

# Retirement Solutions - Frequently Asked Questions (FAQs)

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## Why did A&B decide to review our retirement program?

The A&B retirement program – particularly the Retirement Plan for Salaried Employees – has remained much the same for decades. But our workforce has not. Today's employees are more diverse and more mobile than ever. While some employees may join A&B and work for us throughout their entire careers, such "lifelong" employment is no longer the norm.

## How is the retirement program changing?

To answer that question it will help by first reviewing what's not changing:

1. A&B will continue to sponsor a defined benefit pension plan, in the form of the A&B Retirement Plan for Salaried Employees ("Retirement Plan") – for both current and new employees. A&B will also continue to pay the full cost of this Plan.
2. A&B will also continue to sponsor and make contributions to the Individual Deferred Compensation (IDC) and Profit Sharing Retirement (PSR) Plans.

## What is changing?

What is changing is the formula under which new<sup>1</sup> employees will earn Retirement Plan benefits. Currently, the benefit you may receive under this Plan (in the form of a lifetime monthly annuity beginning when you are eligible for retirement) is based on the results of a formula that takes into account your credited benefit service, your compensation and your "covered compensation." (Details on these terms and how the formula works are provided in your Benefits Handbook.) Retirement plans with such formulas are often referred to as "traditional pension plans."

Effective January 1, 2008, *new hires* will earn benefits in a manner that is similar to how benefits are accumulated under the IDC Plan – i.e., on an "account" basis. However, unlike the IDC Plan, A&B – not the employee – is responsible for funding benefits based on the individual's Retirement Plan account. Here's how it will work:

- Each year, A&B will credit the new participant's Retirement Plan account with a Pay Credit equal to 5% of his or her eligible compensation, which in general includes the participant's base pay, overtime and annual one-year bonuses.
- A&B will also apply an annual Interest Credit to each participant's account, based on his or her current account balance. (Interest Credits will be based on 10-year U.S. Treasury rates.)
- The amount each participant is eligible to receive at retirement will be the sum of Pay and Interest Credits the participant earns throughout his or her career at A&B.

Also, there are some additional administrative changes that will be made to the Plan for new employees due to the change in the benefit formula.

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<sup>1</sup> For purposes of the changes taking place to the A&B Retirement Plan for Salaried Employees effective January 1, 2008, "new employees" also refers to rehires and transferees. If you terminate employment and are rehired on or after January 1, 2008 (or if you transfer from bargaining unit to salaried non-bargaining unit employment on or after January 1, 2008), you will be covered under the new formula for service after your rehire or transfer.

## Why is A&B making this change only for new employees?

When evaluating the future of its Retirement Plan, A&B wanted to be mindful of the needs and preferences of both its current workforce and new employees. Many of our current employees joined A&B in part because of our Retirement Plan – and they intend to continue working for A&B for several years, if not their entire careers. By applying this change to new employees' retirement benefits only, we do not disrupt the long-term financial plans of our current employees – while at the same time continuing to provide meaningful retirement benefits for everyone.

## Will this change save money for A&B? Is that why the company is making this change?

Reducing costs was not the primary goal of this redesign. But reducing what's referred to as "cost volatility" was the key objective. Under our current Retirement Plan formula, A&B must comply with strict rules regarding funding – rules that may require A&B to make large contributions to the Plan if plan assets do not achieve certain investment return levels.

In addition, each year A&B must report both a financial accounting expense on the company's net income ("profit and loss") statement, as well as unfunded pension liabilities on its balance sheet. Recent changes in financial accounting standards have introduced substantially more volatility into A&B's reported financial results. With this new formula, A&B's annual cash funding and accounting costs will be more predictable year after year.

## Will new employees receive a lower benefit at retirement? If so, won't this impact our ability to attract new employees?

The actual dollar amount an employee will receive from the Retirement Plan when he or she retires – whether under the current or new formula – is based on a number of factors:

- How long the individual worked for A&B
- The amount the individual earned while working for the Company, and
- The age at which the individual retires and when he or she begins receiving benefits.

Because of these factors, the change in formula will affect each individual differently. However, on average, the benefits paid under the new formula are likely to be somewhat lower than the benefits provided under our current plan – *if all things were "equal."* But as mentioned in the Retirement Solutions bulletin, our workforce is changing: Fewer employees are staying with A&B (or any other employer) throughout their career. Because of that fact, there are features of the new formula that may be more attractive to new employees and will help A&B continue to attract new employees. These features include:

- **More immediate vesting** – new employees will become vested in their Retirement Plan benefits after 3 years of service (our current Plan has a 5-year vesting requirement).
- **Portability** – Individuals who accumulate an account balance can transfer the funds to another qualified plan if they leave A&B before retirement, just as employees can do with IDC account balances. Due to regulations governing retirement plans, the benefits earned by A&B employees under the current formula generally are not "portable."

- **Lump sum payments** – At retirement, individuals who have earned benefits under the new formula can choose to receive a lump sum payment, instead of monthly annuity payments. Again, due to certain regulations and plan provisions, benefits earned under the current Plan formula typically cannot be paid in a lump sum.

### **If I prefer the new Retirement Plan formula, can I choose to switch to it – and if not, why not?**

The new Retirement Plan formula and its related provisions are only being offered to new employees (and rehires and transferees as previously noted). A&B believes that both formulas offer very competitive, and highly valuable, benefits. And by making this change on a “go-forward” basis only, the Company minimizes any potential disruption and avoids placing an undue burden on employees to choose the “right” formula or risk suffering significant financial loss.

### **Is there anything I need to do ... or should do?**

Yes! All employees should learn about all of the benefits A&B provides – including the Retirement Plan, Individual Deferred Compensation (IDC) Plan, and Profit Sharing Retirement (PSR) Plan – and integrate these benefits into their personal financial plan. Your Benefits Handbook is a good place to start.

A&B is among a select group of employers that continues to offer benefits like our Retirement, IDC and PSR Plan contributions. Plus, our *FlexSolutions* program and other benefit plans continue to provide high-quality comprehensive health care coverage, tax-advantaged reimbursement accounts, life and disability coverage, and more. We would like each employee to clearly understand the many benefits we provide so that you can help new and potential employees appreciate the value of working for an A&B company.