

## **Notice to Employees and Eligible Employees of United Technologies Corporation of Request for Authorization Under Prohibited Transaction Exemption 96-62, as Amended**

You are hereby notified that United Technologies Corporation (“UTC”) and its indirect wholly-owned captive insurance company UT Insurance (Vermont) Inc. (“UTIV”) have applied to the U.S. Department of Labor (“DOL”) for authorization that the prohibited transaction provisions of the Employee Retirement Income Security Act of 1974, as amended (“ERISA”), do not apply to the reinsurance transaction described below. The transaction involves the reinsurance of risks and the receipt of premiums by UTIV from insurance contracts currently funding UTC’s non-union Group Term Life including basic and supplemental life (“GTL”), Accidental Death & Dismemberment (“AD&D”) and Long Term Disability (“LTD”) Programs (collectively the “Plan”). The authorization is necessary because UTIV is an affiliate of UTC. Because of the relationship between UTIV and UTC, such reinsurance would otherwise constitute a prohibited transaction under ERISA. This notice informs you of the application to the DOL and certain changes to the GTL, AD&D and LTD program benefits, and describes your right to comment to the DOL about these changes.

### **Overview**

UTC’s Plan provides GTL, AD&D and LTD benefits, and covers active and retired non-union employees. The Plan is insured with Life Insurance Company of America (“CIGNA”) and Liberty Life Assurance Company of Boston (“Liberty”). Under the transaction, CIGNA and Liberty will continue to insure Plan risks. However, CIGNA and Liberty will reinsure up to 100% of the risks with UTIV. The Plan Administrator has determined that the transaction is in the interest of the participants and beneficiaries because of benefit improvements that will be provided to them if the transaction is authorized by the DOL. The authorization by the DOL will be subject to the conditions described below and set forth in more detail in Exhibit A.

The reinsurance agreement is simply an internal arrangement between UTIV, CIGNA and Liberty. CIGNA and Liberty will continue to insure the benefits provided to you under the Plan including the benefit improvements.

### **Parties to the Proposed Reinsurance Transaction**

#### **COMPANY**

UTC is a diversified company ranked as the 18th largest U.S. manufacturer, the 42nd largest U.S. corporation and the 60th largest publicly held manufacturer in the world. As a global corporation, UTC is made up of world-leading businesses with rich histories of technological pioneering, including Carrier Heating and Air Conditioning; Hamilton Sundstrand Aerospace Systems and Industrial Products; Otis Elevators and Escalators; Pratt & Whitney Aircraft Engines; Sikorsky Helicopters; UTC Fire & Security Systems; and UTC Power Fuel Cells. Collectively these businesses built the world’s first working

helicopter, invented elevators and air conditioning, developed the first commercially available hydrogen fuel cells and designed complete life support systems for the Space Shuttle.

Headquartered in Hartford, Connecticut, UTC employs 225,000 individuals around the world, with approximately 75,000 being in the United States. In 2007, UTC revenues were \$54.8 billion. Sales to the U.S. government were \$7.3 billion and net income was \$4.2 billion.

## **CAPTIVE**

UTIV is a captive insurance and reinsurance subsidiary wholly-owned by UTC. UTIV was organized on June 1, 1995 under the Vermont Captive Insurance Act to provide coverage to operating subsidiaries of UTC. UTIV's first policy was written on July 1, 1995, and has expanded the number of lines written over the years to meet the various needs of UTC's business units.

Today, UTC provides the following coverages: Property – U.S. and Non U.S.; General Liability; Excess Liability; Marine; Aircraft Products Liability; Manufacturer's Hull; Stand-alone terrorism (TRIA ONLY). As of 2007, UTIV had over \$48 million in Total Stockholder's Equity and underwrote approximately \$60 million in direct and assumed premiums.

## **The Plan**

UTC maintains the Plan for active eligible non-union employees. Under the Plan, UTC provides GTL, AD&D and LTD coverage. The Plan is currently insured with CIGNA and Liberty. All of these benefits are treated as a single integrated Plan for reporting and disclosure purposes.

The official name and number of the Plan is "The Group Life Insurance and Disability Plan of United Technologies Corporation", Plan Number 502.

The federal employer identification number of UTC, the plan sponsor, is 06-0570975.

## **Changes to the Plan**

UTC recently formulated a plan to utilize UTIV for the reinsurance of benefits and will make improvements to the Plan if the DOL authorization is granted. CIGNA and Liberty will continue to insure the Plan with the new enhanced benefits. However, CIGNA and Liberty will reinsure up to 100% of the risks with UTIV. The benefits enhancements are not required as part of a legal proceeding, court order or judgment under state or federal law. The following improvements to the Plan's benefits will become effective within the same year as the implementation of the reinsurance transactions.

UTC will enhance the benefits under the Plan as follows. Under the GTL and AD&D programs, UTC will offer free will preparation services through CIGNA's Will Center.

The enhanced benefit will allow employees to easily complete essential life and health legal documents online such as Last Will & Testament; Living Will; Healthcare Power of Attorney; and Financial Power of Attorney. Employees will also have access to information on Estate Planning; Identity Theft; and Life and Disability Planning. The service is available to employees seven days a week and 365 days a year. Phone representatives are also available to assist employees via a toll-free number. Employee registrations are maintained for two years, which allows them to make revisions to their legal documents as their personal situation changes.

Also under the GTL program, UTC will expand the existing accelerated death benefit to pay a higher benefit level when a terminal illness is diagnosed by two independent physicians. The chart below outlines the increases in benefit levels.

<b>Employee</b>	<b>Current Benefit</b>	<b>Benefit Enhancements</b>
Basic	50% of benefit to a max of \$250,000	75% of benefit to a max of \$300,000
Supplemental	50% of benefit to a max of \$250,000	75% of benefit to a max of \$300,000
<b>Spouse</b>		
Basic	50% of benefit to a max of \$125,000	75% of benefit to a max of \$150,000
Supplemental	50% of benefit to a max of \$125,000	75% of benefit to a max of \$150,000

Under the LTD program, UTC will provide social security filing and advocacy services to plan participants. Liberty and/or its vendor partners will apply services such as the following:

- Complete the application paperwork for the claimant
- Manage correspondence the claimant has with the Social Security office
- Assist in collecting medical or vocational information needed to obtain an award
- If claim is denied, assist in the reconsideration or appeals process, including making court appearances on behalf of the claimant
- Prepare written arguments in support of the filing, reconsideration and/or appeal
- Throughout the process, educate the claimant about the benefits of Social Security entitlement, rehabilitation programs and return to work initiatives

The services noted above will be offered at no additional cost to employees and before they receive an LTD benefit payment.

Also under the LTD program, UTC will enhance Liberty's claim administration process to include education, communications and proactive referral to UTC's EAP program. The program is administered by Value Options, a well-known EAP industry provider.

During the LTD claim initiation process, Liberty will notify all of UTC's claimants about the EAP program and its features.

Key features of the EAP program include:

- Up to five counseling sessions
- Telephonic consultation and EAP sessions with experienced and trained counselors
- Additional counseling, resources or specialized treatment when needed
- Access to a staff of highly qualified professionals with many years of experience

Also, claimants with certain medical conditions will receive targeted information and assistance including psychological counseling visits over and above services covered under any other plan. These psychological services equate to approximately \$150 per hour and will be provided free of charge by UTC.

Finally, UTC will enhance their coverage through Liberty by increasing the minimum monthly benefit level by \$100 for all employees. Specifically, employees falling under Classes I and II of the LTD program, who were previously not entitled to a minimum monthly benefit, will now be eligible for a minimum monthly benefit of \$100. Employees falling under Class III of the LTD program will realize an increase from \$100 to \$200 as a minimum monthly benefit.

### **Independent Fiduciary**

In connection with the application to the DOL, UTC has retained, at its sole expense, Milliman, Inc. ("Milliman") which provides specialized fiduciary services on behalf of employee benefit plans. Milliman, as the Independent Fiduciary for the Plan, has analyzed the transaction and rendered an opinion that the requirements of subsections (a) through (f) of the draft requested authorization, attached as Exhibit A, have been complied with. In addition, Milliman will represent the interests of the Plan, as the Independent Fiduciary at all times with respect to the proposed transaction. Milliman will monitor compliance by the parties with the terms and conditions of the proposed transaction on an on-going basis, and will take whatever action is necessary and appropriate to safeguard the interests of the Plan and its participants and beneficiaries with respect thereto, and to ensure that the proposed transaction remains in the interest of the Plan and its participants and beneficiaries.

### **Overview of Exemption Conditions**

The following is a summary of the principal conditions that would be imposed by the DOL authorization (a full version of which is attached as Exhibit A):

- The Plan will pay no more than adequate consideration for the insurance contracts.
- No commissions will be paid by the Plan with respect to the direct sale of such contracts or the reinsurance thereof;

- In the initial year of any such contract involving UTIV, there will be an immediate and objectively determined benefit to the participants and beneficiaries of the Plan in the form of increased benefits.
- UTC has retained an Independent Fiduciary, at its sole expense, to analyze the transaction and render an opinion that the requirements of subsections (a) through (f) of Exhibit A have been complied with.

### **Tentative Authorization of the Proposed Transaction**

Authorization of the DOL was requested under procedure called the Prohibited Transaction Exemption (“PTE”) 96-62. This process requires that at least two prior exemptions of substantially similar structure have been granted by the DOL. You can find descriptions of these other transactions along with the comments from the DOL in the Federal Register as PTE 2000-48 (Columbia Energy Group), 65 FR 60452 (October 11, 2000) and PTE 2003-07 (Archer Daniels Midland Company), 68 FR 23764 (May 5, 2003). In addition, the DOL gave final authorization under PTE 96-62 to the International Paper Company (Final Authorization Number 2003-32E, November 2003). FAN 2003-32E also is substantially similar to the transaction described herein. In those cases, each respective employer proposed using its captive insurance company to reinsure employee benefits, and agreed to provide improved benefits, retain an Independent Fiduciary, contract only with insurers with an A rating or better from A.M. Best Company or a similar rating agency, and arrange the transaction with the captive as indemnity insurance only. Based on these representations, the DOL granted relief from the prohibited transaction restrictions under sections 406 (a) and (b) of ERISA.

The proposed transaction described in this Notice has met the requirements for tentative authorization from the DOL under PTE 96-62. Unless the DOL otherwise notifies UTC, a final authorization would be effective December 20, 2008.

### **Your Right to Comment on Tentative Authorization**

As an interested party, you have the right to submit comments to the DOL on the tentative authorization. If you decide to do so, please submit your comments at the following address:

Employee Benefits Security Administration  
Office of Exemption Determinations, Division of Exemptions  
U.S. Department of Labor  
200 Constitution Avenue, N.W.  
Room N-5700  
Washington, D.C. 20210

Please be sure to reference the submission number E-00607. Comments must be received by the DOL no later than December 15, 2008.

Comments may be faxed or e-mailed to the DOL. The fax number is (202) 219-0204 and the e-mail address is [lefkowitz.gary@dol.gov](mailto:lefkowitz.gary@dol.gov). If you have questions regarding your right to comment on this tentative authorization, you may call Mr. Gary Lefkowitz at (202) 693-8546.

If you have any questions about any information in this notice, contact UTC Benefits Center via Access Direct at 1-800-243-8135.

## **Exhibit A**

### **Pending Authorization**

The restrictions of Section 406(a) and 406(b) of ERISA shall not apply to the reinsurance of risks and the receipt of premiums therefrom by UTIV and in connection with insurance contracts sold by CIGNA and Liberty Mutual (“the Fronting Insurance Companies”) or any successor insurance company which is unrelated to UTC to provide non-union Group Term Life including basic and supplemental life (“GTL”), Accidental Death & Dismemberment (“AD&D”) and Long Term Disability (“LTD”) benefits (collectively, the “Plan”) to participants, provided the following conditions are met:

(a) UTIV

- (1) Is a party in interest with respect to the Plan by reason of a stock or partnership affiliation with UTC that is described in Section 3(14)(E) or (G) of ERISA;
- (2) Is licensed to sell insurance or conduct reinsurance operations in at least one State as defined in section 3(10) of ERISA;
- (3) Has obtained a Certificate of Authority from the Insurance Commissioner of its domiciliary state which has neither been revoked nor suspended;
- (4) Will undergo an examination by an independent certified public accountant for its last completed taxable year immediately prior to the taxable year of the reinsurance transaction. In addition, the independent certified public accountant will examine UTIV’s reserves on an annual basis in connection with the Employee Benefits business to be reinsured by UTIV to ensure that appropriate reserve levels are maintained. Further, such accountant must prepare and furnish its report to the Independent Plan Fiduciary within 6 months after the end of the taxable year; and
- (5) Is licensed to conduct reinsurance transactions by a State whose law requires that an actuarial review of reserves be conducted annually by an independent firm of actuaries and reported to the appropriate regulatory authority;

(b) The Plan pays no more than adequate consideration for the insurance contracts;

(c) No commissions are paid by the Plan with respect to the direct sale of such contracts or the reinsurance thereof;

(d) In the initial year of any contract involving UTIV, there will be an immediate and objectively determined benefit to the Plan’s participants and beneficiaries in the form of increased benefits that are described in the Notice to Interested Persons;

(e) In subsequent years, the formula used to calculate premiums by the Fronting Insurance Companies (currently Liberty and CIGNA) or any successor insurer will be similar to formulae used by other insurers providing comparable GTL, AD&D and LTD Insurance coverage under similar programs. Furthermore, the premium charges calculated in accordance with the formulae will be reasonable and will be comparable

to the premiums charged by the insurers and its competitors with the same or a better rating providing the same coverage under comparable programs;

- (f) The Plan only contracts with insurers with a financial strength rating of A or better from A.M. Best Company (Best's). The reinsurance arrangement between the insurers and UTIV will be indemnity insurance only, i.e., the insurer will not be relieved of liability to the Plan should UTIV be unable or unwilling to cover any liability arising from the reinsurance arrangement;
- (g) The Plan retains an Independent Fiduciary (the Independent Fiduciary), at UTC's expense, to analyze the transaction and render an opinion that the requirements of sections (a) through (f) have been complied with. For purposes of this exemption, the Independent Fiduciary is a person who:
  - (1) Is not directly or indirectly, through one or more intermediaries, controlling, controlled by, or under common control with UTC, UTIV, or the Fronting Insurance Companies (this relationship hereinafter referred to as an "Affiliate");
  - (2) Is not an officer, director, employee of, or partner in, UTC, UTIV, or the Fronting Insurance Companies (or any Affiliate thereof);
  - (3) Is not a corporation or partnership in which UTC, UTIV, or the Fronting Insurance Companies has an ownership interest or is a partner;
  - (4) Does not have an ownership interest in UTC, UTIV, or the Fronting Insurance Companies, or any Affiliate thereof;
  - (5) Is not a fiduciary with respect to the Plan prior to the appointment; and
  - (6) Has acknowledged in writing acceptance of fiduciary responsibility and has agreed not to participate in any decision with respect to any transaction in which the Independent Fiduciary has an interest that might affect its best judgment as a fiduciary.
  - (7) For purposes of this definition of an "Independent Fiduciary," no organization or individual may serve as an Independent Fiduciary for any fiscal year if the gross income received by such organization or individual (or partnership or corporation of which such individual is an officer, director, or 10 percent or more partner or shareholder) from UTC, UTIV or their Affiliates (including amounts received for services as Independent Fiduciary under any prohibited transaction exemption granted by the Department) for that fiscal year exceeds 5 percent of that organization or individual's annual gross income from all sources for such fiscal year.



In addition, no organization or individual who is an Independent Fiduciary, and no partnership or corporation of which such organization or individual is an officer, director, or 10 percent or more partner or shareholder, may acquire any property from, sell any property to, or borrow funds from UTC, UTIV or their Affiliates during the period that such organization or individual serves as Independent Fiduciary, and continuing for a period of six months after such organization or individual ceases to be an Independent Fiduciary, or negotiates any such transaction during the period that such organization or individual serves as Independent Fiduciary.