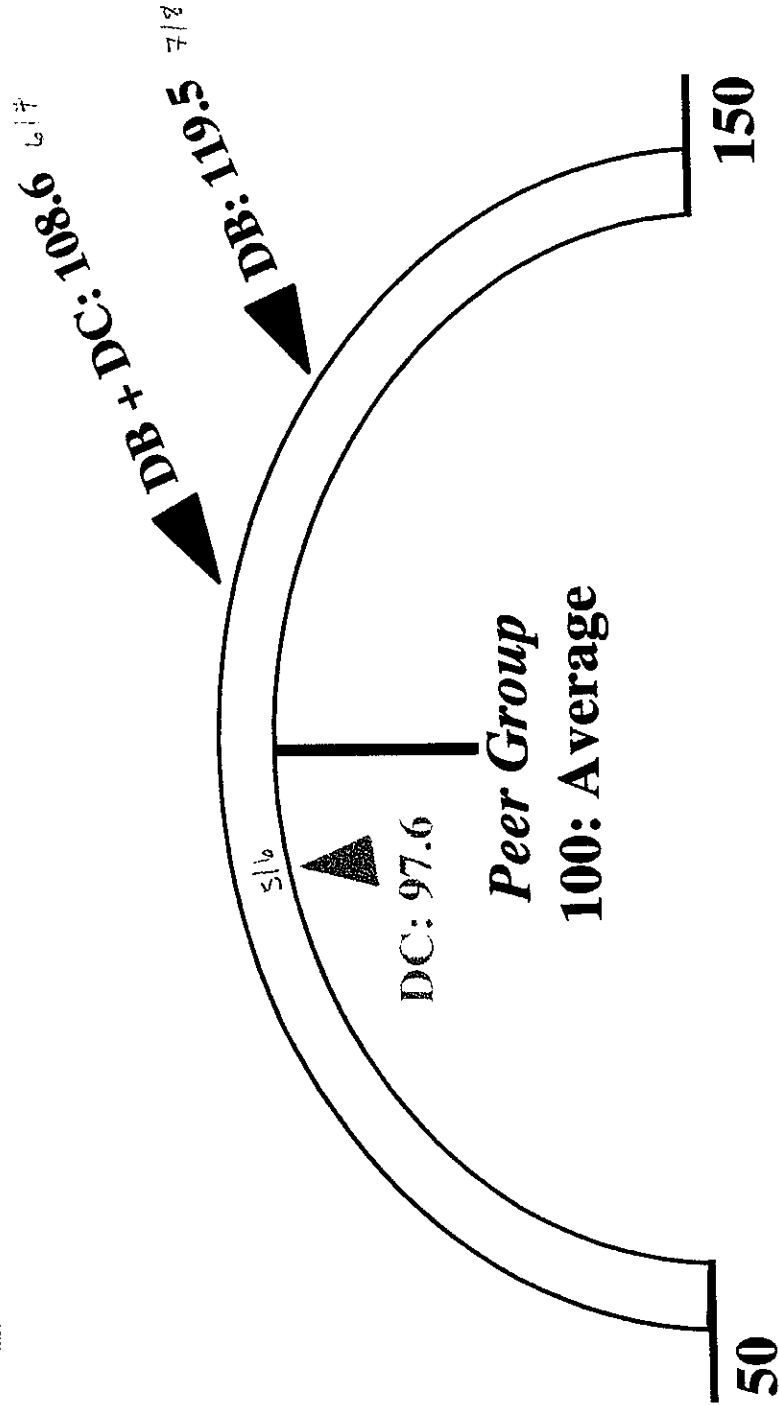
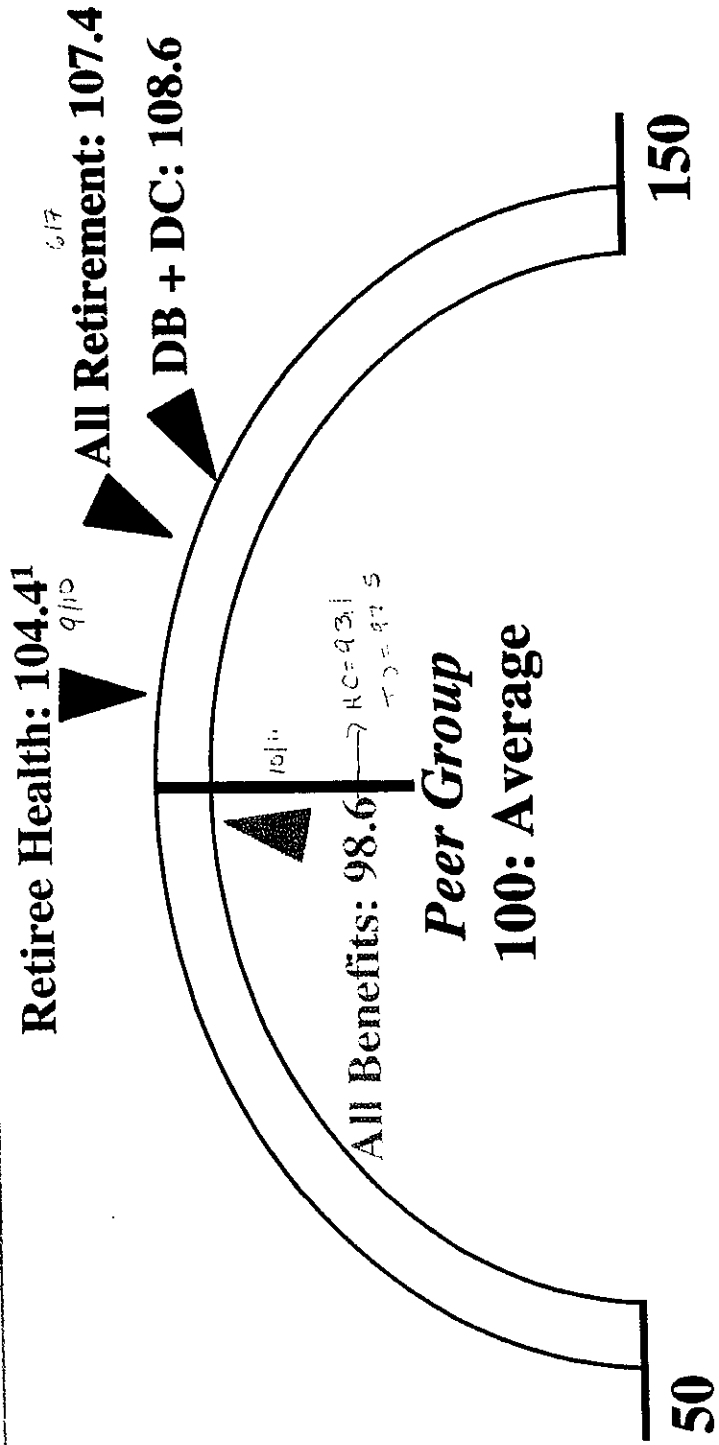


Competitive Position— Benefit Index® Results for General Industry Group





Competitive Position— Benefit Index® Results for General Industry Group



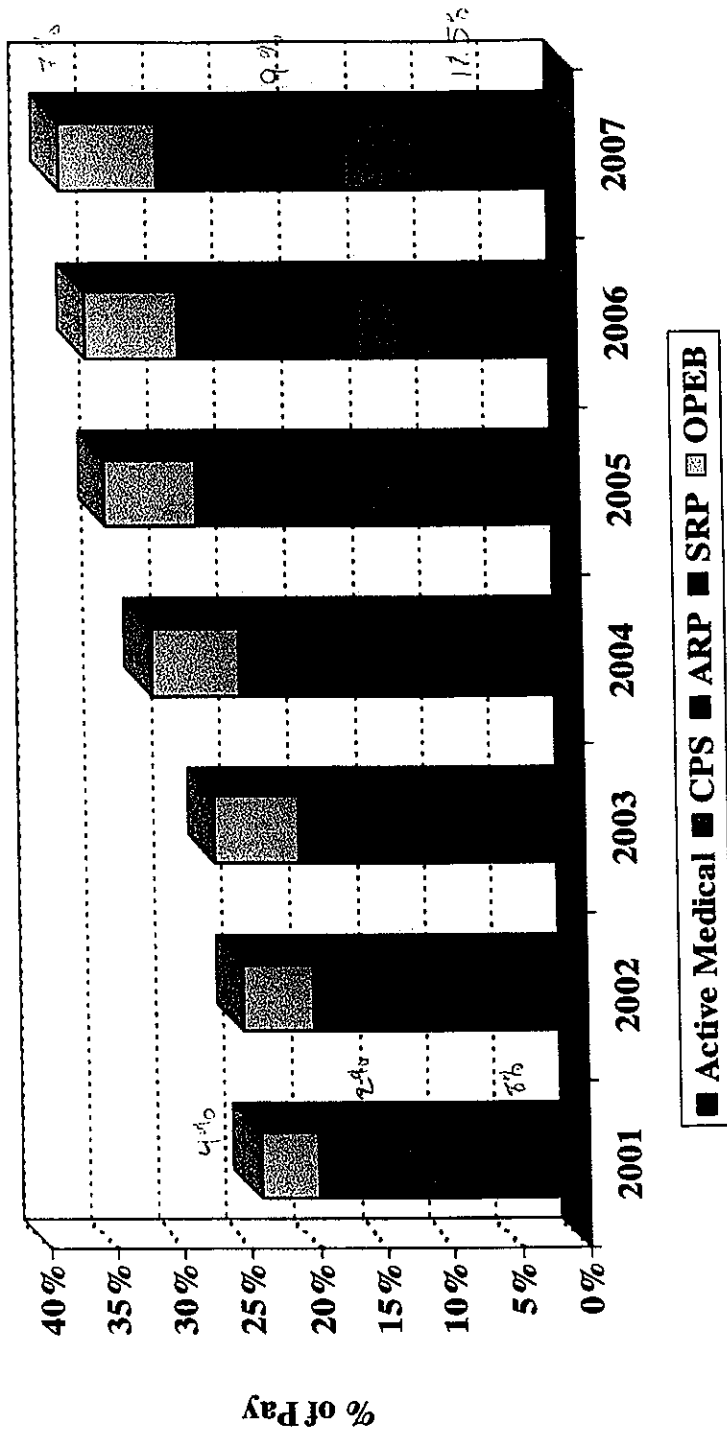
¹ Reflects changes effective for 2003.

Current Benefit Program Costs in LRP¹

| | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 |
|---------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Active Medical | 7.7% | 8.0% | 8.4% | 9.2% | 10.0% | 10.8% | 11.5% |
| Cash Profit Sharing | 6.1% | 5.0% | 4.7% | 5.6% | 5.7% | 5.7% | 5.7% |
| ARP | 2.3% | 2.8% | 3.7% | 6.2% | 8.3% | 8.6% | 9.3% |
| SRP | 4.0% | 4.6% | 4.5% | 4.5% | 4.5% | 4.5% | 4.5% |
| OPEB | <u>4.2%</u> | <u>5.0%</u> | <u>6.1%</u> | <u>6.4%</u> | <u>6.7%</u> | <u>7.0%</u> | <u>7.4%</u> |
| Total | 24.3% | 25.4% | 27.4% | 31.9% | 35.2% | 36.6% | 38.4% |

¹ Cost as a percentage of pay.

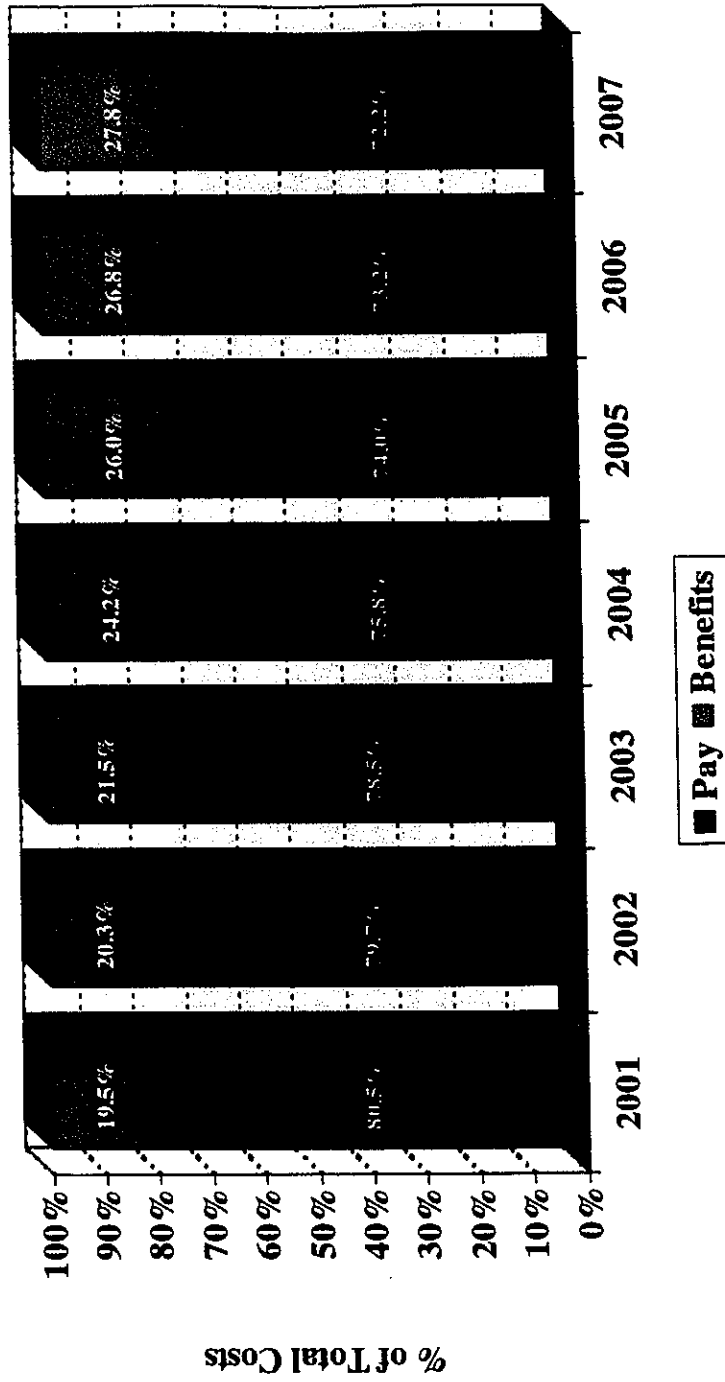
Current Benefit Program Costs in LRP



Comparative Costs

- If Abbott Pays 14.3% of pay for postretirement benefits, then
 - The health care comparator group pays 10.7% to 19.3% of pay; and
 - The general industry group pays 11.3% to 16.6% of pay.

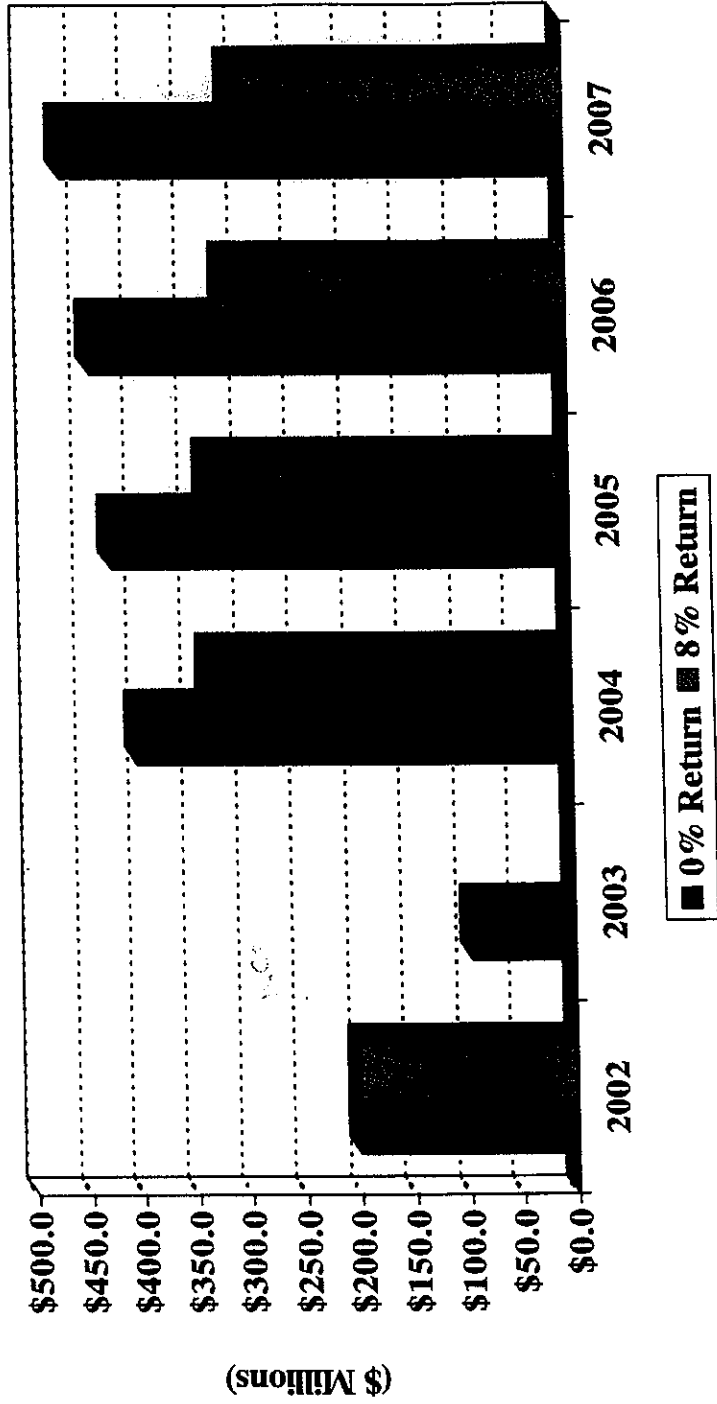
Allocation of Pay and Benefit Program Costs Based on LRP¹



¹ Benefit program costs reflect active and retiree medical, ARP, SRP, and CPS only.



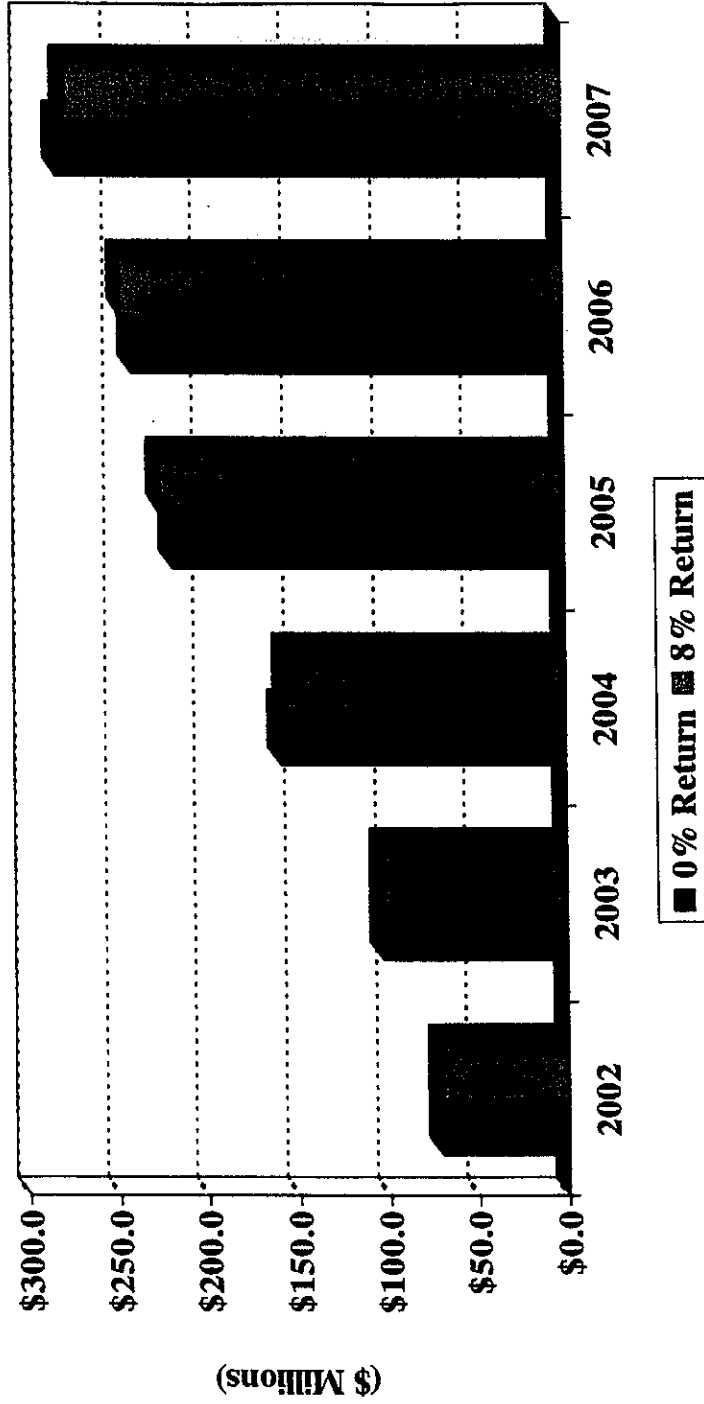
ARP Projected Cash Contributions



Contributions to maintain plan's 90% funded level based on actual 12/31/2002 asset value and a 4.96% treasury rate in all future years. Assumes funding relief remains in effect for all future years.

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ARP Projected FAS 87 Expense



Based on actual 12/31/2002 asset values, assuming contributions are made to maintain the plan's 90% funded level and a 6.75% discount rate in all future years.



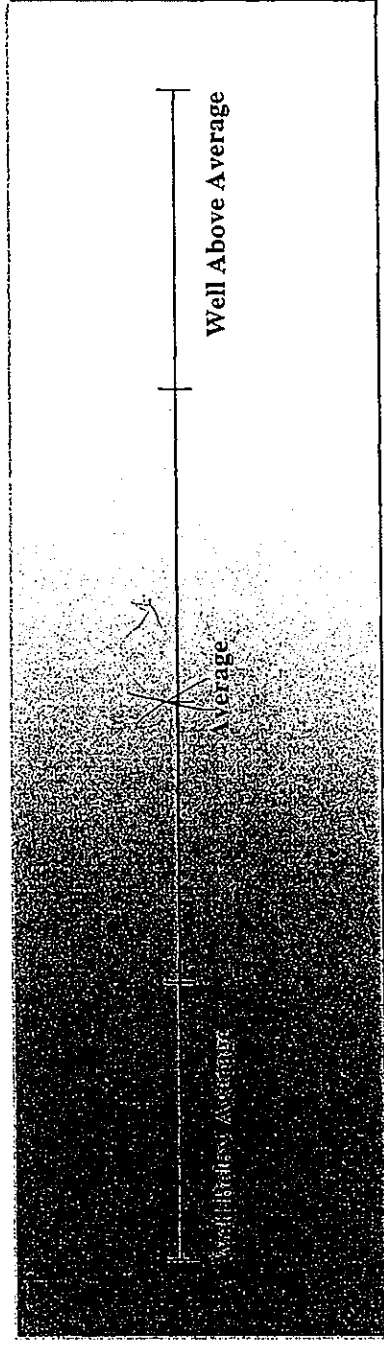
Objectives

Philosophic Continuums

- Help to assess retirement program objectives and guiding principles.
- Future retirement design will be based on responses to these questions.
- There are no right or wrong responses. Your future business strategies and people needs should guide your HR and retirement philosophy.
- When responding to the questions, assume that current employees will be grandfathered so responses will only impact future hires.



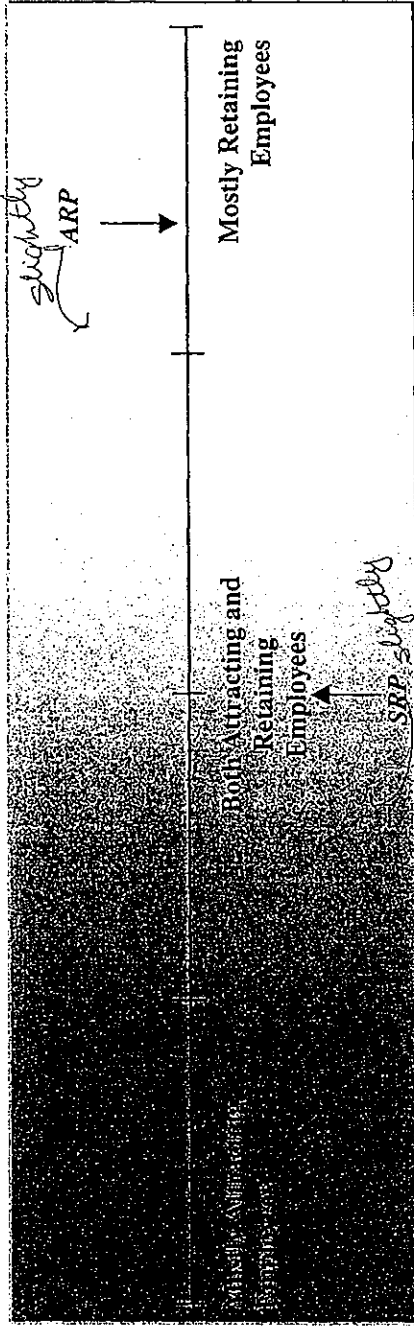
How Should Retirement Programs Compare to Those of Other Companies?



Where do you feel the future retirement programs should rank with your competition? For this purpose, how would you define "competition"? *strong competitor group*

What is the Role of Retirement Benefits in Talent Management?

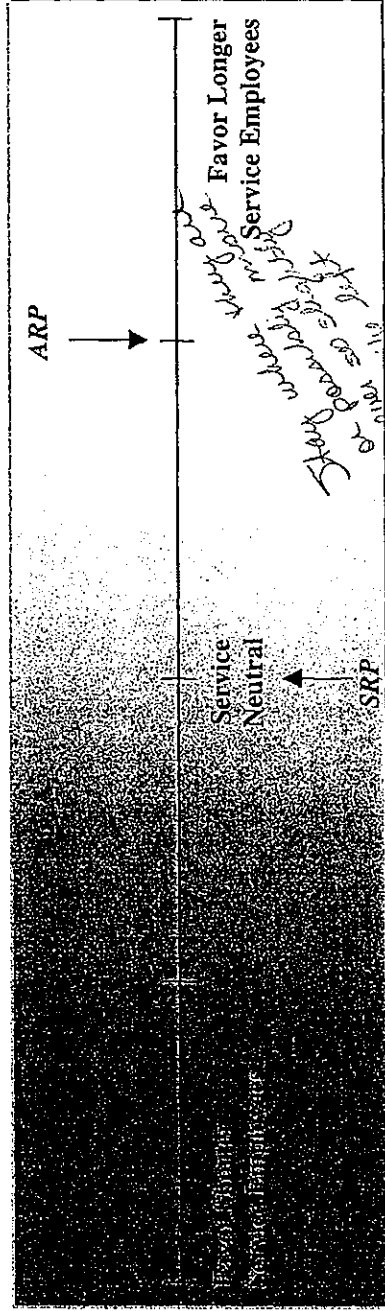
Handwritten notes:
The role of retirement benefits in talent management is to attract and retain employees.



Retirement income programs can be structured to attract employees, retain employees, or a combination of both. While retirement income programs may not be the reason an employee accepts a job or stays at a job, they play an important role. Where do you feel your retirement program should focus in the future?

Handwritten notes:
keeping talent to and use more job categories
with savings will be a major in specific but only

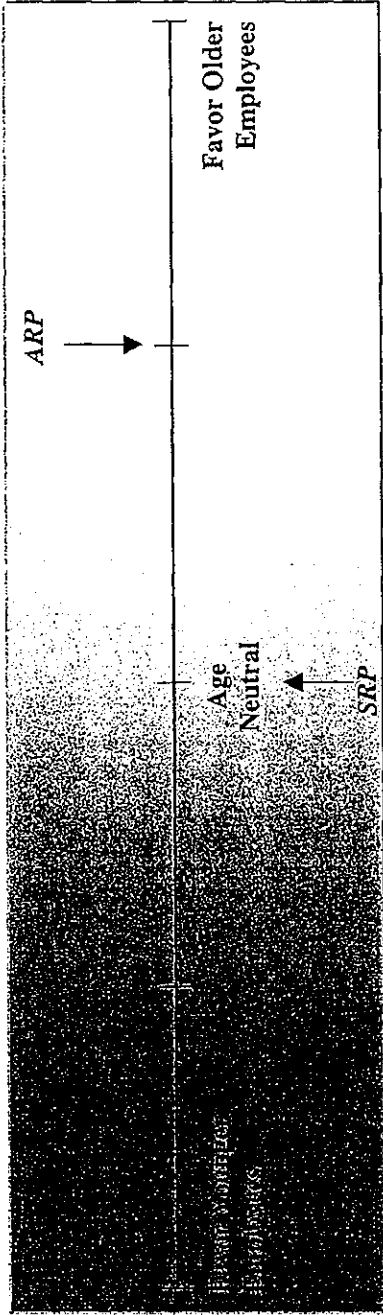
Should Retirement Programs Provide Different Benefit Levels Based on Service?



Retirement programs may be designed, within legal limits, to weight benefits toward shorter and longer service, or be service neutral. How do you feel future retirement income programs should value service?



Should the Program Treat Employees Differently Based on Age?



Similar to the prior page, retirement programs may weight benefits toward older or younger employees, or be age neutral.

*Structure = hire both college grads and mid-career hires
But neutral, don't = coming in mid-career*

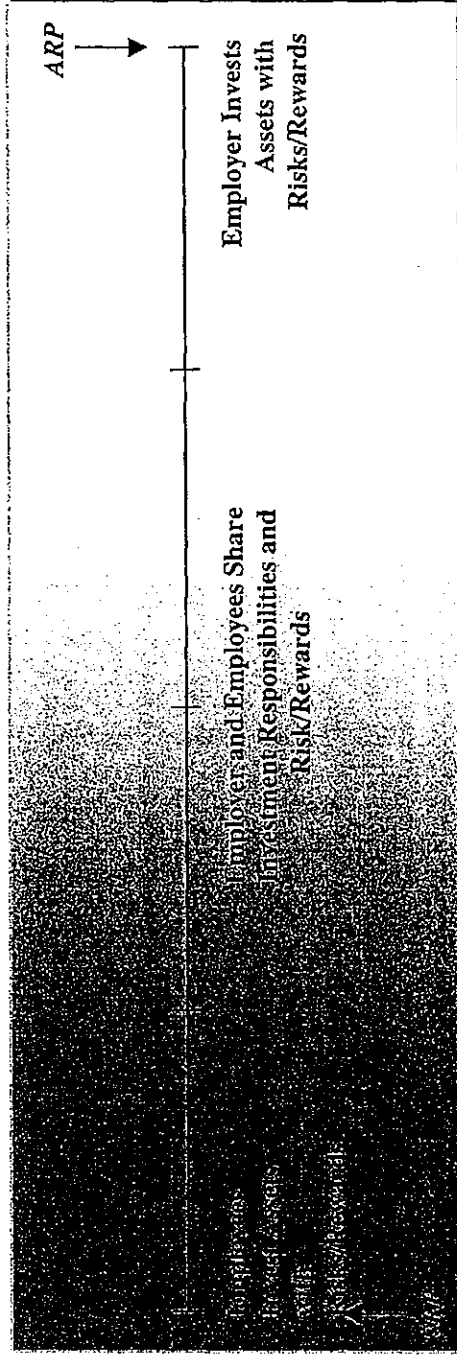
Short-term = need to hire a lot of mid-career people due to mid gaps but could do something age somewhat

So cash value more attractive to mid-career hires b/c they know they might have longer

*best
longer
mid-career hires*



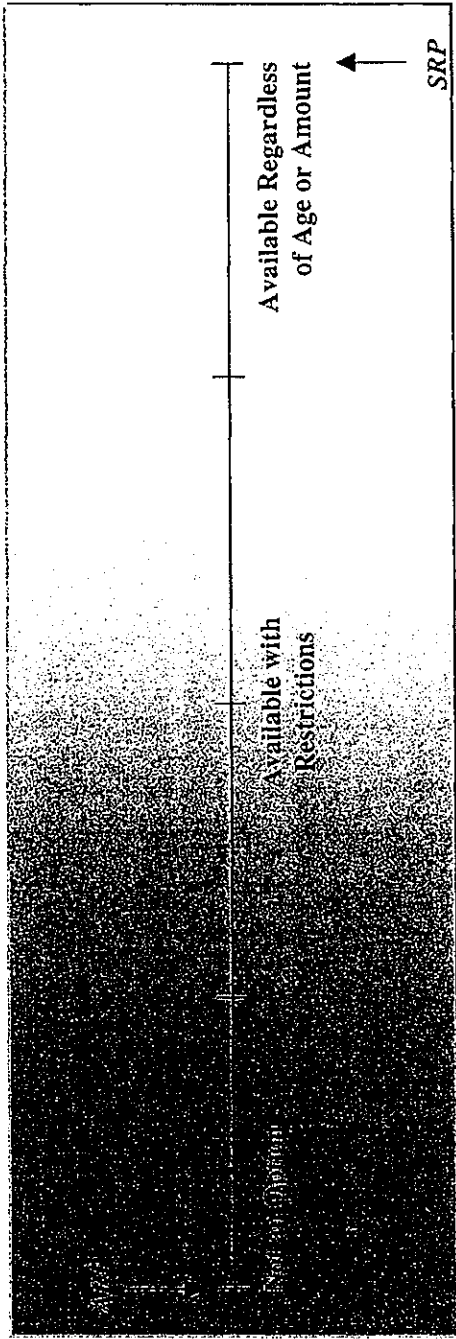
In the Future, Who Should Bear Investment Risk and Responsibility?



Employees typically control the assets in a defined contribution plan whereas the employer has investment autonomy in a defined benefit program.



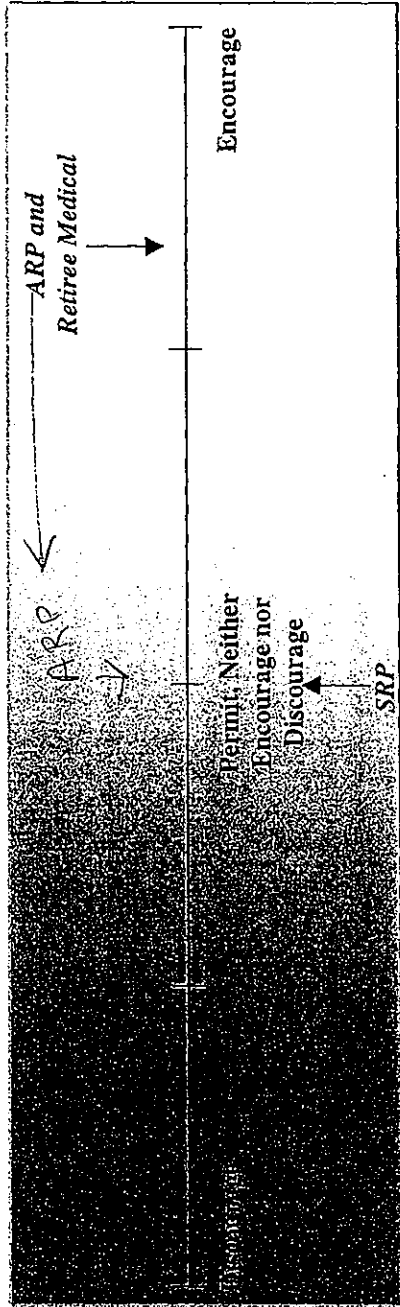
In the Future, Should Benefits Be Portable?



*Not a desirable option
 available to 50% of employees
 SRP*

Portability, often defined as a "lump sum" option, is attractive to employees, but may be costly to the Company depending on the assumptions used.

Should Early Retirement Be Encouraged? No



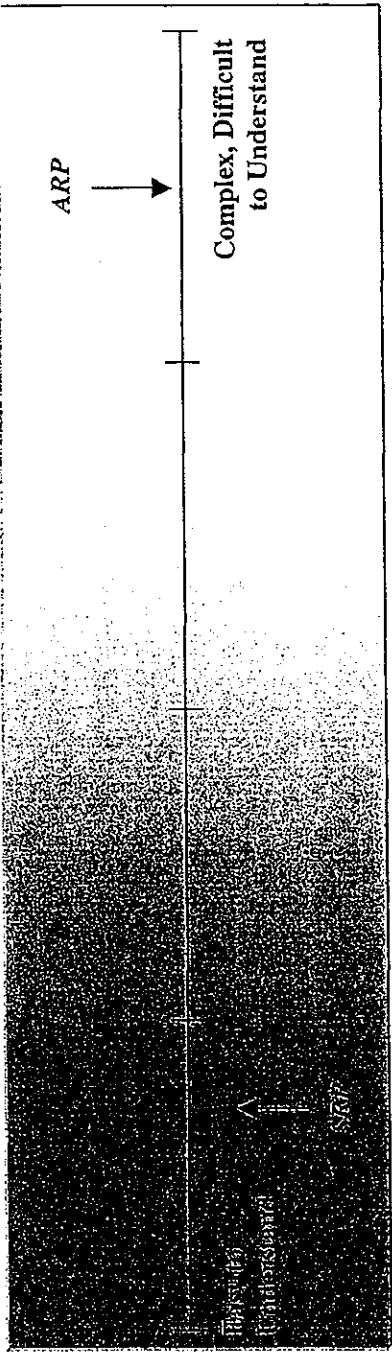
The current defined benefit plan encourages early retirement. Pre-65 retirement medical subsidies also encourage early retirement.

SRP - \$1.00 | \$1.00 or 5% would be okay

HEW000331



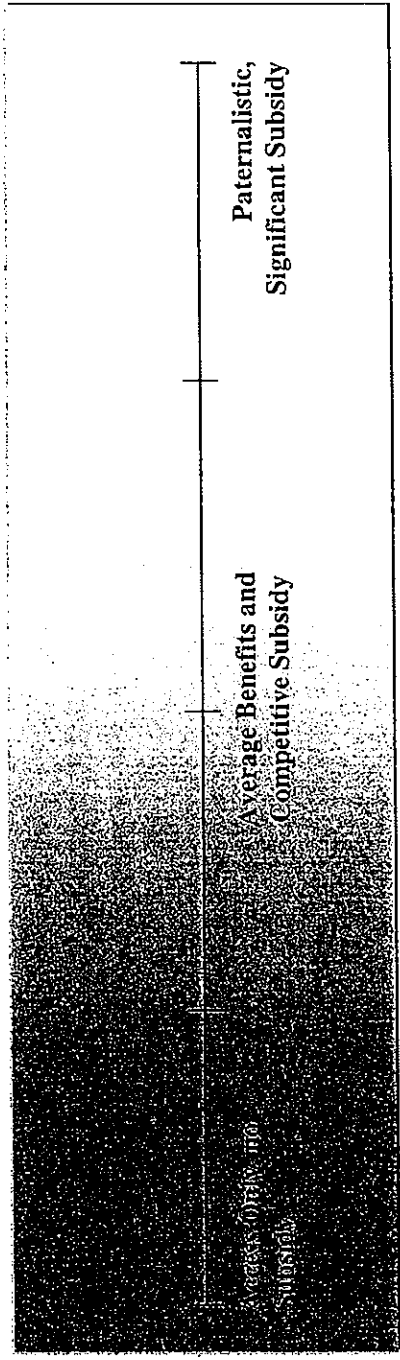
How Important is it for the Programs to be Understood by Employees?



Ease of understanding usually increases employees perceptions of benefits. The current defined benefit plan is somewhat complex for employees to understand.

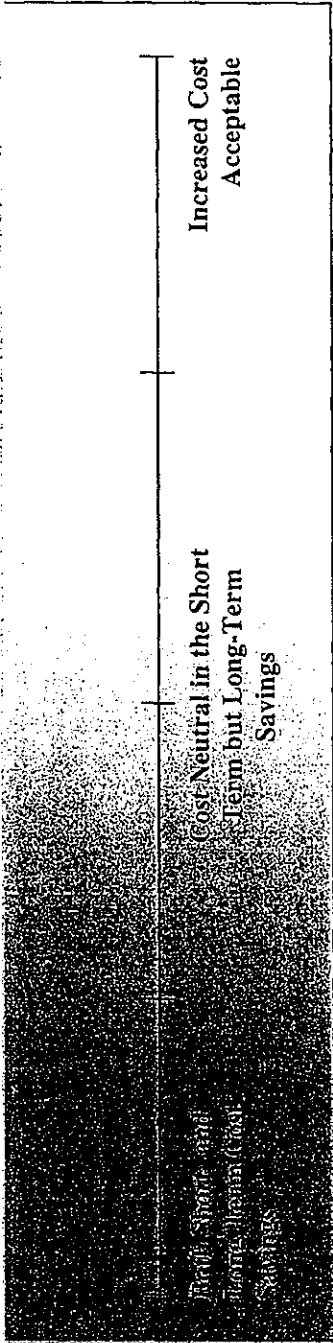


In the Future, How Generous Should Retiree Health Benefits be?



Redistributable costs are important for all programs

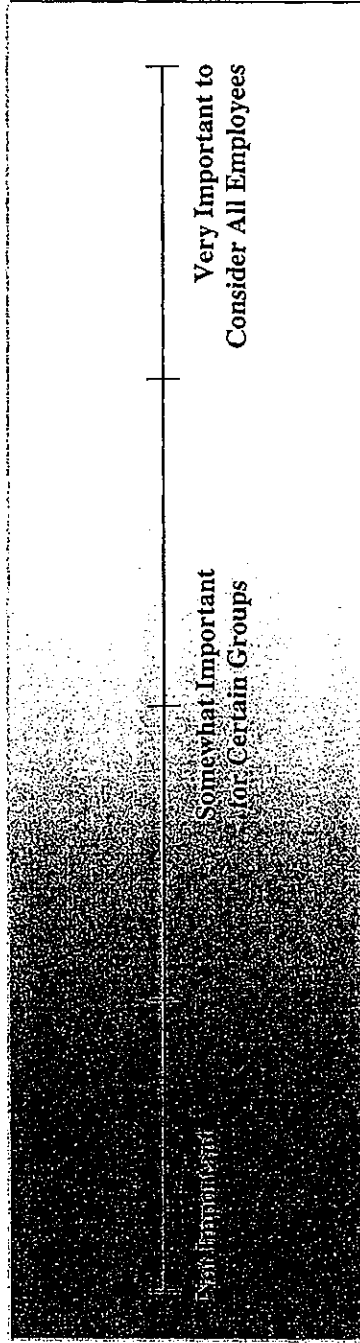
Should Retirement Program Costs Be Reduced?



Should retirement program costs be reduced in both the short- and long-term? By how much?



How Important is Benefit Protection During Change?



Put your hand on this [unclear]

Additional Open Issues (for Discussion)

- What do you like most about the current retirement program?
- What concerns do you have about the current program?
- Which objectives (e.g., cost, retirement income adequacy, competitiveness, other) are most important?
- What is Abbott's responsibility and role in promoting savings and helping employees prepare for an adequate level of retirement income?
- Should benefits continue to be integrated with Social Security? This enables Abbott to provide higher benefits for higher-paid employees, offsetting the skewing of Social Security to lower-paid employees.



Next Steps

.....

Next Steps

- How do we report back to other interested parties?
 - Who should confirm these objectives?
 - How shall we organize that “confirmation”?
- Next meeting is February 14th.
 - We will evaluate the current plan against our objectives.
 - We will review alternatives that satisfy the objectives.
 - Our goal will be to narrow the number of alternatives for further review.



Appendix

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Why Did Target Change Its Plan?

- Not to save money
- More powerful recruiting tool
- More understandable
- More likely for team members to appreciate

Features of Target's New "Personal Pension Account"

- It rewards you more evenly throughout your career
- It is easier to understand and track
- You can watch your pension grow—similar to the TGT 401(k)
- You can take your benefit as a single lump-sum payment when you leave Target Corporation
- Your beneficiaries or estate will receive your full account balance if you die before you start receiving a pension benefit



Target Corporation

Choice Between:

• Final Average Pay Plan
 — Integrated with Social Security
 — No lump-sum option

OR

• 1.5% to 6.5% (graded by points)
 Cash Balance Plan
 — With lump-sum option
 • Default was new plan

Honeywell

Business and Workforce Issues

- 1999 purchase by Allied Signal
- Reinventing itself as an e-Company
- Need to keep current people and “recruit the best and brightest”
- Desire to be an “Employer of Choice” and have “very competitive” total compensation programs
- Need for “contemporary” programs—“portable” and “flexible”



Honeywell

Final Design—Employee Choice

| | |
|-----------------|---|
| Pension | Current Program |
| Retiree Medical | <ul style="list-style-type: none"> • Integrated FAP plan • No lump sum <ul style="list-style-type: none"> • 55 and 10 eligibility • Pre-65 company subsidy, access only for post-65 • Company “caps” after 2004 |

OR

| |
|---|
| New Retirement Earnings Plan |
| <ul style="list-style-type: none"> • 6% pension equity plan • Lump-sum option |
| <ul style="list-style-type: none"> • Access only, pre- and post-65 • No company subsidy |

Xcel Energy

Business and Workforce Issues

- Increasingly deregulated industry
- More competitive business environment
- Key drivers for change:
 - Competition: “Need to recruit and retain the best employees”
 - Flexibility and Choice: “To meet the needs of a diverse workforce”
 - Responsibility: “Employees need to manage their benefits”



Xcel Energy

Option 1
Traditional Program

Pension—Integrated FAP Plan

401(k) and ESOP
—Maximum match of \$900

Replacement of retiree health subsidy
With \$1,400 x service spending account

Option 2
Pension Equity Program

Pension—10% Pension Equity Plan

401(k) and ESOP
—5% match to 3% plus 50¢ match to 2%
—Additional ESOP contribution

Replacement of retiree health subsidy
With \$1,400 x service spending account

CNA

Business and Workforce Issues

- New management in place
- Focus on commercial (versus personal) insurance
- Market/distribution/operations plans increasingly separate by line of business
- Attraction of new talent critical for business success



CNA

Guiding Principles

- Afford employees the opportunity to build adequate retirement income
- Be attractive to all hires, especially mid-career hires and fast-trackers
- Be easy for employees to understand, appreciate, and self-serve
- Accommodate acquisitions, spin-offs, and joint ventures
- Be cost neutral overall compared to current plan

CNA

Current FAP Plan with rich
early retirement subsidies
(eliminated for employees
under age 40); no lump sums

PLUS

Fixed savings plan
match (\$.70)

OR

Frozen pension benefit
converted to cash balance (no
future contributions); available
as lump sum

PLUS

DC plan contribution of 3%
(<age 45) or 5% (age 45+)

PLUS

Performance-based
contribution of 0%-2%

PLUS

Variable savings plan match
 (\$.70-\$1.50)



Cinergy Retirement Choice Program

One-Time Choice

Current Employees Hired Before January 1, 2003

Retirement Choice Election Period

November 20 - December 20, 2002

- Cinergy employees make a one-time choice among three options:
 - Traditional Program; or
 - Balanced Program; or
 - Investor Program
- Election is effective on January 1, 2003

Employees Hired On or After January 1, 2003

Ongoing New Hire Retirement Choice

- Cinergy new hires make a one-time choice between:
 - Balanced Program; or
 - Investor Program
- New hire elections collected on an ongoing basis

Retirement Choice Program

Current Employees—One-time between Traditional, Balanced, and Investor programs

New Hires—One-time choice at hire between Balanced and Investor programs

| Type of Program | Vesting | Pay Used | Traditional Program | Balanced Program | Investor Program |
|-------------------------|--------------|----------|---|--|---------------------------------|
| Pension | 5-year cliff | Total | Current 3-year Final Average Pay Formula (no lump sum option) | Service-related cash balance (3% for first 5 years, 4% for next 5 years, 5% thereafter) | Flat cash balance (2% per year) |
| Deferred Profit Sharing | 3-year cliff | Total | None | 0% to 5% (2% target) | 0% to 15% (5% target) |
| 401(k) Match | Immediate | Base | | 100% match on first 3% of pay 50% match on next 2% of pay \$0 to \$0.20 incentive match on first 5% of pay | |

Proposed Deferred Profit Sharing Design

- Performance Measure—EPS with flexibility to change measure or provide discretionary contributions
- Target and Payout Ranges

| Traditional | Balanced | Investor | | | | | | | | | | | | | | | | | | | | | | | | |
|-------------|--|-----------|--------|----|----|---|----|------------|----|---|----|----|------------------------|---|-----------|--------|----|----|---|----|------------|----|---|----|----|-------------------------|
| None | <table border="1"> <thead> <tr> <th>EPS Level</th> <th>Payout</th> </tr> </thead> <tbody> <tr> <td><1</td> <td>0%</td> </tr> <tr> <td>1</td> <td>1%</td> </tr> <tr> <td>2 (Target)</td> <td>2%</td> </tr> <tr> <td>3</td> <td>3%</td> </tr> <tr> <td>>3</td> <td>Discretionary up to 5%</td> </tr> </tbody> </table> | EPS Level | Payout | <1 | 0% | 1 | 1% | 2 (Target) | 2% | 3 | 3% | >3 | Discretionary up to 5% | <table border="1"> <thead> <tr> <th>EPS Level</th> <th>Payout</th> </tr> </thead> <tbody> <tr> <td><1</td> <td>0%</td> </tr> <tr> <td>1</td> <td>2%</td> </tr> <tr> <td>2 (Target)</td> <td>5%</td> </tr> <tr> <td>3</td> <td>9%</td> </tr> <tr> <td>>3</td> <td>Discretionary up to 15%</td> </tr> </tbody> </table> | EPS Level | Payout | <1 | 0% | 1 | 2% | 2 (Target) | 5% | 3 | 9% | >3 | Discretionary up to 15% |
| EPS Level | Payout | | | | | | | | | | | | | | | | | | | | | | | | | |
| <1 | 0% | | | | | | | | | | | | | | | | | | | | | | | | | |
| 1 | 1% | | | | | | | | | | | | | | | | | | | | | | | | | |
| 2 (Target) | 2% | | | | | | | | | | | | | | | | | | | | | | | | | |
| 3 | 3% | | | | | | | | | | | | | | | | | | | | | | | | | |
| >3 | Discretionary up to 5% | | | | | | | | | | | | | | | | | | | | | | | | | |
| EPS Level | Payout | | | | | | | | | | | | | | | | | | | | | | | | | |
| <1 | 0% | | | | | | | | | | | | | | | | | | | | | | | | | |
| 1 | 2% | | | | | | | | | | | | | | | | | | | | | | | | | |
| 2 (Target) | 5% | | | | | | | | | | | | | | | | | | | | | | | | | |
| 3 | 9% | | | | | | | | | | | | | | | | | | | | | | | | | |
| >3 | Discretionary up to 15% | | | | | | | | | | | | | | | | | | | | | | | | | |

- Form of Profit Sharing—Company Stock

