


Your Defined Benefit Plan

a predictable, secure benefit



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.



your employer's pension plan is an important piece in solving your retirement plan puzzle

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	<ul style="list-style-type: none"> • 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 	<ul style="list-style-type: none"> • May not have cost of living or inflation protection • Not eligible for rollover
Direct Rollover To An IRA	<ul style="list-style-type: none"> • 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 	<ul style="list-style-type: none"> • 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 70½ ★	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 59½
		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 70½. An exception to required minimum distributions from your current employer's qualified plan applies if you reach age 70½ 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	<ul style="list-style-type: none">• A Participant Support Staff is available to answer questions.	<ul style="list-style-type: none">• 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	<ul style="list-style-type: none">• 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	<ul style="list-style-type: none">• 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

Your retirement plan is designed to provide you with a guaranteed retirement benefit that is related to the pay you were earning just before retirement. If you retire on your Normal Retirement Date, September 1, 2002, the plan will replace the percentage of your final average pay shown in the table at the right. To guarantee this level of benefits, your employer makes contributions each year to a pension fund that are determined actuarially. This type of plan is known as a defined benefit plan and is one of the most secure types of retirement plans available. The estimated percentage of your final average pay that is expected to be replaced by Social Security at retirement is also shown in the table at the right.

Replacement of Final Income at Normal Retirement
Defined Benefit Plan: 40%
Social Security (est): 39%
Total: 79%

If you do not retire on your Normal Retirement Date, your benefit will be determined based on the number of years of credited service you have completed, your final average salary at the time you terminate employment, and the age at which you choose to begin receiving benefits. The estimated amounts of your current and projected benefits options are summarized below.

CURRENT BENEFITS are benefits that have been earned by you as of January 1, 2001. If you terminate employment during the year, you will be entitled to the estimated vested benefits shown below. Please note that these are estimates; the actual amount of your benefits could be more or less than the amounts shown.

PROJECTED BENEFITS are benefits that you can expect to receive if you retire on September 1, 2002, your Normal Retirement Date. These benefits have been calculated assuming that you work at least 1,000 hours in each year until you retire and that you receive no future salary increases. Furthermore, it assumes that the plan income is fixed and that the percentage of the plan and federal requirements remain unchanged.

	CURRENT BENEFITS (If you terminate this year)		PROJECTED BENEFITS (If you retire on 9/1/2002)
	Vested	Total	Always Fully Vested
Approximate Lump Sum: The vested amount will be distributed to you in a single sum if you choose this option. Please see the reverse side of this statement for important information about how this lump sum is calculated.	\$4,587	\$4,587	\$18,876
Single Life Annuity: If you choose this option, the vested amount will be paid to you each month beginning on your normal retirement date and ending upon your death.	Option not available	Option not available	\$1,762
10-Year Certain and Life Annuity: This option, if selected, will pay you the vested amount each month beginning as soon as possible after your normal retirement date and ending upon your death. If you die within 10 years after the date your benefits begin, your beneficiaries will receive payments for the remainder of that 10-year period.	Option not available	Option not available	\$1,690
50% Qualified Joint and Survivor Annuity: If you are married, you can elect this option which will pay you the vested amount each month beginning as soon as possible after your normal retirement date. When one of you dies, the surviving spouse will receive half of this amount for the rest of their life. (These amounts may need to be adjusted based on the actual age of your spouse.)	\$ 54	\$ 54	\$1,833
Deferred to Normal Retirement Date: You can choose to defer your benefits to the plan or later on your normal retirement date. The amounts shown are amounts that are payable if you begin your benefits on 9/1/2002.	\$ 261	\$ 261	\$1,261

IMPORTANT: Please remember that these are only estimates of your benefits. If you would like estimates of your benefits based on other retirement ages or including projections of future salary increases, please see your Plan Administrator or visit www.pensions.commutaid.com. Keep a copy of this statement in your financial records.

Every effort has been made to ensure the accuracy of the information presented in this statement. However, the Plan Administrator reserves the right to make corrections when appropriate. Please report any known discrepancies immediately.

688 10244796 Contact | Plan: 012-948-7101

4 HOW ARE LUMP SUMS DETERMINED?

Your defined benefit plan promises to pay you a certain monthly benefit, possible for as long as you live, beginning on your normal retirement date. Other benefit options, including the lump sum option, are determined to be actuarial equivalents to that monthly benefit. In other words, any benefit option that you select will provide you with the same value assuming that you have a normal life expectancy.

To determine the lump sum value of your monthly benefits, we need to make two assumptions—how long you will live and what interest rates you could earn over that period of time. Both of these assumptions are specified by law. The mortality rates assume that everybody that is the same age has the same life expectancy (smokers and drinkers, smokers and non-smokers etc.). A sample of different life expectancies, according to current mortality tables, is shown in the table at the right. The interest rates are based on 30-year treasury rates.

Life Expectancy	
If you are...	For an equivalent to the month...
35	69
40	67
45	65
50	62

The theory is that if you take a lump sum distribution, you will have enough money to pay yourself the same monthly benefit for as long as you are expected to live, even if invested in a very conservative investment like the 30-year treasury. If you take a lump sum distribution, you assume the risk of outliving your money or the risk of poor investment performance.

Many investors believe they can earn more than the 30-year treasury rate by investing more aggressively. If you do earn more investment income, your money will last longer or provide you with larger monthly benefits, but there is still some chance that you could outlive your investment. Additionally, more aggressive investments have the potential of losing a great deal of value in any one year. This type of investment may not be appropriate as you get older.

5 HOW DOES MY LUMP SUM CHANGE IF INTEREST RATES CHANGE?

Highest interest rates result in lowest lump sums. If you are expected to earn more interest on your money, you need a smaller lump sum distribution to provide you with the same future monthly benefits. Conversely, lower interest rates result in higher lump sums. If you are expected to earn less interest on your money, a larger lump sum will be required to provide the same future monthly benefits.

From year to year, increases in your benefits can cause your lump sum to increase even if interest rates increase. Also, the passage of time causes lump sums to increase because you are closer to the date your benefits are supposed to begin and have less time to earn interest. However, sometimes interest rates increase so much that your lump sum could go down from one year to the next even with additional benefit accruals.

The 30-year treasury rate is set at the beginning of each plan year, January 1, and remains the same for any lump sum distributions that occur during that plan year. The chart shows the 30-year treasury rate for much of the past 16 months. The effect that a one percent increase or decrease in interest rates has on your estimated lump sum is shown below.

	Interest Rate	Current Lump Sum	Projected Lump Sum
One-percent increase in interest rates	7.15%	\$6,422	\$126,048
Current interest rate	6.15%	\$8,587	\$138,075
One-percent decrease in interest rates	5.15%	\$11,489	\$148,973

6 CURRENT LUMP SUM is the lump sum based on estimated benefits earned by you as of July 1, 2000, subject to vesting.

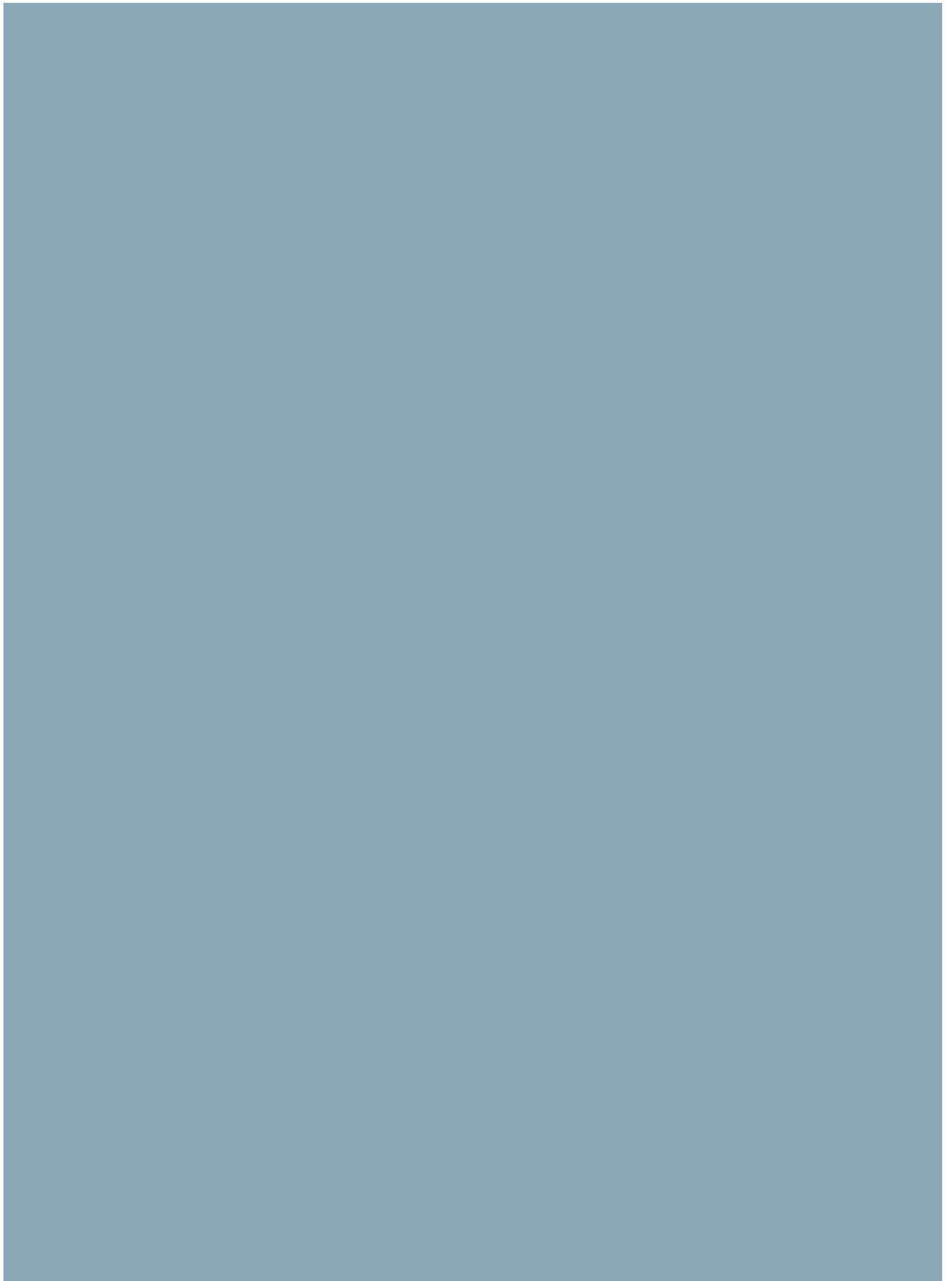
PROJECTED LUMP SUM is the lump sum based on estimated benefits projected to your normal retirement date, September 1, 2002, assuming that you work at least 1,000 hours in each future plan year and that you receive no salary increases. Please see the front side of this statement for more details and other benefit options.



service that sets us apart

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.®



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