CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in accordance with accounting principles generally accepted in the United States requires management to make significant judgments and estimates to develop amounts reflected and disclosed in the financial statements. In many cases, there are alternative policies or estimation techniques that could be used. We maintain a thorough process to review the application of our accounting policies and to evaluate the appropriateness of the many estimates that are required to prepare the financial statements of a complex, global corporation. However, even under optimal circumstances, estimates routinely require adjustment based on changing circumstances and new or better information.

The estimates discussed below include the financial statement elements that are either the most judgmental or involve the selection or application of alternative accounting policies and are material to our financial statements. Management has discussed the development and selection of these critical accounting estimates with the Audit Committee of our Board of Directors and with our independent registered public accounting firm.

Retirement Plans

OVERVIEW. We sponsor programs that provide retirement benefits to most of our employees. These programs include defined benefit pension plans, defined contribution plans and postretirement healthcare plans and are described in Note 13 of the accompanying consolidated financial statements. The rules for pension accounting are complex and can produce tremendous volatility in our earnings, financial condition and liquidity.

We are required to record annual year-end adjustments to our financial statements for the net funded status of our pension and postretirement healthcare plans. The funded status of our plans also impacts our liquidity; however, the cash funding rules operate under a completely different set of assumptions and standards than those used for financial reporting purposes. As a result, our actual cash funding requirements can differ materially from our reported funded status.

The "Salaries and employee benefits" caption of our consolidated income statements includes expense associated with service, prior service and interest costs, the expected return on assets ("EROA") and settlements and curtailments. Our fourth quarter MTM adjustment is included in the "Retirement plans mark-to-market adjustment" caption in our consolidated income statements. A summary of our retirement plans costs over the past three years is as follows (in millions):

	2017	2016	2015
Defined benefit pension plans:			
Segment level	$ 229	$ 209	$ 222
Eliminations, corporate and other	5	5	(263)
Total defined benefit pension plans	$ 234	$ 214	$ (41)
Defined contribution plans	480	416	385
Postretirement healthcare plans	76	82	81
Retirement plans mark-to-market adjustment	(24)	1,498	2,190
	$ 766	$ 2,210	$ 2,615

The components of the pre-tax MTM adjustments are as follows (in millions):

	2017	2016	2015
Actual versus expected return on assets	$ (740)	$ 1,285	$ (35)
Discount rate changes	266	1,129	791
Demographic assumption experience	450	(916)	1,434
Total mark-to-market (gain) loss	$ (24)	$ 1,498	$ 2,190

2017

The actual rate of return on our U.S. Pension Plans assets of 9.6% was higher than our expected return of 6.50% primarily due to a rise in the value of global equity markets and favorable credit market conditions. The weighted average discount rate for all of our pension and postretirement healthcare plans decreased from 4.04% at May 31, 2016 to 3.98% at May 31, 2017. The demographic assumption experience in 2017 reflects an update in mortality tables for U.S. pension and other postemployment benefit plans.

2016

The actual rate of return on our U.S. Pension Plan assets of 1.2% was lower than our expected return of 6.50% primarily due to a challenging environment for global equities and other risk-seeking asset classes. The weighted average discount rate for all of our pension and postretirement healthcare plans declined from 4.38% at May 31, 2015 to 4.04% at May 31, 2016. The demographic assumption experience in 2016 reflects a change in disability rates and an increase in the average retirement age for U.S. pension and other postemployment benefit plans.

2015

The implementation of new U.S. mortality tables in 2015 resulted in an increased participant life expectancy assumption, which increased the overall projected benefit obligation by $1.2 billion. The weighted average discount rate for all of our pension and postretirement healthcare plans declined from 4.57% at May 31, 2014 to 4.38% at May 31, 2015.