



*Employee Benefits and
Compensation Consulting*

December 27, 2006

Name
Title
Company X
123 Main Street
Anytown, USA 12345-6789

Re: *Sabbatical Benefits Assumption Alternatives – Initial Discussion*

Dear Name:

As you know, the EITF recently reached a consensus that an employee's right to a compensated absence under a sabbatical should be accounted for as a liability under FASB Statement No. 43. This letter summarizes our analysis regarding the assumptions to be used for the determination of an accrued liability with respect to the sabbatical program sponsored by Company X for the period ended December 31, 2006. These assumptions are within the guidelines of Statement of Financial Accounting Standards No. 43 ("FAS 43"), EITF 06-02 and Company X's specific plan provisions.

In the following paragraphs, we list several considerations for each assumption and the sensitivity with respect to changes in the assumption. The assumptions listed below reflect the discussions to date between Aon and Company X.

Sabbatical Plan Provisions

Company X has a sabbatical program that allows eligible employees to take a paid sabbatical of 4 weeks after every 5 years of service. The sabbatical must be taken within five years of being earned. Eligible employees are full time employees working in the United States or Canada.

We have based these estimates on data as of October 31, 2006 as supplied by Company X. Please see Appendix B for a breakdown of the data used.

Discount Rate

These are long term liabilities that should be valued on a basis consistent with other long term liabilities. It is our understanding that Company X does not have other employee benefit plans where Company X is responsible for the liability and is required to choose a

long term discount rate (i.e. a defined benefit pension plan). For benchmarking purposes, Treasury rates for October 2006 are approximately 5.00% while Moody's Aa Corporate Bond rate is 5.74%. For purposes of the Base Case, we used a discount rate of 6.00%. The following table shows the impact of selecting a discount rate between 4.00% and 7.00%.

Base Case ¹	Cumulative Effect	Normal Cost	Total	Change
Sabbatical Experience	\$19,500,000	\$1,390,000	\$20,890,000	N/A
Executives	\$3,200,000	\$160,000	\$3,360,000	
Managers	\$10,100,000	\$760,000	\$10,860,000	
Staff	\$6,200,000	\$470,000	\$6,670,000	
¹ Base Case developed with 3.75% Salary Scale, 6.00% Discount Rate, Aggregated Turnover Assumptions and Sabbatical Experience of (50%/20%/15%/10%/5%)				
Sensitivity With Respect To Discount Rate				
4.00% Discount Rate	\$20,700,000	\$1,500,000	\$22,200,000	106.3%
5.00% Discount Rate	\$20,100,000	\$1,400,000	\$21,500,000	102.9%
7.00% Discount Rate	\$18,900,000	\$1,300,000	\$20,200,000	96.7%

Salary Scale

Based upon discussions with Company X, it is expected that the salary increases will be between 3.50% and 4.00% per annum. Our Base Case is defined to have a salary scale of 3.75%. The following table shows the cost impact of increasing and decreasing the salary scale by 25 basis points.

Base Case ¹	Cumulative Effect	Normal Cost	Total	Change
Sabbatical Experience	\$19,500,000	\$1,390,000	\$20,890,000	N/A
Executives	\$3,200,000	\$160,000	\$3,360,000	
Managers	\$10,100,000	\$760,000	\$10,860,000	
Staff	\$6,200,000	\$470,000	\$6,670,000	
¹ Base Case developed with 3.75% Salary Scale, 6.00% Discount Rate, Aggregated Turnover Assumptions and Sabbatical Experience of (50%/20%/15%/10%/5%)				
Sensitivity With Respect To Salary Scale				
3.50% Salary Scale	\$19,300,000	\$1,400,000	\$20,700,000	99.1%
4.00% Salary Scale	\$19,700,000	\$1,400,000	\$21,100,000	101.0%

Probabilities of Forfeiture

We have applied probabilities of retirement, termination, death, and disability to reflect for the possibility of forfeiture, dependent on the age and/or gender of Company X employees.

- Retirement – Upon attainment of age 65.
- Termination – Based on actual history from Company X. These rates are service based and are detailed in Appendix C.

- Death – Based on the RP-2000 Mortality Table¹ (sex distinct basis).
- Disability – None.

The following table shows the cost impact of using termination rates by group as opposed to the Base Case which uses termination rates in aggregate. For purposes of this chart, we have used the same levels as detailed above. Please note, in order for this type of historical study to be credible, a minimum number of data points must be available for analysis. While there is enough historical data in total to be credible, Aon does **not** feel that there is sufficient historic data to allow for bifurcation based on level.

Base Case ¹	Cumulative Effect	Normal Cost	Total	Change
Sabbatical Experience	\$19,500,000	\$1,390,000	\$20,890,000	N/A
Executives	\$3,200,000	\$160,000	\$3,360,000	
Managers	\$10,100,000	\$760,000	\$10,860,000	
Staff	\$6,200,000	\$470,000	\$6,670,000	
¹ Base Case developed with 3.75% Salary Scale, 6.00% Discount Rate, Aggregated Turnover Assumptions and Sabbatical Experience of (50%/20%/15%/10%/5%)				
Sensitivity With Respect To Bifurcating Employee Turnover By Job Level				
Executives	\$3,300,000	\$190,000	\$3,490,000	
Managers	\$10,900,000	\$920,000	\$11,820,000	
Staff	\$6,600,000	\$580,000	\$7,180,000	
Total	\$20,800,000	\$1,690,000	\$22,490,000	107.7%

Post-Accrual Probabilities of Sabbatical

Company X allows employees to take their sabbatical within five years after its accrual (i.e. between years 5-10). We do not have actual historic data detailing the use of this benefit. We have developed the following estimates for the timing of when a sabbatical is likely to occur.

Year	Assumed Sabbatical Leave		
	Graded	Worst Case	20%
Year 0 - 1	50%	100%	20%
Year 1 - 2	20%	0%	20%
Year 2 - 3	15%	0%	20%
Year 3 - 4	10%	0%	20%
Year 4 - 5	5%	0%	20%

Our Base Case uses the Graded assumption. The following table shows the cost impact under three different experience paths. In all cases, we have assumed that 100% of the employees eligible to take a sabbatical leave utilize the benefit.

¹ <http://www.soa.org/ccm/content/research-publications/experience-studies-tools/the-rp-2000-mortality-tables/>

Base Case ¹	Cumulative Effect	Normal Cost	Total	Change
Sabbatical Experience	\$19,500,000	\$1,390,000	\$20,890,000	N/A
Executives	\$3,200,000	\$160,000	\$3,360,000	
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¹ Base Case developed with 3.75% Salary Scale, 6.00% Discount Rate, Aggregated Turnover Assumptions and Sabbatical Experience of (50%/20%/15%/10%/5%)				
Sensitivity With Respect To Sabbatical Experience				
Sabbatical Experience - 100% Immediate (Worst Case)	\$18,700,000	\$1,300,000	\$20,000,000	95.7%
Sabbatical Experience - 20% Graded	\$19,800,000	\$1,400,000	\$21,200,000	101.5%

Post-Sabbatical Probability of Forfeiture

Company X's plan contains provisions for repayments of compensation earned during the period if an employee were to terminate. It is our understanding that this provision is not enforced and we have not applied any probability of repayment after the sabbatical right has been accrued and exercised.

Valuation Summary

The table below presents a reasonable approach to transitioning the liability into the financial statements. This alternative has a company recognize a cumulative adjustment of historical accruals, along with an ongoing annual normal cost. We have estimated the effect of this recognition for the Base Case.

Accumulated Liability as of December 31, 2006 (<i>Base Case</i>)	\$19,500,000
1/1/2007 – 12/31/2007 FAS 43 Expense (<i>Base Case</i>)	<u>\$1,390,000</u>
Total Cost (<i>Base Case</i>)	\$20,890,000

You should discuss with your external auditors the appropriateness of the above alternatives. Please don't hesitate in contacting me at (201) 460-6890 if you have any questions.

Sincerely,

Sabbatical Consultant
Senior Consultant

cc: Client
Aon



Company X
January 1, 2007 Valuation

FAS 43 Valuation Certification

Aon Consulting has been retained by Company X to analyze the annual accounting impact of their service award program during the year ending December 31, 2006. The results of our analysis are included in this valuation report.

This report considers aspects of Statement of Financial Accounting Standards No. 43 (FAS 43), which requires an employer to accrue a liability for employees' rights to receive compensation for future absences when certain conditions are met; EITF 06-02; and Company X's specific plan provisions.

All calculations are based on participant information maintained and provided by Company X and upon assumptions and methods selected by Company X. Company X has taken the responsibility for ensuring that the information provided and used in these calculations is accurate and complete. Aon has not audited the data, but has reviewed the data for reasonableness. We believe that the information is sufficiently complete and reliable, and that it is appropriate for the purposes intended.

In our opinion, each assumption used in this valuation is reasonable taking into account the experience of the Plan and reasonable expectations. The methods employed in this valuation are consistent with generally accepted actuarial principles and practices. We believe that this report adheres to the requirements stipulated by the FASB for the valuation of service award programs.

Sabbatical Consultant #1
Vice President

Sabbatical Consultant #2
Senior Consultant

Appendix A Assumption Sensitivity

Base Case ¹	Cumulative Effect	Normal Cost	Total	Change
Sabbatical Experience	\$19,500,000	\$1,390,000	\$20,890,000	N/A
Executives	\$3,200,000	\$160,000	\$3,360,000	
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3.50% Salary Scale	\$19,300,000	\$1,400,000	\$20,700,000	99.1%
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Total	\$20,800,000	\$1,690,000	\$22,490,000	107.7%
Sensitivity With Respect To Sabbatical Experience				
Sabbatical Experience - 100% Immediate (Worst Case)	\$18,700,000	\$1,300,000	\$20,000,000	95.7%
Sabbatical Experience - 20% Graded	\$19,800,000	\$1,400,000	\$21,200,000	101.5%

Appendix B Data Reconciliation

	Current Data	Historic Data			
	Current Data	Tab 1	Tab 2	Tab 3	Total
Files Received from Company X Tab in File					
Data Received from Company X	15,500	50,000	50,000	25,000	125,000
Data Removed - Country Code	(200)	0	0	0	0
Data Removed - Less than 1 year of service	0	(2,300)	(5,000)	(3,000)	(10,300)
Data Removed - Over Age 65 with 20 years of service	0	(100)	0	0	(100)
Data Remaining	15,300	47,600	45,000	22,000	114,600
Data Used for Calculations	15,300	47,600	45,000	22,000	114,600

Appendix C Summary of Termination Rates

Years of Service	Total	Staff	Executive/Manager
0	0.20	0.25	0.10
1	0.20	0.25	0.10
2	0.20	0.25	0.10
3	0.20	0.25	0.10
4	0.20	0.25	0.10
5	0.20	0.25	0.10
6	0.17	0.20	0.08
7	0.17	0.20	0.08
8	0.17	0.20	0.08
9	0.17	0.20	0.08
10	0.17	0.20	0.08
11	0.13	0.15	0.06
12	0.13	0.15	0.06
13	0.13	0.15	0.06
14	0.13	0.15	0.06
15	0.13	0.15	0.06
16	0.08	0.10	0.05
17	0.08	0.10	0.05
18	0.08	0.10	0.05
19	0.08	0.10	0.05
20	0.08	0.10	0.05
21	0.05	0.05	0.03
22	0.05	0.05	0.03
23	0.05	0.05	0.03
24	0.05	0.05	0.03
25	0.05	0.05	0.03
26	0.00	0.00	0.00
27	0.00	0.00	0.00
28	0.00	0.00	0.00
29	0.00	0.00	0.00
30	0.00	0.00	0.00