CU | Employee Solutions

Your Defined Benefit Plan

a predictable, secure benefit

CUNA MUTUAL GROUP

Putting the retirement pieces together

Planning for retirement is a lot like putting a jigsaw puzzle together. Scattered on a table, all the pieces can be overwhelming. But when you determine how they fit together, you can wind up with very satisfying results. In the retirement planning puzzle, Social Security and personal savings are two critical pieces. Your employer's pension plan is also an essential, but often overlooked component. By understanding and applying the benefits available through the plan, you can establish the retirement package that's right for you. This is particularly applicable to people who are just beginning to consider their retirement savings. By contacting your plan administrator, you may be surprised by what a significant role a defined benefit plan can play in your future.

What are defined benefit plans and how do they work?

Defined benefit plans, often referred to as traditional pension plans, are valuable employee benefits that provide retirement funds for employees and their families.

Defined benefit plans promise employees a specific monthly benefit at retirement. The amount of the benefit is known in advance, usually based on factors such as age, earnings and years of service. The plan may state this promised benefit as:

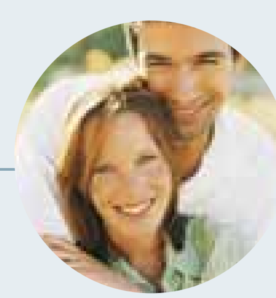
- A percent of salary multiplied by years of service with the employer (example: 1% of $40,000 x 15 years of service).
- A percent of salary reduced if service is less than a specified level (example: 40% of final pay reduced on a pro rata basis for service of less than 25 years).
- A specified dollar amount multiplied by years of service (example: $30 per month at retirement for every year a person has worked for the employer).

Employers are required to make contributions to the plan to be able to pay the benefits employees are earning. Investment earnings on plan assets supplement these contributions. The employer bears the investment risk, and professional money managers handle the investments. In addition, the Pension Benefit Guaranty Corporation (PBGC) insures most defined benefit plans.

What are the advantages for me?

Here are the advantages a defined benefit plan offers employees:

- The employer is responsible for the contributions that provide retirement benefits.
- Employees typically know in advance what percent of their final average salary is provided by their pension benefits.
- Benefits are not subject to the fluctuations of the stock or bond markets, which otherwise could restrict an employee's ability to retire if investment results were not favorable.
- Employees can earn a reasonable retirement benefit under a defined benefit plan, even if they have not been covered by a retirement plan earlier in their careers. Benefits can be based on the most recent salary, which is usually the highest salary in an employee's career.
- Retired employees and their surviving spouses are eligible to receive a monthly benefit for life. If the lump sum value of the benefit is $5,000 or less, the plan will pay the benefit in a single payment.
- Defined benefit plans can provide: early retirement benefits, death benefits, disability benefits, benefits for past service, or cost of living adjustments.
- PBGC guarantees to pay most (and often all) of the employee's earned benefit if the employer goes out of business.



Secure benefits

When am I eligible to participate in my employer's defined benefit plan?

Generally, defined benefit plans require employees to meet age (usually 21 years old) and service requirements (usually one year of service with the employer) before they can participate in the plan. Employees cannot be excluded for being too old, even if they were hired within a few years of the normal retirement age specified in the plan.

How do I earn benefits under the plan?

Employees begin to earn (or accrue) retirement benefits as soon as they become a participant in a defined benefit plan. However, they do not obtain a permanent right to the benefits (become vested) until they have worked a minimum period of time, as specified in the plan. Employees will then have a legal right to receive a portion, or all, of the benefits at retirement age — even if they change jobs and go to work for another employer before reaching retirement age.

What does vesting mean to me?

Being vested means that an employee has completed sufficient years of service and is entitled to receive benefits accrued under the plan, whether or not the employee continues with the employer until retirement. Defined benefit plans have one of two vesting schedules: Cliff Vesting or Graded Vesting.

Under **Cliff Vesting,** employees must be fully vested after five years of service. The plan, however, could specify a shorter period of service. Employees have no vested rights until this service is completed.

Under **Graded Vesting,** the employee must be at least 20 percent vested after three years of service and receive an additional 20 percent vesting for each of the next four years, with full vesting coming no later than at the end of seven years of service.

Calculating benefits

The benefit amount earned in a defined benefit plan is determined by a formula that is spelled out in the plan. Usually, it involves salary and years of service (example: a certain percentage of the employee's final average salary multiplied by the number of years of service) or a flat benefit amount per year of service. The actual dollar amount will depend on a number of factors, such as:

- Age at retirement.
- Compensation (in plans that consider amount of salary when computing benefits).
- Years of service under the plan.

The longer an individual participates under the same defined benefit plan, the larger the retirement benefits. Some plans are designed to take into account Social Security benefits. In these plans, pension benefits can be increased for higher paid employees who receive smaller relative Social Security benefits.

How are benefits from the plan paid to me?

Employees can begin to receive pension benefits when they reach the normal retirement age (usually age 65) defined in their pension plan. Some plans allow for payments to begin at an earlier age.

Defined benefit plans may pay benefits either as an annuity (equal payments monthly or at other regular intervals) or as a one-time payment (lump sum). If the total value of the benefit is $5,000 or less, the plan may pay the benefit in a single sum without the employee's consent. If the benefit is worth more than $5,000, the plan must provide available options, including a joint-and-survivor annuity.

If the lump sum value of your benefit is $5,000 or more, federal law requires your defined benefit plan to pay retirement benefits in a special payment form if you are married, unless your spouse agrees to another choice. This special payment form is called a Qualified Joint and Survivor Annuity or QJSA payment form. Please refer to the Summary Plan Description document for specific details.

The QJSA payment form gives you a monthly retirement payment for the rest of your life. After you die, each month the plan will pay your spouse 50 percent of the retirement benefit that was being paid to you, which is often called a 'survivor annuity' or a 'survivor benefit.' Your spouse will receive this survivor benefit for the rest of his or her life.

How can I determine what is the best form of benefit for me?

On the following pages are the general Benefits/Features and Drawbacks for each form of payment. Since every person has a unique financial situation, you should discuss your benefit options with a tax advisor or financial planner.

Retirement options

	Benefits/Features	Drawbacks
Annuity Payment Option	• Unless elected otherwise, retired employees and their surviving spouses receive a pension annuity for life • Receive a guaranteed monthly benefit for as long as you live • Additional benefits could be paid to a designated beneficiary, depending on the type of annuity option chosen • Benefit is protected by Pension Benefit Guaranty Corporation (PBGC) • Benefit is not subject to investment risk	• May not have cost of living or inflation protection • Not eligible for rollover
Direct Rollover To An IRA	• Continued tax-deferred growth potential • No current-year taxes, penalties or 20% withholding • Many investment choices • Eligible for conversion to a Roth IRA, subject to income limits	• Forward averaging tax treatment not permitted on IRA distributions • Required minimum distributions must start after you turn age 70 1/2 ♣ • Benefit is no longer protected by PBGC

A direct rollover is the transfer of your retirement benefit directly to a traditional IRA or another qualified retirement plan. This type of direct transfer protects your money from regular income taxes, as well as a 10% additional tax that usually applies if you are under age 59 1/2 ♠. Also, it keeps you from having 20% immediately withheld for taxes under the federal withholding requirement. Please contact your Plan Administrator with any questions you have regarding rollover options.

♣ The federal government generally requires minimum distributions from traditional IRAs and qualified plans to begin no later than April 1 of the year following the year during which you reach age 70 1/2. An exception to required minimum distributions from your current employer's qualified plan applies if you reach age 70 1/2 and are still working for your current employer. However, you must still take required minimum distributions from your IRAs. NOTE: We can help you determine how much must be distributed.

♠ The additional 10% tax generally applies to withdrawals before age 59 1/2. It does not apply under certain circumstances, including if your withdrawals are part of a series of substantially equal periodic payments over your life expectancy or over the life expectancies of you and your beneficiary. If withdrawn early from a qualified plan, the money is not subject to the 10% tax if you are leaving employment at age 55 or older. There are other exemptions from the 10% tax, including cases of disability and certain withdrawals for medical expenses.

	Benefits/Features	Drawbacks
Direct Lump Sum Rollover To A Qualified Plan	Continued tax-deferred growth potential	Withdrawals can be restrictive, depending on Plan's provisions
	No current year taxes, penalties or 20% withholding	
	New plan may allow loans	Subject to plan rules on distributions
	May qualify for forward averaging on lump-sum distributions	Benefit no longer protected by PBGC
	Ease of transfer of funds and management of those funds	

Check with your employer to see if you can consolidate your retirement plans upon termination of employment. If you're thinking of moving your lump sum benefit into a new plan, check with your new employer first. Some plans allow rollovers; some don't. Also, many plans have a waiting period before you can roll over money, or they have limited investment choices. Moving your money into a qualified plan means it remains invested and can continue to be tax-deferred.

	Benefits/Features	Drawbacks
Defer Receipt Of Benefit To A Later Date	Numerous payout options available when you are ready to take your money	Lump sum value could go down
	Distribution can be postponed until Required Minimum Distribution rules apply at age 70 1/2 ★	May not have cost of living or inflation protection
	Benefit is protected by Pension Benefit Guaranty Corporation (PBGC)	
	Benefit is not subject to investment risk	
	Vested balances over $5,000 can be left in the plan	
	No current taxes, penalties or 20% withholding	

Employers allow you to keep your benefit in the plan if your vested lump sum value is over $5,000. If the plan is terminating, a deferred annuity can be purchased. Contact your Plan Administrator for details.

	Benefits/Features	Drawbacks
Lump Sum Cash Out	Access to benefits to meet immediate financial needs	Loss of retirement savings
	Money can be withdrawn and rolled over into other retirement vehicles. This rollover must occur within 60 days from when you receive your money.	Regular income tax owed 20% withheld to cover expected tax liability
		Additional 10% tax on early distributions may apply if under age 59 1/2
		State taxes may also apply

Employers allow you to keep your benefit in the plan if your vested balance is over $5,000. If the plan is terminating, a deferred annuity can be purchased. Contact your Plan Administrator for details.

★ The federal government generally requires minimum distributions from traditional IRAs and qualified plans to begin no later than April 1 of the year following the year during which you reach age 70 1/2. An exception to required minimum distributions from your current employer's qualified plan applies if you reach age 70 1/2 and are still working for your current employer. However, you must still take required minimum distributions from your IRAs. NOTE: We can help you determine how much must be distributed. Ten-year forward averaging is still available for those born before 1936.

Services

	Features	Benefits
CUNA Mutual Pension Support Participant Support Unit	• A Participant Support Staff is available to answer questions.	• Our Participant Support Unit Specialists are available to answer questions about your investment options and retirement planning needs. Call 1-800-999-8786, option 3 or email us at psu@cunamutual.com.
Educational Materials	• Your Guide to Retirement Planning • Estate Planning Guide • Paying for Your Child's College Education • Your Guide to IRAs • Understanding Annuities • Understanding Mutual Funds • Guide to Surviving a Volatile Market • Retirement Planning Calculators	• Provides additional information related to pension investing and retirement planning.

Defined benefit pension plan

A defined benefit pension plan provides you with retirement income for as long as you live. And that income is typically related to the income you were earning before you retired. Your employer funds the plan based on the recommendations of an enrolled actuary, ensuring there will be enough money to pay your benefits no matter how long you live. Your benefits are defined by the plan, and are not at risk due to poor investment results.

The Pension Benefit Guaranty Corporation, an agency of the federal government, guarantees your benefits.

How to read a statement

1. Your pension plan, like Social Security, is designed to replace a portion of your income when you retire. Studies show that most people need to replace about 80% of their pre-retirement income when they retire. The percentage of your income that will be replaced by your defined benefit pension plan and Social Security are shown here.

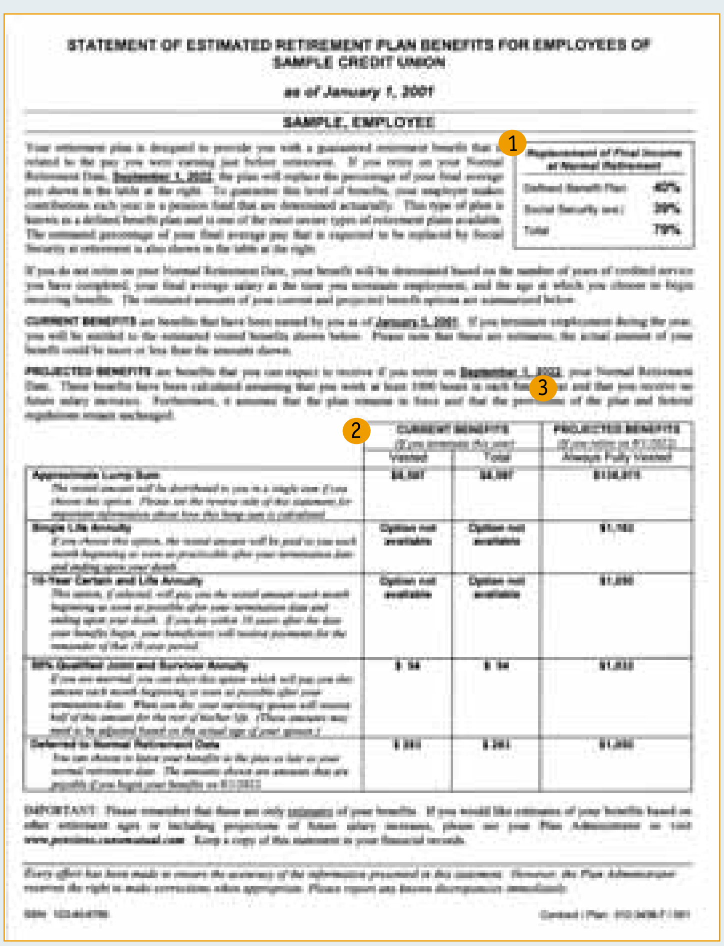
2. The Vested column under Current Benefits provides your benefit options if you left employment at this time.

3. The Projected Benefit column assumes you continue to work at least 1,000 hours per year until your normal retirement date. The benefits shown are based on your current salary, without considering any future salary increases.

4. If your plan allows lump sum distributions, this section explains how they are calculated.

5. This chart shows the historical interest rate index used to determine lump sum payments.

6. This section demonstrates how changing interest rates affect your current and projected lump sums.



STATEMENT OF ESTIMATED RETIREMENT PLAN BENEFITS FOR EMPLOYEES OF SAMPLE CREDIT UNION

as of January 1, 2001

SAMPLE, EMPLOYEE

HOW ARE LUMP SUMS DETERMINED?

HOW DOES MY LUMP SUM CHANGE IF INTEREST RATES CHANGE?

Choosing the next step for your retirement savings is important — not only for your financial future, but also because of the possible tax consequences of your choice. In some cases, not making a decision can be just as critical. That's because a decision, with some adverse tax results, could be made for you. Call our Participant Support Unit toll-free at **1-800-999-8786 option 3.** Our Retirement Specialists can discuss your retirement options and answer your retirement planning questions.

This is a brief description of a defined benefit plan and is not intended to provide tax or legal advice.

THE POWER TO HELP CREDIT UNIONS COMPETE.®

CUNA MUTUAL GROUP

CUMIS Insurance Society, Inc.

P.O. Box 391
5910 Mineral Point Road
Madison, WI 53701-0391
1.800.333.2644
www.cunamutual.com

This brochure contains only brief descriptions of coverage for each insurance product or service.

1102-P1194(1203)