

The Annual Funding Notices (AFN) for CARP were distributed to eligible participants starting on April 22, 2020. Some were sent by e-mail while others were sent to the mailing address on file for the participant. Along with the Annual Funding Notice, the company crafted two different letters sent to participants in two different groups:

- Group 1 Cover Letter was sent to active employees as it addresses many of the questions the company was recently receiving regarding the recent volatility of plan funding, the potential impact to benefit payments, and 2020 lump sum conversion rates.
- Group 2 Cover Letter was sent to participants who have left United. These individuals
  - may be receiving an annuity,
  - are deferred vested, that is, have left the employ of the company but have elected to delay receiving benefits (either an annuity or a lump sum). This is a very small number of plan participants.
  - are alternate payees
  - are beneficiaries

The company created a tile of the Your Benefits Resource front page with a Q & A document addressing common questions in response to the recently released Annual Funding Notice for the Continental Retirement Plans.

### **ANNUAL FUNDING NOTICE FOR CARP AND CPRP – Q & A**

#### **1. Why am I receiving this notice?**

The U.S. Government requires all employers (airline or otherwise) who sponsor defined benefit pension plans to distribute an “Annual Funding Notice.”

#### **2. What is the purpose of the Annual Funding Notice?**

The Government designed the Annual Funding Notice to provide you information related to the Plan’s funded status and other pension plan related information.

#### **3. How is this information helpful to me?**

The notice is for your information only.

#### **4. Do I need to take action?**

No. You do not need to take any action at this time. The notice is for your information only.

#### **5. Who decides what information to include?**

The Government provides a document template for employers to complete.

#### **6. How often will a notice be sent?**

Annually. This notice relates to the December 28, 2018 to December 27, 2019 plan year.

## **7. What is “Funding”?**

Funding compares the value of the plans assets, including contributions made by the employer to the plan, with the value of the plan’s obligations; primarily the estimated amount the plan will distribute to plan participations in the future. If the obligations outweigh the assets the plan is considered “underfunded” and if the assets outweigh obligations the plan is considered “overfunded.”

## **8. How much has the Company funded to the Plans in 2018 or 2019?**

- 2018 CARP - \$303,000,000
- 2019 CARP - \$635,000,000
- 2018 CPRP - \$97,000,000
- 2019 CPRP - \$0

## **9. Does receipt of this notice mean that the Plan is underfunded?**

The Annual Funding Notice must be provided regardless of the Plan’s level of funding or financial condition. The Annual Funding Notice is provided solely to comply with U.S. law, regardless of the funded position of the Plan.

## **10. Is my benefit amount impacted by the investments held in the Plan’s pension fund?**

No. The Plan is a defined benefit plan, which means your benefit is determined based on a specific formula and does NOT depend on investment earnings and growth.

## **11. Is the lump-sum distribution option going away? I hear the pension plan has to have a certain funding level to keep the lump-sum option.**

As you can imagine, recent declines in the stock market have impacted CARP’s and CPRP’s funded status. At this time, all distribution options under the plan, including lump sum distributions remain available. In fact, the plan has seen a significant increase in lump sum distribution requests in recent weeks. 2020 lump sum distribution conversion rates are much more favorable than ever, resulting in higher lump sum distribution payout amounts.

## **12. Should someone retire now or later (July 2020) based on the rate changes?**

This is a personal decision each employee will need to make based on their individual circumstances. Employees can separate/terminate/retire from the company and they are not required to commence their benefit immediately. The rates for the latter half of 2020 are more favorable in terms of lump sum payout amounts than the rates for the first half of 2020. However, you may also want to consider other factors. The lump-sum conversion rates are volatile and sensitive to changes in the financial markets. It is not possible to know how long these rates will last.

The following are questions that are commonly asked and many were answered during a recent webinar conducted United Retirement representatives in HR.

### **Q: Is the Lump Sum going away?**

A: United cannot just discontinue the lump sum provision under the law. However, the lump sum provision may become restricted under two circumstances:

1. When the funding status of the “Plan” becomes less than 80%.
2. In the case of a bankruptcy.

While lump sum is expected to continue, the fact is the recent declines in the market has potentially affected the CARP Funding Status. As a result, United has seen an increase in the number of questions asking about the Funding status of the plan.

**Q: In the event circumstances changed and the lump sum option were to be discontinued, will United provide as much notice as possible?**

A: Again, United can't just discontinue or change the lump sum option. However, if a problem with the funding status does develop, United will provide as much notice as possible.

**Q: What does Funding Status mean?**

A: The Funding Status is measured annually. Funding status fluctuates based on market returns and market volatility. It is anticipated the company will see somewhat of a change in the Funding Status due to recent changes in the market. The recent Funding Status was measured at the end of 2019 and was recently sent to all participants.

- Those who agreed to receive "paperless documents" will be able to access this document via the corporate website – secure message box on Your Benefits Resource (YBR).
- Funding notices, required by law, were sent to all other participants by mail to the address on file with the company.

**Q: My pension is valued at \$90,000. If I take a monthly annuity payment and United goes into bankruptcy, what happens to my annuity payment?**

A: Your annuity option never goes away. If responsibility for the administration of the pension is taken over by the PBGC, you will always have the benefit to the maximum monthly PBGC benefit.

**Q: How is the CARP "lump sum" taxed?**

A: The Lump Sum, in the year it is paid, becomes part of your taxable income and is added to any salary you've earned during the same year unless you elect to roll the proceeds into another qualified plan. This would include an Individual Retirement Account at another financial institution or into your 401(k) account at Fidelity Investments.

If you do elect to take the lump sum distribution in cash, 20% will be withheld off the top for Federal taxes. Again, if you roll the proceeds into a qualified plan, you can protect the lump sum from withholding and preserve a significant portion for your retirement planning.