



HOOKER & HOLCOMBE, INC.
Benefit Consultants and Actuaries

65 LaSalle Road
West Hartford, CT 06107-2397
860-521-8400 tel
860-521-3742 fax
www.hhconsultants.com

Town of Stonington Retirement Plan

Actuarial Valuation Report

July 1, 2010

Evan W. Woollacott, FCA,
MAAA, EA
Consulting Actuary

Deborah R. Gordon
Pension Analyst

November 22, 2010

Table of Contents

Section		Page
I	Introduction	
	A. Purposes of the Valuation	1
	B. Contribution for Fiscal Year ending in 2011 and 2012	1
	C. Experience During Period Under Review	1
	D. Changes Since the Last Valuation	2
	E. Funding Policy	2
	F. Certification	2
II	Results of the Valuation	
	A. Actuarial Balance Sheet	3
	B. Development of Unfunded Accrued Liability and Funded Ratio	4
	C. Determination of Actuarial Gain (Loss)	5
	D. Valuation Results – July 1, 2010	6
	E. Accounting Information	7
III	Supporting Exhibits	
	A. Membership Data	9
	B. Assets	11
IV	Actuarial Cost Methods and Assumptions	
	A. Actuarial Cost Methods	15
	B. Actuarial Assumptions	16
V	Summary of Current Principal Pension Plan Provisions	18

Section I

Introduction

A. Purposes of the Valuation

The purpose of the valuation is to determine the funded status of the plan as well as the recommended cash contribution for the plan year. The information found in Sections II-B through II-D of the report have been developed for this purpose.

The ultimate cost of a pension plan is based primarily on the level of benefits promised by the plan. The pension fund's investment earnings serve to reduce the cost of plan benefits and expenses. Thus,

$$\text{Town's ultimate cost} = \text{benefits paid} + \text{expenses incurred} - \text{investment return} - \text{employee contributions}$$

B. Contribution for Fiscal Year 2011 and 2012

The Town cost is:

	Current Valuation July 1, 2010	Prior Valuation July 1, 2009
Fiscal Year	<u>2011-2012</u>	<u>2010-2011</u>
% of Payroll		
Normal Cost	6.6%	6.9%
Amortization Charges	<u>5.9%</u>	<u>6.3%</u>
Total	12.5%	13.2%

Please see Section II-D and Section VI for the development of these figures.

C. Experience During Period Under Review

This report shows an Unfunded Accrued Liability of \$5,636,373 as of July 1, 2010. This represents an increase of \$19,678 over the prior year. The plan experienced a net actuarial experience loss during the period of approximately \$725,000. The net experience loss resulted from a loss of \$548,000 due to investment results, a gain of \$102,000 due to salary increases that were smaller than expected, and a loss of \$279,000 due to disability, new entrants, retirement, mortality and turnover.

Section I

Introduction

(continued)

The actuarial value of assets earned a return of about 4.50% in the year ending in 2010, compared to an expected rate of return of 7.5%. This shortfall resulted in an experience loss. The market value of assets earned about 12.9% in the year ending in 2010. The return on the actuarial value of assets lagged the market value return because the asset valuation method deferred recognition of a large portion of the market value investments gain during the year ending June 30, 2010. Employees that were active participants last year and this year earned an average salary increase higher than our 4.5% assumption.

D. Changes Since The Last Valuation

The July 1, 2010 valuation reflects no changes in the funding method but does reflect a change to update the mortality tables used as noted in Section IV. The change in mortality assumption lowered the actuarial accrued liability by approximately \$707,000.

E. Funding Policy

It is the Town's intention to contribute the ARC (Annual Required Contribution) plus a 3 year amortization of the difference between 80% of the Accrued Liability and plan assets.

A comparison of the supplemental contribution, in addition to the ARC, is below.

<u>Fiscal Year</u>	<u>80% Funded Shortfall Amount</u>	<u>Supplemental Contribution</u>
6/30/2011	\$786,622	\$300,179
6/30/2012	578,361	222,401

F. Certification

The results in this valuation report are based on the provisions of the Plan (as outlined in Section V) and the employee data and asset information received from the Town. Neither the census data nor the financial information has been audited by us.

In my opinion, this report presents fairly the financial and actuarial position of the Town of Stonington's Pension Plan as of July 1, 2010 in accordance with generally accepted actuarial principles. I certify that the assumptions and methods used in this valuation report provide in the aggregate, a reasonable representation of the anticipated long range experience under the plan.

HOOKER & HOLCOMBE, INC.



Evan W. Woollacott, Jr., FCA, MAAA, EA
Enrolled Actuary

November 22, 2010

Section II

Results of the Valuation

A. Actuarial Balance Sheet

The essential elements of the actuarial valuation process are shown by the actuarial balance sheet. The description of the funding method in Section IV defines and explains the terms used in this actuarial balance sheet.

	July 1, 2010	July 1, 2009
Actuarial Liabilities		
Present Value of Future Benefits for:		
Active Employees	\$20,643,811	\$19,280,803
Disabled Pensioners	0	0
Retired Pensioners	8,457,035	8,636,583
Terminated Vested Employees	<u>1,180,291</u>	<u>1,322,416</u>
TOTAL	\$30,281,137	\$29,239,802
Source of Funds		
1. Plan Assets	\$19,653,688	\$18,563,668
2. Unfunded Accrued Liability	5,636,373	5,616,695
3. Present Value of Future Employee Contributions	1,527,342	1,502,397
4. Present Value of Future Funding Payments	<u>3,463,734</u>	<u>3,557,042</u>
5. TOTAL = (1) + (2) + (3) + (4)	\$30,281,137	\$29,239,802

Section II

Results of the Valuation (continued)

B. Development of Unfunded Accrued Liability and Funded Ratio

	July 1, 2010	July 1, 2009
<u>Accrued Liability</u>		
<u>Inactive Employees:</u>		
Disabled Pensioners	\$ 0	\$ 0
Retired Pensioners	8,457,035	8,636,583
Terminated Vested Members	<u>1,180,291</u>	<u>1,322,416</u>
	9,637,326	9,958,999
<u>Active Employees:</u>	<u>15,652,735</u>	<u>14,221,364</u>
Total Accrued Liability	25,290,061	24,180,363
Assets (Actuarial Value)	<u>19,653,688</u>	<u>18,563,668</u>
Unfunded Accrued Liability	5,636,373	5,616,695
Funded Ratio (Plan Assets Divided by Total Accrued Liability)	78%	77%

Section II

Results of the Valuation (continued)

C. Determination of Actuarial Gain (Loss)

The Actuarial Gain (Loss) for a year is the difference between the Expected Unfunded Actuarial Accrued Liability and the Actual Unfunded Actuarial Accrued Liability, without regard to any plan changes or changes in methods or actuarial assumptions. Such a gain (loss) is also referred to as an Experience Gain (Loss), since it reflects the difference between what was expected and what was actually experienced.

1. Expected unfunded actuarial accrued liability 7/1/2010	
a. Unfunded actuarial liability 7/1/2009	\$ 5,616,695
b. Interest at 7½% to 6/30/2010 on (a)	421,252
c. Normal cost 6/30/2010	867,793
d. Contributions for plan year ending 6/30/2010	<u>1,286,930</u>
e. Expected unfunded actuarial liability 7/1/2010: (a)+(b)+(c)-(d)	5,618,810
2. Actual unfunded actuarial liability 7/1/2010	
a. Unfunded actuarial accrued liability 7/1/2010	5,636,373
b. Adjustments 7/1/2010	
i. Plan Amendment	0
ii. Change in assumptions	(707,092)
iii. Cost method change	0
iv. Asset method change	<u>0</u>
v. Total	(707,092)
c. Actual unfunded actuarial accrued liability for gain (loss) determination: (a)-(b)	6,343,465
3. Actuarial gain (loss): (1e)-(2c)	(724,655)
4. Sources of gain (loss)	
a. Gain (loss) due to salary increases	\$ 102,000
b. Gain (loss) due to return on assets	(548,000)
c. Gain (loss) due to retirement, turnover, disability, new entrants, and mortality	<u>(278,655)</u>
d. Total gain (loss): (a)+(b)+(c)	\$ (724,655)

Section II

Results of the Valuation (continued)

D. Valuation Results – July 1, 2010

Based on the employee data and asset information furnished us, the actuarial methods and assumptions shown in Section IV and the plan provisions outlined in Section V, the results of the July 1, 2009 valuation are:

	July 1, 2010	
	Cost	Percent of Payroll
Annual Contribution		
a) Normal Cost	\$805,248	8.6%
b) Estimated Employee Contributions	<u>249,613</u>	<u>2.7%</u>
c) Town Normal Cost: (a)-(b)	555,635	5.9%
d) Administrative Expenses	20,000	0.2%
e) Interest to End of Year @ 7½%	<u>43,173</u>	<u>0.5%</u>
f) Town's Normal Cost: (c)+(d)+(e)	618,808	6.6%
g) Amortization of Accumulated (Gains)/Losses*	<u>552,884</u>	<u>5.9%</u>
h) Town Contribution: (f)+(g)	1,171,692	12.5%
Estimated Annual Payroll		
Contributory	\$8,320,432	
Non-Contributory	<u>1,022,055</u>	
Total Estimated Payroll	\$9,342,487	
Unfunded Accrued Liability	\$5,636,373	

* 20-year amortization basis.

Section II

Results of the Valuation (continued)

E. Accounting Information

Development of Liabilities and Assets for Vested and Non-Vested Benefits

	July 1, 2010	July 1, 2009
Vested Liabilities		
Active Employees	\$9,692,693	\$8,560,762
Disabled Pensioners	0	0
Retired Pensioners	8,457,035	8,636,583
Terminated Vested Employees	<u>1,180,291</u>	<u>1,322,416</u>
Total	19,330,019	18,519,761
Non-Vested Liabilities		
Active Employees	1,808,195	1,662,369
Vested and Non-Vested Liabilities		
Grand Total	21,138,214	20,182,130
Market Value of Assets	17,693,882	15,469,723

Section II

Results of the Valuation (continued)

E. Accounting Information (continued)

The following information is based on the Governmental Accounting Standards Board Statement No. 25 on "Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans" and Statement No. 27 on "Accounting for Pensions by State and Local Governmental Employers".

Schedule of Employer Contributions		
Year Ended June 30	Annual Required Contribution	Percentage Contributed
2001	\$339,277	95%
2002	346,754	94%
2003	378,584	101%
2004	395,620	109%
2005	400,504	112%
2006	453,663	102%
2007	657,952	101%
2008	828,833	107%
2009	869,139	109%
2010	937,874	108%

Schedule of Funding Progress						
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a÷b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a) ÷ c)
7/1/2006	16,308,867	19,604,095	3,295,228	83.2%	7,598,714	43.4%
7/1/2007	17,463,378	20,941,948	3,478,570	83.4%	7,899,350	44.0%
7/1/2008	18,683,172	22,649,059	3,965,887	82.5%	8,332,324	47.6%
7/1/2009	18,563,668	24,180,363	5,616,695	76.8%	8,843,202	63.5%
7/1/2010	19,653,688	25,290,061	5,636,373	77.7%	9,342,487	60.3%

Section III

Supporting Exhibits

A. Membership Data

The data reported by the Plan Sponsor for this valuation includes 199 active employees who met the Plan's minimum age and service requirements as of July 1, 2010.

Participant Data				
	Active	Terminated Vested	Retired	Total
Total Participants 7/1/2009	198	42	116	354
Adjustments	0	0	0	0
Retirements	-3	-3	+6	0
Returned to work	+1	0	0	+1
Terminations				
Vested	0	0	N/A	0
Non-vested	0	N/A	N/A	0
Rehire	0	0	0	0
Deaths				
Without death benefit	0	0	-1	-1
With death benefit	-1	0	-1	-2
New beneficiaries	-1	+1	+1	-1
Lump sum settlements	N/A	0	N/A	0
New entrants	<u>+5</u>	<u>N/A</u>	<u>N/A</u>	<u>+5</u>
Total Participants 7/1/2010	199	40	121	360
Total annual plan salaries				
7/1/2009	\$8,843,202			
7/1/2010	9,342,487			
Total annual benefits				
7/1/2009		\$266,202	\$967,068	
7/1/2010		238,054	993,393	

Age, Service, Salary Information for 2009-2010

Town of Stonington

Attained Age	Completed Years of Credited Service																					
	Under 1		1 to 4		5 to 9		10 to 14		15 to 19		20 to 24		25 to 29		30 to 34		35 to 39		40 and over		All years	
	No.	Avg. Comp.	No.	Avg. Comp.	No.	Avg. Comp.	No.	Avg. Comp.	No.	Avg. Comp.	No.	Avg. Comp.	No.	Avg. Comp.	No.	Avg. Comp.	No.	Avg. Comp.	No.	Avg. Comp.	No.	Avg. Comp.
Under 25			1	46,912																	1	46,912
25 to 29	1	21,611	4	45,623																	5	40,820
30 to 34	1	33,816	5	45,675	5	49,088															11	46,149
35 to 39			2	63,753	4	57,235	2	40,640													8	54,716
40 to 44	1	26,869	9	35,638	10	48,044	1	59,108	1	64,957	1	70,605									23	44,466
45 to 49	1	21,052	12	39,037	14	35,585	2	48,341	5	54,161	3	67,511									37	42,100
50 to 54			9	31,650	10	55,383	7	44,256	1	60,005	3	56,045	2	59,617	5	54,582	1	59,008			38	48,099
55 to 59	2	46,888	7	45,786	10	43,975	9	51,480	7	44,891	4	57,274	3	50,148	1	64,520	1	52,204			44	48,360
60 to 64			3	47,183	4	59,998	3	47,058	7	44,179	6	53,518	1	49,963	2	63,331	1	97,338			27	52,853
65 to 69					2	27,394									1	24,543	1	21,327			4	25,165
70 & over							1	82,379													1	82,379
All ages	6	32,854	52	40,796	59	46,464	25	49,349	21	48,536	17	58,322	7	49,169	9	53,936	3	69,517			199	46,947

Section III

Supporting Exhibits (continued)

B. Assets

Summary of Fund Activity		
	Market Value	Actuarial Value
1. Beginning value 7/1/2009		
a. Trust assets	\$ 15,469,723	\$ 18,563,668
b. Accrued contribution	0	0
c. Benefits payable	0	0
d. Administrative expenses payable	0	0
e. Net: (a)+(b)-(c)-(d)	15,469,723	18,563,668
2. Contributions		
a. Contributions during year	1,286,930	1,286,930
b. Change in accrued contribution	0	0
c. Total for plan year	1,286,930	1,286,930
3. Disbursements		
a. Benefit payments during year	993,344	993,344
b. Administrative expenses during year	22,116	22,116
c. Change in benefits payable	0	0
d. Change in administrative expenses payable	0	0
e. Total for plan year	1,015,460	1,015,460
4. Net investment return		
a. Interest and dividends	574,030	N/A
b. Change in accrued income	5,957	N/A
c. Realized gain (loss)	191,459	N/A
d. Unrealized gain (loss)	1,262,456	N/A
e. Expected return	N/A	1,134,050
f. Recognized gain (loss)	N/A	(813,269)
g. Required adjustment due to corridor	N/A	0
h. Reversal of prior year required adjustment	N/A	497,769
i. Investment-related expenses	(81,213)	N/A
j. Total	1,952,689	818,550
5. Ending value 7/1/2010		
a. Trust assets: (1a)+(2a)-(3a)-(3b)+(4j)	17,693,882	19,653,688
b. Accrued contribution	0	0
c. Benefits payable	0	0
d. Administrative expenses payable	0	0
e. Net: (a)+(b)-(c)-(d)	17,693,882	19,653,688
6. Approximate rate of return 2009-2010		
	12.9%	4.5%

Section III

Supporting Exhibits (continued)

B. Assets

Relationship of Actuarial Value to Market Value		
1. Market value 7/1/2010	\$	17,693,882
2. Gain / (loss) not recognized in actuarial value 7/1/2010		(1,959,806)
3. Preliminary actuarial value 7/1/2010: (1)-(2)		19,653,688
4. Preliminary actuarial value as a percentage of market value: (3)÷(1)		111.1%
5. Gain / (loss) recognized for corridor min/max		N/A
6. Actuarial value 7/1/2010 after corridor min/max: (3)+(5)		19,653,688
7. Actuarial value as a percentage of market value: (6)÷(1)		111.1%

Development of Market Value Gain / (Loss) for 2009-2010 Plan Year		
1. Market value 7/1/2009	\$	15,469,723
2. Contributions		1,286,930
3. Benefit payments		993,344
4. Administrative expenses		22,116
5. Expected return at 7.50%		1,134,050
6. Expected value 7/1/2010: (1)+(2)-(3)-(4)+(5)		16,875,243
7. Market value 7/1/2010		17,693,882
8. Market value gain / (loss) for -1 Plan Year: (7)-(6)		818,639

Recognition of Gain / (Loss) in Actuarial Value					
Year	(a) Gain / (loss)	(b) Recognized as of 7/1/2009	(c) Recognized in current year: 20% of (a)	(d) Total recognized as of 7/1/2010: (b)+(c)	(e) Not recognized as of 7/1/2010: (a)-(d)
2005-2006	\$ (390,591)	\$ (312,472)	\$ (78,119)	\$ (390,591)	\$ 0
2006-2007	944,389	566,634	188,878	755,512	188,877
2007-2008	(2,298,376)	(919,350)	(459,675)	(1,379,025)	(919,351)
2008-2009	(3,140,405)	(628,081)	(628,081)	(1,256,162)	(1,884,243)
2009-2010	818,639	0	<u>163,728</u>	163,728	<u>654,911</u>
Total			(813,269)		(1,959,806)

Section III

Supporting Exhibits (continued)

B. Assets

Rate of Return on Market Value of Assets				
Period Ending June 30	Average Annual Effective Rate of Return			
	1 Year	3 Years	5 Years	10 Years
2001	8.1%	N/A	N/A	N/A
2002	-5.9%	N/A	N/A	N/A
2003	1.4%	1.0%	N/A	N/A
2004	11.1%	2.0%	3.1%	N/A
2005	5.5%	5.9%	3.9%	N/A
2006	4.9%	7.1%	3.2%	N/A
2007	13.6%	7.9%	7.2%	N/A
2008	-5.5%	4.0%	5.7%	N/A
2009	-11.1%	-1.5%	1.1%	2.1%
2010	12.9%	-1.7%	2.5%	3.2%

Rate of Return on Actuarial Value of Assets				
Period Ending June 30	Average Annual Effective Rate of Return			
	1 Year	3 Years	5 Years	10 Years
2001	10.3%	N/A	N/A	N/A
2002	0.8%	6.5%	N/A	N/A
2003	-1.1%	3.2%	N/A	N/A
2004	2.1%	0.6%	4.0%	N/A
2005	3.5%	1.5%	3.0%	N/A
2006	3.3%	3.0%	1.7%	N/A
2007	7.1%	4.6%	2.9%	N/A
2008	5.9%	5.4%	4.4%	N/A
2009	-1.5%	3.8%	3.6%	3.8%
2010	4.5%	2.9%	3.8%	3.4%

Section III

Supporting Exhibits (continued)

B. Assets

Market Value Summary by Asset Class				
Asset Class	July 1, 2010		July 1, 2009	
	Market Value	% of Total	Market Value	% of Total
Cash and Cash Equivalents	\$ 0	0.0%	\$ 0	0.0%
Money Market Funds	<u>2,006,938</u>	<u>11.3%</u>	<u>1,110,100</u>	<u>7.2%</u>
Sub-Total Cash	2,006,938	11.3%	1,110,100	7.2%
Fixed Income	6,546,547	37.0%	5,999,503	38.8%
Equities	9,636,961	54.5%	8,438,029	54.5%
Net Trades Pending Settlement	(558,309)	(3.1%)	(133,697)	(0.9%)
Accrued Income	61,745	0.3%	55,788	0.4%
Accrued Contribution	0	0.0%	0	0.0%
Total	17,693,882	100.0%	15,469,723	100.0%

Section IV

Actuarial Cost Methods and Assumptions

A. Actuarial Cost Methods

Asset Valuation Method

The Actuarial Value of assets used in the development of plan contributions phases in recognition of asset gains and losses. Asset gains or losses are created when the return on the market value of assets exceeds or falls short of the valuation interest rate. Asset gains and losses are recognized over a five-year period at 20% per year. The Actuarial Value is adjusted, if necessary, to be within the range of 80% to 120% of the Market Value of assets.

Actuarial Funding Method

The actuarial valuation method used in the cost calculations is the Entry Age Normal Actuarial Cost Method. Recommended annual contributions until the actuarial accrued liability is completely funded will consist of two pieces:

- a. Normal Cost - The actuarial cost to fund benefit units earned during the year.
- b. Amortization Payments of Actuarial Accrued Liability - The actuarial cost to amortize the unfunded portion of the actuarial liability over a 20-year period.

Process

The valuation is performed July 1 of each calendar year. The valuation is used to determine the Town contribution for the following plan year. To accomplish this objective, we apply the Town's Contribution Rate from the valuation year, to the projected payroll for the target year to determine the Contribution for that year.

Section IV

Actuarial Cost Methods and Assumptions (continued)

B. Actuarial Assumptions

Investment return

Valuation

Pre-retirement 7.5% per year (net of investment management fees).

Post-retirement 7.5% per year (net of investment management fees).

Salary increases

For determination of benefits 4.5% per year.

Entry date

Date of Employment.

Retirement age

Earlier of age 62, 35 years of Credited Service or valuation date plus 1 year.

Mortality

Pre and Post retirement

RP 2000 combined projected to valuation date
(prior assumption: UP94 projected to the Valuation date plus 10 years).

Section IV

Actuarial Cost Methods and Assumptions

(continued)

Termination prior to retirement

Males and Females: T-6 Turnover Table

Sample rates:

<u>Age</u>	<u>Rate</u>
20	7.94%
25	7.72
30	7.40
35	6.86
40	6.11
45	5.16
50	3.62

Disability

DP85 Class I

Sample rates:

<u>Age</u>	<u>Male</u>	<u>Female</u>
30	0.05%	0.08%
40	0.12%	0.21%
50	0.36%	0.53%
60	1.26%	1.16%

Administrative expenses

The normal cost for benefits is increased by an estimate of the non-investment related administrative expense for the upcoming year.

Section V

Summary of Current Principal Pension Plan Provisions

Eligibility:	Date of employment.
Final Average Earnings:	Effective March 18, 1996, average earnings for the 60 highest consecutive calendar months before retirement or termination date, if earlier. The plan previously averaged earnings over five calendar years.
Credited Service:	Continuous employment with the Town.
Normal retirement:	
Eligibility:	The first day of the month coincident with or next following the earlier of age 62 or 35 years of Credited Service.
Benefit:	
Non-Contributory Plan:	1.5% of Final Average Earnings times Credited Service.
Contributory Plan:	1.75% of Final Average Earnings times Credited Service.
Early retirement:	
Eligibility:	Age 50 and 15 years of Service.
Benefit:	Normal Retirement Benefit based on Final Average Earnings and Credited Service to termination date. Such benefit is reduced actuarially to reflect early payment.

Section V

Summary of Current Principal Pension Plan Provisions (continued)

Disability benefits:

Eligibility: Totally and permanently disabled and attained age 50 and completed 15 years of Credit Service, or attained age 55 and completed 10 years of Credited Service, or attained age 60 and completed 5 years of Credited Service.

Benefit: Normal Retirement Benefit based on Final Average Earnings and Credited Service to date of disability, reduced by any Workers' Compensation payments.

Benefit commences on Disability Retirement Date.

Vesting:

Eligibility:

Non-Contributory Plan: 10 years of Service.

Contributory Plan: 5 years of Service.

Benefit: At Normal Retirement Date, Normal Retirement Benefit based on Final Earnings and Credited Service to date of termination. The percentage of accrued benefit, which is non-forfeitable, is based on the following:

Non-Contributory Plan:

Years	Percentage
0-9	0%
10	50
11	60
12	70
13	80
14	90
15 or more	100

Section V

Summary of Current Principal Pension Plan Provisions (continued)

Contributory Plan:*

Years	Percentage
0-4	0%
5	50
6	60
7	70
8	80
9	90
10 or more	100

**A participant is always 100% vested in his employee contributions with interest.*

Death Benefits:

Pre-Retirement Death Benefit:

If a single participant is eligible for early retirement and dies, his designated beneficiary will be entitled to 60 monthly payments equal to the amount the employee would have received if the employee had retired early and elected a life annuity.

A married participant satisfying the vesting requirements of the plan shall be covered by the pre-retirement joint and survivor annuity benefit. Such benefit provides that the employee shall have terminated on the first day of the month coincident with or next following his date of death with benefits commencing at the earliest retirement age. The benefit is then converted to the plan's Joint & Survivor option. The surviving spouse then receives 50% of this payment.

A married participant who is eligible for early retirement can elect the 60-month death benefit, if the spouse so consents.

Minimum Death Benefit:

Return of Employee Contributions with interest.

Section V

Summary of Current Principal Pension Plan Provisions (continued)

Mode of Retirement Benefits:

Normal Form: Monthly payments for life of participant.

Options:

Contingent Annuitant
Option: Actuarially reduced retirement benefit continuing to the surviving contingent annuitant for life.

120 Months Certain and
Continuous Option: Actuarially reduced benefit continuing to surviving beneficiary for remainder of first 120 months of payments if Participant dies before receiving first 120 months of payments.

Employee Contributions:

Non-Contributory Plan: None.

Contributory Plan: 3% of pay.

A participant is always 100% vested in his employee contributions with interest at 5% per year.

Ad Hoc Cost of Living Increase:

Benefits for retirees as of July 1, 1999 were increased 1% for each year (maximum 10 years) a retired participant was receiving a pension benefit.

N:\STONINGTVals\2010\2010 Valuation.DOC