

INCREASING PAYMENT OPTION

Financial Position

Investing

Estate Planning

Managing Risk

Retirement Planning

Taxes

You have the primary responsibility to establish a hedge against inflation. And you are responsible for some, if not most, of your increasing medical costs in retirement. To help you we are providing another tool, the Master Retirement Plan Increasing Payment Option.

Increasing Payment Option

Beginning July 1, 2006, as a new retiree you can select from either a Level Payment Option or an Increasing Payment Option in which your benefit increases 4 percent per year. In exchange for the increasing benefit, you initially receive a lower monthly benefit payment.

The following table shows how the Level Payment Option benefit remains constant while the Increasing Payment Option benefit starts lower and may end significantly higher.

AGE	LEVEL PAYMENTS	INCREASING PAYMENTS
65	\$255	\$178
80 (15 years)	\$255	\$320
95 (30 years)	\$255	\$576

In a way the Increasing Payment Option is a budgeting tool. Live on less during the first few years of retirement. Have more in the later years when the cost of living will be higher. And the benefit payments continue to increase at 4 percent annually until the benefit ends.

Note: You may need to or have an option to take a one-time lump sum distribution. See your Benefits Handbook for information.

MASTER RETIREMENT PLAN ANNUITY CONVERSION FACTORS		
ANNUITY PAYMENT OPTIONS	LEVEL PAYMENT OPTION	INCREASING PAYMENT OPTION
10-year Certain & Life (Standard Benefit)	1.00	0.70
15-year Certain & Life	0.97	0.68
20-year Certain & Life	0.92	0.63
Life Annuity (No Term Certain)	1.02	0.71
Joint & Survivor 100% (10-year term certain)	0.88	0.58
Joint & Survivor 75% (10-year term certain)	0.91	0.61
Joint & Survivor 50% (10-year term certain)	0.95	0.64
Special Joint & Survivor Two-thirds (10-year term certain)	0.95	0.64
Qualified Joint & Survivor Annuity (QJSA)	0.95	0.64

Relative value of options

Both the level payment and the increasing payment options are calculated by multiplying the Standard Benefit by an annuity conversion factor. (However, with early retirement benefits are reduced.)

The relative value of each annuity option with both payment options is the same. For the Increasing Payment Option, the estimated break-even point is 18 to 20 years after retirement. This is when the cumulative payments under the Increasing Payment Option are the same as the cumulative payments under the Level Payment Option.

With both the level payment and the increasing payment options and the annuity options, you may have as many as 18 comparable options to consider.

This table shows the Increasing Payment Option based on an employee retiring on January 1, 2007, with a monthly annuity benefit of \$178. The first adjustment occurs on January 1, 2008, and then each January 1 thereafter.

BENEFIT YEAR	BENEFIT ADJUSTMENT	MONTHLY BENEFIT
2007	None	\$178.00
2008	\$178.00 x 1.04 =	\$185.12
2009	\$185.12 x 1.04 =	\$192.52
2010	\$192.52 x 1.04 =	\$200.22

Who might consider this option

The Increasing Payment Option may be best for:

- Young retirees or young surviving spouses (longer exposure to inflation)
- Married retirees (greater chance that at least one will live significantly longer)
- Well-positioned retirees (can supplement needed income from the Thrift Plan or other sources)
- Optimistic retirees (anticipate significant longevity for themselves and/or their spouse)

Terms and Definitions

Annuity

A regular income paid at fixed intervals and produced by your Master Retirement Plan benefit.

Benefit Credit

The number of months (a maximum of 396 months or 33 years, with some exceptions) of service you have earned.

Final Average Salary

The average monthly salary, using eligible gross income, of the highest five years of your last 10 years before you terminate employment with a participating employer.

Increasing Payment Option

Effective July 1, 2006, a monthly benefit designed to help you manage inflation by increasing at 4 percent annually.

Joint & Survivor

You, the participant, and your spouse at the time of your retirement.

Level Payment Option

A monthly benefit that remains the same, from month to month and year to year.

Relative Value

The Relative Value of each payment option is based on your final average salary, your benefit credit, and your age at retirement. It is approximately the same value as that of the life annuity payment option.

Retirement Date

The date your Master Retirement Plan benefits begin.

Retirement Planner

A powerful Web tool that *estimates* your future monthly retirement benefit.

Term Certain (Certain & Life)

Guaranteed equal monthly benefit payments for your lifetime and which, if you die, continues to your spouse for the designated period or term.

Termination Date

The date you end employment with a participating employer.

Checklist

- Go to the retirement planner on our Web site.
- Estimate your termination and retirement dates.
- Consider modifying your yearly salary entries to reflect your estimated annual salaries for at least five full years immediately prior to your retirement.

You'll see your projected benefit for both the Level Payment Option and the Increasing Payment Option.