

Pension Buyouts

2008 Employee Benefits Spring Meeting

Tampa, FL

June 6, 2008

Strictly Private and Confidential



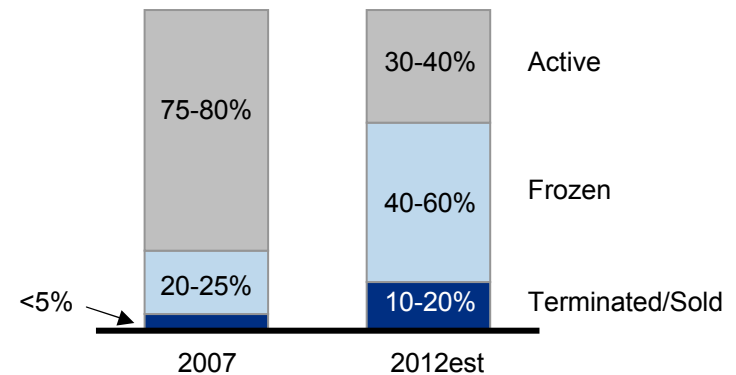
US Private Sector Pension Trends

With changing pension rules and more plans freezing future accruals, new solutions will evolve to help sponsors offload undesired retirement risks.

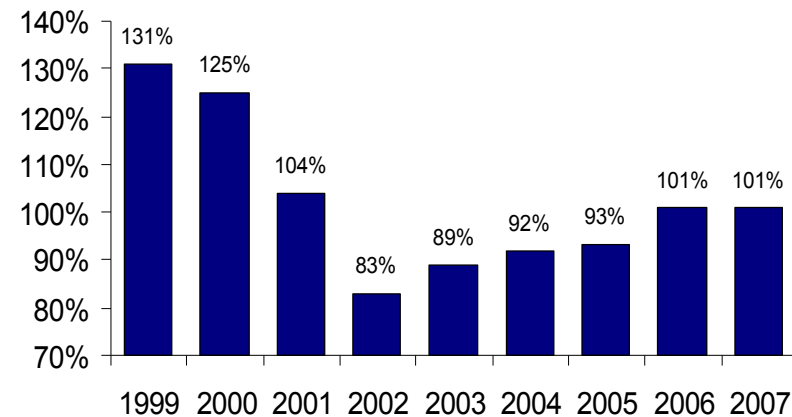
Managing pension risks

- Growing interest to reduce or eliminate pension risk as many plans evolved to a new place
 - **More frozen plans:** about 30% of plans frozen with another 30% considering in next few years
 - **Better funded status:** average funded status among S&P 500 companies improving since 2002
 - **New PPA funding rules:** requires larger and more volatile minimum contributions
 - **New PPA lump sum rules:** although not fully phased in until 2012, will reduce costs
 - **Continued accounting changes:** mark-to-market trends limit the value of equity premium
 - **Memory of early 2000s “perfect storm”:** tangible experience illustrating market volatility impact
 - **UK market growing quickly:** while specifics vary, UK is leading the way with a growing market for close-outs
- While traditional insurance products exist, new solutions to manage risk are entering market
 - LDI solutions reduce and hedge some risk
 - Expanded outside fiduciary roles eliminate some risks
 - Pension buyout solutions eliminate all risks

Private-sector DB assets by plan status



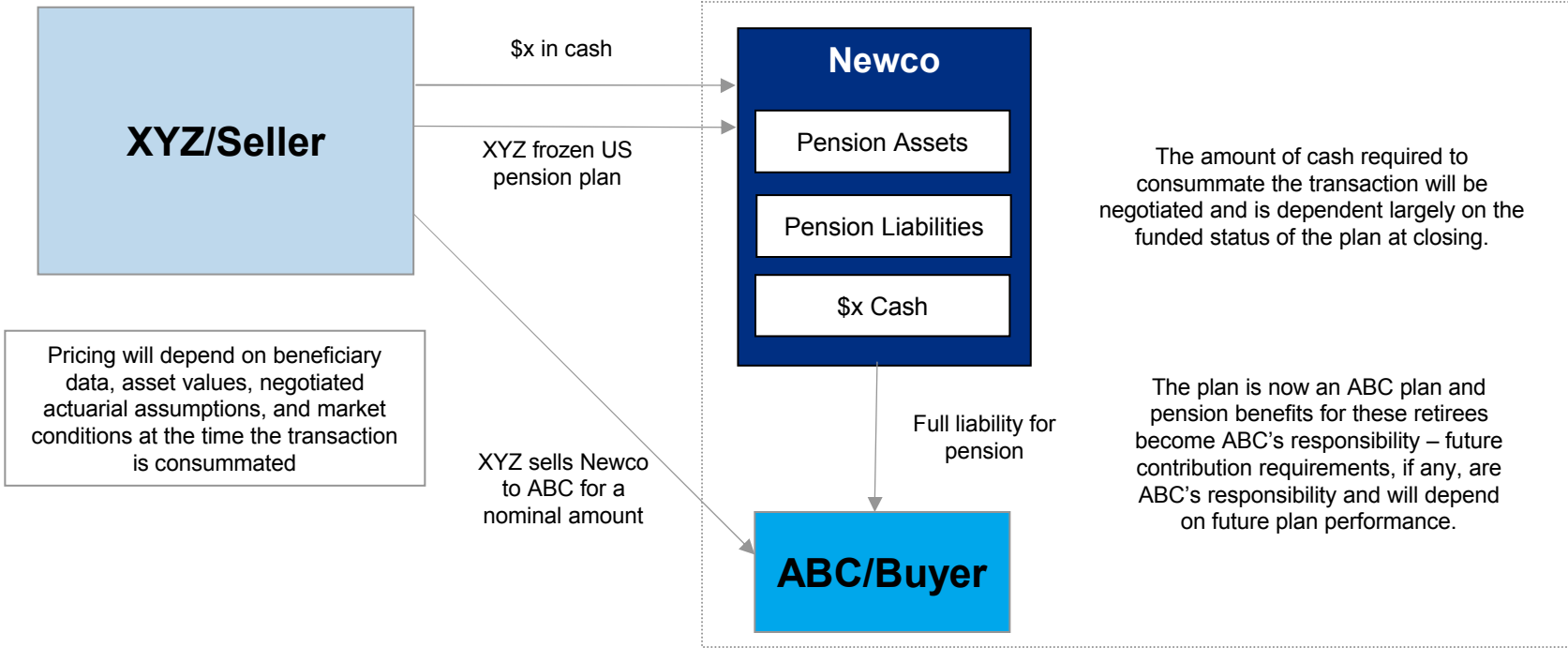
Funded status of pension plan for S&P 500 companies



(1) McKinsey & Company – The Coming Shakeout in the Defined Benefit Market
 (2) Wilshire Associates - Report on Corporate Pension Funding Levels

Illustrative Pension Buyout Model

1) XYZ transfers frozen pension assets and liabilities along with cash to newly formed subsidiary (Newco) and 2) ABC acquires Newco for a nominal sum.



ABC/Buyer would take full responsibility for the plan through an acquisition of Newco

Considerations for Transaction

In addition to the various regulatory considerations in the development of this model, there are a number of considerations specific to a particular transaction.

Pension Plan Design	<ul style="list-style-type: none">• Plan must be frozen (not just closed).• Cash balance, other hybrid designs, lump sums all likely to work.
Funded Status	<ul style="list-style-type: none">• Generally slightly underfunded (about 90%) is optimal.• Overfunded and very underfunded adds complexities.
Pricing	<ul style="list-style-type: none">• Defining economic and demographic assumptions is critical.• Use of market-based assumptions or fixed pricing are possible.
Counterparties	<ul style="list-style-type: none">• Seller will function in either fiduciary and/or settlor role.• Credit rating and strength of balance sheet of both seller and buyer are important.
Structure of Deal	<ul style="list-style-type: none">• Newco can be formed with or without employees.• Newco will likely become part of larger controlled group.
Other Considerations	<ul style="list-style-type: none">• Current asset allocation and portfolio, notably liquidity, can impact transaction.• Deal can be completed much more quickly than plan termination.

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Pension Risk Transfers

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Pension Plan Transfer: What is it and how does it work?

Current DB plan sponsor with frozen plan transfers assets and liabilities of plan to acquiring entity (Newco)

Sponsor pays negotiated fee to Newco to cover assumption of administrative responsibilities and longevity risk

Newco provides additional protection to the plan (e.g., larger balance sheet, new capital, ring-fenced assets)

Newco becomes the new sponsor of the plan, subject to full panopoly of ERISA obligations and protections

- **Similar to transfers of plan assets and liabilities that occur routinely in conjunction with corporate transactions**
- **Appropriately structured transaction is consistent with applicable law and regulation**



Pension Plan Transfer: Key Objectives

- Create a win-win-win scenario for key stakeholders:
 - Strengthen the security of participants benefits
 - Provide financial certainty for current plan sponsor and better value proposition than termination and close-out annuities
 - Lessen risk of losses to the PBGC while maintaining premium revenues
- Act in full compliance with the requirements of ERISA and the Internal Revenue Code (e.g., disclosure, fiduciary obligations, funding requirements, PBGC premiums)
- Earn a reasonable rate of return on invested capital

The key is to focus on transactions that demonstrably and measurably improve outcomes for all stakeholders relative to the status quo.

“Win-Win-Win”: Advantages of Pension Plan Transfer

Plan Sponsors

- Eliminates balance sheet risk
- Eliminates contribution volatility/cashflow risk
- Eliminates longevity risk
- Eliminates administrative costs
- Eliminates legislative and regulatory risks
- Eliminates legal and fiduciary risks
- Lower cost solution than plan termination and purchase of close-out annuities
- Allows management to focus on core business

Plan Participants

- Eliminates credit risk exposure to current sponsor
- New investor capital provides greater assurance that benefits are paid
- Liability driven investment approach means less risk of losses in pension trust
- Continued availability of PBGC insurance (in contrast to insurance annuity option)
- Continued participant notice and disclosure requirements (in contrast to insurance annuity option)
- New pension management company more focused on providing quality service to participants

Federal Insurance Program

- More capital and less investment risk means lower risk of insurance losses
- In contrast to typical plan, the pension plan will be Newco’s only significant creditor, i.e., any indebtedness would be fully subordinated to the requirements of the pension trust
- Keeps plans in the system and maintains premium revenues
- Can allow the PBGC to craft “rules of the road” through negotiated outcomes that the agency doesn’t have authority to impose directly

Pension Plan Transfers: Key Regulatory Considerations

PBGC

- § 4042 – involuntary termination
- § 4069 – 5 year “look-back”

IRS

- Plan qualification and deductibility of contributions
- Exclusive benefit rule

DOL/EBSA

- Fiduciary obligations
- Prohibited transactions

