



International Association for Financial Participation

AGP

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It is an honor to speak to you today. I thank my good friend Michael Lezius for the invitation. Mr. Lezius is a global pioneer in the design, implementation and promotion of financial participation programs here in Germany, the EU and globally.

I will try to speak to you today in German. However, if I sound like a Schwaebisch Hausfrau in 1962, please excuse me, but I lived in Bad Canstatt near Stuttgart for three years from 1962-1965 and learned some German from my Schwaebish Hausfrau.

Today I will tell you the six keys to a successful financial participation program. They are the same here in German, in the EU, in the US and everywhere in the world. This is true because the world of financial participation is changing. There is a global crisis. In the past financial participation programs were the reward for working for a good employer. Today, "no good deed goes unpunished. The works has changed.

Enron in the US and other companies worldwide has gone bankrupt. Employee financial participation plans with such employer stock have become worthless. Employment laws give employees broad legal rights in such plans.

An aging population is living longer. Retirement plans are being privatized to meet the needs where governments don't have enough tax money to continue traditional retirement plans. Therefore private financial participation plans are becoming necessary for employees to save enough extra money to meet a long term retirement.

I have found six keys which exist in all successful financial participation plans world wide. They are

- 1- Have a good plan design
- 2- Know the laws and regulations for such plans
- 3- Have a good system in place to manage and control such plans
- 4- Follow the system precisely
- 5- Audit or benchmark the plan operation each year
- 6- Communicate the system with employees and the government regulators

First plan design

Use best practices

1. for local law compliance
2. for cross border employment
3. for your own corporate culture
4. for foreign employees and locals
5. to encourage portability of benefits

There are five tax benefits of a successful financial participation program.
Use as many as possible

1. Current tax deduction for employer contribution
2. No current tax to participant
3. Deferral or no tax on gains and appreciation in value in plan assets
4. Tax preferences on distribution on retirement, death and disability
5. Make the plan simple to communicate and understand

Second, Know the law

- More important than knowing the law is knowing that if you don't know the law, you need to know that you either need to know the law or know that you don't know the law!"
- Make sure that if you don't know the law, you know that you don't and find somebody who does!

Third, Have a good plan administration system

- The administration can be either In-House or Outsourced
- Put Plan Administrative Systems in Place Which:
 - Define procedures and responsibilities in writing
 - Assign responsibilities in writing
 - Written Memo to responsible person
 - Written Acceptance from assigned person
 - Refine responsibilities periodically – up and down the ladder reporting
 - Review- Have adequate controls in place to catch mistakes

Fourth, Follow the system exactly

- It is **negligent** not to have a system with controls in place!
- It may be **criminal** not to follow the system or monitor the controls!

Document system compliance with written reports, memos, minutes of meetings, etc.

Up and down the ladder is the new standard of reporting to those below you and those above you on the corporate ladder of management!

Remember The Legal Principle of Stewardship

- It is OK to delegate responsibility
- It is not OK to abrogate responsibility
- Require internal and external controls, oversight, corrections, audits and benchmarking each year.

Fifth, Benchmark the system. The consequences of not reviewing the administration each year can be very expensive.

In the US, for example,

- A. Class-action lawsuit against WorldCom directors led by New York State Common Retirement Fund resulted in a \$54 million settlement

\$18 million of the settlement had to be contributed personally by ten former directors with remaining \$36 million paid by insurers

- The Global Crossing, Ltd. Chairman agreed to pay \$25 million of \$79 million settlement of US investigation of Company retirement plans personally.

Sixth-communicate the benefits of the financial participation program and of following the six keys to a successful program.

Successful financial participation programs

- Result in Cost Savings_of service provider contracts
- Shields employers and Directors from personal liability
- Reduces premiums for Errors and Omissions coverage, Fiduciary Insurance and gives added coverage limits
- Protects value of Plan Assets-Makes employees' dreams come true

In conclusion, a successful financial participation program can make employees' dreams come true, by giving them supplemental assets on retirement to live in comfort and dignity.

Thank you.