(dollars in millions)

Asbestos and Environmental Reserves
The Company's asbestos and environmental reserves for unpaid claims and claim adjustment expenses, net of reinsurance before the NICO Reinsurance Transaction and including uncollectible reinsurance, were $1,174 and $1,199 as of March 31, 2023 and December 31, 2022, respectively.

(7) INCOME TAXES

The income tax provision is calculated under the liability method of accounting. The Company recognizes deferred income tax assets and liabilities for the expected future tax effects attributable to temporary differences between the financial statement and tax return bases of assets and liabilities based on enacted tax rates and other provisions of the tax laws. The effect of a change in tax laws or rates on deferred tax assets and liabilities is recognized in income in the period in which such change is enacted. Deferred tax assets are reduced by a valuation allowance if it is more likely than not that all or some portion of the deferred tax assets will not be realized.

The Company's effective tax rate on continuing operations differs from the U.S. Federal statutory rate of 21% primarily due to the impact of non-U.S. operations, partially offset by tax-exempt investment income.

For the year ended December 31, 2022, the Company established a partial valuation allowance of $62 on certain deferred tax assets related to unrealized losses in the available for sale securities portfolio. For the three-month period ended March 31, 2023, changes in market conditions resulted in a $37 partial release of the valuation allowance. The establishment and partial release of this valuation allowance were allocated to other comprehensive income.

On August 16, 2022, the U.S. enacted the Inflation Reduction Act ("IRA"). For tax years beginning after December 31, 2022, the IRA imposes a new corporate alternative minimum tax ("CAMT") on applicable corporations with average adjusted financial statement income in excess of $1,000 for the three prior tax years. Based on the guidance currently available, the Company expects to be an applicable corporation subject to the CAMT; however, it is not expected to have a material effect on the Company's consolidated results of operations or financial position. As Treasury issues further guidance related to the IRA, the Company will continue to evaluate any impacts.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

Balance at December 31, 2022	$97
Additions based on tax positions related to current year	1
Additions for tax positions of prior years	1
Translation	2
Balance at March 31, 2023	$101

Included in the tabular roll forward of unrecognized tax benefits are interest and penalties in the amount of $41 and $38 as of March 31, 2023 and December 31, 2022, respectively.

Included in the balance at March 31, 2023 is $84 related to tax positions that would impact the effective tax rate.

The Company recognizes interest and penalties related to unrecognized tax benefits in U.S. Federal, state, and foreign income tax expense. For the three months ended March 31, 2023 and 2022, the Company recognized $1 and $0 of interest and penalties, respectively. The Company had approximately $40 and $38 of interest and penalties accrued as of March 31, 2023 and December 31, 2022, respectively.

The U.S. Federal statute of limitations has expired through the 2018 tax year; however, it remains open for certain impacts of the Tax Cuts and Jobs Act of 2017. The Company has foreign entities that are open for examination in their local countries for tax years after 2013. Any adjustments that may result from the examinations of these income tax returns are not expected to have a material impact on the financial position, liquidity, or results of operations of the Company.

The Company does not expect any significant changes to its liability for unrecognized tax benefits during the next twelve months.

(dollars in millions)

(8) BENEFIT PLANS

The net benefit costs for the three months ended March 31, 2023 and 2022, include the following components:

Three months ended March 31,	Pension Benefits		Supplemental Pension Benefits (1)		Postretirement Benefits	
	2023	2022	2023	2022	2023	2022
Components of net periodic benefit costs:						
Service costs	$42	$40	$2	$2	$2	$4
Interest costs	86	51	5	3	10	6
Expected return on plan assets	(122)	(123)	-	-	-	-
Amortization of unrecognized:						
Net loss	38	32	1	6	(3)	3
Prior service cost	(6)	(5)	(1)	(1)	(3)	(3)
Net periodic benefit costs(2)	$38	$(5)	$7	$10	$6	$10

(1) The Company sponsors non-qualified supplemental pension plans to restore to selected highly compensated employees the pension benefits to which they would be entitled under the Company's U.S. tax qualified, defined benefit pension plan had it not been for limits imposed by the Internal Revenue Code. The supplemental plans are unfunded.

(2) All components of net periodic benefit costs are reported in operating costs and expenses on the accompanying consolidated statements of income.

The Company has contributed $0 to the qualified plans as of March 31, 2023, but expects to contribute approximately $145 during 2023.

(9) FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is the price that would be received to sell an asset or would be paid to transfer a liability in an orderly transaction between market participants at the measurement date. In determining fair value, the Company primarily uses the market approach, which generally utilizes market transaction data for identical or similar instruments.

The hierarchy level assigned to each security in the Company's investments portfolio is based on the Company's assessment of the transparency and reliability of the inputs used in the valuation of each instrument at the measurement date. The highest priority is given to unadjusted quoted prices in active markets for identical assets (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). Securities are classified based on the lowest level of input that is significant to the fair value measurement. The Company recognizes transfers between levels at the end of each reporting period. The three hierarchy levels are defined as follows:

- Level 1 — Valuations based on unadjusted quoted market prices in active markets for identical assets or liabilities that the Company has the ability to access.
- Level 2 — Valuations based on observable inputs (other than Level 1 prices), such as quoted prices for similar assets or liabilities at the measurement date, quoted prices in markets that are not active, or other inputs that are observable, either directly or indirectly.
- Level 3 — Valuations based on inputs that are unobservable and significant to the overall fair value measurement and involve management judgment. The unobservable inputs reflect the Company's estimates of the assumptions that market participants would use in valuing the assets and liabilities.

The availability of observable inputs can vary from financial instrument to financial instrument and is affected by a wide variety of factors, including, for example, the type of financial instrument, whether the financial instrument is new and not yet established in the marketplace, and other characteristics particular to the financial instrument. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires significantly more judgment. Accordingly, the degree of judgment exercised by management in determining fair value is greatest for instruments categorized in Level 3.

The Company is responsible for the determination of fair value and the supporting assumptions and methodologies. The Company gains assurance on the overall reasonableness and consistent application of valuation methodologies and inputs and compliance with accounting standards through the execution of various processes and controls designed to ensure that the Company's assets and liabilities are appropriately valued. For fair values received from third parties or internally estimated, the Company's processes are designed to determine that the valuation methodologies and inputs are appropriate and consistently applied, the assumptions are reasonable and consistent with the objective of determining fair value, and the fair values are accurately recorded. For example, on a continuing basis, the Company assesses the reasonableness of individual fair values that have stale security prices or that exceed certain thresholds as compared to previous fair values received from valuation service providers or brokers or derived from internal models. The Company performs procedures to understand and assess the methodologies, processes and controls of valuation service providers. In addition, the Company may validate the reasonableness of fair values by comparing information obtained from valuation service providers or brokers to other third party valuation sources for selected securities.