\* The 2016 values shown in this table do not include adjustments to reflect the merger of the DIRECTV Pension Plan effective Nov. 30, 2016.

### Plan Assets and Credit Balances

The chart above shows certain "credit balances" called the Funding Standard Carryover Balance and Prefunding Balance. A plan might have a credit balance, for example, if in a prior year an employer contributed money to the plan above the minimum level required by law. Generally, an employer may credit the excess money toward the minimum level of contributions required by law that it must make in future years. Plans must subtract these credit balances from Total Plan Assets to calculate their Funding Target Attainment Percentage.

### Plan Liabilities

Plan Liabilities in line 3 of the "How Well Funded is Your Plan" chart is an estimate of the amount of assets the Plan needs, on the Valuation Date, to pay for promised benefits under the Plan.

### Year-End Assets and Liabilities

The asset values in the "How Well Funded is Your Plan" chart are measured as of the first day of the Plan Year. They also are "actuarial values." Actuarial values differ from market values in that they do not fluctuate daily based on changes in the stock or other markets. Actuarial values smooth out those fluctuations and can allow for more predictable levels of future contributions. Despite the fluctuations, market values tend to show a clearer picture of a plan's funded status at a given point in time. As of Dec. 31, 2018, the unaudited fair market value of the Plan's assets was \$49,184,982,000. On this same date, the estimated Plan liabilities determined using market rates were \$51,971,951,000.

### Participant Information

The total number of participants and beneficiaries, covered by the Plan on the valuation date, was 498,781. Of this number, 189,950 were current employees,

199,558 were retired and receiving benefits, and 109,273 were retired or no longer working for the employer and have a right to future benefits.

### Funding and Investment Policies

Every pension plan must have a procedure to establish a funding policy to carry out the plan objectives. A funding policy relates to how much money is needed to pay promised benefits. The funding policy of the Plan is to make contributions on an actuarially sound basis, but no less than required by law, so that the Plan may meet its obligations.

Pension plans also have investment policies. These generally are written guidelines or general instructions for making investment management decisions. The investment policy of the Plan is in place to ensure the availability of funds to pay Plan benefits as they become due under a broad range of future economic scenarios, to maximize long-term investment return with an acceptable level of risk based on the Plan's obligations, and to be broadly diversified across and within the capital markets to insulate the assets' values against adverse experience in any one market.

The Plan's assets are held in a master trust investment account. Under the investment policy, the assets were allocated among the following categories of investments as of the end of the Plan Year. These allocations are percentages of total assets:

Asset Allocations	Percentage
1. Stocks	
Domestic	34%
International	12%
2. Investment grade debt instruments	33%
3. High-yield debt instruments	2%
4. Real assets	10%
5. Other	9%
6. Total	100%

For more information about the Plan's investments in the master trust, contact the Plan Recordkeeper (see "Where to Get More Information" at the end of this Notice). Final detailed asset allocation information will be disclosed in the master trust's annual report that will be available on or after Oct. 15, 2019.

### Events Having Material Effect on Assets or Liabilities

By law this Notice must contain a written explanation of new events that have a material effect on plan assets or liabilities. This is because such events can significantly impact the funding condition of a plan. For the plan year beginning on Jan. 1, 2018 and ending on Dec. 31, 2018, the Plan expects no events to have such an effect.

### Right to Request a Copy of the Annual Report

Pension plans must file annual reports with the U.S. Department of Labor. The report is called the "Form 5500." These reports contain financial and other information. You may obtain an electronic copy of your Plan's annual report by going to [www.efast.dol.gov](http://www.efast.dol.gov) and using the search tool. Annual Reports are also available from the U.S. Department of Labor, Employee Benefits Security Administration's Public Disclosure Room at 200 Constitution Ave., NW, Room N-1515, Washington, DC 20210, or by calling 202-693-8673. Or you may obtain a copy of the Plan's annual report by making a written request to the Plan Administrator at AT&T Services, Inc., P.O. Box 132160, Dallas, TX 75313-2160. Annual reports do not contain personal information, such as the amount of your accrued benefits. You may contact your Plan Administration if you want information about your accrued benefits. Your plan administrator is identified below under "Where to Get More Information."

### Summary of Rules Governing Termination of Single-Employer Plans

If a plan terminates, there are specific termination rules that must be followed under federal law. A summary of these rules follows.

There are two ways an employer can terminate its pension plan. First, the employer can end a plan in a "standard termination," but only after showing the PBGC that the plan has enough money to pay all benefits owed to participants. Under a standard termination, a plan must either purchase an annuity from an insurance company (which will provide you with periodic retirement benefits, such as monthly for life or for a set period of time when you retire) or, if the plan allows, issue one lump-sum payment that covers your entire benefit. Your plan administrator must give you advance notice that identifies the insurance company (or companies) selected to provide the annuity. The PBGC's guarantee ends upon the purchase of an annuity or payment of the lump-sum. If the plan purchases an annuity for you from an

insurance company and that company becomes unable to pay, the applicable state guaranty association guarantees the annuity to the extent authorized by that state's law.

Second, if the plan is not fully-funded, the employer may apply for a distress termination. To do so, however, the employer must be in financial distress and prove to a bankruptcy court, or to the PBGC, that the employer cannot remain in business unless the plan is terminated. If the application is granted, the PBGC will take over the plan as trustee and pay plan benefits, up to the legal limits, using plan assets and PBGC guarantee funds.

Under certain circumstances, the PBGC may take action on its own to end a pension plan. Most terminations initiated by the PBGC occur when the PBGC determines that plan termination is needed to protect the interests of plan participants or the PBGC insurance program. The PBGC can do so if, for example, a plan does not have money to pay benefits currently due.

### **Benefit Payments Guaranteed by the PBGC**

When the PBGC takes over a plan, it pays pension benefits through its insurance program. Only benefits that you have earned a right to receive and that cannot be forfeited (called vested benefits) are guaranteed.

Most participants and beneficiaries receive all of the pension benefits they would have received under their plan, but some participants may lose certain benefits that are not guaranteed.

The amount of benefits that PBGC guarantees is determined as of the plan termination date. However, if a plan terminates during a plan sponsor's bankruptcy, then the amount guaranteed is determined as of the date the sponsor entered bankruptcy.

The PBGC maximum benefit guarantee is set by law and is updated each calendar year. For a plan with a termination date or sponsor bankruptcy date, as applicable in calendar year 2019, the maximum guaranteed benefit is \$5,607.95 per month or \$67,295.40 per year, for a benefit paid to a 65-year old retiree with no survivor benefit. If a plan terminates during a plan sponsor's bankruptcy, the maximum guarantee is fixed as of the calendar year in which the sponsor entered bankruptcy. The maximum guarantee is lower for an individual who begins receiving benefits from PBGC before age 65, reflecting the fact that younger retirees are expected to receive more monthly pension checks over their lifetimes. Similarly, the maximum guarantee is higher for an individual who starts receiving benefits from PBGC after age 65. The maximum guarantee by age can be found on PBGC's website, [www.pbgc.gov](http://www.pbgc.gov). The guaranteed amount is also reduced if a benefit will be provided to a survivor of the plan participant.

The PBGC guarantees "basic benefits" earned before a plan is terminated. These include:

- Pension benefits at normal retirement age.
- Most early retirement benefits.
- Annuity benefits for survivors of plan participants.
- Disability benefits for a disability that occurred before the date the plan terminated or the date the sponsor entered bankruptcy, as applicable.

The PBGC does not guarantee certain types of benefits:

- The PBGC does not guarantee benefits for which you do not have a vested right, usually because you have not worked enough years for the company.
- The PBGC does not guarantee benefits for which you have not met all age, service, or other requirements.
- Benefit increases and new benefits that have been in place for less than one year are not guaranteed. Those that have been in place for less than five years are only partly guaranteed.
- Early retirement payments that are greater than payments at normal retirement age may not be guaranteed. For example, a supplemental benefit that stops when a participant becomes eligible for Social Security may not be guaranteed.
- Benefits other than pension benefits, such as health insurance, life insurance, death benefits, vacation pay, or severance pay, are not guaranteed.
- The PBGC generally does not pay lump sums exceeding \$5,000.

In some circumstances, participants and beneficiaries still may receive some benefits that are not guaranteed. This depends on how much money the terminated plan has and how much the PBGC recovers from employers for plan underfunding.

For additional general information about the PBGC and the pension insurance program guarantees, go to the "General FAQs about PBGC" on PBGC's website at [www.pbgc.gov/generalfaqs](http://www.pbgc.gov/generalfaqs). Please contact your employer or plan administrator for specific information about your pension plan or pension benefit. PBGC does not have that information. See "[Where to Get More Information](#)" below.

### **Corporate and Actuarial Information on File With PBGC**

A plan sponsor must provide the PBGC with financial information about itself and actuarial information about the plan under certain circumstances, such as when the funding target attainment percentage of the plan (or any other pension plan sponsored by a member of the sponsor's controlled group) falls below 80% (without adjusted interest rates as shown in the Supplement). The sponsor of the Plan, AT&T, or a member of its controlled group, was subject to this requirement to provide corporate financial information and plan actuarial information to the PBGC. The PBGC uses this information for monitoring and other purposes.

### **Where to Get More Information**

For more information about this notice, you may contact the Plan's Recordkeeper using the contact information found in your summary plan description.

For identification purposes, the official plan number is 006 and the plan sponsor's employer identification number or "EIN" is 43-1301883. For more information about the PBGC and benefit guarantees, go to PBGC's website, [www.pbgc.gov](http://www.pbgc.gov), or call PBGC toll-free at **800-400-7242** (TTY/TDD users may call the Federal relay service toll free at **800-877-8339** and ask to be connected to **800-400-7242**).

**SUPPLEMENT TO ANNUAL FUNDING NOTICE OF AT&T PENSION BENEFIT PLAN FOR THE PLAN YEAR BEGINNING JAN. 1, 2018, AND ENDING DEC. 31, 2018 (PLAN YEAR)**

This is a temporary supplement to your Annual Funding Notice, which is required by the Moving Ahead for Progress in the 21<sup>st</sup> Century Act (MAP-21) and the Highway and Transportation Funding Act of 2014 (HATFA). These federal laws changed how pension plans calculate their liabilities. The purpose of this supplement is to show you the effect of these changes. Prior to 2012, pension plans determined their liabilities using a two-year average of interest rates. Now pension plans also must take into account a 25-year average of interest rates. This means that interest rates likely will be higher and plan liabilities lower than they were under prior law. As a result, your employer may contribute less money to the plan at a time when market interest rates are at or near historical lows.

The “Information Table” below shows how the adjusted interest rates impact the Plan’s: (1) Funding Target Attainment Percentage, (2) Funding Shortfall, and (3) Minimum Required Contribution. The funding target attainment percentage is a measure of how well the plan is funded on a particular date. The funding shortfall is the amount by which liabilities exceed net plan assets. The minimum required contribution is the amount of money an employer is required by law to contribute to a plan in a given year. The following table shows this information determined with and without the adjusted rates. The information is provided for the Plan Year and for each of the two preceding plan years, if applicable.

<b>INFORMATION TABLE</b>						
	<b>Plan Year Beginning 2018</b>		<b>Plan Year Beginning 2017</b>		<b>Plan Year Beginning 2016</b>	
	<b>With Adjusted Interest Rates</b>	<b>Without Adjusted Interest Rates</b>	<b>With Adjusted Interest Rates</b>	<b>Without Adjusted Interest Rates</b>	<b>With Adjusted Interest Rates</b>	<b>Without Adjusted Interest Rates</b>
Funding Target Attainment Percentage	91.9%	76.7%	96.5%	79.8%	98.5%	81.8%
Funding Shortfall	\$3,757,089,000	\$12,959,975,000	\$1,523,674,000	\$10,836,960,000	\$622,449,000	\$9,532,351,000
Minimum Required Contribution (Excluding Credit Balance)	\$988,809,000	\$2,311,973,000	\$998,133,000	\$2,101,935,000	\$928,830,000	\$1,923,174,000
Minimum Required Contribution After Application of Credit Balance	\$0	\$0	\$0	\$0	\$0	\$0