WRAP: Worker Retirement Accumulation Plan

A WRAP combines a Defined Benefit (DB) Account Balance Plan and employer contributions to a 401(k) Plan. It's designed to shift some of the investment risk from the employer to employee. WRAP account balances accumulate in a DB Plan as the previous year's account balance plus Service Credits (a set percentage of a participant's earnings for that year). Interest credits, which are a percentage of the WRAP account balance, are then deposited into the 401(k) account annually.

Plan Sponsor Advantages

- Starts process of moving toward a 401(k) only and shifts some investment risk to employees
- Much lower book expense for comparable benefit than if provided in either Cash Balance or 401(k) plan

Participant Advantages

- Participant keeps some guaranteed Defined Benefit for peace of mind
- Potential for larger return on annual Interest Credit contribution to 401(k)

Plan Sponsor Disadvantages

- Can be complex and difficult for employees to fully understand. Good communication is key!
- Plan Sponsor retains some of the investment risk and potential volatility in funding and expense of DB Plan

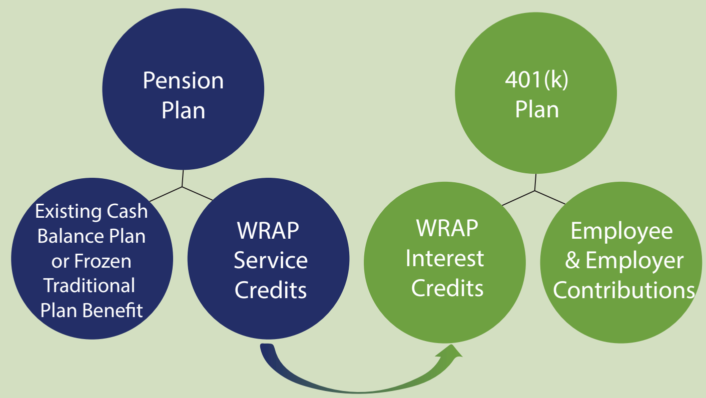
Participant Disadvantages

- Potential for investment risk on interest credit in 401(k)
- May be difficult to understand

WRAP Example

Company ABC has a traditional career average DB Plan that provides 1.5% of each year's compensation as a monthly benefit at age 65. They decide to implement a WRAP plan, by freezing benefits under the current plan and starting each participant with an account balance of $0 in the WRAP plan. Each year, the participant's account increases by a service credit equal to a percentage of compensation. At the end of the year, the Plan Sponsor contributes Interest Credits of 4.5% of what each participant's balance was at the start of the year to a 401(k) plan. These "discretionary contributions" apply whether or not the employee participates in the 401(k) plan. Service credits are structured so that at retirement, all participants receive equal benefits to those under the previous plan design. At retirement, participants receive their frozen benefit from the prior plan design, plus their account balance under the new plan design. And, **Company ABC saved 10 to 20% on annual cash contributions and 30 to 40% on annual pension expense while providing comparable retirement benefits for all participants**.

Employer Retirement Plans



Interest Credits contributed annually based on a percent of accumulated WRAP Service Credits

Let's talk.

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