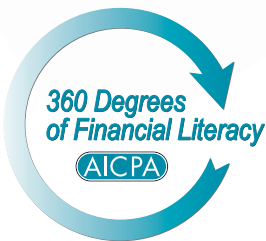


## Funding Your Retirement

360 Degrees of Financial Literacy



**If you work for a company, you likely are eligible for an employer-sponsored retirement plan or pension plan. Your pension plan along with other resources, such as Social Security, will help pay your expenses during your retirement.**

A pension plan is an employee benefit plan established or maintained by an employer or employee organization (such as a union), or both. It provides retirement income or defers income until termination of covered employment or beyond. There are two major types of pension plans: defined benefit plans and defined contribution plans. The Employee Retirement Income Security Act (ERISA) covers both.

ERISA provides protections for participants and beneficiaries in employee benefit plans, including providing access to plan information. Also, those individuals who manage plans (and other fiduciaries) must meet certain standards of conduct under the fiduciary responsibilities specified in the law.

### DEFINED BENEFIT PLANS

A defined benefit plan promises a specified 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 commonly, it may calculate a benefit through a plan formula that considers such factors as salary and service - for example, one percent of average salary for the last five years of employment for every year of service with an employer.

The benefits in most traditional defined benefit plans are protected, within certain limitations, by federal insurance provided through the Pension Benefit Guaranty Corporation (PBGC).

### DEFINED CONTRIBUTION PLANS

A defined contribution plan does not promise a specific amount of benefits at retirement. In these plans, the employee or the employer (or both) contribute to the employee's individual account under the plan, sometimes at a set rate, such as five percent of earnings annually.

Contributions generally are invested on the employee's behalf. The employee will ultimately receive the balance in his or her account, which is based on contributions plus or minus investment gains or losses. The value of the account will fluctuate because of changes in the value of the investments. Examples of defined contribution plans are 401(k) plans, 403(b) plans, employee stock ownership plans and profit-sharing plans.

### SIMPLIFIED EMPLOYEE PENSION PLANS

A Simplified Employee Pension Plan (SEP) is a relatively uncomplicated retirement savings vehicle. A SEP allows employees to contribute on a tax-favored basis to individual retirement accounts (IRAs) owned by the employees. SEPs are subject to minimal reporting and disclosure requirements. Under a SEP, an employee must set up an IRA to accept the employer's contributions.

As of December 31, 1996, employers may no longer set up Salary Reduction SEPs, in which employees had pre-tax dollars automatically set aside. However, employers may establish SIMPLE IRA plans with salary reduction contributions. If an employer had a salary reduction SEP, the employer may continue to allow salary reduction contributions to the plan.

## PROFIT-SHARING PLANS

A Profit-Sharing Plan or Stock Bonus Plan is a defined contribution plan under which the plan may provide, or the employer may determine annually, how much will be contributed to the plan (out of profits or otherwise). The plan contains a formula for allocating to each participant a portion of each annual contribution. A profit-sharing plan or stock bonus plan may include a 401(k) plan.

A 401(k) Plan is a defined contribution plan that is a cash or deferred arrangement. Employees can elect to defer receiving a portion of their salary. The deferred portion is contributed on their behalf, before taxes, to the 401(k) plan. Sometimes the employer may match these contributions.

There are special rules governing the operation of a 401(k) plan. For example, there is a dollar limit on the amount an employee may defer each year. An employer must advise employees of any limits that may apply. Employees who participate in 401(k) plans assume responsibility for their retirement income by contributing part of their salary and, in many instances, by directing their own investments. An Employee Stock Ownership Plan (ESOP) is a form of defined contribution plan in which the investments are primarily in employer stock.

A Money Purchase Pension Plan is a plan that requires fixed annual contributions from the employer to the employee's individual account. Because a money purchase pension plan requires these regular contributions, the plan is subject to certain funding and other rules.

## CASH BALANCE PLANS

A Cash Balance Plan is a defined benefit plan that defines the benefit in terms

that are more characteristic of a defined contribution plan. In other words, a cash balance plan defines the promised benefit in terms of a stated account balance.

In a typical cash balance plan, a participant's account is credited each year with a "pay credit" (such as five percent of compensation from his or her employer) and an "interest credit" (either a fixed rate or a variable rate that is linked to an index, such as the one-year treasury bill rate). Increases and decreases in the value of the plan's investments do not directly affect the benefit amounts promised to participants. Thus, the investment risks and rewards on plan assets are borne solely by the employer.

When a participant becomes entitled to receive benefits under a cash balance plan, the benefits that are received are defined in terms of an account balance. The benefits in most cash balance plans, as in most traditional defined benefit plans, are protected, within certain limitations, by federal insurance provided through the Pension Benefit Guaranty Corporation (PBGC).

## FILING A CLAIM

You or your beneficiary may be required to file a claim to receive the benefits you are entitled to under a pension plan. ERISA-covered plans must have procedures for filing a claim and must tell you what those procedures are. This information must be included in the summary plan description.

If for any reason information concerning the filing of a claim has not been provided, you may notify your employer that you have a claim. You may write a company officer, the unit where claims are normally filed, or the plan administrator.

