June 18, 2007

LLNS Total Compensation Design and Strategy
Proposal to NNSA

General Comments

- This is not the briefing to base your TCP1 vs. TCP2 decision on
  - That will occur in Town Hall meetings after LLNS has NNSA approved benefit packages
- This briefing is intended to provide you an overview of the benefit packages that were proposed to NNSA
  - It is an opportunity for you to provide your comments

Listen, Learn and React

Listen

To what is being said

What LLNS submitted to NNSA

Learn

Study

Ask questions

React

Decide

Provide input if desired

Outline of Today's Briefing

- How the briefing will be conducted (the "roadmap")
  - Presentation
    - Contract Requirements
    - TCP1
    - TCP2
  - Q & A Period
    - 1 question and 1 follow-up per person
    - Will rotate between mikes on an every-other time basis

June 18, 2007

LLNS Total Compensation Design and Strategy
Proposal to NNSA

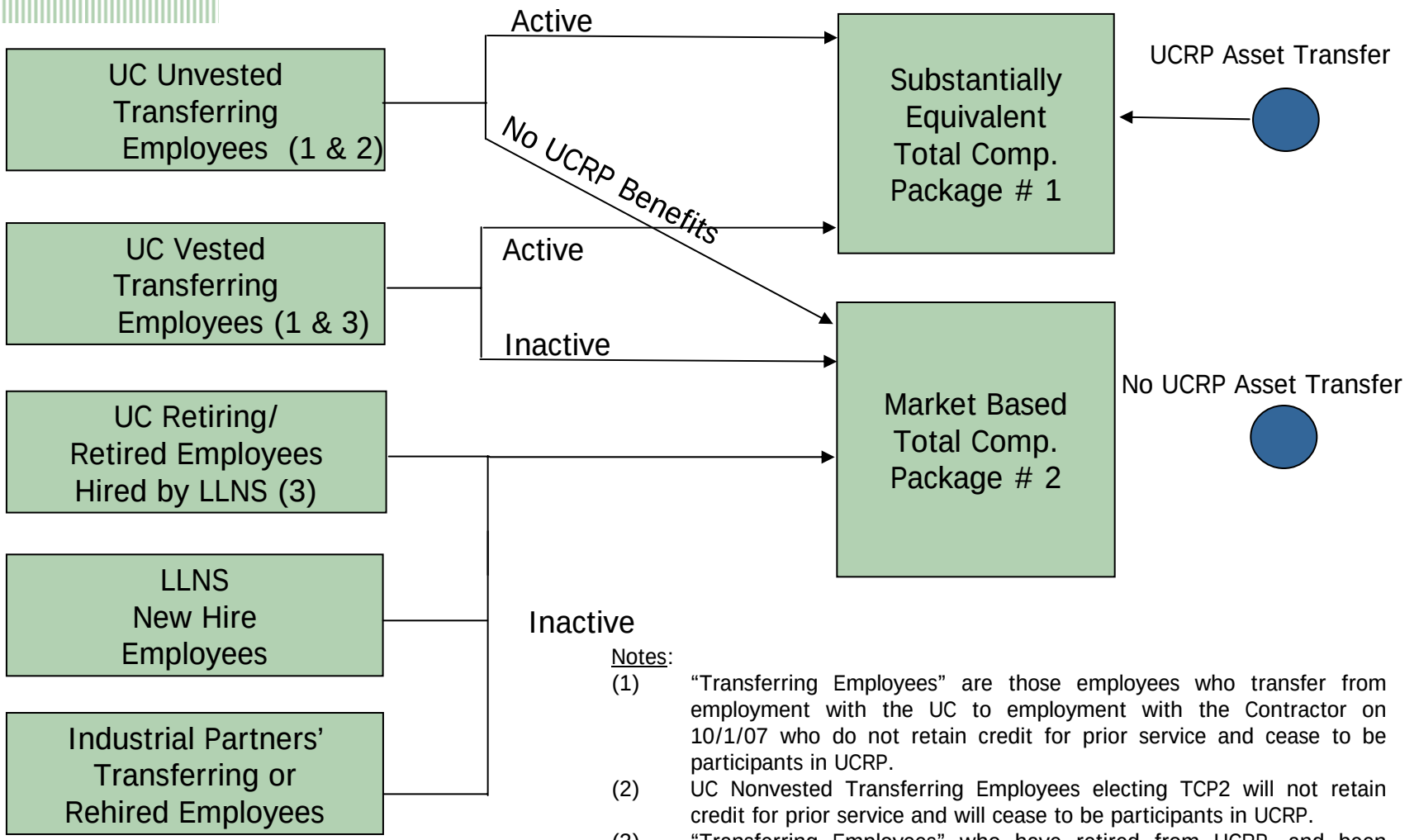
Contents

- Section A - Contract Requirements
- Section B – Total Compensation Packages
- Section C - LLNS Benefit Design Policy Statement
- Section D - Total Compensation Plan 1 (TCP1): Substantially Equivalent to current UC LLNL benefits package
- Section E - Total Compensation Plan 2 (TCP2): Market-based benefits package
- Section F - Employee Communication
- Section G- Estimated Costs of Retirement Plans
- Section H - Investment Transition Strategy
- Section I - Current Retirees

Section A – Contract Requirements

- Establish a total compensation package that is substantially equivalent to that provided by the predecessor contractor for Transferring Employees (not including Inactive Vested Transferring Employees).
- Establish a market-based total compensation package, for new hires and other transferring employees, that does not exceed 105% of the market average total benefit Relative Benefit Value Index in comparison to DOE approved comparator companies.
- Provide substantially equivalent retiree medical and dental benefits for current retirees.
- Both total compensation packages are subject to review and approval of the NNSA Contracting Officer.
- The Contracting Officer will determine substantial equivalence by comparing the LLNS total compensation package with the benefits provided by the predecessor contractor.

Section B - Total Compensation Packages



Notes:

(1) "Transferring Employees" are those employees who transfer from employment with the UC to employment with the Contractor on 10/1/07 who do not retain credit for prior service and cease to be participants in UCRP.

(2) UC Nonvested Transferring Employees electing TCP2 will not retain credit for prior service and will cease to be participants in UCRP.

(3) "Transferring Employees" who have retired from UCRP, and been rehired as Lab Associates will participate in TCP1 401(k) plan – but no additional accruals in TCP1 defined benefit plan.

Section C - LLNS Benefit Design Policy Statement

Subject to further review, refinement and NNSA approval, the LLNS Board of Governors Executive Committee authorized the LLNS President to obtain NNSA approval to:

1) Provide a "Substantially Equivalent" benefit plan to UC transferees hereinafter referred to as Total Compensation Package 1 (TCP1) which includes:

   a) a replication of the UCRP except where ERISA regulations or administrative complexities suggest modification,

   b) a replication of the UC-LLNL retirement medical plan,

   c) a 401(k) defined contribution plan (no employer matching contribution) to replace the pre-tax deferral opportunities in the current UC 401(a), 403(b) and 457(b) plans,

   d) a replication of the UC-LLNL health and welfare plans for active employees (medical, dental, life, disability, etc.); and

Section C - LLNS Benefit Design Policy Statement (cont.)

2) Provide a "Market Based" benefit plan for new hires, retiring UC employees and other LLNS partner company transferees hereinafter referred to as Total Compensation Package 2 (TCP2). TCP2 shall not exceed 105% of market, aligned with comparator companies and includes:

a) an access-only retirement medical plan for new hires,

b) a retiree medical plan for Inactive Vested Transferring Employees that freezes UCRP service credit as of September 30, 2007 towards the employer subsidy*, and

c) a 401(k) plan with a matching company contribution plus an additional service-based company contribution, and

d) a replication of the UC-LLNL health and welfare plans (medical, dental, life, disability, etc.)”

* NNSA has agreed to exempt this benefit for Inactive Vested Transferring Employees from inclusion in the TCP2 BenVal in determining the 105% of market target.

Retirement Programs

Substantially Equivalent (TCP1)	Market Based (TCP2)
Defined Benefit Pension Plan substantially equivalent to the UCRP ▪ Formula is 2.5% of high 3-year average pay reduced by Social Security offset, with Cost-of-Living Adjustments ▪ Formula for Safety members is 3% of high 3-year average pay, with Cost-of-Living Adjustments (subject to nondiscrimination testing)	Defined Benefit Pension Plan ▪ None
Defined Contribution Plan ▪ Create unmatched 401(k) plan – i.e., gives employees opportunity to save for retirement on tax deferred basis ▪ Maximum annual employee pre-tax savings of $15,500, subject to non-discrimination testing (plus allowable catch-up contributions)	Defined Contribution Plan ▪ 401(k) plan with employer match plus unmatched contribution ▪ Match is 100% of pay on first 6% of pay ▪ Service based contribution: 1.0% per year for 0-9 years of service, 1.75% for 10 -19 years of service, 2.75% for 20+ years of service ▪ Maximum annual employee pre-tax savings of $15,500 (plus allowable catch-up contributions)
Retirement Medical ▪ Service-based (100% employer contribution cost paid after 20 years, 5% increments between 10-20 years, 50% with 5-9 years AND age & service of 75+, 0% under 5 years.)	Retirement Medical ▪ Access-only for new hires ▪ Service-based for Inactive Vested Transferring Employees (100% employer contribution cost paid after 20 years, 5% increments between 10-20 years, 50% with 5-9 years AND age & service of 75+, 0% under 5 years). Service is frozen as of September 30, 2007.* * NNSA has agreed to exempt this benefit for Inactive Vested Transferring Employees from inclusion in the TCP2 BenVal in determining the 105% of market target.

Section D - Total Compensation Package 1

- TCP1 objective is to provide a complete package of employee pay and benefits plans substantially equivalent in the aggregate compared to UC LLNL
- Per RFP, LLNS must consider amending TCP1 benefit programs consistent with future UC changes
- Substantially equivalent benefit plans will be provided by substantially replicating the UC benefits (see page 11 bullet 5)
- A Hewitt Benefits Value Study conducted in May 2007 has concluded that TCP1 and the current UC LLNL benefit plans have nominally the same relative value at 99.6% and are therefore substantially equivalent in the aggregate
  - ERISA required changes to pre-retirement survivor benefits would increase the value of TCP1 by about 0.5%
  - Estimated value of reduced employee defined contribution pre-tax savings opportunities, 401(a) contributions and new social security taxes, compliant with IRS regulations, would reduce TCP1 value by about 1.0 to 1.1%%

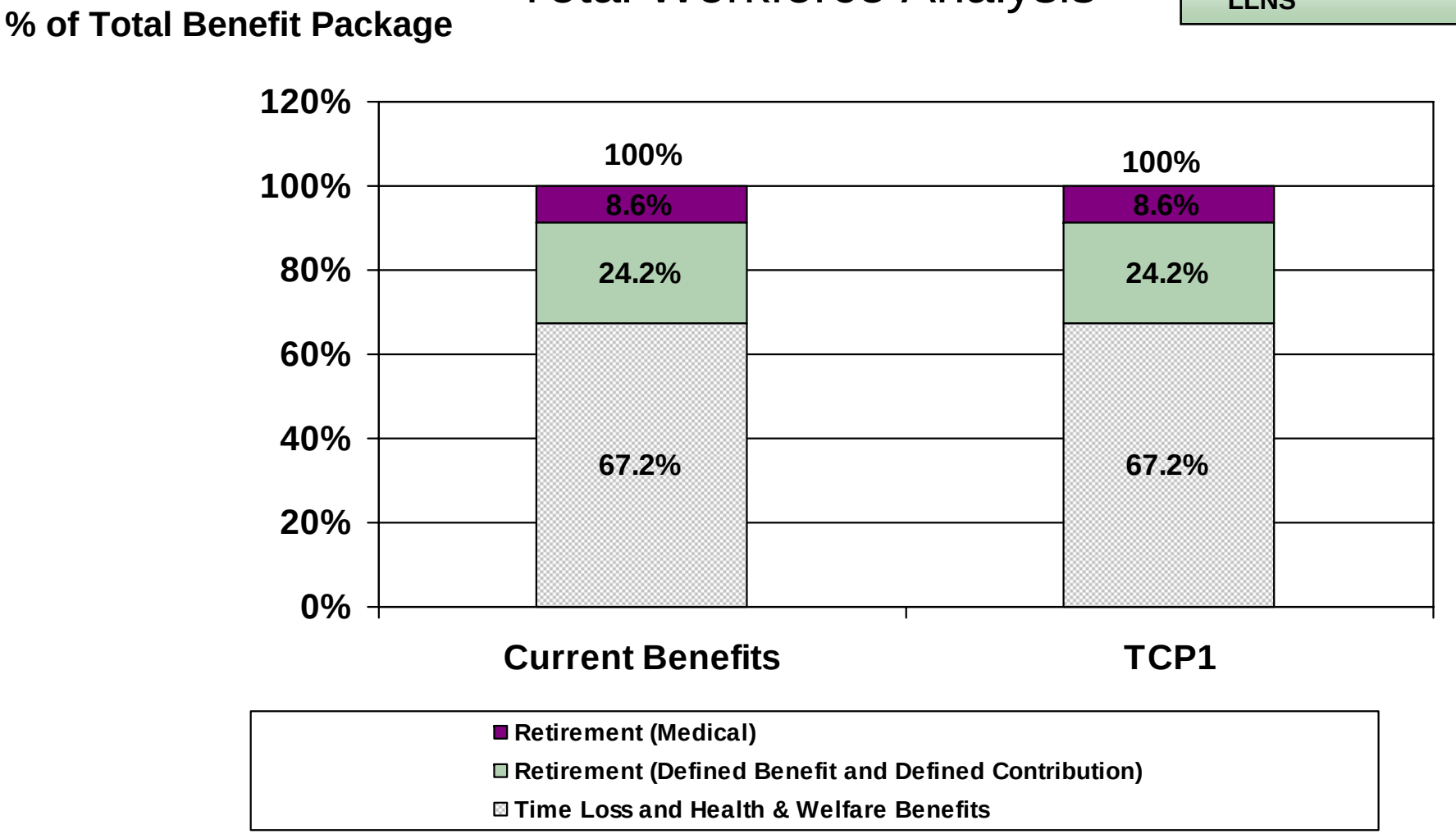
Section D - Total Compensation Package 1 (cont.)

- UC-LLNL benefits are substantially above market – i.e., 130.7% of market Relative Value Index per Benefits Value assessment conducted by Hewitt Associates in May 2007
- Comparator companies for the Hewitt Associates Benefits Value assessment utilized same comparator companies approved by DOE for April 2004 study
- UC-LLNL Benefits Value study conducted by Hewitt in April 2004 reflected that UC-LLNL benefits were substantially above market – i.e., 128% of market Relative Benefit Value Index
- 2004 to 2007 change in market Relative Benefit Value Index primarily due to peer companies shifting more health and welfare cost to employees
- **"**Will replicate**"** means the benefit delivered will be substantially equivalent in the aggregate

Section D - Total Compensation Package 1 Current Benefits vs. TCP1

- **Time Loss and Health & Welfare will be replicated for LLNS**

Total Workforce Analysis[1]

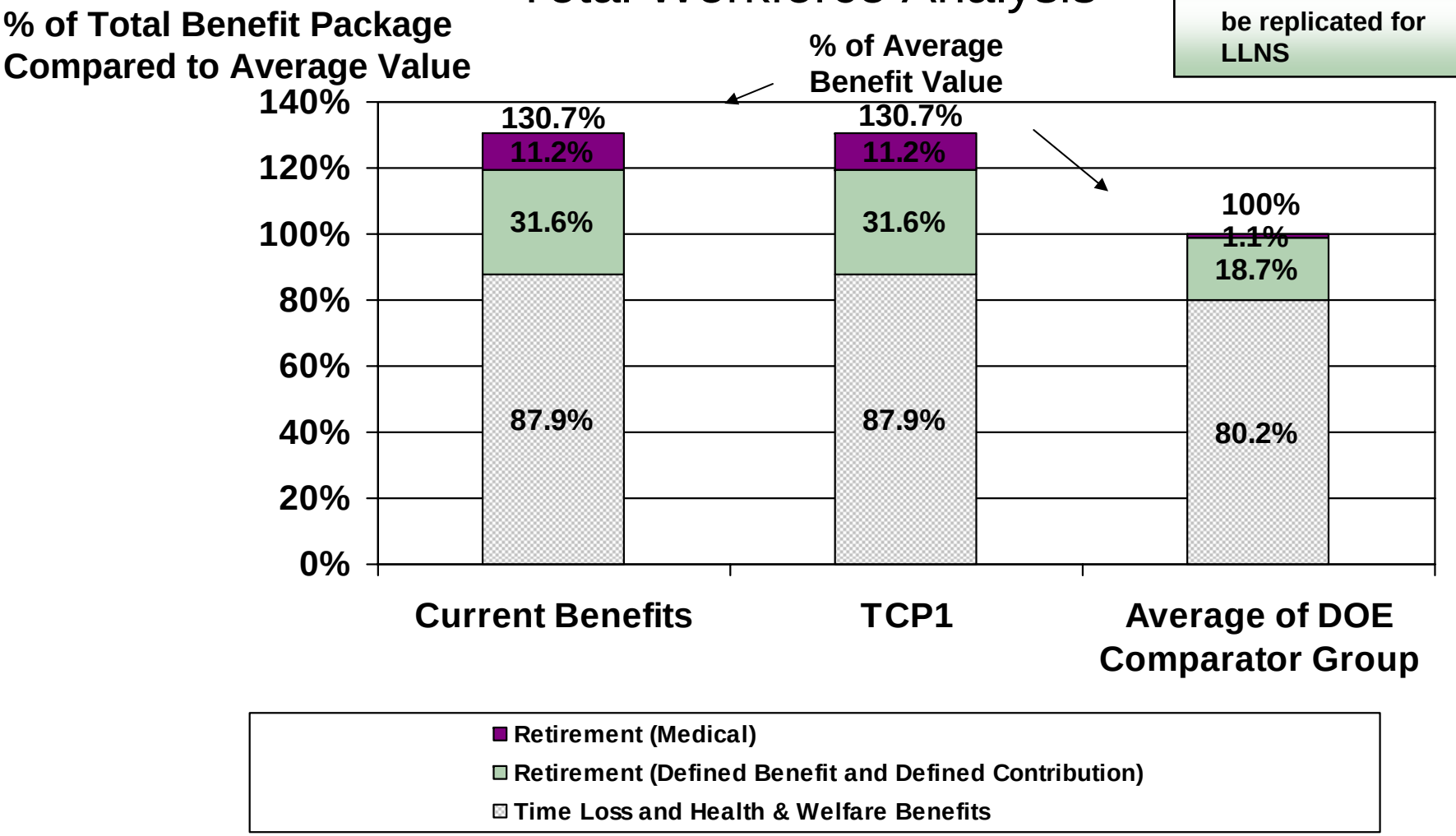


1. Results presented are based on Hewitt 2007 Benefit Value Index study

Section D - Total Compensation Package 1 Current Benefits, TCP1 & Comparator Group

Total Workforce Analysis[1]

- **Time Loss and Health & Welfare will be replicated for LLNS**



1. Results presented are based on Hewitt 2007 Benefit Value Index study

Section D - Total Compensation Package 1
Summary of Current UC and Future LLNS TCP1 Defined Benefit Plans

Provision	Current University of California Retirement Plan (UCRP)	Future LLNS TCP1 Defined Benefit Plan
Eligibility	Three tiers based on position. 1) Immediate eligibility: “eligible appointments” at least 50% time schedule 2) 1000 hours in 12 months (rolling): Limited appointments, contract positions, “noncareer” positions 3) 750 hours (no stated period): “Non-Senate Instructional Unit	Active participants in the UCRP (or active employees in an eligible employment classification) on September 30, 2007 who • Have not retired or have not elected inactive vested status in the UCRP, and • Join LLNS on October 1, 2007 (or join on a later date if on an approved leave of absence from UC on October 1, 2007, and • Elect TCP1 prior to joining LLNS.
Mandatory Member Contributions	Plan provisions exist in the UCRP for employee contributions. While allowed, no contributions are currently required.	Will replicate UCRP plan provisions regarding ability to require member contributions in the future. While allowed, no contributions are currently required.
Employer Contributions	As required per annual actuarial valuation.	As required per annual actuarial valuation.
Capital Accumulation Provision (CAP)	Fully vested accounts arising from ad-hoc employer contributions.	Will not retain this provision, nor transfer accounts from the UCRP.
Service credit for accumulated sick leave	Credited at retirement	Will retain this practice in LLNS Plan and accept transfer of service credit as elected by transferring employee.
Vesting	5 years (or age 62 if participated before 7/1/89)	May move to 3-year cliff vesting and add full vesting at normal retirement age (ERISA requirement). IRS guidance regarding “hybrid” plan may require that vesting be changed to 3 years.
Special Service Crediting Rules	Various buyback provisions	Will not replicate buy back provisions due to IRS rules. LLNS will accept service credited under UCRP as reported by UCRP administrator.
Reciprocity with Public Sector Plans	Reciprocity with CalPERS, CalSTRS and several county systems.	Will not replicate due to complications under IRS rules regarding imputed service.

Section D - Total Compensation Package 1
Summary of Current UC and Future LLNS TCP1 Defined Benefit Plans (cont.)

Provision	Current University of California Retirement Plan (UCRP)	Future LLNS TCP1 Defined Benefit Plan
Basic Benefit Formula	4 formulas in Plan ▪ Social Security eligible: 2.5% of highest 3-year average pay less $133 per year of service less noncontributory/leave offset ▪ SS ineligible: 2.5% of highest 3-year average pay per year of service less noncontributory/leave offset ▪ Safety members: 3% of highest 3-year average pay per year of service less noncontributory/leave offset ▪ Tier II: 1.25% of highest 3-year average pay per year of service ▪ Age factors are lower for retirement prior to normal retirement age for all members except Safety ▪ Service is effectively capped at 40 years (33-1/3 years for safety members)	Will replicate basic formulas. Prospectively the Social Security ineligible formula is to be continued only for those who are able to demonstrate that they do not attain “fully insured” status under Social Security. Separately, Social Security taxes paid by the employee may be refunded in the future with the same demonstration of non-eligibility. Nondiscrimination testing will be required if, after legal review, formula is found not to be safe-harbor. Inclusion of Safety members could add additional complexity to nondiscrimination testing, and the testing results may require modifications.
Pensionable Compensation	High Average Pension Compensation (HAPC) – High 36 months over entire career. Compensation cap is $305,000 for Members active before 7/1/94.	Will replicate HAPC provisions, except that compensation will be capped at lower ERISA limits for members active before 7/1/94. LLNS non-qualified excess benefit plan will be expanded for participants impacted by this limitation.

Section D - Total Compensation Package 1 Summary of Current UC and Future LLNS TCP1 Defined Benefit Plans (cont.)

Provision	Current University of California Retirement Plan (UCRP)	Future LLNS TCP1 Defined Benefit Plan
Forms of Payment	Lump Sum Cashout or "Normal" Payment Form: ▪ Life annuity with 25% survivor continuance to "eligible" survivors (50% for Social Security ineligible and Safety) ▪ Life annuity *only if* no "eligible" survivor at retirement date Optional forms of payment: with respect to share of Basic Retirement Income *not* subject to survivor continuance (75% for SS eligible, 50% for SS ineligible and Safety): ▪ Life annuity ▪ 100%, 66 2/3% or 50% joint & contingent Special optional form that may be elected by participant with spouse or domestic partner: ▪ 50% joint & survivor with spouse or domestic partner with respect to 100% of Basic Retirement Income Spousal consent is not required to elect optional form of payment.	Due to ERISA considerations (described below) and DOE contract provisions, forms of payment will be simplified. The following optional forms of payment will be offered: "Normal" Payment Form: Married participants: 50% joint and survivor annuity with spouse Single participant (including participant with domestic partner): Life annuity Optional forms of payment: ▪ Life annuity ▪ 100%, 66 2/3% or 50% joint & contingent annuities with any chosen beneficiary (including domestic partner) ▪ 75% joint & survivor option must be added due to 2006 Pension Protection Act As required by ERISA, the "normal" form of benefit for a married participant will be a 50% joint & survivor annuity. The spouse must consent to any optional form of payment or designation of another beneficiary, except a joint & survivor annuity that provides a larger survivor benefit to the spouse. The survivor continuance feature will be eliminated but substantially equivalent value will be provided in order to eliminate administrative complexity of meeting ERISA requirements. This value will be provided by increasing the 50% joint and survivor annuity and 100%, 66 2/3% and 50% joint & contingent annuities by 2.4% percent (4.8% for current Social Security ineligibles and Sefety). New plan will include ERISA spousal consent requirements. The lump-sum cashout will be eliminated because ERISA lump sum requirements result in a possible windfall benefit. NNSA and LLNS have agreed that includsion of a lump sum option would result in a benefit that is not substantially equivalent to the benefit under UCRP. If a lump sum is taken from UCRP, eligibility for retiree medical is forfeited.

Section D - Total Compensation Package 1 Summary of Current UC and Future LLNS TCP1 Defined Benefit Plans (cont.)

Provision	Current University of California Retirement Plan (UCRP)	Future LLNS TCP1 Defined Benefit Plan
Social Security supplement	Social Security eligible-only: $133 x service x age-based benefit factor, payable to age 65.	Will replicate.
Normal retirement	Age 60 with 5 years (Unreduced early retirement benefits available at age 50 with 5 years for Safety).	Will replicate. Must substantiate that Normal Retirement Ages are “reasonably representative of typical retirement age for the industry” in accordance with IRS final regulations.
Early retirement	Age 50 with 5 years. Not applicable for Safety.	Will replicate.
Early retirement reduction	Incorporated in age factors; equivalent to 5.6% per year from age 60. Not applicable for Safety.	Will replicate.
Disability benefit	5 years of service to be eligible. Benefit is a % of final pay, percentage depends on service. Percentage also depends on number of eligible children for Social Security ineligible and Safety. Converts to retirement benefit upon eligibility. Continued service and compensation. Accruals unless/until retirement benefit is as large as disability benefit. Earnings increased at cost-of-living.	Will replicate. If unable to replicate in the pension plan, will replicate in a H&W disability benefit plan.
Basic death benefit	$7,500 payable to beneficiary upon member’s death. Capital Accumulation Payment (CAP) with interest. Refund of remaining unpaid balance of employee contributions, with interest.	Will replicate $7,500 death benefit and refund of employee contribution balance, if any. CAP accounts were created by UC for a specific purpose that will not be applicable to LLNS.

Section D - Total Compensation Package 1 Summary of Current UC and Future LLNS TCP1 Defined Benefit Plans (cont.)

Provision	Current University of California Retirement Plan (UCRP)	Future LLNS TCP1 Defined Benefit Plan
Pre-retirement survivor benefit (prior to retirement eligibility)	Requires 2 years of service/disability status Social Security Eligible: 25% of final pay, less $106.40 after first 3 months of payment. Non Social Security Eligible: Minimum of 25% of final pay or $200/month, increases based on number of survivors. Safety: Death in the course of duty - Minimum of 50% of highest 3-year average pay, increases based on number of survivors. Death not in the course of duty - Minimum of 25% of final pay or $200/month, increases based on number of survivors. Tier II: 5% of final pay per year of service.	Benefits for all members will be improved to the extent needed to meet ERISA pre-retirement survivor minimum requirements, which generally require minimum of 50% pre-retirement survivor benefit for spouse. For all members, benefits in excess of ERISA pre-retirement survivor minimum requirements will be provided through a H&W survivor income benefit plan. (Incidental death benefit rules cap the maximum percentage of Basic Retirement Income that can be paid to non-spouse beneficiaries. The amount of the reduction will vary, depending on the relative ages of the plan member and non-spouse beneficiary.)
Pre-retirement survivor benefit (retirement-eligible members)	Similar to 100% J&C option, or pre-retirement-survivor benefit (described above) if greater. Provided to spouses and domestic partners only. Temporary Social Security supplement as well.	For all members, benefits in excess of ERISA pre-retirement survivor minimum requirements will be provided through a H&W survivor income benefit plan. (Incidental death benefit rules cap the maximum percentage of Basic Retirement Income that can be paid to non-spouse beneficiaries. The amount of the reduction will vary, depending on the relative ages of the plan member and non-spouse beneficiary.)
Cost-of-living adjustments to benefits	July 1 based on preceding year's CPI (Los Angeles & San Francisco February to February). 100% of CPI increase up to 2%. 75% of CPI increase over 4%. Maximum 6% COLA.	Will replicate with exception that effective July 1, 2008, COLA in initial year of retirement will be pro-rated based on number of monthly payments received out of 12.

Section D - Total Compensation Package 1
Summary of Current UC and Future LLNS TCP1 Defined Benefit Plans (cont.)

Provision	Current University of California Retirement Plan (UCRP)	Future LLNS TCP1 Defined Benefit Plan
Cost-of-living adjustments to highest average plan compensation (HAPC)	July 1 based on preceding year's CPI (Los Angeles & San Francisco February to February). 100% of CPI increase up to 2%.	Will replicate with exception that effective July 1, 2008, COLA in final year of employment will be pro-rated based on number of completed months of employment out of 12.

Section D - Total Compensation Package 1
Highlights of Current UC and Future LLNS TCP1 Defined Contribution Programs

Current UC Defined Contribution Program consists of three plans:

- 457(b) Deferred Compensation Plan ("457(b)")
- 401(a) Defined Contribution Plan ("401(a) DC")
- 403(b) Tax-Deferred Annuity Plan ("403(b) TDA")

The future LLNS Defined Contribution Program will consist of only one plan, since LLNS is ineligible to sponsor a 403(b) plan or a plan with mandatory pre-tax "pick-up" contributions (like UC 401(a) DC):

- 401(k) Defined Contribution Plan

Section D - Total Compensation Package 1 Highlights of Current UC and Future LLNS TCP1 Defined Contribution Programs (cont.)

Provision	Current University of California Defined Contribution Plans	Future LLNS TCP1 Defined Contribution Plan
Eligibility	All employees except students working < 20 hours/week.	All employees eligible for TCP1, except students working < 20 hours/week.
Mandatory Member Pre-tax Contributions	401(a) DC Plan ▪ Social Security eligible: 2% of Covered Compensation to OASDI Wage Base, 4% in excess, minus $19/month. ▪ Non-Social Security eligible: 3% of Covered Compensation, minus $19/month. ▪ Summer Employees (Summer employees are members of the UCRP who accept an additional Summer term appointment) are required to contribute an additional 3.5% of their Summer salary. 403(b) TDA and 457(b) ▪ No mandatory contributions.	Mandatory pre-tax “pick up” contribution feature of 401(a) DC plan cannot be replicated.
Voluntary Member Pre-Tax Contributions	457(b) Plan ▪ “Normal” deferral, plus ▪ “Special” catch up in last 3 years, plus ▪ Age 50 catch up 403(b) TDA ▪ “Normal” deferral, plus ▪ “Special” catch up after 15 years of service, plus ▪ Age 50 catch up 401(a) DC Plan None	LLNS is legally prohibited from sponsoring a 457(b) plan; will not be replicated. Employee pre-tax deferral opportunities will be reduced due to inability for LLNS to offer a 457(b) plan. 401(k) plan will replace the 403(b) TDA.

Section D - Total Compensation Package 1 Highlights of Current UC and Future LLNS TCP1 Defined Contribution Programs (cont.)

- LLNS employees will now be subject to private sector rules vs. governmental (public) plan rules for maximum allowable pre-tax savings:
  - Maximum employee pre-tax savings are subject to 401(k) rules vs. 403(b) and 457(b) rules; the 2007 limits are:

Sample Employee	Public Sector Plans - 403(b) and 457(b) Maximums in Total	Private Sector Plans – 401(k) Maximum
Under Age 50	$31,000	$15,500
Age 50 & Older	$41,000	$20,500

- 401(a) DC Plan cannot be replicated (2% mandatory pre-tax contribution for most employees)
- 2007 Short Plan Year – 402(g) limit applies to employee's pre-tax deferrals individually (across all plans in which the individual participates during 2007); may limit some employees who have maximized their deferrals at UC

Section D - Total Compensation Package 1 Highlights of Current UC and Future LLNS TCP1 Defined Contribution Programs (cont.)

Provision	Current University of California Defined Contribution Plans	Future LLNS TCP1 Defined Contribution Plan
Employer Contributions	401(a) DC Plan ▪ 3.5% of Summer salary for "Summer employees" (Summer employees are members of the UCRP who accept an additional Summer term appointment).	Contribution for Summer employees will be provided under TCP2.
Voluntary Member After-Tax Contributions	401(a) DC Plan - *only* ▪ After-tax contributions permitted per payroll deduction agreement, limited only by 415(c) 403(b) Plan and 457(b) Plan ▪ None	Will provide after-tax contributions in 401(k) plan. Pre-tax and after-tax contributions aggregated for 415(c) contribution limit ($45,000 for 2007).
Rollover Contributions	All plans allow rollovers	401(k) plan can accept rollovers from all three current plans (401(a) DC plan, 403(b) TDA and 457(b) plan)
Vesting	Immediate	Immediate.
Withdrawals/ In-service Distributions	Both the 403(b) TDA and 457(b) plan allow for: ▪ Hardship withdrawals ▪ Limited in-service withdrawals	Will implement 401(k) safe harbor hardship rules (similar to 403(b) and more liberal than 457(b) rules).
Distributions on Severance from Employment	Members may elect distributions to begin any time after severance, except that distributions must begin as needed to meet IRS minimum distribution requirements.	Members may elect distributions to begin any time after severance, except that distributions must begin as needed to meet IRS minimum distribution requirements.
Forms of Payment	Various forms of payment, including partial distributions and purchase of annuity.	Plan will provide for lump sums and installments.

Section D - Total Compensation Package 1 Highlights of Current UC and Future LLNS TCP1 Defined Contribution Programs (cont.)

Provision	Current University of California Defined Contribution Plans	Future LLNS TCP1 Defined Contribution Plan
Investment options	Participant-directed. ▪ Core funds (UC Funds available) ▪ Mutual funds ▪ Brokerage Window	A range of investment options will be offered. Cannot replicate current Core fund investment options and administrative expense levels since they are UC proprietary. However, investment options will be similar to the current options to the extent possible. New administrative expense levels may be higher than current Core fund levels, but will be within market standards. LLNS will negotiate with the plan vendor to get market-based, competitive expense ratios.
Death benefits	Lump sum Beneficiary may request annuity purchase	Will be replicated.
Member Loans	403(b) TDA: ▪ Standard loan provisions DC Plan and 457(b) Plan: ▪ Not available.	Will implement standard loan provisions in the new 401(k) plan.

Section D - Total Compensation Package 1
Summary of Current UC 415(m) and Future LLNS TCP1 Non-Qualified Plans

Provision	Current University of California 415(m) Plan	Future LLNS TCP1 Non-Qualified Plan
Regulation under IRS Code Section 409A	UC 415(m) plan not subject to Code Section 409A rules.	LLNS Plan will be subject to Code Section 409A. Revisions to form and timing of benefit payments will be required, as described in the sections "Form of Payment" and "Commencement of Retirement Benefits" that follow. Benefits provided from this plan will be reported as income on member's W-2 forms in the year they are earned to the extent required under new IRS 409A regulations.
Eligibility	UCRP members whose benefits are limited by benefit limitations under IRS Code Section 415(b).	Will be replicated, with the addition of including UCRP members active prior to July 1, 1994, whose pensionable compensation exceeds current ERISA compensation limits.
Member Contributions	None	None.
Employer Contributions	Unfunded.	Unfunded.
Vesting	Not vested.	Benefit promise will be enforceable under standard contract law.
Basic Benefit Formula	Provides difference between employer-funded portion of UCRP benefit without regard to 415(b) limitations and UCRP formula, as limited by 415(b). Include CAP payments if they are limited by 415(b) Redetermined annually on July 1.	Replicate benefit provided under current 415(m) plan and add provision of benefit in excess of IRS compensation limits for UCRP members active before July 1, 1994.

Section D - Total Compensation Package 1
Summary of Current UC 415(m) and Future LLNS TCP1 Non-Qualified Plans (cont.)

Provision	Current University of California 415(m) Plan	Future LLNS TCP1 Non-Qualified Plan
Forms of Payment	Mirrors Member's elected form of payment under UCRP. Member who elects lump sum cashout from UCRP receives actuarially equivalent benefit paid in 120 monthly installments if benefit is >$35,000; Otherwise – lump sum payment.	Form and timing of benefit payments can no longer be linked to member's elections under retirement plan. They will be elected in the tax year before benefits are accrued – or as determined in accordance with plan terms, as required by the new IRS 409A regulations.
Commencement of Retirement Benefits	Linked to Member's election under UCRP.	Form and timing of benefit payments can no longer be linked to member's elections under retirement plan. They will be elected in the tax year before benefits are accrued – or as determined in accordance with plan terms, as required by the new IRS 409A regulations.
Survivor benefits	Provided to Eligible Survivor, Beneficiary or Contingent Annuitant of Member if benefits limited by 415(b). Determined in accordance with form of payment elected by member, or provisions of pre-retirement survivor continuance, or pre-retirement death benefits under UCRP. If Member elects lump sum cashout from UCRP, and receives 120 monthly installments, Beneficiary designated under the 415(m) Plan receives remainder of installments.	Will simplify plan to pay lump sum survivor benefits as provided under the new IRC Section 409A provisions.

Section D - Total Compensation Package 1
Summary of Current UC and Future LLNS TCP1 Health & Welfare Plans

Provision	Current University of California H&W Plans	Future LLNS TCP1 & TCP2 H&W Plans
Medical	▪ POS ▪ PPO ▪ High Option ▪ Core Plan ▪ Definity Health - CA ▪ Health Net ▪ Kaiser CA HMO ▪ Kaiser Mid-Atlantic HMO ▪ PacifiCare of CA HMO ▪ PacifiCare of NV HMO ▪ Western Health Advantage	Will replicate – If some plans have low enrollment, the vendor may not be willing to offer the benefit plan to LLNS.

Section D - Total Compensation Package 1
Summary of Current UC and Future LLNS TCP1 Retirement Health & Welfare Plans

Provision	Current University of California Retiree H&W Plans	Future LLNS TCP1 Retiree H&W Plan
Retirement Medical	▪ Eligibility: Receiving monthly UCRP income with 10 years of service at retirement or with five years and meeting "Rule of 75" ▪ Plan offered: generally same as employees ▪ Maximum UC Contributions: Service-based (100% of maximum employer contribution after 20 years or hired pre-1990, 5% increments between 10-20 years, 50% with 5-9 years AND age & service of 75+, 0% under 5 years.) ▪ Member Contribution: Difference between Gross Rate and maximum UC contribution. ▪ Medicare Part B reimbursement: If the maximum UC contribution is greater than the rate for the plan chosen by a Medicare-eligible retiree, then the difference can be used to pay for all or a portion of the Medicare Part B premium ▪ Dependent Coverage: Eligible Adult Family Member and Eligible Child ▪ Survivor Coverage: Yes	Will replicate – some vendors may not be willing to offer a contract due to low enrollment.
Retiree Dental	▪ Plans offered: same as employees ▪ Contributions: See Medical ▪ Dependent Coverage: Eligible Adult Family Member and Eligible Child ▪ Survivor Coverage: Yes	Dental PPO: Will replicate. Delta Dental/PMI: Will replicate.
Retiree Legal	▪ Same as employees	Will replicate.
Retiree AD&D	▪ Generally same as employees	Will replicate.

Section D - Total Compensation Package 1
Summary of Current UC and Future LLNS TCP1 Health & Welfare Plans (cont.)

Provision	Current University of California H&W Plans	Future LLNS TCP1 & TCP2 H&W Plans
Dental	▪ Dental PPO ▪ Delta Dental/PMI	Dental PPO: Will replicate. Delta Dental/PMI: Will replicate.
Vision	Basic Vision	Will replicate.
Life	Basic Life Core Life Supplemental Life (Voluntary Plan) Basic Dependent Life (Voluntary Plan) Expanded Dependent Life (Voluntary Plan)	Will replicate.
Accidental Death & Dismemberment	Voluntary Plan	Will replicate.
Short-Term Disability	▪Basic STD ▪Supplemental STD (Voluntary Plan)	Will replicate.
Long-Term Disability	▪Supplemental LTD (Voluntary Plan) ▪UCRP Plan	Will replicate. May combine both plans into stand-alone ERISA plan.

Section D - Total Compensation Package 1
Summary of Current UC and Future LLNS TCP1 Health & Welfare Plans (cont.)

Provision	Current University of California H&W Plans	Future LLNS TCP1 & TCP2 H&W Plans
Legal	Voluntary Plan	Will replicate.
Tax-Savings Insurance Plan (TIP)	Section 125 Plan	Will replicate
Flexible Spending Accounts	▪Healthcare Reimbursement Account ▪Dependent Care Account	Will replicate.
Auto/Home Insurance	Voluntary Plan	Will replicate.
UC Tuition Waiver	Family members of UC employees who live outside of California can attend UC school and pay in-state tuition.	Will replicate. Regents need to approve extending this waiver to LLNS employees.
Scholarshare Program	529 Savings Plan	Will replicate.
Employee Tuition Reimbursement	Reimbursement for certain educational expenses.	Will replicate.
Employee Assistance Plan	Counselors are employees of UC and reside on-site at LLNL	Will replicate.
Business Travel Accident Insurance	Basic BTA	Will replicate.
Senior Management Life Insurance	Executive Benefit Plan	Will replicate.

Section E - Total Compensation Package 2

- Objective is to attract and retain talent
- TCP2 must be market based; should not exceed 105% of market based on Relative Benefit Value Index as directed in the RFP
- Will replicate UC-LLNL H&W plans for site consistency
- In response to the market, the TCP2 benefits package will have a:
  - Defined contribution plan, and
  - Access-only retirement medical plan for new hires
  - A retiree medical plan for Inactive Vested Transferring Employees that freezes UCRP service credit as of September 30, 2007 towards the employer subsidy*

* NNSA has agreed to exempt this benefit for Inactive Vested Transferring Employees from inclusion in the TCP2 BenVal in determining the 105% of market target.

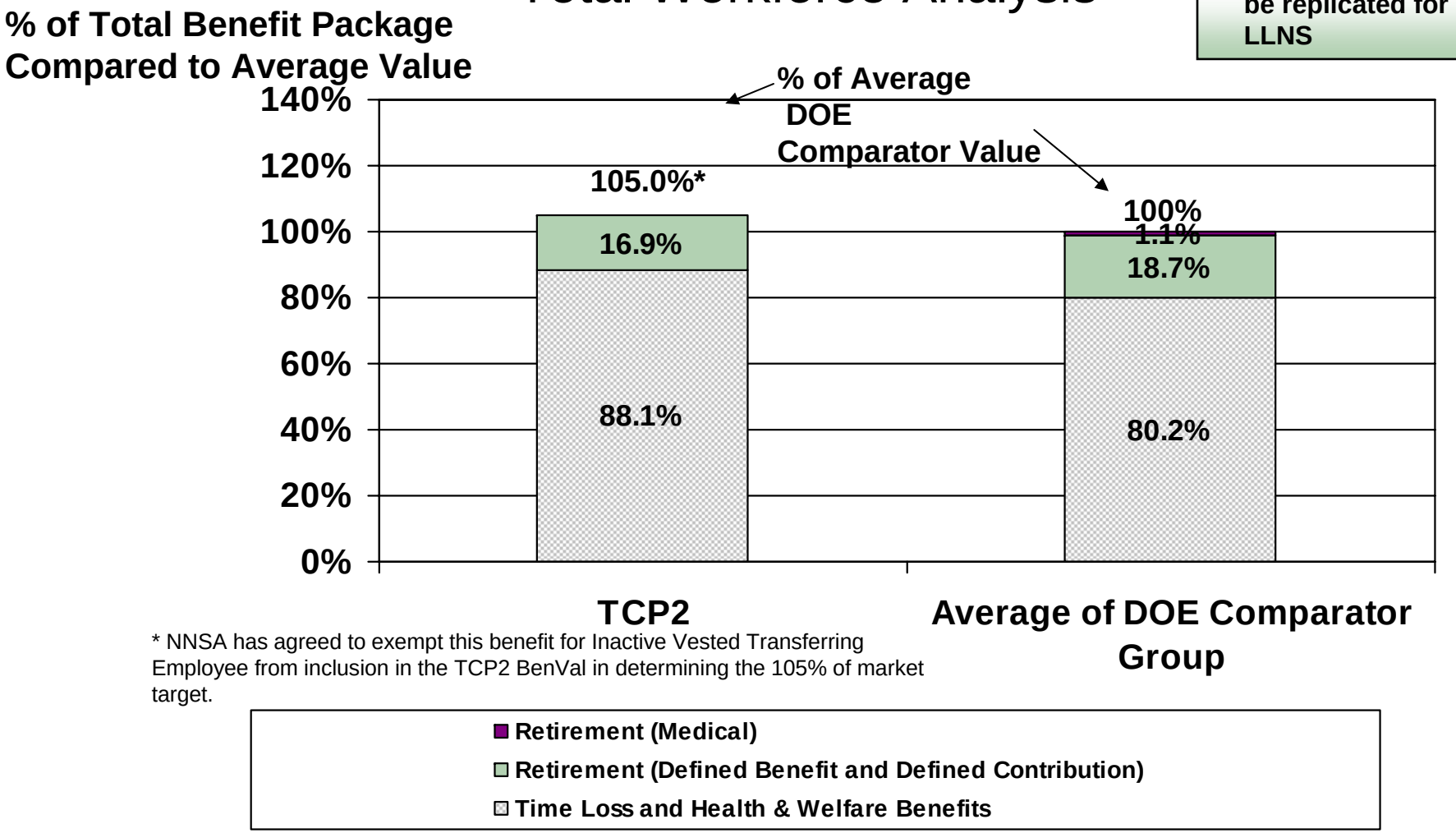
Section E - Total Compensation Package 2
Proposed TCP2 Retirement Program Pros/Cons

- Pros
  - All Account-based – Easiest to communicate, portable except for retirement medical
  - Predictable costs
  - Retention element in service based contribution
  - No investment risk for customer
- Cons
  - Benefits “front-loaded”
  - Investment and mortality risk for employees
  - Benefit structure is different than TCP1 and Comparator Companies (shown on page 36)

Section E - Total Compensation Package 2
TCP2 vs. Average of Comparator Companies

- **Time Loss and Health & Welfare will be replicated for LLNS**

Total Workforce Analysis[1]



* NNSA has agreed to exempt this benefit for Inactive Vested Transferring Employee from inclusion in the TCP2 BenVal in determining the 105% of market target.

[1.] Results presented are based on Hewitt 2007 Benefit Index Study

Section E - Total Compensation Package 2
Proposed TCP2 Defined Contribution 401(k) Plan

Provision	Proposed LLNS TCP2 401(k) Plan
Eligibility	Immediate eligibility for those transfers who are eligible for TCP2 (as described on page 7 of this presentation). Immediate eligibility for LLNS new hires, except students working less than 20 hours/week.
Voluntary Member Pre-tax Contributions	Allowed, up to IRS limitations on elective deferrals. ▪ $15,500 for 2007, plus additional $5,000 catch-up for employees over age 50 ▪ 402(g) limit applies to combined elective deferrals with all employers (UC and LLNS)
Voluntary Member After-Tax Contributions	Allowed, up to IRS limitation on total contributions (including both employer and employee) to the plan. ▪ $45,000 for 2007 ▪ Non-discrimination testing required (ACP test) on after-tax contributions
Employer Matching Contributions	100% match on first 6% of member voluntary pre-tax contributions
Employer Non-matching Contributions	Service-based contribution: 1.0% per year for 0-9 years of service, 1.75% for 10 -19 years of service, 2.75% for 20+ years of service. Nondiscrimination testing will be required.
Investment Options	Participant-directed. A range of appropriate investment options, same as those available under TCP1.
Rollover Contributions	Plan will accept qualified rollovers, including 401(a), 403(b) and 457(b) amounts.
Vesting	Immediate on employee pre-tax, after-tax, employer match and employer non-matching contributions.
Withdrawals/In-service Distributions	Standard safe-harbor hardship withdrawal provisions. No other in-service distributions, except for rollovers and after-tax contributions. Matching contributions not available for hardship.
Distributions	Account balance will be paid upon retirement or termination. Upon death of member, account balance will be paid to designated beneficiary.
Loans	Plan will include standard safe-harbor loan provisions.

Section E - Total Compensation Package 2 Summary of Current UC and Future LLNS TCP2 Health & Welfare Plans

Provision	Current University of California H&W Plans	Future LLNS TCP1 & TCP2 H&W Plans
Medical	▪ POS ▪ PPO ▪ High Option ▪ Core Plan ▪ Definity Health - CA ▪ Health Net ▪ Kaiser CA HMO ▪ Kaiser Mid-Atlantic HMO ▪ PacifiCare of CA HMO ▪ PacifiCare of NV HMO ▪ Western Health Advantage	Will replicate – If some plans have low enrollment, the vendor may not be willing to offer the benefit plan to LLNS

Section E - Total Compensation Package 2
Summary of Current UC and Future LLNS TCP2 Health & Welfare Plans

Provision	Current University of California H&W Plans	Future LLNS TCP1 & TCP2 H&W Plans
Dental	▪ Dental PPO ▪ Delta Dental/PMI	Dental PPO: Will replicate. Delta Dental/PMI: Will replicate.
Vision	Basic Vision	Will replicate.
Life	Basic Life Core Life Supplemental Life (Voluntary Plan) Basic Dependent Life (Voluntary Plan) Expanded Dependent Life (Voluntary Plan)	Will replicate.
Accidental Death & Dismemberment	Voluntary Plan	Will replicate.
Short-Term Disability	▪Basic STD ▪Supplemental STD (Voluntary Plan)	Will replicate.
Long-Term Disability	▪Supplemental LTD (Voluntary Plan) ▪UCRP Plan	Will replicate. May combine both plans into stand alone ERISA plan.

Section E - Total Compensation Package 2
Summary of Current UC and Future LLNS TCP2 Health & Welfare Plans (cont.)

Provision	Current University of California H&W Plans	Future LLNS TCP1 & TCP2 H&W Plans
Legal	Voluntary Plan	Will replicate.
Tax-Savings Insurance Plan (TIP)	Section 125 Plan	Will replicate
Flexible Spending Accounts	▪Healthcare Reimbursement Account ▪Dependent Care Account	Will replicate.
Auto/Home Insurance	Voluntary Plan	Will replicate.
UC Tuition Waiver	Family members of UC employees who live outside of California can attend UC school and pay in-state tuition	Will replicate. Regents need to approve extending this waiver to LLNS employees.
Scholarshare Program	529 Savings Plan	Will replicate.
Employee Tuition Reimbursement	Reimbursement for certain educational expenses	Will replicate.
Employee Assistance Plan	Counselors are employees of UC and reside on-site at LLNL	Will replicate.
Business Travel Accident Insurance	Basic BTA	Will replicate.
Senior Management Life Insurance	Executive Benefit Plan	Will replicate.

Section E - Total Compensation Package 2
Proposed TCP2 Retirement Medical and Dental Plan

Provision	Proposed LLNS TCP2 Post Retirement Medical and Dental Plan
Retirement Medical Eligibility	Age 50 with 10 years of service at retirement or with five years and meeting “Rule of 75”
Medical Plans Offered	Same as TCP1
Employer Medical Contributions	•None for new hires •A retiree medical plan for Inactive Vested Transferring Employees that freezes service credit towards the employer subsidy*
Medicare Part B reimbursement	Not available
Dependent Coverage	Same as TCP1
Survivor Continuance	Yes
Dental Eligibility	Same as Retirement Medical above
Dental Plans Offered	Same as TCP1
Employer Dental Contributions	None
Dependent Coverage	Same as TCP1
Survivor Continuance	Yes

* Consistent with direction from NNSA to LLNS, this benefit is exempted from inclusion in the TCP2 BenVal in determining the 105% of market target.

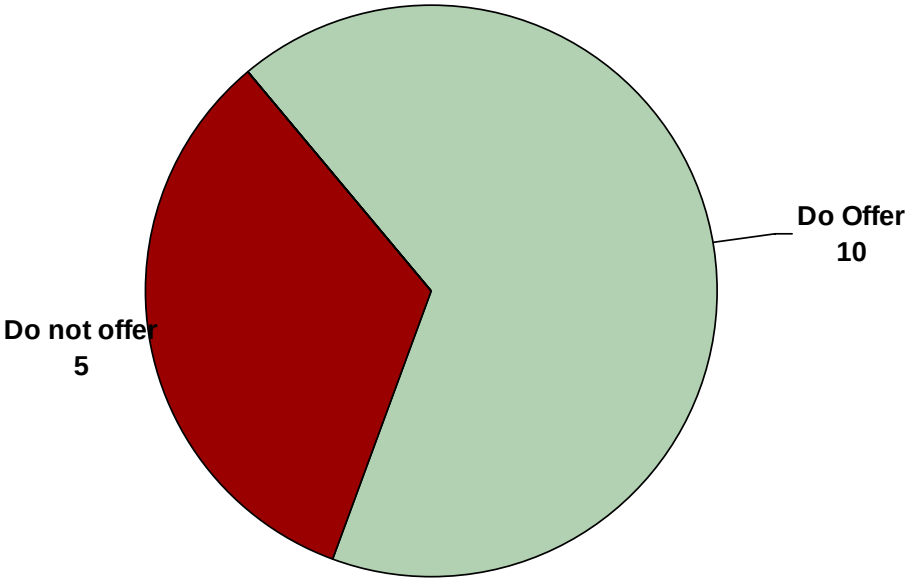
Section E - Total Compensation Package 2
Employee Benefits Value Study Comparator Companies
– R&D Focused Large Employers

- AT&T, Inc. (formerly SBC Technologies)
- Battelle PNNL
- Eastman Kodak
- General Electric Company
- Hewlett Packard
- Honeywell International Inc.
- IBM Corporation
- Lockheed Martin Corporation
- Lucent Technologies
- Motorola, Inc.
- Northrop Grumman Corporation
- Raytheon Company
- Sandia National Laboratories
- United Technologies
- Xerox Corporation

Note: TRW was included in the 2004 Benefits Value assessment. Due to the sale of TRW to Northrop Grumman Corporation in 2002, Northrop Grumman has been included as a replacement comparator company for TRW. Results are based on Hewitt 2007 Benefit Index Study.

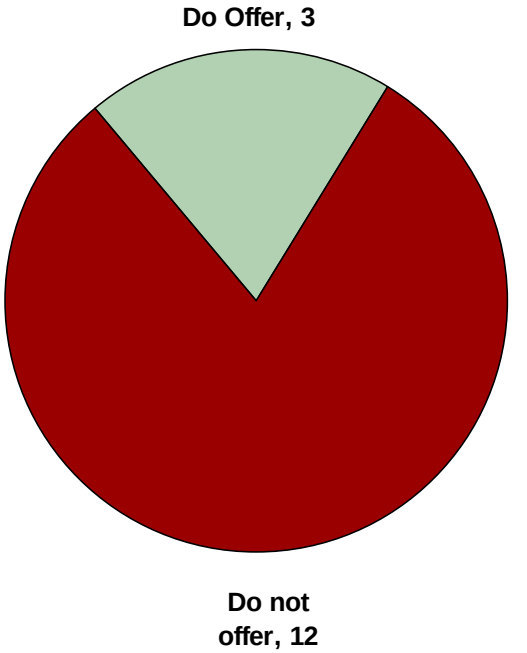
Section E - Total Compensation Package 2
Employee Benefits Value Study Comparator Companies – R&D Focused Large Employers Prevalence of Designs – Retirement Plans

Comparator Companies offering Defined Benefit plans



Note: All 15 comparator companies (100%) offer defined contribution plans.

Comparator Companies offering Retirement Medical plans



Note: Three organizations offer employer subsidy and nine offer access only plans to retirees (these are included in the counts not offering a plan).

Results presented are based on Hewitt 2007 Benefit Index Study

Section F - Employee Communication

- Employees will need to receive detailed communication regarding both TCP1 and TCP2 benefit plans
- TCP2 delivers defined contribution benefits based on matching of voluntary employee pre-tax savings. Delivery of retirement benefits based on employee savings is a significant change from TCP1 and UC benefit plans and will require clear communication

Section F - Employee Communication (cont.)

- In coordination with the LLNS, LLC Benefits & Pension Communication Plan:
  - The LLNS Transition Q&A web site will regularly address questions submitted via a variety of mechanisms (e-mail, mail, phone calls, hotline, questions forwarded from UC LLNL, etc.)
  - A LLNS Transition HR Help Desk/Hot Line will be established and maintained to address questions and concerns.
  - A series of “Town Hall” meetings will be coordinated to educate, inform, and respond to employee questions and concerns about the proposed benefit and pension plans as well as other transition questions such as employment opportunities with the new contractor. Similar meetings will be held for retirees.

Section F - Employee Communication (cont.)

- All communications regarding meetings offered will be communicated via the LLNS web site and other means coordinated through LLNL. Where it is possible to identify specific employees, more personal communications will be utilized (e-mails, notice to employees' 1st line supervisors)

Section G - Estimated Cost for Retirement Plans

- Retirement plan costs are typically defined as:
  - Cash costs to fund the retirement benefits,
  - Accounting costs as required by FASB, and
  - CAS accounting costs as allowed by DOE
- Defined benefit cash costs will be based on the LLNS funding policy, subject to ERISA minimum funding standards
- Retirement medical costs are typically pay-as-you-go and are not pre-funded
- FASB accounting costs will be based on DOE assumptions
- TCP2 costs will be based on demographics of population:
  - Final demographics will not be known until October 2007
  - Anticipate population will be younger and shorter service than TCP1

Section G - Estimated Cost for Retirement Plans

- Defined Benefit plan costs will vary due to ERISA requirements Underlying annual cost is shown
- DC plans are typically budgeted as fixed percentage of payroll, based on stable employee population and savings rates
- Retirement Medical costs represent annual underlying cost of benefits earned, not annual cash-flow
- Actual costs will vary based on final employee demographics

Estimated Cost
As % of Payroll

	TCP1	TCP2
Defined Benefit	15% average	0%
DC Match	0%	6%
DC Non-Match	0%	1%-2.75%
Retirement Medical	5% - 7%	0%
Total	**20% - 22%**	**7% - 8.75%**

Section H - Investment Transition Strategy

- Review the current plan sponsor's list of investment managers and asset allocation.
- Discuss the transition with the current plan sponsor's custodian to determine if they are in a position to accept a new assignment with LLNS.
- Compare the current custodian's services and fee structure with those of other viable organizations.
- Review the investment manager list from DOE sites that Mercer works with and update the due diligence on those managers to identify viable candidates to use in the LLNS' Plan.
- Review the investment manager fees to confirm that the LLNS' fees can be reduced by collectively applying multiple sites' assets to each of the managers' fee schedules.

Section H - Investment Transition Strategy (cont.)

- Compare the investment manager list from the current plan with the list that passes due diligence from DOE sites to determine if an “asset in kind” transfer might be possible to further reduce transition costs.

- Meet with the LLNS Benefits Committee to discuss which investment managers to retain, what asset allocation targets to adopt, which custodian to retain, and to ratify a draft for the new Investment Policy Statement.

- Work with the current actuary on process and allocation of responsibilities for determining an estimate of the dollar amount of assets to be transferred into the new Plan.

- LLNS defined benefit asset transfer will follow the methodology and approach approved by the IRS and agreed to by UC and LANS.

Section H - Investment Transition Strategy (cont'd)

- Negotiate contracts with the investment managers and the custodian.
- Establish a "true up" date for the remaining amount to be transferred.
- Negotiate contracts with the investment managers and the custodian.
- Have the LLNS custodian set up accounts for the investment managers and allocate funds to the managers based on the asset allocation structure that is adopted.
- Proactively plan to conduct an Asset/Liability Study of the new Plan as early as is practical so that the asset allocation can be customized to fit the liability structure of the LLNS participants.

Section I – Current Retirees
Summary of Retiree Health & Welfare Plans

Provision	Current University of California Retiree H&W Plans	Future LLNS TCP1 Retirement H&W Plan
Retirement Medical	▪ POS ▪ PPO ▪ High Option ▪ Core Plan ▪ Definity Health - CA ▪ Health Net ▪ Kaiser CA HMO ▪ Kaiser Mid-Atlantic HMO ▪ PacifiCare of CA HMO ▪ PacifiCare of NV HMO ▪ Western Health Advantage	Will replicate – If some plans have low enrollment, the vendor may not be willing to offer the benefit plan to LLNS.
Retiree Dental	▪ Dental PPO ▪ Delta Dental/PMI	Dental PPO: Will replicate. Delta Dental/PMI: Will replicate.
Retiree Legal	▪ Voluntary Plan	Will replicate.
Retiree AD&D	▪ Voluntary Plan	Will replicate.

Legal Disclosures

- This presentation is a summary of the benefits LLNS is proposing to provide as of October 1, 2007. While this presentation and the verbal statements of Plan representatives are meant to be accurate, the actual Plan documents and relevant laws will govern at all times.
- LLNS reserves the right to amend or terminate benefits at any time.
- Nothing in this presentation is meant to be a guarantee of employment or continued employment. Company policies on hiring, discharge, layoff and discipline are in no way affected by the plans and programs described here.
- LLNS's benefit plans are governed by a federal law known as ERISA, which provides rights and protections to plan participants and beneficiaries that are different than those applicable to public sector employees covered by State of California benefit provisions.

June 5, 2007

LLNS Total Compensation Design and Strategy
Additional TCP2 Material Requested by NNSA

Introduction

- LLNS is providing NNSA with this additional material to consider as requested by NNSA on May 31st
- Alternative TCP2 retirement programs for NNSA consideration are as follows:
  - Enhanced 401(k) contributions

Alternative Retirement Programs
Market Based TCP2 Alternative As Requested by NNSA

Alternative 1: Enhanced 401(k) Contributions
Defined Contribution Plan – Same as LANS ▪ 401(k) plan with employer match plus unmatched contribution ▪ Match is 100% of pay on first 6% of pay ▪ Service based contribution: 3.5% per year for 0-9 years of service, 4.5% for 10 -19 years of service, 5.5% for 20+ years of service ▪ Maximum annual employee pre-tax savings of $15,500 (plus allowable catch-up contributions)
Retirement Medical ▪ Access-only for new hires ▪ A retiree medical plan for Inactive Vested Transferring Employees that freezes service credit as of September 30, 2007 towards the employer subsidy*
Relative Benefit Value Index ▪ Current Employees: 112.5 % ▪ New Employees: 112.5%

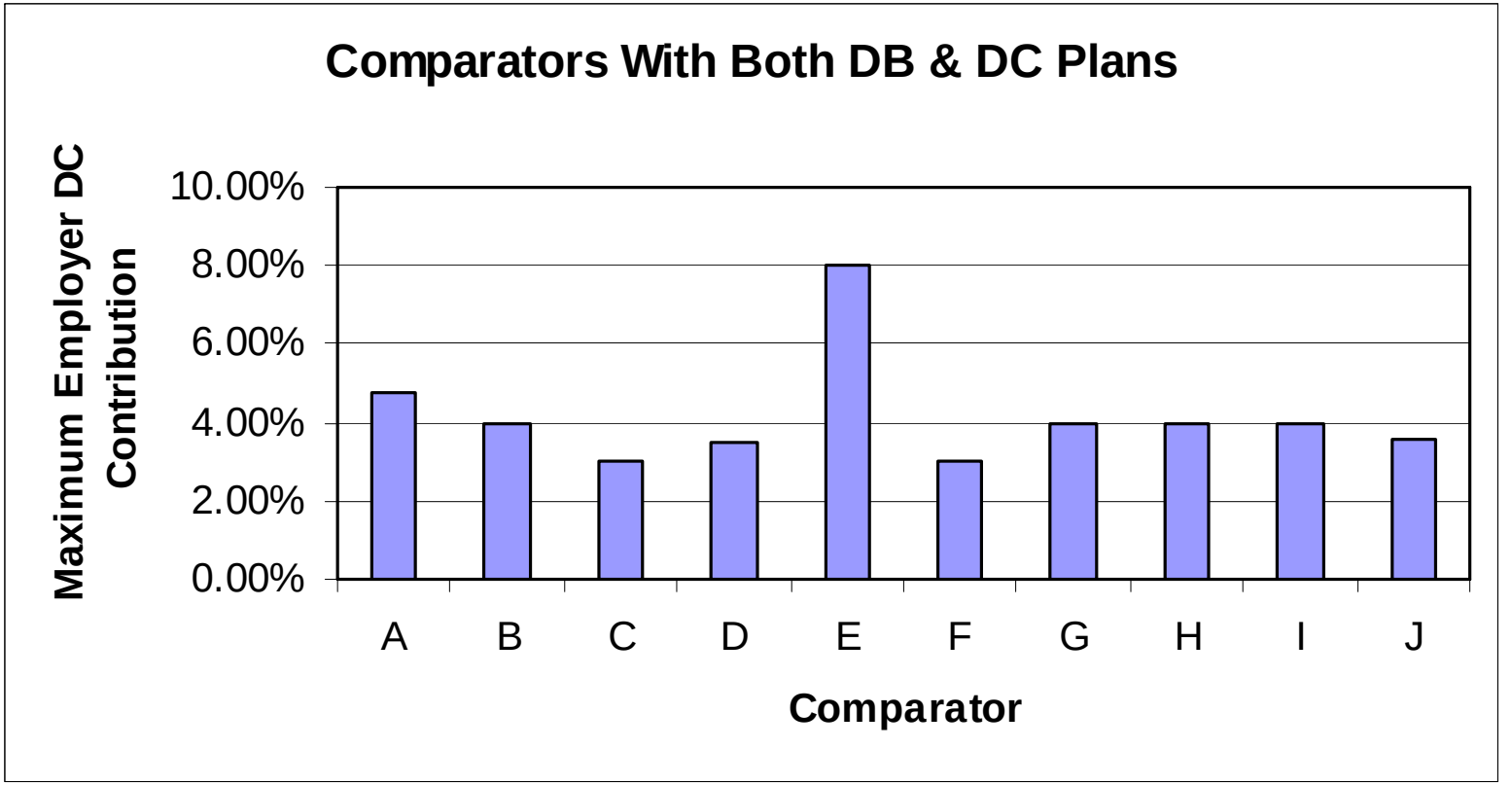
•NNSA has agreed to exempt this benefit for Inactive Transferring Vested Employees from inclusion in the TCP2 BenVal in determining the 105% of market target.

June 5, 2007

LLNS Total Compensation Design and Strategy

Additional Comparator Defined Contribution Plan Information

Comparator Companies – R&D Focused Large Employers - Maximum Employer Contribution to DC Plans Comparators Who Offer Both DB & DC Plans

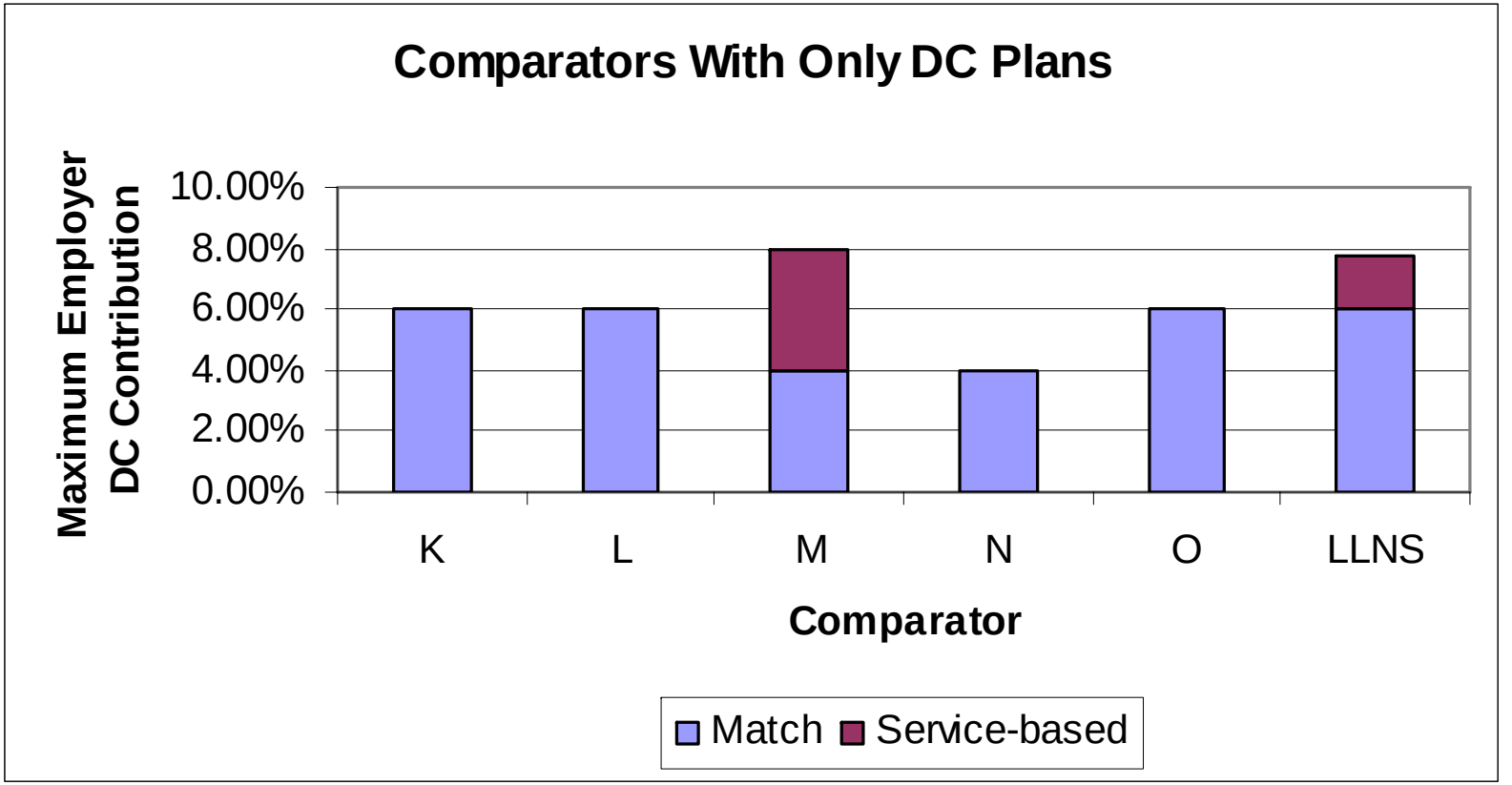


Note: 10 comparator companies (2/3) offer both defined benefit and defined contribution plans.

Company names cannot be released without prior authorization.

Results presented are based on Hewitt 2007 Benefit Index Study

Comparator Companies – R&D Focused Large Employers - Maximum Employer Contribution to DC Plans
Comparators Who Offer Only DC Plans



Note: 5 comparator companies (1/3) offer only defined contribution plans.

Service-based contribution based on 15 years.

Company names cannot be released without prior authorization.

Results presented are based on Hewitt 2007 Benefit Index Study

Examples of Alternative Trade-offs for TCP2

- LANS TCP2 current value is 112.5% (12.5% above market)
- To increase 401(k) plan service-based contribution, must reduce another benefit
  - Increase employee contributions to medical by 50% only decreases BenVal to 110.8%; allows employer contributions to increase to
    - 1.25% from 1.0%
    - 2.25% from 1.75%
    - 3.25% from 2.75%
  - Decrease paid time off to 82% of the average of the comparator group; currently at 103.3%
    - In combination with above, this reduces the BenVal from 110.8% to 105%

How to Submit Questions and Comments

- Via LLNS' Website: www.llnsllc.com
- Via LLNS' Hotline: 4-llns (4-5567)
- If you would like to provide comments to the NNSA, the e-mail address is: llnlemployeebenefits@doeal.gov
- *Your comments/questions are due by 12:00 noon Thursday, June 28*