

Floor Offset Plans – Advantages and Disadvantages

Advantages

1. Limit downside DC risks
2. Greater benefit for older EEs than pure DC plan

Disadvantages

1. ER pays termination insurance premium
2. Complex administration
3. ER assumes DC investment loss
4. EE forgoes DC investment gains

Cash Balance & Other Hybrid Retirement Plans, Chapter 21, *Retirement Plans*

Desirable Characteristics of Global Companies Benefits Plan

- Cost effective
- Reflect 3-legged stool: social plans, company plans and personal plans
- Flexible
- Reflect trend to increase importance of company and personal plans
- Easy to administer
- Easy to understand
- Benefits transferable
- Inflation protection
- Provide suitable sources for asset accumulation and estate protection

The Trend to a Global TCN Benefits Program for US Companies R-D136-10

US Expatriates Plan Design

1. If employed in foreign branch, covered by US qualified plan unless specifically excluded
2. If employed in foreign subsidiary, not legal US qualified plan participant unless specific steps are taken

Globalization of Employee Benefits, R-D104-07

**Difference Between Total Return Strategies
and Liability Benchmark**

Strategy	Total Return	Liability-Driven
Objective	Max. return for given risk level	Max. return while reducing interest rate risk
Limitation	May not co-ordinate with liabilities	Limited ability to speculate on future interest rate

Plan Sponsor Guide to Liability Driven Investment R-D131-09

DB-DC Conversions

Common Approaches
Pension Legislation
Federal Tax Legislation

Common Approaches

1. DC for new hires; DB for existing EEs
2. DC for future service
3. Option to convert past DB benefits to DC balance
4. Choice between DC and DB

Pension Legislation: Min. standards for converting existing DB benefits to DC

1. All jurisdictions: No transfer out of plan / No reduction to accrued bfts
(Otherwise differences exist among different jurisdictions)

Federal Tax Legislation

1. Surplus allocated to DC - Results in PA
2. Conversion value > CRA transfer limit - Payable in cash s.t. income tax
Conversion value < PAs + PSPAs - Results in PAR

R-D101-07 Converting Pension Plans from a DB to a DC Design

Dynamic Pension Valuation

Applications

Issues

Measures to Ensure Accuracy

Applications

1. Provide budgeting information
2. Project funding timelines and targets
3. Evaluate reasonability and practicality of funding goals
4. More detailed cost analysis on special corporate events
5. More realistic assessment of how different cont. impact funding ratios

Issues

1. Unknown informational value to ER
2. A hypothetical funding valuation
3. Resulting cont. may be outside actual permitted range
4. Convince ER benefit outweighs costs
5. Best is to have a probable range and a most probable scenario results
 - a. But often ER only prefer 1 set: the most probable set
 - b. Drawback: Less certain and prone to assumption manipulation

Measures to Ensure Accuracy

1. Use distribution new entrants age and headcount assumptions
2. Do GL separately for the new entrant portion of expected AL

A Look at Dynamic Pension Plan Valuations