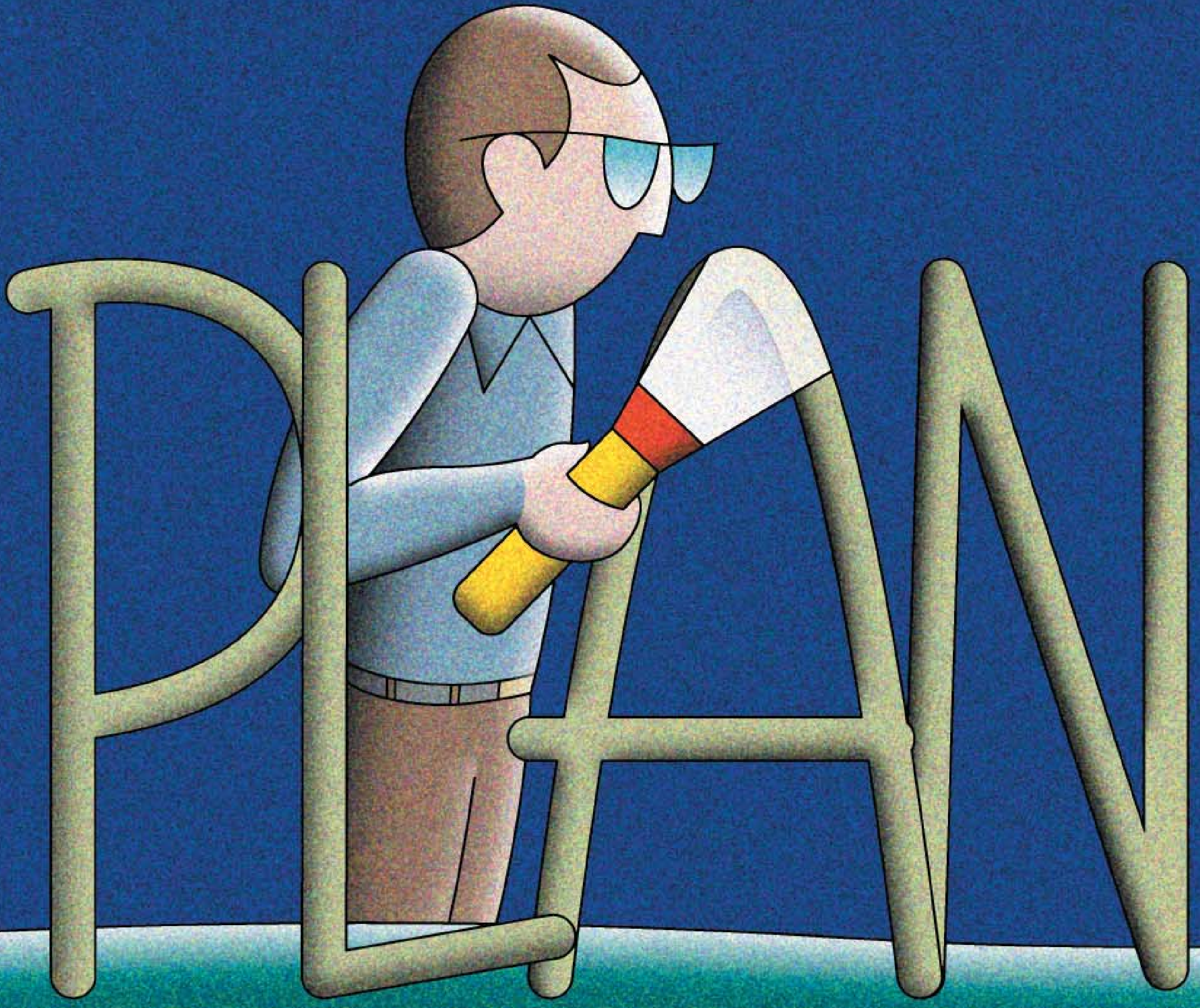
WHAT YOU SHOULD KNOW ABOUT YOUR RETIREMENT



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► Chapter 1: Types of Retirement Plans

The first step to understanding your retirement benefits is to find out what kind of retirement plan your employer has. There are two major types of plans, defined benefit and defined contribution, which are described here and outlined in Table 1 on page 4. Keep in mind that your employer may have more than one type of plan, and may have different participation requirements for each.

A **defined benefit plan**, funded by the employer, promises you a specific monthly benefit at retirement. The plan may state this promised benefit as an exact dollar amount, such as $100 per month at retirement. Or, more often, it may calculate your benefit through a formula that includes factors such as your salary, your age, and the number of years you worked at the company. For example, your pension benefit might be equal to 1 percent of your average salary for the last 5 years of employment times your total years of service.

A **defined contribution plan**, on the other hand, does not promise you a specific benefit amount at retirement. Instead, you and/or your employer contribute money to your individual account in the plan. In many cases, you are responsible for choosing how these contributions are invested, and deciding how much to contribute from your paycheck through pretax deductions. Your employer may add to your account, in some cases by matching a certain percentage of your contributions. The value of your account depends on how much is contributed and how well the investments perform. At retirement, you receive the balance in your account, reflecting the contributions, investment gains or losses, and any fees charged against your account. The **401(k) plan** is a popular type of defined contribution plan. There are four types of 401(k) plans: traditional 401(k), **safe harbor 401(k)**, **SIMPLE 401(k)**, and **automatic enrollment** 401(k) plans. The **SIMPLE IRA plan**, **SEP**, **employee stock ownership plan (ESOP)**, and **profit sharing plan** are other examples of defined contribution plans. (See explanations of the various types of plans in the Glossary at the end.)

Note

1. Employers can choose whether to offer a retirement plan to employees; Federal law does not require employers to offer or to continue to offer a plan.
2. The Pension Benefit Guaranty Corporation (PBGC) guarantees payment of certain retirement benefits for participants in most private defined benefit plans if the plan is terminated without enough money to pay all of the promised benefits. The government does not guarantee benefit payments for defined contribution plans. For more information, see the PBGC's website at **www.pbgc.gov**.
3. Some hybrid plans – such as **cash balance plans** – contain features of both types of plans described above. See the Glossary for information on this type of plan.

Action Item

Ask your plan administrator, human resources office or employer for information on what type of plan or plans you have at work. You can ask for a copy of the **Summary Plan Description** (the retirement plan booklet that you should receive when you enroll in the plan) and review the information about the plan.

Table 1: Characteristics of Defined Benefit and Defined Contribution Plans

	Defined Benefit Plan	Defined Contribution Plan
Employer Contributions and/or Matching Contributions	Employer funded. Federal rules set amounts that employers must contribute to plans in an effort to ensure that plans have enough money to pay benefits when due. There are penalties for failing to meet these requirements.	There is no requirement that the employer contribute, except in SIMPLE and safe harbor 401(k)s, money purchase plans, SIMPLE IRAs, and SEPs. The employer may have to contribute in certain automatic enrollment 401(k) plans. The employer may choose to match a portion of the employee's contributions or to contribute without employee contributions. In some plans, employer contributions may be in the form of employer stock.
Employee Contributions	Generally, employees do not contribute to these plans.	Many plans require the employee to contribute in order for an account to be established.
Managing the Investment	Plan officials manage the investment and the employer is responsible for ensuring that the amount it has put in the plan plus investment earnings will be enough to pay the promised benefit.	The employee often is responsible for managing the investment of his or her account, choosing from investment options offered by the plan. In some plans, plan officials are responsible for investing all the plan's assets.
Amount of Benefits Paid Upon Retirement	A promised benefit is based on a formula in the plan, often using a combination of the employee's age, years worked for the employer, and/or salary.	The benefit depends on contributions made by the employee and/or the employer, performance of the account's investments, and fees charged to the account.
Type of Retirement Benefit Payments	Traditionally, these plans pay the retiree monthly annuity payments that continue for life. Plans may offer other payment options.	The retiree may transfer the account balance into an individual retirement account (IRA) from which the retiree withdraws money, or may receive it as a lump sum payment. Some plans also offer monthly payments through an annuity.
Guarantee of Benefits	The Federal Government, through the Pension Benefit Guaranty Corporation (PBGC), guarantees some amount of benefits.	No Federal guarantee of benefits.
Leaving the Company Before Retirement Age	If an employee leaves after vesting in a benefit but before the plan's retirement age, the benefit generally stays with the plan until the employee files a claim for it at retirement. Some defined benefit plans offer early retirement options.	The employee may transfer the account balance to an individual retirement account (IRA) or, in some cases, another employer plan, where it can continue to grow based on investment earnings. The employee also may take the balance out of the plan, but will owe taxes and possibly penalties, thus reducing retirement income. Plans may cash out small accounts.

► Chapter 2: Earning Retirement Benefits

Once you have learned what type of retirement plan your employer offers, you need to find out when you can participate in the plan and begin to earn benefits. Plan rules can vary as long as they meet the requirements under Federal law. You need to check with your plan or review the plan booklet (called the **Summary Plan Description**) to learn your plan's rules and requirements. Your plan may require you to work for the company for a period of time before you may participate in the plan. In addition, there typically is a time frame for when you begin to accumulate benefits and earn the right to them (sometimes referred to as "**vesting**").

Who can participate in your employer's retirement plan?

Find out if you are within the group of employees covered by your employer's retirement plan. Federal law allows employers to include certain groups of employees and exclude others from a retirement plan. For example, your employer may sponsor one plan for salaried employees and another for union employees. Part-time employees may be eligible if they work at least 1,000 hours per year, which is about 20 hours per week. So if you work part-time, find out if you are covered.

When can your participation begin?

Once you know you are covered, you need to find out when you can begin to participate in the plan. You can find this information in your plan's Summary Plan Description. Federal law sets minimum requirements, but a plan may be more generous. Generally, a plan may require an employee to be at least 21 years old and to have a **year of service** with the company before the employee can participate in a plan. However, plans may allow employees to begin participation before reaching age 21 or completing one year of service. For administrative reasons, your participation may be delayed up to 6 months after you meet these age and service criteria, or until the start of the next **plan year**, whichever is sooner. The plan year is the calendar year, or an alternative 12-month period, that a retirement plan uses for plan administration. Because the rules can vary, it is important that you learn the rules for your plan.

Employers have some flexibility to require additional years of service in some circumstances. For example, if your plan allows you to vest (discussed in detail later in this chapter) immediately upon participating in the plan, it may require that you work for the company for two years before you may participate in the plan.

Federal law also imposes other participation rules for certain circumstances. For example, if you were an older worker when you were hired, you cannot be excluded from participating in the plan just because you are close to retirement age.

Some **401(k) plans** and **SIMPLE IRA plans** enroll employees automatically. This means that you will automatically become a participant in the plan unless you choose to opt out. The plan will deduct a set contribution level from your paycheck and put it into a predetermined investment. If your employer has an automatic enrollment plan, you should receive a notice describing the automatic contribution process, when your participation begins, your opportunity to opt out of the plan or change your contribution level and where your automatic contributions are invested. If you are in a 401(k), the notice will also describe your right to change investments, or if you are in a SIMPLE IRA plan, your right to change the financial institution where your contributions are invested.

When do you begin to accumulate benefits?

Once you begin to participate in a retirement plan, you need to understand how you accrue or earn benefits. Your accrued benefit is the amount of retirement benefits that you have accumulated or that have been allocated to you under the plan at any particular point in time.

Defined benefit plans often count your years of service in order to determine whether you have earned a benefit and also to calculate how much you will receive in benefits at retirement. Employees in the plan who work part-time, but who work 1,000 hours or more each year, must be credited with a portion of the benefit in proportion to what they would have earned if they were employed full time. In a **defined contribution plan**, your **benefit accrual** is the amount of contributions and earnings that have accumulated in your 401(k) or other retirement plan account, minus any fees charged to your account by your plan.

Special rules for when you begin to accumulate benefits may apply to certain types of retirement plans. For example, in a **Simplified Employee Pension Plan (SEP)**, all participants who earn at least $550 a year from their employers are entitled to receive a contribution.

Can a plan reduce promised benefits?

Defined benefit plans may change the rate at which you earn future benefits but cannot reduce the amount of benefits you have already accumulated. For example, a plan that accrues benefits at the rate of $5 a month for years of service through 2011 may be amended to provide that for years of service beginning in 2012 benefits will be credited at the rate of $4 per month. Plans that make a significant reduction in the rate at which benefits accumulate must provide you with written notice generally at least 45 days before the change goes into effect.

Also, in most situations, if a company terminates a defined benefit plan that does not have enough funding to pay all of the promised benefits, the Pension Benefit Guaranty Corporation (PBGC) will pay plan participants and beneficiaries some retirement benefits, but possibly less than the level of benefits promised. (For more information, see the PBGC's website at **www.pbgc.gov**.)

In a defined contribution plan, the employer may change the amount of employer contributions in the future. Depending on the plan terms, the employer may also be able to stop making contributions for a few years or indefinitely.

An employer may terminate a defined benefit or a defined contribution plan, but may not reduce the benefit you have already accrued in the plan.

How soon do you have a right to your accumulated benefits?

You immediately vest in your own contributions and the earnings on them. This means you have earned the right to these amounts without the risk of forfeiting them. But note – there are restrictions on actually taking them out of the plan. See the discussion on the rules for distributions later in this booklet.

However, you do not necessarily have an immediate right to any contributions made by your employer. Federal law provides a maximum number of years a company may require employees to work to earn the vested right to all or some of these benefits. (See tables on pages 8-9 showing the vesting rules.)

In a defined benefit plan, an employer can require that employees have 5 years of service in order to become 100 percent vested in the employer funded benefits (called cliff vesting). Employers also can choose a graduated vesting schedule, which requires an employee to work 7 years in order to be 100 percent vested, but provides at least 20 percent vesting after 3 years, 40 percent after 4 years, 60 percent after 5 years, and 80 percent after 6 years of service. The permitted vesting schedules for current defined benefit plans are shown in Table 3 on page

9. Plans may provide a different schedule as long as it is more generous than these vesting schedules. (Unlike most defined benefit plans, in a cash balance plan, employees vest in employer contributions after 3 years.)

In a defined contribution plan such as a 401(k) plan, you are always 100 percent vested in your own contributions to a plan, and in any subsequent earnings from your contributions. However, in most defined contribution plans you may have to work several years before you are vested in the employer's matching contributions. (There are exceptions, such as the SIMPLE 401(k) and safe harbor 401(k), in which you are immediately vested in all required employer contributions. You also vest immediately in the SIMPLE IRA and the SEP.)

Currently, employers have a choice of two different vesting schedules for employer matching 401(k) contributions, which are shown in Table 2 on page 8. Your employer may use a schedule in which employees are 100 percent vested in employer contributions after 3 years of service (cliff vesting). Under graduated vesting, an employee must be at least 20 percent vested after 2 years, 40 percent after 3 years, 60 percent after 4 years, 80 percent after 5 years, and 100 percent after 6 years. If your automatic enrollment 401(k) plan requires employer contributions, you vest in those contributions after 2 years. Automatic enrollment 401(k) plans with optional matching contributions follow one of the vesting schedules noted above.

Employers making other contributions to defined contribution plans, such as a 401(k) plan, also can choose between two vesting schedules. For those contributions made since 2007, they can choose between the graduated and cliff vesting schedules in Table 2. For contributions made prior to 2007, they can choose between the schedules provided in Table 3.

You may lose some of the employer-provided benefits you have earned if you leave your job before you have worked long enough to be vested. However, once vested, you have the right to receive the vested portion of your benefits even if you leave your job before retirement. But even though you have the right to certain benefits, your defined contribution plan account value could decrease after you leave your job as a result of investment performance.

Note

If you leave your company and return, you may be able to count your earlier period of employment towards the years of service needed for vesting in the employer-provided benefits. Unless your break in service with the company was 5 years or a time equal to the length of your pre-break employment, whichever is greater, you likely can count that time prior to your break. Because these rules are very specific, you should read your plan document carefully if you are contemplating a short-term break from your employer, and then discuss it with your plan administrator. If you left employment prior to January 1, 1985, different rules apply. For more information, contact the Department of Labor electronically at **www.askebsa.dol.gov** or by calling toll free 1-866-444-3272.

For Reserve and National Guard units called to active duty, the Uniformed Services Employment and Reemployment Rights Act (USERRA) requires that the period of military duty be counted as covered service with the employer for eligibility, vesting, and benefit accrual purposes. Returning service members are treated as if they had been continuously employed regardless of the type of retirement plan the employer has adopted. However, a person who is reemployed is entitled to accrued benefits resulting from employee contributions only to the extent that he or she actually makes the contributions to the plan.

Vesting Rules

Generally, an employer must count your years of service for vesting credit starting with your date of employment. Two exceptions provide that your employer may start counting your years of service with the first plan year following (1) your 18th birthday if you were under 18 years of age when you started working there, and (2) the date you start contributing to a 401(k) plan if you elected not to contribute when you first were eligible.

Plans can allow employees the right to employer-provided benefits sooner than indicated in the following tables.

Minimum Vesting Requirements Under ERISA Employer Contributions (Use Table in Effect on Date You Left Employer)

Table 2 below shows the current vesting schedules, as of 2002, for employer matching 401(k) plan contributions, and for other employer contributions to a defined contribution plan as of 2007.

TABLE 2: Effective Date 1/01/02 - Present — for 401(k) Matching Contributions Effective Date 1/01/07 – Present — for Other Defined Contribution Employer Contributions

Graduated Vesting

Years of Service	Non-forfeitable Percentage
2	20%
3	40%
4	60%
5	80%
6	100%

Cliff Vesting
Less than 3 years of service - 0% Vested
At least 3 years of service - 100% Vested

Table 3 is for employees in a defined benefit plan. It is also for employees receiving other employer contributions to a defined contribution plan before 2007*, employer matching 401(k) contributions prior to 2002, and employees in a defined contribution plan who left an employer after December 31, 1988.

* If your plan is top heavy, Table 2 applies.

TABLE 3: Effective Date 1/01/89 – Present* — for Defined Benefit Employer Contributions Effective Date 1/01/89 – 2007 — for Other Defined Contribution Employer Contributions Effective Date 1/01/89 – 2002 — 401(k) Matching Employer Contributions	
Graduated Vesting	
Years of Service	**Non-forfeitable Percentage**
3	20%
4	40%
5	60%
6	80%
7	100%
Cliff Vesting Less than 5 years of service - 0% Vested At least 5 years of service - 100% Vested	

Table 4 is for employees who left before 1989.

TABLE 4: Effective Date 1974 - 12/31/88** — for all Defined Benefit and Defined Contribution Employer Contributions	
Graduated Vesting	
Years of Service	**Non-forfeitable Percentage**
5	25%
6	30%
7	35%
8	40%
9	45%
10	50%
11	60%
12	70%
13	80%
14	90%
15	100%
Cliff Vesting Less than 10 years of service - 0% Vested At least 10 years of service - 100% Vested	
Rule of 45 If employee's age and years of service total 45, and the employee has at least 5 years of service, then 50% of the benefits must be vested, with at least 10% vesting for each year thereafter.	

Note

For plans subject to collective bargaining agreements, the effective date is the earlier of the date on which the last of the collective bargaining agreements under which the plan is maintained terminates or —

* 01/01/99.

**01/01/89.

Action Items

- Find out if you are covered by an employer plan.
- Find out how soon you can start participating in and/or contributing to your retirement plan after you start working for a company.
- Get a Summary Plan Description.
- Review your plan document or Summary Plan Description to understand how you earn benefits in your plan.
- Find your plan's vesting schedule to check when you are fully vested. If you are thinking of changing jobs, check your plan to see if working longer will allow you to vest more fully in your employer's contributions.