

Defined *Benefit ?*

Your Retirement Security Depends
on Knowing the Difference

NATIONAL INTEGRATED GROUP PENSION PLAN



Defined *Contribution ?*

Defined Benefit? Defined Contribution?

“A 401(k) plan is okay as a supplement, but if the market goes down, your retirement goes down, too. Plus, the average working person doesn’t have time to become a knowledgeable investor.”

**Charles Moore, UAW Member
New Haven Foundry
New Haven, Michigan**

Your Retirement Security Depends on Knowing the Difference

What are the two types of retirement plans?

When it comes to your future, you need the facts about retirement plans. You may have heard the terms “Defined Benefit” and “Defined Contribution” to describe different types of retirement plans. Here’s the low-down on what these terms mean and what’s important for you to know about them.

A “defined benefit” plan, like NIGPP, is a true pension plan. This type of plan provides a defined monthly payment at retirement, payable for life. There are no investment decisions for you to make along the way and the Plan sponsor takes all the risks.

Since the 1980’s, however, many companies have been seeking to replace defined benefit plans with “defined contribution” plans like 401(k)s. Under these plans, individual accounts are set up for each participant to receive regular contributions from either the employer alone or employer and employee together. The benefit at retirement is simply the lump sum accumulation of all the employer and employee contributions and any investment earnings on those contributions. In most cases, the decision about how to invest the individual account—and *all the risk that goes along with it*—rests with the employee.

Many retirement experts will tell you that a defined contribution plan like a 401(k) can play an important role in your retirement security—but that they work best as a supplement to a solid defined benefit plan foundation, like NIGPP.

“NIGPP benefits have increased dramatically over the last few years and steadily over the last 10 years or so. It’s nice to know you’ll have this income when you retire.”

**Carl Webb, International Federation of
Professional & Technical Engineers (IFPTE)
Staff Union President
Sacramento, California**

What started the trend to replace defined benefit plans?

That's an easy question. The major reason is that defined contribution plans save employers money because there is no obligation to provide a lifetime monthly benefit at retirement. They have been most willing to let employees take the investment risk necessary for a secure retirement.

Another reason for the change is that many people have been attracted by the chance to “strike it rich” and “play the market” themselves. This works out fine during strong investment markets like we saw in the 1990's. But look at the recent troubles in the investment markets and how they have affected many people's retirement nest eggs.

Finally, some people like the idea of a retirement plan—like many 401(k)s—that allows them to access their account balance through loans or lump sum distributions when they change jobs. But, the reality is, when you borrow from your 401(k), you are actually taking money away from retirement.

And here's something really troubling: According to a recent study by the Employee Benefits Research Institute, 53% of those who took 401(k) distributions when they changed jobs spend the money rather than rolling it over into another retirement plan or IRA. What will all these folks do once they stop working?

What's going on with defined contribution plans now?

For the first time in their history, 401(k) plan assets shrank in 2000, according to leading financial experts. As a result, the average participant balance dropped to \$41,919 in 2000 from \$46,740—a decrease of 11%! With the continued negative general trend for investments in 2001, many people have been forced to rethink or seriously alter their retirement plans—either postponing their retirement date or returning to the workforce.

Contrast this with a defined benefit plan like NIGPP. By investing for the long-term, periodic swings in the fortunes of the securities markets do not affect NIGPP's ability to meet its pension promises. *In other words, stocks may drop in value, but your NIGPP benefit won't.*

Most defined contribution plans allow employees to borrow money or withdraw their account balance when they change jobs. Participants have access to “their money” but, think about the long term effects—when these participants retire, they'll have a drastically reduced retirement nest egg, or worse, no money at all because they will have spent it. This can't happen with a defined benefit plan—one with a pension that's guaranteed to be there for you when you will need it most.

What are the advantages of defined benefit plans for you?

- **The plan assumes investment risk for you**
- **Your plan is managed for you**
- **Your benefits are more predictable**
- **You can be protected if you become disabled**
- **You are eligible for a monthly benefit that you can't outlive**
- **Your survivor can receive lifetime benefits**
- **Your benefit is insured up to the legal limits with an agency of the federal government**
- **You can be eligible for benefit increases without increased contributions**
- **Your benefits can increase after retirement**

“At first, the younger people didn't think they would ever retire. So a pension wasn't important to them. But then they realized someday they would get older, so they started pushing for a pension plan. NIGPP is a good plan. You can't always count on your own savings.”

**Robert Hunt, Retired PACE member
Root Spring Scraper Co.
Kalamazoo, Michigan**

Let's look at each of these advantages in more detail.

THE PLAN ASSUMES INVESTMENT RISK FOR YOU

With a pension plan like NIGPP, you never have to worry about making investment decisions or whether a slow economy will shrink your nest egg just before you planned to retire. That's because we pool our resources and work together so that no one individual bears the burden of investment risk.

By investing for the long-term, periodic swings in the fortunes of the securities markets do not affect the Plan's ability to meet its pension promises. *In other words, a defined contribution retirement account may drop in value, but your NIGPP benefit won't.*

YOUR PLAN IS MANAGED FOR YOU

You don't need to have a degree in finance to participate in a plan like NIGPP. With NIGPP, highly qualified, experienced, professional money managers retained and monitored by the Trustees make investment decisions based on proven strategies. You can sleep soundly because there are no investment decisions for you to make or fret over.

It's true that a defined contribution plan can offer you greater control over how your retirement funds are invested. By definition, though, this also means that you assume all of the risk involved in making sure there will be enough to live on when you retire.

YOUR BENEFITS ARE MORE PREDICTABLE

A defined benefit plan means that the pension amount you will receive is known up front and payable for life. With NIGPP, your benefit depends on two main elements: your length of service and the benefit level negotiated by your employer and your union that applies to your service.

With a 401(k) plan, for example, your benefit is dependent upon how much you and/or your employer put in your account and how well you invest your money. There is no formula to guarantee that the amount that you need will be there when you get ready to retire.

YOU CAN BE PROTECTED IF YOU BECOME DISABLED

Once you've been in the Plan for at least five years and have worked for a participating employer within three years of becoming entitled to Social Security disability, NIGPP will pay you a disability benefit for as long as you are disabled up until age 65. Once you turn age 65, you will be eligible for a regular Age Pension under the Plan. Under a defined contribution plan, your benefit in these circumstances is whatever is in your account at the time your disability stops you from working—*period*.

YOU ARE ELIGIBLE FOR A MONTHLY BENEFIT THAT YOU CAN'T OUTLIVE

With NIGPP, you are eligible to receive a monthly benefit payable for the rest of your life. Such a benefit will always be there, no matter how long you live.

"I've been on the Plan for two years and I couldn't live without it. When I heard that you were supposed to count on 60-70% of your income during retirement, I thought, Social Security alone isn't going to cut it—you need more.

This Plan is great. It's guaranteed by the government and it's managed properly. It provides a good cushion that lets me sleep at night—I know I can pay my bills. And, my wife and I can plan better because we know that we've got money coming in."

**Phillip Englehaupt, Retired UAW Member
Philips Joanna Inc.
Kingsport, Tennessee**

The trends toward earlier retirements and longer life expectancy are special challenges if you only have a defined contribution retirement plan. Regardless of how much has been contributed and how well you have invested, managing your account to last your entire remaining lifetime can be a tricky business—and there is no guarantee you will succeed.

YOUR SURVIVOR CAN RECEIVE LIFETIME BENEFITS

Defined contribution plans provide that your survivor receives the value of your account. With NIGPP, your spouse is provided with a monthly benefit for life, even in the event of your death before you retire. And when you retire, you can choose a benefit payment form that will provide lifetime monthly benefits after you die for your spouse or any beneficiary you name. A 401(k) plan usually won't do that.

**YOUR BENEFIT IS INSURED UP TO THE
LEGAL LIMITS WITH AN AGENCY OF THE FEDERAL
GOVERNMENT**

With a defined benefit pension plan like NIGPP, benefits are insured up to the legal limits by the Pension Benefit Guaranty Corporation, an agency of the federal government. No such insurance program exists for defined contribution plans.

**YOU CAN BE ELIGIBLE FOR BENEFIT INCREASES
WITHOUT INCREASED CONTRIBUTIONS BEFORE
RETIREMENT**

Trustees of multiemployer defined benefit plans like NIGPP can and do increase the value of benefits already earned by active participants before they retire. Since 1993, NIGPP Trustees have turned favorable investment experience into benefit level increases amounting to 100% on a compounded basis for active participants! *And these improvements have been granted without any increases to employer contributions.*

Defined contribution plans enjoy increased account balances from favorable investment experience, too. The catch is that the burden is squarely on the employee to produce truly superior investment results. With a defined benefit plan like NIGPP, the plan is the collective result of the investment of all fund assets.

YOUR BENEFITS CAN INCREASE AFTER RETIREMENT

A defined benefit plan has the ability to grant increases in your monthly pension benefit after you retire. Since 1993, the NIGPP Trustees have granted benefit increases to retirees that have boosted monthly pensions by 33%. Defined contribution plan sponsors simply can't do this.

“NIGPP doesn't stop thinking about you after you stop working. I appreciate the extra money I've received at the end of the year.”

**Eleanore Janoch
Survivor Beneficiary
Lewis Machine Company
Brooklyn Heights, Ohio**

**Where can I find out more
about NIGPP?**

A retirement plan should protect your financial well-being for tomorrow. It should also provide peace of mind today. With NIGPP, you have both—a secure benefit for tomorrow that lets you enjoy today. That's why we like to say: NIGPP—it's your Plan for the future. It's your Plan for life.

For more information about NIGPP, visit our website, call us or send us an email:

Email us at:	questions@nigpp.org
Call us toll-free:	1-800-321-2393
Write to:	NIGPP 200 Wood Avenue South Iselin, NJ 08830-2706
Visit our website:	www.nigpp.org

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This brochure is meant to summarize certain features of the Plan, but does not create any rights separate and apart from the Plan. The official Plan documents govern the Plan's actual operation and the determination and payment of benefits. In the event of inconsistency between this brochure and the Plan documents, the Plan documents will govern.