The Variable Defined Benefit Plan

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The General Concept
Variable Defined Benefit (VDB)

100% employer | Shared risk | 100% employee

Traditional DB

Traditional DC (eg 401k)

VDB

- Like a DB Plan
  - Employers' bear mortality risk
  - Monies pooled and managed professionally - no individual accounts
- Unlike a DB Plan
  - Investment performance/risk is shared
  - Investment assumptions and strategy far less risky
  - At retirement VDB pension will be locked up

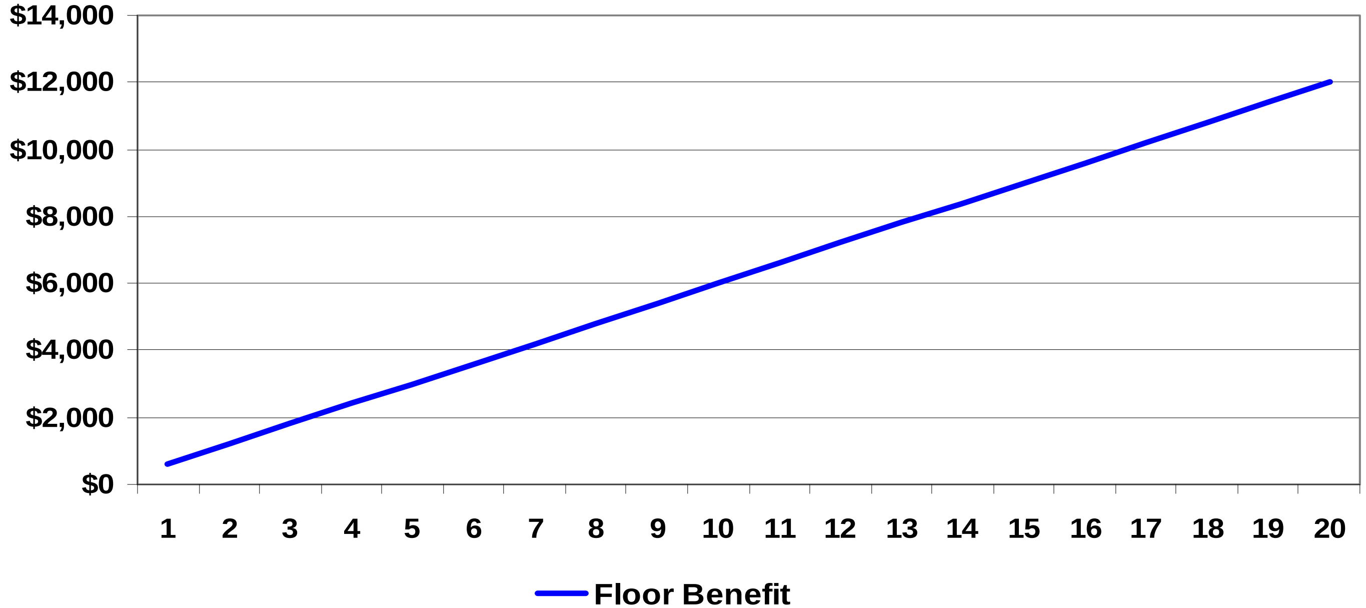
The General Concept

The VDB is the Greater of Two Benefits

- Floor Defined Benefit
- Variable Benefit

- The Variable Benefit Varies Depending Upon Actual Investment Performance
  - If Above Floor Rate, the Benefit Increases
  - If Below Floor Rate, the Benefit Reduces

Step 1: Determine the Floor Benefit Accrual



- ✓ Determine a contribution level (assume it's $1/hour)
- ✓ Actuary calculates floor accrual based on:
  - Demographics
  - A floor investment rate – 5.5%
  - Actuarially determined floor benefit is $600 per year of service
  - **After 20 years of service, the projected pension at 65 is $12,000; with 30 years, $18,000; 40 years, $24,000**

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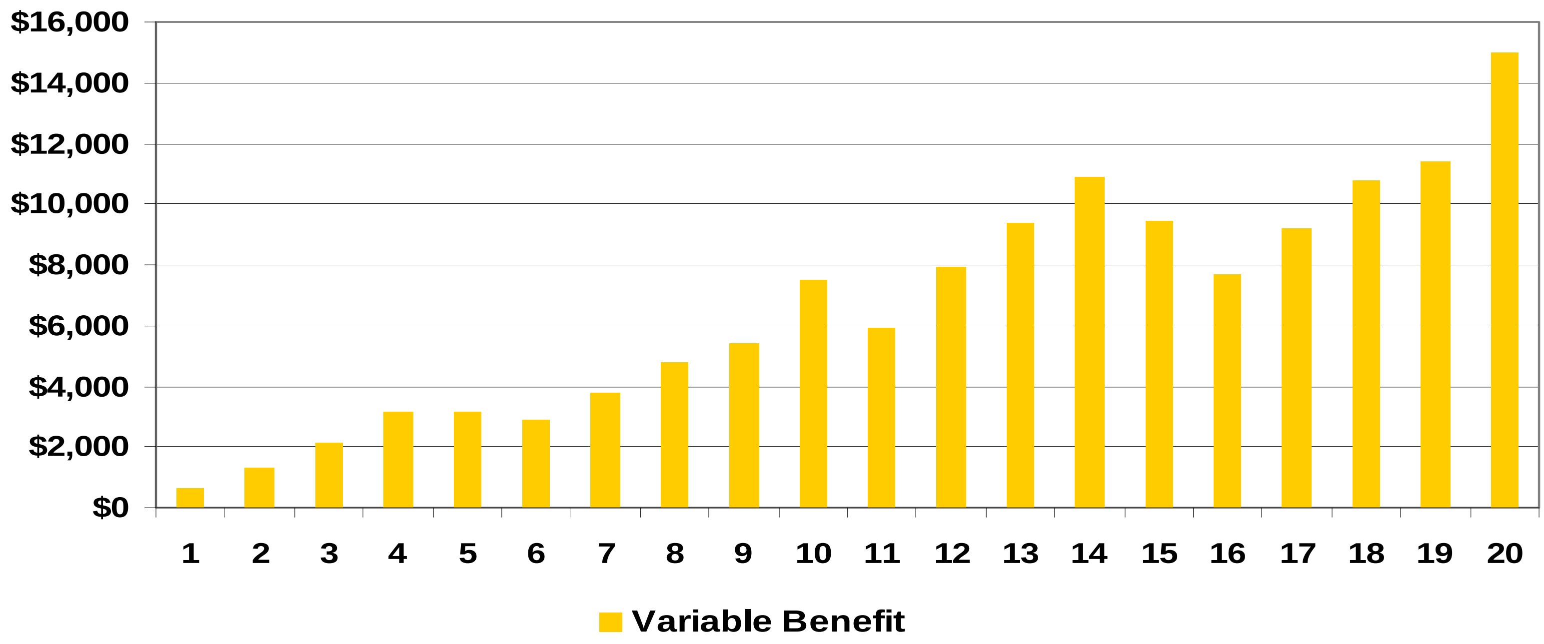
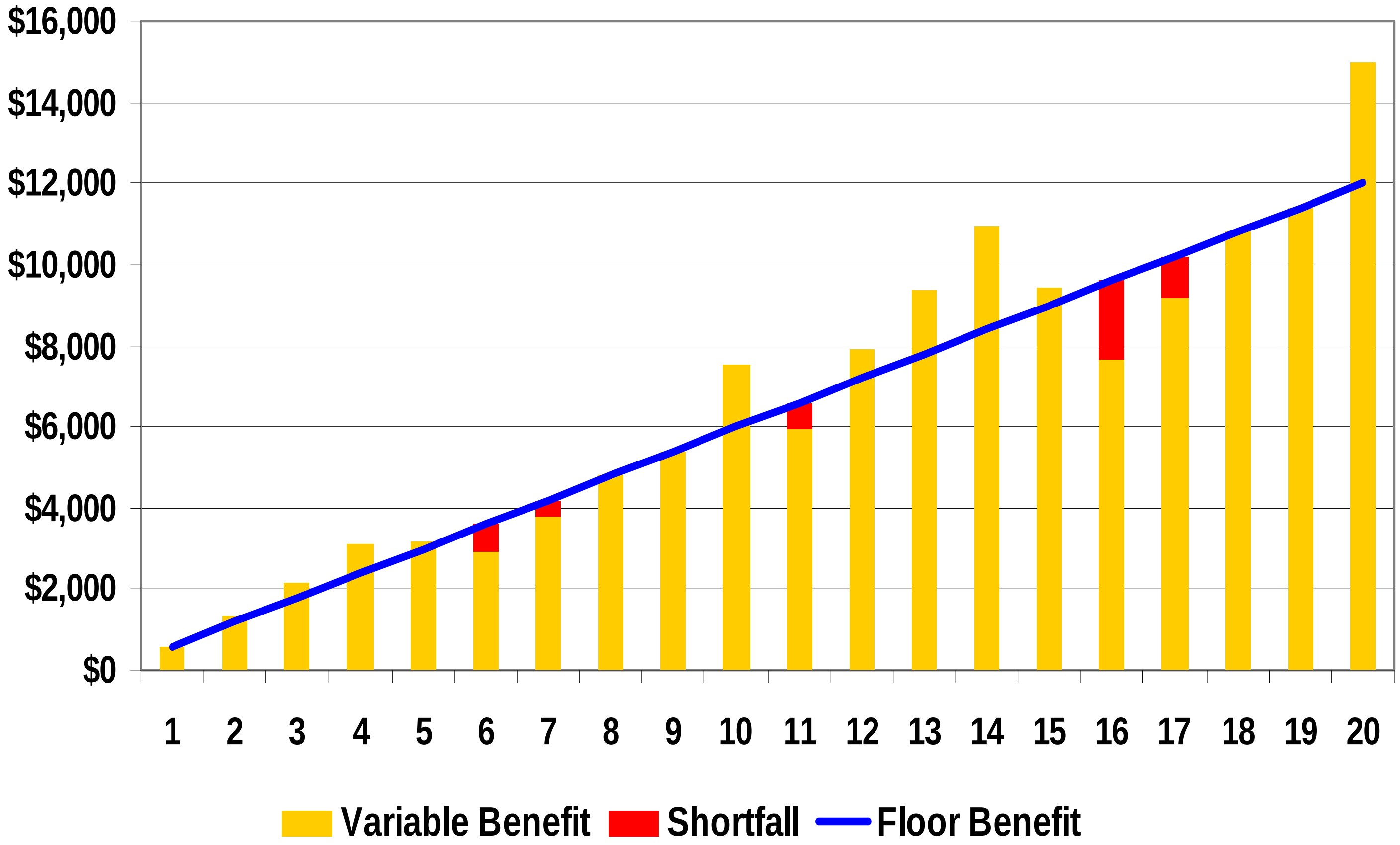
Step 2: Determine the Variable Benefit



- ✓ Benefit is annually measured as number of unit times unit value
- ✓ Unit values start at $10, thereafter varies with investment returns
- ✓ Units earned each year = floor accrual ÷ unit value, or $600 ÷ $10 =60 units in the first year
- ✓ Units accumulate each year thereafter

3: Determine the Variable Defined Benefit



✓ The VDB is the greater of the floor benefit and the variable benefit

Variable Defined Benefit Plan

- **Universal**
- Prices Benefits at Minimal Risk
- Risk Sharing Between Stake Holders
- High Probability of Delivering Floor Benefit
- **Secure -** High Probability of Being Fully Funded
- Meets Regulatory Hurdles
- Provides **Adequate** Benefit for Life