

Pension Legislation Update

I. As many of you are aware, Congress passed pension-reform legislation in August of this year. The new pension law changes the way companies calculate lump sum pension balances.

Up until now, retirees could choose the most favorable pension calculation rate which included the GATT, PBGC, Ten Year Treasury Note rates etc. The flexibility to choose among different calculation rates enabled the retiree to choose the “**greater of**” or the highest balance from the different calculations. In the pension calculation process various factors are taken into consideration such as; years of service, income earned, age (which determines life expectancy) and the interest rate assumption. **There is an inverse relationship to pension balances and interest rates. The lower the interest rate, the greater the pension balance and vice versa.** As your age increases and your life expectancy decreases so does your pension lump sum balance.

There is a good chance that the recent pension legislative changes were in response to the extremely low level (forty five year) that interest rates declined to a few years ago. These low rates created inflated lump sum pension balances that tempted many corporate employees to retire. As a result, corporate lobbyists encouraged law makers on Capitol Hill to create an interest rate floor to prevent future pension lump sum calculations from providing larger balances. This was done by changing the pension calculation rate from the lower Treasury-bond rate to the higher corporate-bond interest rate. As a result, effective January 1, 2008 a new minimum rate of 5.50% will go into effect and be phased in over the next few years. **Since, pension calculation rates so far this year have been less than 5.0%, this will produce lower pension lump sum balances in the future.**

In addition to less favorable pension calculation rates, Verizon employees who retire after December 31, 2007 will not have their health benefits **COLA** adjusted. This essentially reduces your future health benefits.

II. Confused about these pension lump sum calculation changes? Here’s what you can do to respond and adapt to these benefit changes:

1. Check your pension lump sum balance monthly between now and January 1, 2008 as well as the pension calculation rates. If you are nearing retirement this may enable you to try to **lock-in** the most favorable pension balance that is available to you.
2. We can help you **gather data** to create a more clarified retirement picture. This may enable you to clear up the gray zone that you currently face when trying to quantify when it is an appropriate time for you to retire from Verizon.
3. We can run a free “**Ben Franklin**” **retirement analysis** which addresses the pros and cons of such critical issues as:

Future Annual Employment Income:

At Verizon=\$____, Outside of Verizon=\$____, Difference=\$____.
Number of years you plan to continue to work____(years).

Pension Lump Sum Utilization to measure the effects of continuing to work at Verizon and the possibility of your balance declining. Estimated Amount of pension reduction= \$____ before now and retirement.

Retiring from the company and rolling over your current pension lump sum balance to an IRA. This may enable you to invest a larger balance today that may provide you the ability to conservatively increase the value of your pension assets. **Estimated annual pension lump sum/IRA Rollover balance increase= \$____.**

Benefit of the annual Verizon 401k Savings Plan match increase=\$____.

Job satisfaction at Verizon (1(very happy) to 10(very unhappy))____.

**Quantifying and comparing all of the factors above will enable us to help you make a better informed retirement decision.*

III. During these times of frequent corporate retirement benefits changes we feel it is highly advisable to do the following:

- A. Put together a **resume** and feel out your prospects for employment at other companies.
- B. Fill out our **Budget page** to identify your monthly income needs=\$____.
- C. **Add up all of your investment assets** (pension lump sum, 401k Savings Plan, Deferred Compensation, IRA's, non-retirement assets such as bank accounts, mutual funds, stocks etc.)=\$____.
- D. **Multiply your total investment balance by five percent.** This figure represents a **reasonable income distribution (RID)** rate on your assets. Compare the **RID** amount with your income needs. If your income needs are equal or less than the **RID** balance then you may be able to retire comfortably. If the **RID** amount is less than your income needs then you should consider alternative sources of income such as continued employment.

For example: If you have \$1,000,000 in assets, then the **RID** is \$50,000 assuming a five percent distribution rate. If you need \$70,000 annual income, then it is suggested to generate \$20,000 annual income through continued employment to make up the income shortfall. Increasing the **RID** rate to greater than five percent may jeopardize your financial security by causing you to dip into your principal should we experience adverse financial market conditions.

We know this process can be overwhelming. You can depend on us to educate and advise you regarding your future retirement decisions and to simplify this process for you. Please let us know if we can provide you with a **Budget page** or if you would like us to generate a “**Ben Franklin**” retirement analysis for you.

Sincerely,

Andrew J. Krosnowski	Melissa Scott Paine
Senior Financial Consultant	Financial Consultant

P.S.- Please feel free to visit our corporate website at: www.krosnowskiandscott.com to view a description of **free reports** that are available to you, access our **Budget page** and **data questionnaire** and view educational articles we have published in the **Washington Business Journal**.