Executive Summary of the Defined Benefit Plan

"Engineering Financial and Economic Security for Multiple Generations"

Benefit Focused vs. Lump Sum Focused

Overview: What distinguishes a retirement plan which is ***Benefit Focused*** (such as the ***Charlie Plan***) from one that is ***Lump Sum Focused (****such as* the traditional split funded insured defined benefit plan?) A ***Benefit Focused Plan*** provides no distribution or cash out of the lump sum value of the participant's monthly retirement benefit. This restriction of ***no cash out*** permits the plan:

(1) to fund to a more valuable benefit, i.e. a 100% joint and survivor monthly retirement benefit,
(2) to provide a death benefit of 100 times the monthly pension until the death of the participant while the surviving spouse continues to receive the participant's monthly benefit (vs. the traditional split funded plan where the insurance death benefit must end at normal retirement age), and
(3) to protect the value of this benefit from estate tax since there is no distribution of this value (vs. the traditional split funded insured defined benefit with a single life annuity and a cash out at retirement).

The fundamental plan provisions of the ***Benefit Focused Plan***, which is backed by IRS letters of determination and includes the most recent GUST restatement, are what distinguishes the ***Benefit Focused Plan*** from ***Lump Sum Focused Plan. They include the following***:

(1) The ***Benefit Focused Plan*** provides a completely subsidized 100% joint and survivor monthly annuity. This and a life annuity are the only form of retirement benefit that the ***Benefit Focused Plan*** provides.
(2) There is no cash out of the participant's present value of the accrued benefit. There is no lump sum right of the participant to receive a distribution of cash other than as a monthly retirement benefit. This is a major plan provision difference from the ***Lump Sum Focused Plan*** which provides a single life monthly annuity and cash out of the value of the accrued benefit. As a result, there is no cash out when a participant terminates or retires. This provision is necessary in order for a plan to fund for a normal form of a 100% joint and survivor annuity. Internal Revenue Code (IRC) Section 415 specifies that if a participant has a ***cash out option***, the participant's present value is based on the value of a single life annuity. Since a 100% joint and survivor monthly annuity is more valuable, there can be no cash out option to the participant so that he is eligible for the more valuable benefit.

(3) The death benefit provision of the ***Benefit Focused Plan*** is also different than the ***Lump Sum Focused Plan.*** In either plan, in order for a participant to be eligible for a death benefit, it must be incidental (not greater that 100 times the participant's projected monthly retirement income) to the primary purpose of the plan, which is to provide a monthly retirement income. In the traditional plan, this benefit is available until normal retirement at which time the benefit is terminated. In the ***Benefit Focused Plan***, this incidental death benefit is available to all plan participants whether active (on a pre-retirement basis) or retired (on a post retirement basis). This incidental death benefit continues until the death of the participant. However, this benefit ceases if a participant is terminated.

(4) The plan document provides that there is no reduction in the IRC Section 415 (b) benefit limit because of the availability of an incidental death benefit for a plan participant. IRC Section 415 (b) governs the maximum benefit limits available to a plan participant and stipulates that incidental ancillary benefits do not affect the level of the benefit available to a plan participant.

(5) These plan provisions are within all the regulatory guidelines and are reinforced by the Pension Protection Act (PPA) and implementing regulations. PPA now requires the enrolled actuary to value both the present value of the retirement benefit and the present value of the incidental death benefit, adding them to determine the total Funding Target. The ***Benefit Focused Plan***, under these new valuation guidelines, now provides a substantially larger deduction than the ***Lump Sum Focused Plan***... This deduction is larger because we are funding to a 100% joint and survivor monthly retirement benefit plus an incidental death benefit continuing to life expectancy of the participant. This contrasts with the ***Lump Sum Focused Plan*** with an incidental death benefit ending at normal retirement age.

(6) The plan document requires two trustees: a "participant trustee" (usually the business owner of the plan sponsor) and a "non participant trustee" (one who is independent and is not a beneficiary of the participant trustee or the plan sponsor.) These trustees are co-trustees with equal powers, duties and responsibilities. However, the non participant trustee has sole power over all insurance matters and control over a separate checking account. He uses this account to pay the insurance premiums and receives the death proceeds as the beneficiary of the respective policies. This arrangement walls off any incidence of ownership or power from the participant trustee...

(7) The plan document does not give the participant the right to name his or her beneficiary, providing instead for a hierarchy of beneficiaries that the non participant must follow. First is the spouse, satisfying the provisions of The Retirement Equity Act of 1984 (REA) that the surviving spouse is protected by being the first beneficiary. The second beneficiary is defined as a "trust of the participant." The third beneficiary, if there is no trust, are the children per stripes of the participant. Finally, if there are no children, the fourth beneficiary is simply the participant's estate.

The estate planning opportunity exists with the spouse, if living, by use of the Qualified Spousal Disclaimer. If elected, this disclaimer leads the non participant trustee to pay the incidental benefit to the "trust of the participant." This disclaimer provision provides a number of opportunities for life insurance companies that issue life insurance policies that are of a limited pay nature. Such forms of insurance provided by insurance companies include universal life, index universal life and the whole life series... In addition, since the policies need to be either paid up at normal retirement or have sufficient value to guarantee a premium offset until the death of the participant, a paid up additions rider is used in almost every case when whole life insurance policies are used. The Internal Revenue Code provides that premiums funding the plan participant's incidental death benefit can not be paid after the participant retires. Therefore the policies must be self-sustaining or paid up after retirement.

There is also the opportunity for the use of the Survivor Insured Rider or a "Second-to-die" policy where at the death of either insured spouse, the proceeds of the spouse who dies first may be used to finance a survivor insured benefit. The following illustrates how this is done:

(1) Both the husband and the spouse are plan participants and have individual first to die policies owned and made payable to the plan, which is designed to be premium offset at normal retirement age. The premium that has been determined was a Whole Life Premium and Paid Up Addition Rider. The dividend crediting assumption was done at 300bsp below current crediting rate to assure a premium offset at retirement age. The nonparticipant trustee applies for 100 times the Section 415 monthly retirement benefit limit. (For example, if the monthly retirement benefit were $16,000 per month, the insured incidental death benefit would be $1,600,000.) This is provided for each participant, husband and spouse.

(2) The husband and spouse each purchase separate policies in their respective ILIT, along with a Survivor Insured Rider. The Survivor Insured Rider provides a purchasing option on the surviving spouse of up to $7.5 million of death benefit (or 5 times the aggregated face amounts of the life insurance in the pension plan and in the ILIT of the life of the husband and wife.) Alternatively, their trust may purchase a second-to-die for an amount required to support their estate tax (e.g. $8,000,000) with the goal that upon the first death, the proceeds from the pension policy will be adequate to meet successive premium payments of the second-to-die policy.

(3) At the death of the insured participant, the non participant trustee offers the death benefit to the surviving spouse as required by REA. The offer is declined by the surviving spouse under the terms of the Qualified Disclaimer making the disclaimed benefit neither a gift of present or future interest. The non participant trustee then would pay the participant's incidental death benefit to the trust of the deceased participant. The trustee then has the resources to exercise the rights of the trust under the terms of the survivor insured rider. Alternatively, these resources can be used to meet subsequent premium payments if a second-to-die policy is used. Therefore, this plan is able to assure that the total death benefit on the life of the surviving spouse is more than $8,000,000 outside both estates.

This is an illustration of how one can use the surviving insured rider or the second-to-die insurance policy in combination with the ***Benefit Focused Plan*** to provide additional resources to support clients' estate plans and to provide liquidity.

The fact that there is no cash out or lump sum of the value of the retirement plan raises the potential for no estate tax due on the assets that remain in the trust that the family business sponsors. These unconsumed remaining assets are considered to be actuarial gains to the pension trust. As long as the plan assets stay in the pension trust, there is no estate tax on these assets. These assets can be used to pay benefits to multiple generations or can be consumed through providing benefits. They are not subject to estate tax. This advantage is not available in the *Lump Sum Focused* defined benefit plan. In a closely held business, this gain can be most useful in family business scenarios where plan assets are used to fund the benefits of surviving family members in the family business and remain free from Federal Estate Tax.

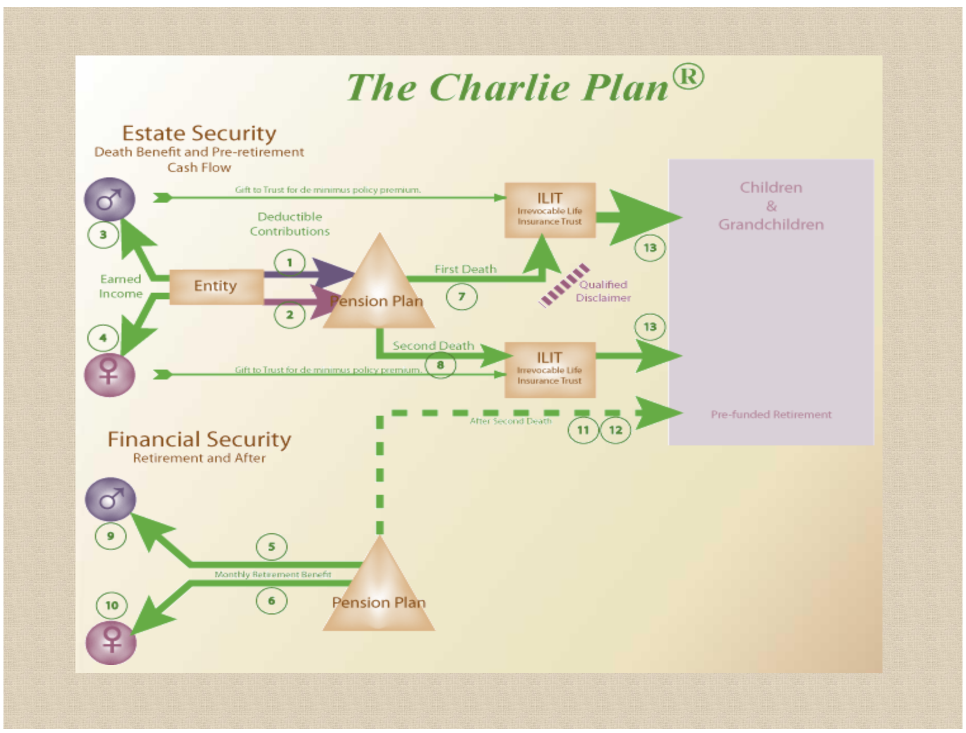
In addition, the ***Benefit Focused Plan*** has walled off any incidence of ownership of the plan assets and the incidental insured benefit, as follows:

(1) The participant has no rights to the assets of the plan or the insurance policy. Like the plan assets, the insurance is a general asset of the plan, funding the insured incidental death benefits.
(2) The participant has no power to name a beneficiary (see Paragraph #7 above.)
(3) The participant has no right to buy the policy or to make a loan against its cash value.
(4) There is an independent trustee (the non participant trustee) who has sole power over the insurance policy.
(5) The fact that there is no lump sum provision makes such a plan and its assets a secure place from the claims of creditors.

While there is no incidence of ownership of the insurance by the plan participant, we cannot guarantee that the incidental death benefit would be estate tax free. With advisors and clients, we assert our belief that this is only potentially tax free. Certainly, if the surviving spouse does not disclaim the benefit, it would be implicitly included in the survivor's taxable estate.

Finally, as these basic provisions provide, and our experience has taught us, we have a financially secure economic advantage over the traditional defined benefit paradigm. Our success over the last thirty five years attests to this advantage.

The following is a diagram with an explanation of how the multiple features and benefits of the Benefit Based Defined Benefit Plan may be utilized in providing a family business with both financial and estate planning security.



Estate and Financial Security

(1) The Benefit Focused Defined Benefit ***Pension Plan***'s sponsoring ***Entity*** ***contributes*** for each a contribution for the ***husband*** and ***spouse***, each year on a tax deductable basis the funding requirements to provide for the retirement benefits for both the husband and spouse.

(2) The Pension Protection Act provides additional ***contribution*** for funding of the pre and post incidental ***insured death benefit*** over and above the funding requirements for the retirement benefits for both the husband and spouse.

(3) & (4) Both the husband and spouse must or will have had a definition of ***earned income*** on which retirement benefit can be based. Subsequent benefit accruals do not require high levels of earned income once the average earned income has been established.

(5) & (6) At retirement, both the husband's and spouse's ***Financial Security*** is assured in that each will receive their respective pension plus their respective spouse's pension when the first of the two dies.

(7) & (8) Each spouse establishes a separate ***ILIT***. The purpose of these ***ILIT***s is to be the recipient of the first to die participant's incidental insured death benefit resulting from the surviving spouse's willingness to forgo the receipt of this benefit through the exercise of the spousal "***qualified disclaimer***." In this **ILIT,** there is housed as an asset in the trust a small policy (which is a small annual taxable gift by husband and spouse separately) which hosts a ***survivor insured rider*** or a ***2nd-to-die po***licy which permits the **ILIT** to increase the amount of insured death benefit to a much higher amount for estate tax planning purposes as discussed above.

(9) & (10) The husband and wife will receive both pensions as long as either one lives.

(11) & (12) ***Estate Security*** is achieved at the husband and spouse ultimate deaths in that all plan assets that are not consumed during their lifetime will be an actuarial gain to the plan, will not be subject to estate tax, and are available to fund the retirement benefit of those who are still covered by the plan as participants, presumably ***the children*** of the husband and spouse.

(13) In addition, the ***ILIT***s hold the incidental ***insured death benefit*** of the last to die of the husband and spouse as well at the ***optioned increase in the death benefit*** realized at the first to die.