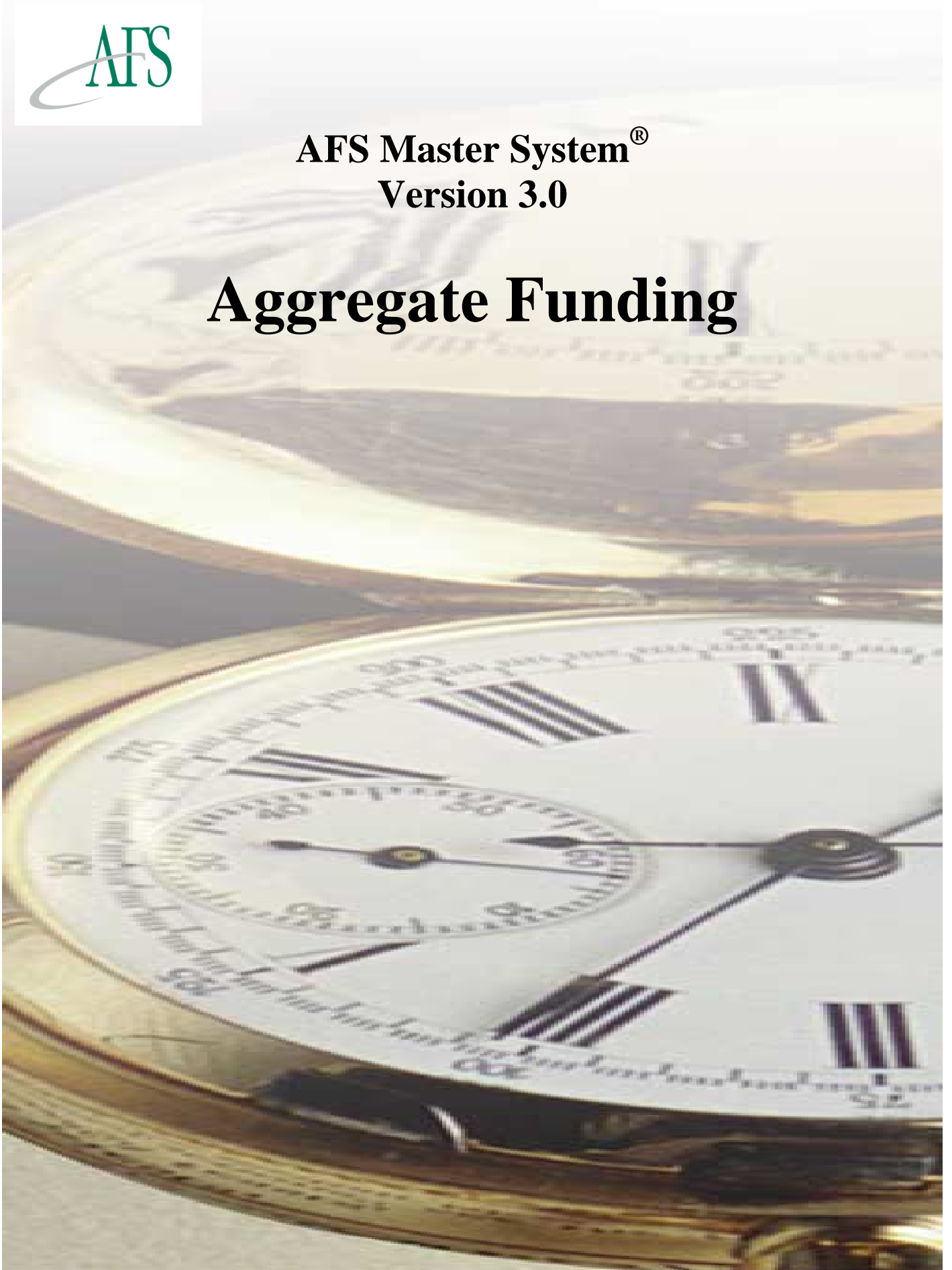




AFS Master System[®]
Version 3.0

Aggregate Funding





Version 3.0 of the AFS Master System[®] provides users with an important functionality upgrade – the capability to illustrate the advantages of Aggregate Funding. The ease of use and accuracy of optimal solve routines available in these new features give the carrier and producers a significant competitive advantage.

The AFS Aggregate Funding functionality allows you to:

- provide a stream of aggregate cash flows or ask the system to calculate it for you,
- choose equal premium or equal death benefit scenarios,
- let the system provide the optimal aggregate funding solution by funding each policy so that when aggregated, the needs of the group are most efficiently achieved,
- automatically reallocate withdrawals and/or premiums to keep policies from lapsing,
- model cases using partial mortality assumptions and automatically adjust premiums to remain equal for each participant after partial mortality has been applied, and
- accumulate death benefit proceeds in a side fund to be used to pay subsequent retirement benefits.

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Welcome to Version 3.0 of the AFS Master System[®]. What follows is a description of the new Aggregate Funding features in the system including:

- a brief description of aggregate funding,
- the new data input fields with detailed descriptions of their application,
- newly available columns and reports, and
- examples of appropriate inputs for a Defined Contribution plan and a Defined Benefit Plan, and the corresponding illustrations.

Aggregate Funding

Aggregate funding is an illustration and plan management technique used to finance nonqualified benefit plans with corporate owned life insurance (COLI). This differs from the traditional funding technique whereby a policy is issued on the life of each participant in the benefit plan. Under an individual funding approach, the size of an individual policy directly corresponds to that participant's individual plan benefits. Using the aggregate funding method, the cost of providing benefits to all plan participants is evenly distributed amongst all of the policies being used to informally fund the plan. The policies may be issued on all or only some of the participants in the benefit plan. In fact, the policies may be issued on lives not participating in the benefit plan at all.

Aggregate funding eases the underwriting process and the plan administration by allowing the same dollar amounts to be specified for each policy transaction. It also often provides for a more efficient funding arrangement than would be available using the individual funding method.

The aggregate funding method is appropriate for defined contribution and defined benefit plans – specifically, Income Deferral Plans and Supplemental Executive Retirement Plans. It is not appropriate for plans where individual death benefits are owned by the participant, such as Split Dollar Plans and Section 162 Bonus Plans.

The Case Data Window

The screenshot shows a software window titled "Case Data" with a standard Windows-style title bar. The window contains a table of input fields. A yellow rectangular highlight is drawn around the following fields:

Aggregate Funding Case	2 = Yes / System calculated stream
Aggregate Funding Approach	1 - Equal Premium
Aggregate Funding Outlay Reallocation	Yes
Death Benefit as Side Fund	Yes
DB Side Fund Account Rate	4%

Other visible fields in the window include:

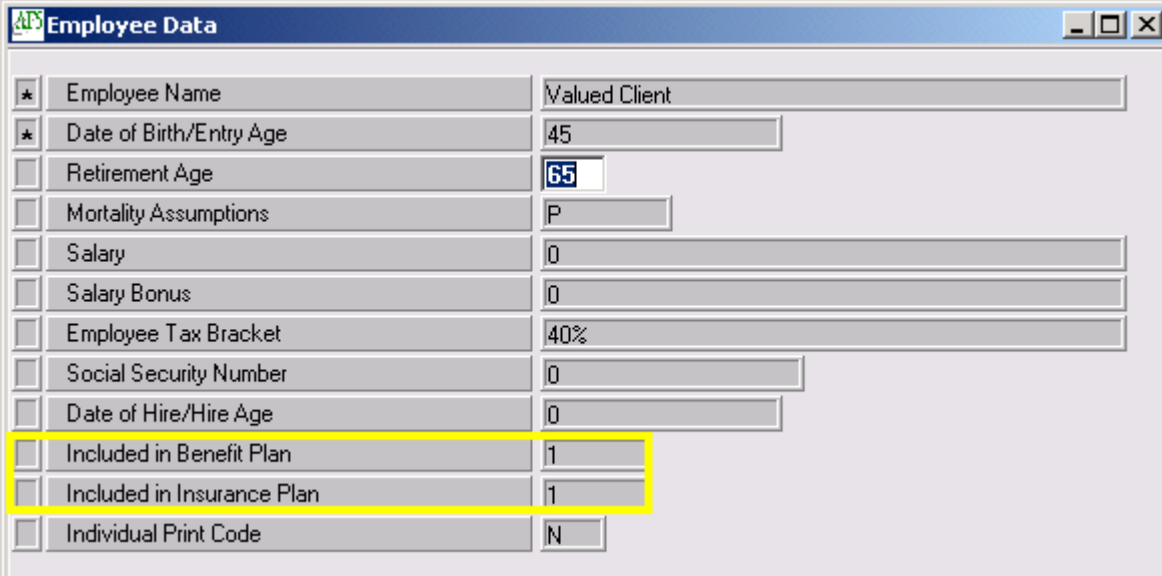
Producer Name	Mr. Producer
Plan Name	Aggregate Funding - Deferred Compensation
Corporation Name	XYZ Corporation
Plan Initiation Date	02/27/2002
Corporate Tax Bracket	40%
Aggregate Funding 1035 Treatment	Include 1035 as part of premium for executive
Aggregate Funding Through Year	95
Partial Mortality Approach	1 - Do not reallocate premiums
Contribute Deferrals to Funding	1 - No
Contribute Company Match to Funding	1 - No
Aggregate Premium Duration	7
Display Plan Assumptions	No

The Case Data Window contains the majority of input fields required to illustrate Aggregate Funding:

- **Aggregate Funding Case** – determines whether or not Aggregate Funding is being illustrated, and if so, whether the cash flow will be provided by the user, or calculated by the system.
- **Aggregate Funding Approach** – determines which method of Aggregate Funding, Equal Death Benefit or Equal Premium, will be illustrated. Regardless of the approach, the aggregate funding model will minimize the death benefit based on the premium stream while also avoiding MEC status.
- **Aggregate Funding Outlay Reallocation** – determines whether or not the system will reallocate withdrawals to avoid possible policy lapses.
- **Death Benefit as Side Fund** – indicates whether or not the death benefit proceeds will accumulate at interest in a side fund from which retirement benefit payments are paid before withdrawals are made from policies.
- **DB Side Fund Account Rate** – specifies the interest rate at which the Death Benefit Side Fund will accumulate.

- **Aggregate Funding 1035 Treatment** – determines whether 1035 exchange money is included as part of the individual's share of the aggregate premium or is in addition to the individual's share of the aggregate premium.
- **Annual Aggregate Funding Schedule** – if the cash flow is provided by the user, it should be entered in this field, either by accessing an excel spreadsheet or through standard series input.
- **Aggregate Funding Through Year** – is used to specify the year through which the system should continue the Aggregate Funding calculations.
- **Partial Mortality Approach** – If partial mortality is being illustrated (with an entry of 'P' in the Mortality Assumption field on the Employee Data window), this item allows the program to adjust the premium (Equal Premium Approach) such that it remains equal in each year after partial mortality has been applied. For illustrations run with partial mortality, but without this approach, younger participants receive a greater share of the premium.
- **Contribute Deferrals to Funding** – determines whether or not employee deferrals will be contributed to the insurance funding.
- **Contribute Company Match to Funding** – determines whether or not corporate deferral matches will be contributed to the insurance funding.
- **Aggregate Premium Duration** – determines for how long premiums for a Defined Benefit SERP will be paid when solving for the optimal cash flow stream.

The Employee Data Window



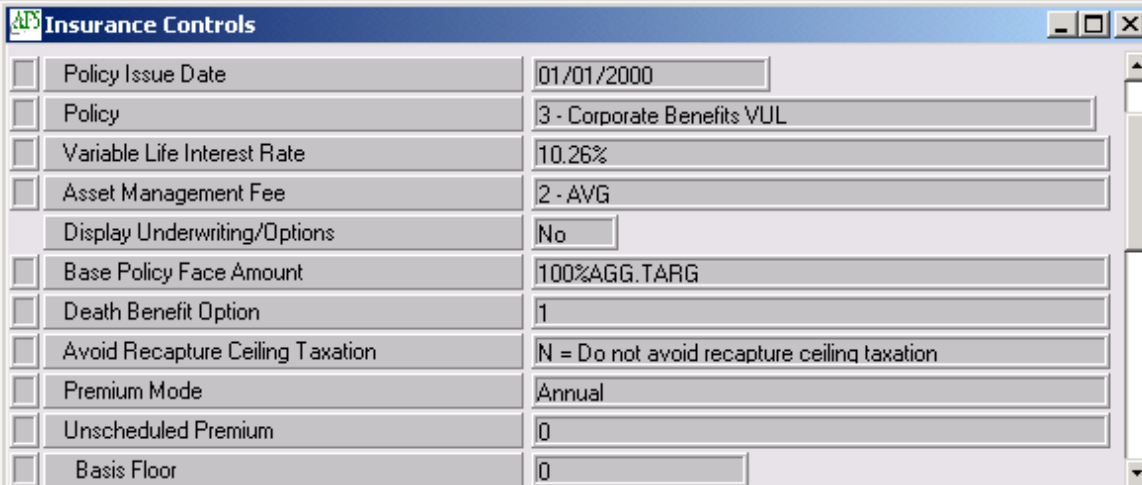
The screenshot shows a window titled "Employee Data" with a list of input fields. The fields are as follows:

Field Name	Value
Employee Name	Valued Client
Date of Birth/Entry Age	45
Retirement Age	65
Mortality Assumptions	P
Salary	0
Salary Bonus	0
Employee Tax Bracket	40%
Social Security Number	0
Date of Hire/Hire Age	0
Included in Benefit Plan	1
Included in Insurance Plan	1
Individual Print Code	N

The Employee Data screen input items are used to determine which participants will be included in benefit calculations and those, which will be included in the insurance calculations:

- **Included in Benefit Plan** – allows users to specify which executives will be included in the Benefit Plan and which will not.
- **Included in Insurance Plan** – allows users to specify which executives will be included in the insurance funding and which will not.

The Insurance Controls Window



Field	Value
Policy Issue Date	01/01/2000
Policy	3 - Corporate Benefits VUL
Variable Life Interest Rate	10.26%
Asset Management Fee	2 - AVG
Display Underwriting/Options	No
Base Policy Face Amount	100%AGG.TARG
Death Benefit Option	1
Avoid Recapture Ceiling Taxation	N = Do not avoid recapture ceiling taxation
Premium Mode	Annual
Unscheduled Premium	0
Basis Floor	0

There are no additional fields for the Aggregate Funding functionality on the Insurance Controls window. However, there are a number of fields that are suppressed on this window, since they are not appropriate for Aggregate Funding:

- [Aggregate Target Death Benefit](#)
- [Non-MEC Death Benefit Option](#)
- [Annual Premium Schedule](#)
- [Policy Outlay Control](#)
- [Policy Loan Control](#)

For Aggregate Funded cases, the Base Policy Death Benefit field is used strictly to determine the mix of base and term in the insurance funding.

Package Wizard

Please answer these questions first:

Press F1 for explanations!

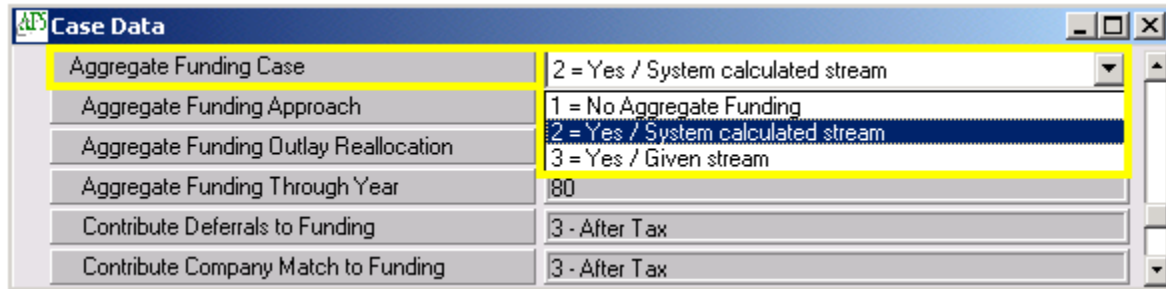
BENEFITS: What is the main purpose or benefit of the plan you wish to illustrate?	Income deferral
STRATEGY: What specific approach will be used?	Income deferral plan
SPLIT DOLLAR: What split dollar method will be used?	None
PAYOR: How are premium payments to be shared?	N/A
BONUS: Will the employer pay a special bonus?	No
FUNDING: How will policy values be applied?	Aggregate Funding

AFS has added several new packages to our Package Selection Wizard to help users begin with the appropriate template for illustrating Aggregate Funding.

When selecting a benefit plan type of 'Income Deferral' or 'SERP', users will find the new funding option – 'Aggregate Funding'.

Using the Package Selection Wizard will assure that users begin with the appropriate inputs and do not have to create Aggregate Funding master files from scratch.

Aggregate Funding Case Field



The screenshot shows a software window titled "Case Data" with a table of fields. The "Aggregate Funding Case" field is highlighted with a yellow border, and its dropdown menu is open, showing three options: "1 = No Aggregate Funding", "2 = Yes / System calculated stream" (which is selected and highlighted in blue), and "3 = Yes / Given stream".

Field Name	Value
Aggregate Funding Case	2 = Yes / System calculated stream
Aggregate Funding Approach	1 = No Aggregate Funding
Aggregate Funding Outlay Reallocation	2 = Yes / System calculated stream
Aggregate Funding Through Year	80
Contribute Deferrals to Funding	3 - After Tax
Contribute Company Match to Funding	3 - After Tax

The entry in this field will determine whether or not the case will illustrate Aggregate Funding. In addition, based on the selection, this field will determine the insurance cash flow method to be used for the case.

Valid entries:

- **1 = No Aggregate Funding** - Assumes that the aggregate funding technique is not being used. The insurance illustration solves will be based on individual funding goals.
- **2 = Yes / System calculated stream** - Assumes that the system will calculate the appropriate insurance cash flows required to fund the executive benefit specified on the Benefits Modeling window.
- **3 = Yes / Given stream** - Assumes that the user will specify a stream of insurance cash flows in the Annual Aggregate Funding Schedule field that will be incorporated into the insurance modeling.

Aggregate Funding Approach Field

The screenshot shows a software window titled 'Case Data' with a table of fields and their values. The 'Aggregate Funding Approach' field is highlighted in yellow and has a dropdown menu open, showing '2 - Equal Death Benefit' selected. Other fields include 'Aggregate Funding Case' (2 = Yes / System calculated stream), 'Aggregate Funding Outlay Reallocation' (1 - Equal Premium), 'Aggregate Funding Through Year' (00), 'Contribute Deferrals to Funding' (3 - After Tax), and 'Contribute Company Match to Funding' (3 - After Tax).

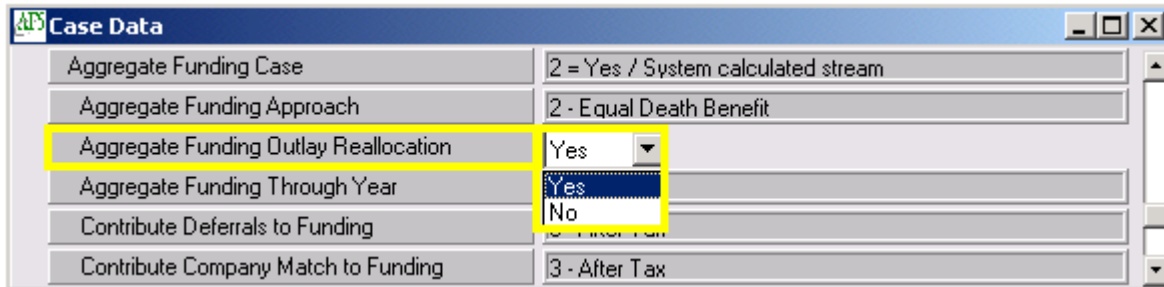
Field	Value
Aggregate Funding Case	2 = Yes / System calculated stream
Aggregate Funding Approach	2 - Equal Death Benefit
Aggregate Funding Outlay Reallocation	1 - Equal Premium
Aggregate Funding Through Year	00
Contribute Deferrals to Funding	3 - After Tax
Contribute Company Match to Funding	3 - After Tax

The entry in this field determines the basic underlying approach to allocating premiums and death benefits among the insured individuals.

Valid entries:

- **1 = Equal Premium Approach** - Assumes that each individual will receive an equal share of the premium deposit and policy distribution. If X = total cash flow for each year and n = total number of insured individuals, each individual's outlay will be X/n . As each insured individual passes his mortality year, then n , the total number of insured individuals is reduced accordingly. The initial death benefit is calculated to be the minimum non-MEC death benefit based on the premium paid in the first year, unless specified otherwise by the user. Thus, the younger individuals will have higher death benefit amounts.
- **2 = Equal Death Benefit Approach** - Assumes that each individual will have the same death benefit at issue. The initial death benefit is determined based on the average of the premiums paid during the first 7 years and allocated such that each policy is at the 7-pay limit, to maximize cash value accumulation, unless specified otherwise by the user. This model allocates higher premiums to older individuals and lower premiums to younger individuals in the case.

Aggregate Funding Outlay Reallocation Field



The screenshot shows a software window titled 'Case Data' with a list of fields and their values. The field 'Aggregate Funding Outlay Reallocation' is highlighted in yellow, and its dropdown menu is open, showing 'Yes' and 'No' options, with 'Yes' selected.

Field Name	Value
Aggregate Funding Case	2 = Yes / System calculated stream
Aggregate Funding Approach	2 - Equal Death Benefit
Aggregate Funding Outlay Reallocation	Yes
Aggregate Funding Through Year	Yes
Contribute Deferrals to Funding	No
Contribute Company Match to Funding	3 - After Tax

For cases illustrating Aggregate Funding, the entry in this field will determine whether or not the insurance cash flows will be modified to prevent early lapse.

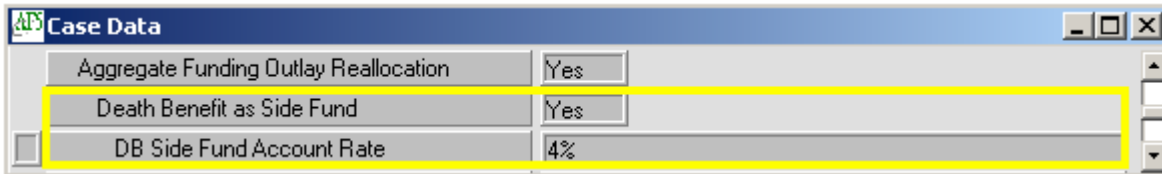
Valid entries:

- **Yes** = policy distributions will be reallocated to prevent early lapse
- **No** = policy distributions will not be reallocated to prevent early lapse. Assumes the relationship between each insured individual and their share of the premium / withdrawal stream will not be modified to prevent lapse

Note:

An entry of 'No' may facilitate faster processing, but care should be taken to ensure that all insurance policies have adequate values to remain in force through assumed mortality.

Death Benefit as Side Fund



Case Data	
Aggregate Funding Outlay Reallocation	Yes
Death Benefit as Side Fund	Yes
DB Side Fund Account Rate	4%

The entry in this field indicates whether or not the death benefit proceeds will accumulate at interest in a side fund from which retirement benefit payments are paid before withdrawals are made from policies.

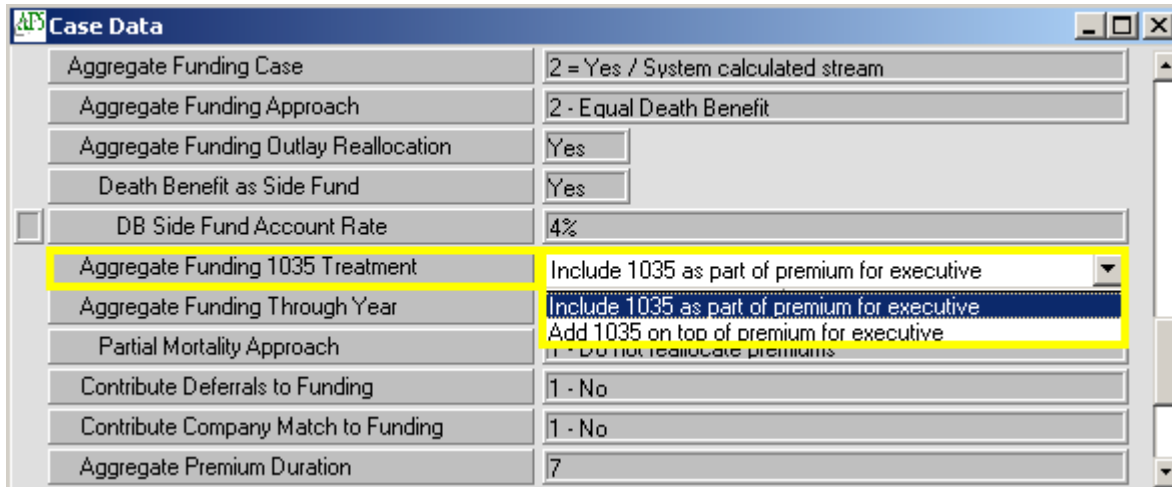
Valid entries:

- **Yes** = use death benefits to fund retirement benefit payments.
- **No** = do not use death benefits to fund retirement benefit payments.

DB Side Fund Account Rate

The entry in this field specifies the interest rate at which the Death Benefit Side Fund will accumulate.

Aggregate Funding 1035 Treatment



The screenshot shows a software window titled "Case Data" with a table of configuration options. The "Aggregate Funding 1035 Treatment" field is highlighted in yellow, and its dropdown menu is open, showing three options: "Include 1035 as part of premium for executive" (selected), "Add 1035 on top of premium for executive", and "Do not reallocate premiums".

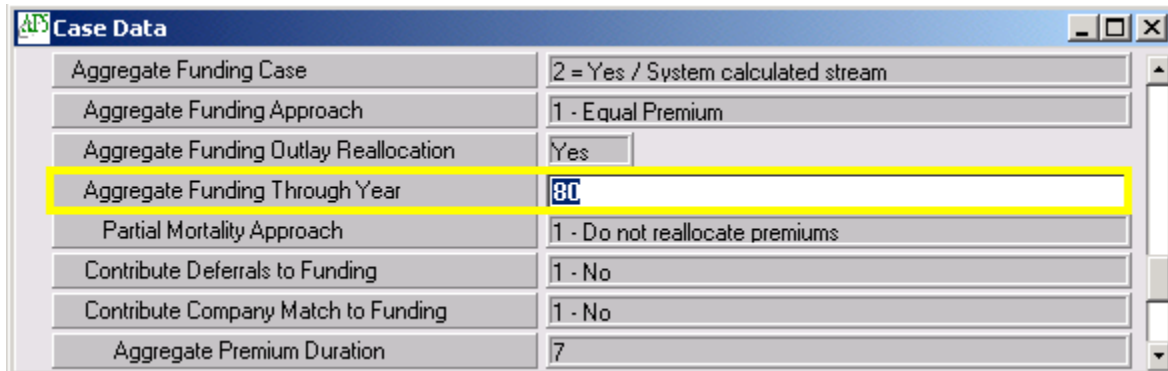
Aggregate Funding Case	2 = Yes / System calculated stream
Aggregate Funding Approach	2 - Equal Death Benefit
Aggregate Funding Outlay Reallocation	Yes
Death Benefit as Side Fund	Yes
<input type="checkbox"/> DB Side Fund Account Rate	4%
Aggregate Funding 1035 Treatment	Include 1035 as part of premium for executive
Aggregate Funding Through Year	Include 1035 as part of premium for executive
Partial Mortality Approach	Add 1035 on top of premium for executive
Contribute Deferrals to Funding	1 - No
Contribute Company Match to Funding	1 - No
Aggregate Premium Duration	7

This field becomes available only when there is an entry in or an asterisk next to the 1035 Exchange field on the Insurance Controls window. The entry in this field determines whether 1035 exchange money is included as part of the individual's share of the aggregate premium or is in addition to the individual's share of the aggregate premium.

Valid entries:

- **Include 1035 as Part of Premium for Executive** = 1035 exchange amount will replace some or all of calculated premium for the individual.
- **Add 1035 on Top of Premium for Executive** = 1035 exchange amount will be in addition to calculated premium for the individual.

Aggregate Funding Through Year Field



Case Data	
Aggregate Funding Case	2 = Yes / System calculated stream
Aggregate Funding Approach	1 - Equal Premium
Aggregate Funding Outlay Reallocation	Yes
Aggregate Funding Through Year	80
Partial Mortality Approach	1 - Do not reallocate premiums
Contribute Deferrals to Funding	1 - No
Contribute Company Match to Funding	1 - No
Aggregate Premium Duration	7

This field is used to specify the year through which the system should continue the Aggregate Funding Calculations.

Valid entries:

- # (>50) = Age
- # (<=50) = Year
- **R, E, or M** may also be used in this field to denote retirement, expected mortality or mortality. You may also indicate a number of years before or after the letter code, e.g., an entry of 'R+15' specifies fifteen years after retirement. 'M-5' specifies five years prior to assumed mortality.

Partial Mortality Approach Field

The screenshot shows a software window titled 'Case Data' with a table of fields and values. The 'Partial Mortality Approach' field is highlighted in yellow, and its dropdown menu is open, showing two options: '1 - Do not reallocate premiums' and '2 - Reallocate to maintain equal premium'. The '2' option is also highlighted in yellow.

Field	Value
Aggregate Funding Case	2 = Yes / System calculated stream
Aggregate Funding Approach	1 - Equal Premium
Aggregate Funding Outlay Reallocation	Yes
Aggregate Funding Through Year	80
Partial Mortality Approach	1 - Do not reallocate premiums
Contribute Deferrals to Funding	1 - Do not reallocate premiums
Contribute Company Match to Funding	2 - Reallocate to maintain equal premium
Aggregate Premium Duration	7

For cases illustrating Aggregate Funding on a partial mortality basis, the entry in this field will allow for a straight-forward adjustment by the Partial Mortality table selected, or the program can reallocate to maintain equal premiums. If reallocating premiums, in the case of the Equal Premium approach, the system will adjust the premium such that it remains equal in each year after mortality has been applied. Without reallocating premiums, the younger participants would receive a greater share of the premium.

Valid entries:

- **1 - Do not reallocate premiums** = Premiums will be based on non-mortality adjusted values multiplied by the partial mortality factor.
- **2 - Reallocate to maintain equal premiums** = Modifies the allocation of future premiums and withdrawals to conform to the X/n (total premium or withdrawal / n insured individuals) even with a partial mortality assumption. This effectively weights the premiums more heavily toward the older individuals under a partial mortality assumption.

Note:

This field is only available when the Mortality Assumption field on the Employee Data window is defined as 'P' for Partial Mortality.

Annual Aggregate Funding Schedule Field

Producer Name	Mr. Producer
Plan Name	Aggregate Funding - Deferred Compensation
Corporation Name	XYZ Corporation
Plan Initiation Date	02/27/2002
<input type="checkbox"/> Corporate Tax Bracket	40%
Aggregate Funding Case	3 - Yes / Given stream
Aggregate Funding Approach	1 - Equal Premium
Aggregate Funding Outlay Reallocation	Yes
Death Benefit as Side Fund	Yes
<input type="checkbox"/> DB Side Fund Account Rate	4%
Aggregate Funding 1035 Treatment	Include 1035 as part of premium for executive
Annual Aggregate Funding Schedule	@C:\D11\DEFERAL.XLS,R4CN..R56CN
Aggregate Funding Through Year	95
Partial Mortality Approach	1 - Do not reallocate premiums
Display Plan Assumptions	No

This field will define the desired insurance cash flow to be used when '3 - Yes / Given stream' is selected in the Aggregate Funding Case field. The Standard Series Format may be used to enter the aggregate insurance premiums and the withdrawals for the case. It is recommended that users generate these entries in an Excel spreadsheet and then use the Excel Lookup feature.

Valid entries:

- ### or -### = Specify the premium stream as #### and withdrawals as -####.
- C:\directory\filename.xls, RXY..RZY = Get cash flow stream from specified spreadsheet named 'filename' in subdirectory 'directory' on the C-drive. The cells of the spreadsheet containing the information can be found in column Y, rows X through Z.

Contribute Deferrals to Funding Field

The screenshot shows a software window titled 'Case Data' with several fields. The 'Contribute Deferrals to Funding' field is highlighted with a yellow border and is set to '3 - After Tax'. The dropdown menu for this field is open, showing three options: '1 - No', '2 - Pre-Tax', and '3 - After Tax'. Other fields include 'Aggregate Funding Case' (2 = Yes / System calculated stream), 'Aggregate Funding Approach' (2 - Equal Death Benefit), 'Aggregate Funding Outlay Reallocation' (Yes), and 'Aggregate Mortality Assumption' (80).

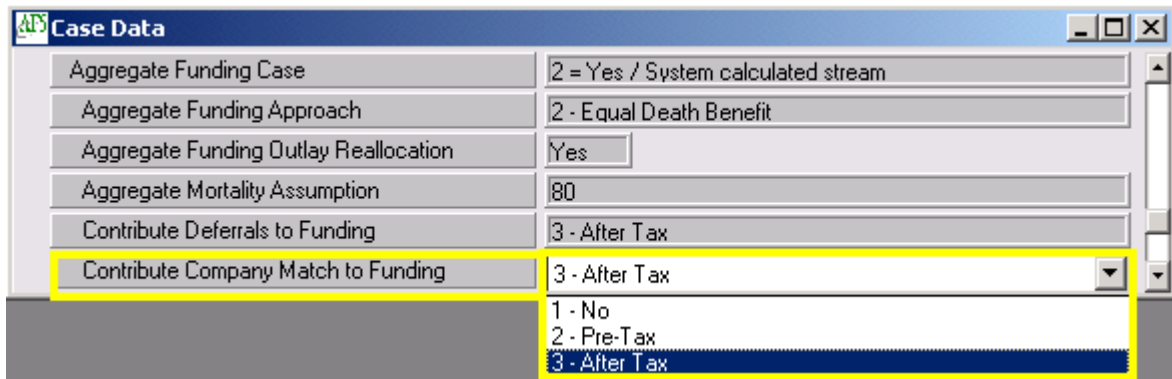
Aggregate Funding Case	2 = Yes / System calculated stream
Aggregate Funding Approach	2 - Equal Death Benefit
Aggregate Funding Outlay Reallocation	Yes
Aggregate Mortality Assumption	80
Contribute Deferrals to Funding	3 - After Tax
Contribute Company Match to Funding	1 - No 2 - Pre-Tax 3 - After Tax

The Contribute Deferrals to Funding field is available when '2 - Yes / System calculated stream' is selected in the Aggregate Funding Case field. For cases illustrating Aggregate Funding under this scenario, the entry in this field will determine how executive deferrals will be applied toward insurance funding.

Valid entries:

- **1 = No** - Do not contribute the deferrals toward the insurance funding. This is the appropriate entry if you are using the system to calculate the cash flows for a Defined Benefit/SERP benefit design
- **2 = Pre-tax** - Contribute the pre-tax executive deferrals toward the insurance funding. This selection will result in an after-tax cash cost to the corporation equal to the lost tax savings on deferred income until benefit payments begin
- **3 = After-tax** - Contribute the after-tax savings due to executive deferrals toward the insurance funding. This selection will result in no after-tax cash cost to the corporation until benefit payments begin

Contribute Company Match to Funding Field



Field Name	Value
Aggregate Funding Case	2 = Yes / System calculated stream
Aggregate Funding Approach	2 - Equal Death Benefit
Aggregate Funding Outlay Reallocation	Yes
Aggregate Mortality Assumption	80
Contribute Deferrals to Funding	3 - After Tax
Contribute Company Match to Funding	3 - After Tax

The dropdown menu for 'Contribute Company Match to Funding' is open, showing the following options:

- 1 - No
- 2 - Pre-Tax
- 3 - After Tax

The Contribute Company Match to Funding field is available when '2 - Yes / System calculated stream' is selected in the Aggregate Funding Case field. For cases illustrating Aggregate Funding under this scenario, the entry in this field will determine how company matches will be applied toward insurance funding.

Valid entries:

- **1 = No** - Do not contribute the company match toward the insurance funding. This is the appropriate entry if you are using the system to calculate the cash flows for a Defined Benefit/SERP benefit design.
- **2 = Pre-tax** - Contribute the pre-tax company match toward the insurance funding.
- **3 = After-tax** - Contribute the after-tax company match toward the insurance funding.

Aggregate Premium Duration Field

Case Data	
Aggregate Funding Case	2 = Yes / System calculated stream
Aggregate Funding Approach	1 - Equal Premium
Aggregate Funding Outlay Reallocation	Yes
Aggregate Funding Through Year	80
Contribute Deferrals to Funding	1 - No
Contribute Company Match to Funding	1 - No
Aggregate Premium Duration	7

For cases illustrating Aggregate Funding, an entry in this field will determine how the insurance cash flows based on a Defined Benefit SERP coded in the Benefits Modeling window will be calculated.

Valid entries:

- **# (<=50)** = the number of years for which premium payments will be made.

Included in Benefit Plan Field



The screenshot shows a window titled "Employee Data" with a blue header bar. Below the header, there are three rows of data entry fields. The first row, "Included in Benefit Plan", is highlighted with a yellow border and contains the value "1". The second row, "Individual Include Code", contains the value "1". The third row, "Individual Print Code", contains the value "N".

Field Name	Value
Included in Benefit Plan	1
Individual Include Code	1
Individual Print Code	N

For cases illustrating Aggregate Funding only, an entry in this field determines whether an employee will participate in the benefit plan coded in the Benefits Modeling window.

Valid entries:

- **Y** or **1** = Include the employee in the benefit plan coded in the Benefits Modeling window.
- **N** or **O** = Exclude the employee from benefit processing. If the employee will be an insured but will not participate in benefits, this would be the appropriate entry. This employee will appear on individual and census reports, but will not have benefits calculated.
- Any other positive number will multiply the employee benefit results by that number in the composite report. For example, **10** will include the employee's results ten times in the composite, and Aggregate Funding Outlay calculations will be based on the composite values. Individual reports will print on a single life basis. The purpose of this option is to allow you to model a plan with a large number of plan participants, but to save time by grouping them into similar categories rather than illustrating each one separately.

Included in Insurance Plan Field



The screenshot shows a software window titled "Employee Data". It contains three rows of data fields. The first row is "Included in Benefit Plan" with a value of "1". The second row, "Included in Insurance Plan", is highlighted with a yellow border and also has a value of "1". The third row is "Individual Print Code" with a dropdown menu showing the letter "N".

Field Name	Value
Included in Benefit Plan	1
Included in Insurance Plan	1
Individual Print Code	N

This field allows users to select which individuals are included in the insurance funding calculations.

Valid entries:

- **Y** or **1** = Include the employee in processing. This is the normal option.
- **N** or **0** = Exclude the employee from processing. This employee will appear on any census reports, but will not have benefits or insurance values calculated, will have no individual reports, and will not be included in any composites.
- Any other positive number will multiply the individual results by that number in the composite report. For example, **10** will include the employee's results ten times in the composite. Individual reports will not reflect this factoring-up, however, and will print on a unit basis. The purpose of this option is to allow you to model a plan with a large number of participants, but to save time by grouping them into similar categories rather than illustrating each one separately.

It is common to use **Y** or **1** for all employees. In cases where any of the other options are used, it is common to click the asterisk box next to this field, and then enter different Individual Include Codes for different employees in the census.

If you want employees included in the composite, but you don't want individual reports for some or all of them, you can use the Individual Print Code field to achieve this effect.

Note:

If Aggregate Funding is being illustrated, then this field will govern whether the participant is included in insurance. The option to include the participant more than once is also available. The entry in the Included in Benefit Plan field, also located on the Employee Data window will determine whether the participant is to be included in benefits.

New Aggregate Funding Columns

Column Number 570: Target Aggregate Funding Amount

Sort Category: Aggregate Funding

This column represents the cash flows either calculated by the system based on the benefit modeling entries in the Benefits Modeling window, or provided by the user through the Aggregate Funding Schedule field, WITHOUT any partial mortality adjustment.

Note:

If you select 'YES' in the Death Benefit as Side Fund field on the Case Data window, this column on the individual report will be reduced by any benefit payments made from the side fund account. On the composite report this column represents the total aggregate cash flow, either calculated or specified by the user, prior to any payments from the side fund account.

This column only generates output for Aggregate Funding cases and is valid for individual and composite reports.

Column Number 596: Number of Benefit Participants:

Sort Category: General

The total number of individuals participating in the benefit program included in the composite based on mortality adjustments.

Note:

This column is valid for composite reports only.

Column Number 599: Aggregate Funding Variance

Sort Category: Aggregate Funding

This column represents the amount by which the corporate outlay ([column 12](#)) differs from the aggregate target stream ([column 570](#)). If you select 'YES' in the Death Benefit as Side Fund field on the Case Data window, the cash flow from the side fund account ([column 622](#)) will also be included in this column's calculation. A variation does not necessarily indicate that the aggregate funding solve has failed. A difference will be noted, for example, when there are taxable withdrawals (i.e., events that will cause the net after-tax outlay to differ from the

specified stream) or when 1035 money is added on top of the calculated aggregate funding premium.

Note:

This column only generates output for Aggregate Funding cases This column is valid for individual and composite reports.

Column Number 621: DB Side Fund Account @ SFR%

Sort Category: Aggregate Funding

This column reflects the death benefits paid accumulating in a side fund, at the rate entered in the DB Side Fund Account Rate field. Retirement benefit payments may be withdrawn from the side fund (**column 622**) based on the entry in the Death Benefit as Side Fund field.

Note:

This column only generates output for Aggregate Funding cases. This column is valid for composite reports only.

Column Number 622: Corporate After-tax Cash Flow Side Fund Only

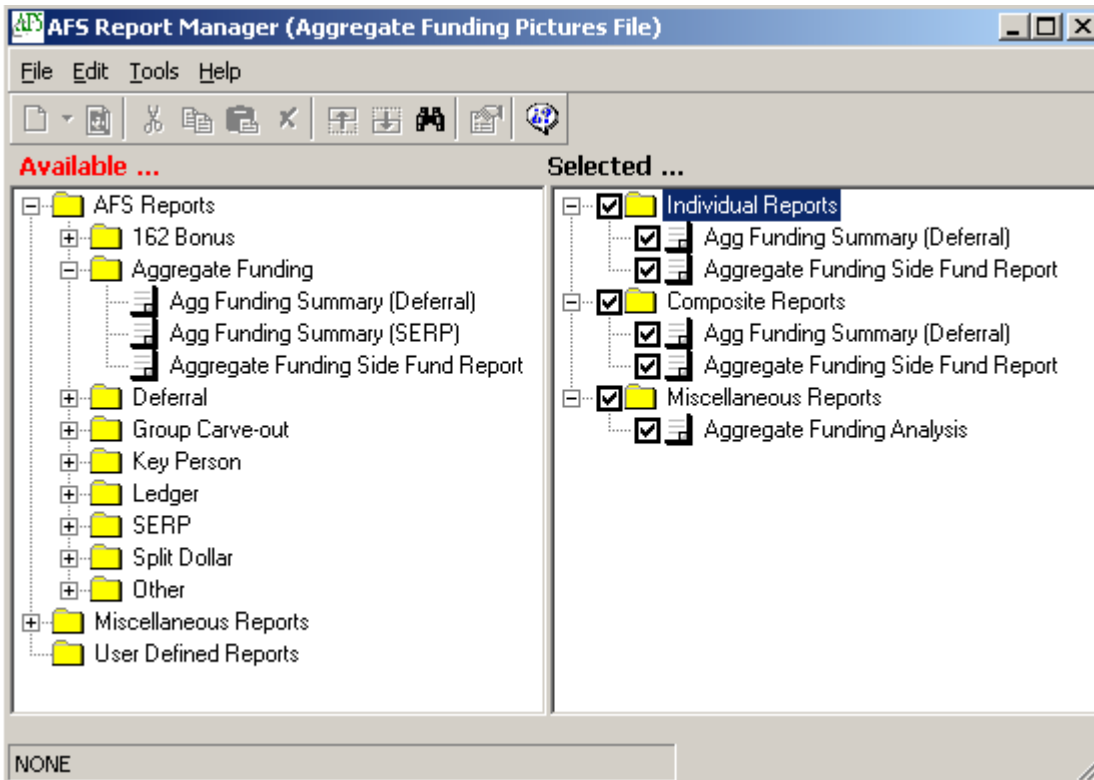
Sort Category: Aggregate Funding

This column reflects the amounts being withdrawn from the DB Side Fund @SFR% (**column 621**) to fund retirement benefit payments.

Note:

This column only generates output for Aggregate Funding cases. This column is valid for composite reports only.

New Aggregate Funding Reports



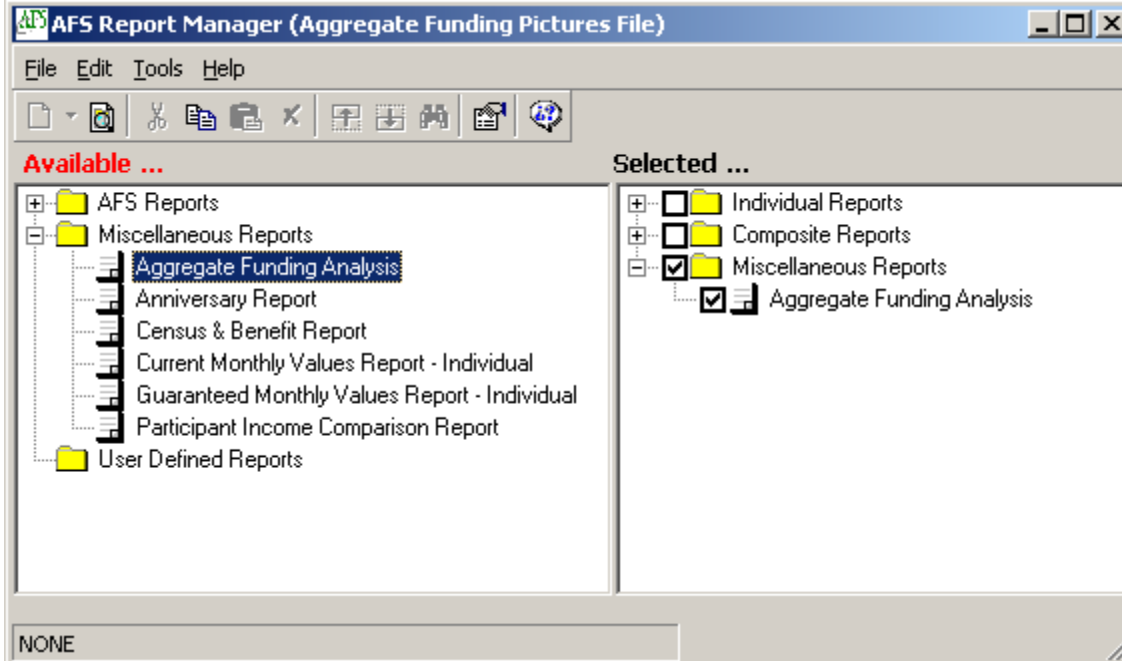
AFS Standard Reports

There is now an 'Aggregate Funding' folder located within the 'AFS Reports' section of the Report Manager. Within that folder we have created three new reports to help users illustrate cases using the Aggregate Funding functionality.

Users can elect to use these reports with preset columns, or modify them to meet their preferences.

Miscellaneous Report – Aggregate Funding Analysis

To help users analyze their Aggregate Funding output we have added a new Miscellaneous Report.



XYZ Corporation

Aggregate Funding - SERP

Aggregate Funding Analysis

EE No.	Executive's name	No. Incl. Insur.	No. Incl. Ben.	Issue Age or DOB	Ret. Age	Mort. Age	Lapse Age	MEC Yr.	Agg. Fund Variance Yr.	Face Amount	Total Premium	Target Prem. %	Ret. Ben. Type	Ret. Ben. Init. Amt.
1	25	1	1	25	65	80	0	0	0	555,228	15,921.02	100%	SERP	100,000
2	30	1	1	30	65	80	0	0	0	555,228	18,703.55	100%	SERP	100,000
3	35	1	1	35	65	80	0	0	0	555,228	22,102.53	100%	SERP	100,000
4	40	1	1	40	65	80	0	0	0	555,228	26,124.01	100%	SERP	100,000
5	45	1	1	45	65	80	0	0	0	555,228	30,756.38	100%	SERP	100,000
6	48	1	1	48	65	80	0	0	0	555,228	33,846.22	100%	SERP	100,000
7	50	1	1	50	65	80	0	0	0	555,228	36,058.45	100%	SERP	100,000
8	53	1	1	53	65	80	0	0	0	555,228	39,627.53	100%	SERP	100,000
9	55	1	1	55	65	80	0	0	0	555,228	42,161.08	100%	SERP	100,000
10	60	1	1	60	65	80	0	0	0	555,228	49,077.69	100%	SERP	100,000
Averages:				44.1	65	80				555,228	31,437.85			100,000
Totals:		10	10							5,552,280	314,378.46			

Example – Case #1: Defined Contribution – Deferral Plan

The user defines the deferral plan on the Benefits Modeling window.

The screenshot shows the 'Benefits Modeling' window with the following settings:

<input type="checkbox"/>	Policy Ownership Option	ER
<input type="checkbox"/>	Premium Bonus Option	0
<input type="checkbox"/>	Display Group Carve-Out	No
<input type="checkbox"/>	Display Split Dollar	No
<input type="checkbox"/>	Display Death Benefit Only	No
<input type="checkbox"/>	Display Sup. Executive Retirement Plan	No
<input type="checkbox"/>	Display Post-Ret. Medical Benefits	No
<input type="checkbox"/>	Display Deferral Plan	Yes
<input checked="" type="checkbox"/>	Employee Deferrals	
<input type="checkbox"/>	Corporate Contribution	0
<input type="checkbox"/>	Retirement Account Payout	10
<input type="checkbox"/>	Retirement Account Rate	4%
<input type="checkbox"/>	Death Benefit Account Rate	4%
<input type="checkbox"/>	Termination Account Rate	0%

Since the deferral amounts vary by employee, the user will define those in the Census window.

The screenshot shows the 'AFS Census File Manager' window with the following data:

Census	Case #1	Sort by	{Unsorted}
	Employee Name	Date of Birth/Entry Age	Employee Deferrals
▶	25	25	10000
	30	30	5000
	35	35	8000
	40	40	7000
	45	45	15000
	48	48	6000
	50	50	45000
	53	53	14000
	55	55	30000
	60	60	12000

Participant 1 Of 10

On the Case Data Window, the user specifies that the case being run will be based on a stream of cash flows calculated from the information provided on the Benefits Modeling Screen, whether the approach will be Equal Premiums or Equal Death Benefits and whether or not Outlay Reallocation will be used to avoid policy lapses. The user will also specify whether the deferred compensation, and any corporate match, that will be contributed to the funding will be pre-tax or after-tax.

Field	Value
Producer Name	Mr. Producer
Plan Name	Aggregate Funding - Deferred Compensation
Corporation Name	XYZ Corporation
Plan Initiation Date	02/27/2002
Corporate Tax Bracket	40%
Aggregate Funding Case	2 = Yes / System calculated stream
Aggregate Funding Approach	1 - Equal Premium
Aggregate Funding Outlay Reallocation	No
Aggregate Funding Through Year	95
Contribute Deferrals to Funding	3 - After Tax
Contribute Company Match to Funding	3 - After Tax
Display Plan Assumptions	No

For Defined Contribution Plans such as this Deferral Plan, the system then calculates the cash flow stream for the group. In this case the stream includes:

- the after-tax value of the deferred compensation, PLUS
- the after-tax value of the company matching contributions, MINUS
- the after-tax cost of the benefit distributions to be made to each participant during retirement. (The benefit distributions are calculated based on the entries on the Benefits Modeling window specifying how much the employee will defer and for how long, the amount of any corporate matching contributions, the payout period and the amount of interest being credited to the deferral account.)

The system then sums up the amounts calculated for each participant to arrive at the aggregate cash flow stream and applies the aggregate values across the group.

Case #1:
Composite Reports

Case #1:
Individual Reports

Example – Case #2: Defined Benefit – SERP

The user defines a SERP on the Benefits Modeling window.

The screenshot shows the 'Benefits Modeling' window with the following settings:

<input type="checkbox"/> Policy Ownership Option	ER
<input type="checkbox"/> Premium Bonus Option	0
<input type="checkbox"/> Display Group Carve-Out	No
<input type="checkbox"/> Display Split Dollar	No
<input type="checkbox"/> Display Death Benefit Only	No
<input checked="" type="checkbox"/> Display Sup. Executive Retirement Plan	Yes
<input type="checkbox"/> Years of Service	0
<input type="checkbox"/> Maximum Service Credit	0
<input type="checkbox"/> Display Cash Balance Plan	No
<input type="checkbox"/> Display 401(k)	No
<input type="checkbox"/> Display Contribution Plan (other than 401k)	No
<input type="checkbox"/> Display Post-Ret. Medical Benefits	No
<input checked="" type="checkbox"/> Retirement Income Benefit Control	1
<input type="checkbox"/> Display Deferral Plan	No
<input checked="" type="checkbox"/> Ben Def 1 Pre-retirement Benefit	SERP,1,R+10,0,0,0,100000,1,0,0

The screenshot shows the 'Benefit Definition' window with the following parameters:

Valid Benefit Type	SERP		
Eligibility Begins	Immediately		
Eligibility Ends	@Retirement	Plus	10 Years
Absolute Maximum	0		
Absolute Minimum	0		
Salary Averaging Period	0		
	Period 1	Period 2	Period 3
Amount	100000		
Year To Begin	1		
Offset	0		
Benefit Inflation Factor	0		

Buttons: Clear, OK, Cancel

Since there are no deferrals to contribute to the funding, entries of 'NO' to the contributions to funding fields allow the user to access the Aggregate Premium Duration field. This field allows the user to specify for how many years premium payments will be made toward the aggregate funding. For Defined Benefit Plans such as this SERP, the system uses that entry to solve for the optimal aggregate premium or death benefit required to fund the retirement benefits specified on the Benefits Modeling window.

Case Data	
Producer Name	Mr. Producer
Plan Name	Aggregate Funding - SERP
Corporation Name	XYZ Corporation
Plan Initiation Date	02/27/2002
<input type="checkbox"/> Corporate Tax Bracket	40%
Aggregate Funding Case	2 = Yes / System calculated stream
Aggregate Funding Approach	2 - Equal Death Benefit
Aggregate Funding Outlay Reallocation	No
Aggregate Funding Through Year	95
Contribute Deferrals to Funding	1 - No
Contribute Company Match to Funding	1 - No
Aggregate Premium Duration	7
Display Plan Assumptions	No

Case #2:
Composite Reports

Case #2:
Individual Reports