

**UNITED STATES ARMY
NONAPPROPRIATED FUND
EMPLOYEE RETIREMENT PLAN**

**Actuarial Valuation
as of October 1, 2008**

Produced by [Cheiron](#)

March 2009



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March 13, 2009

Mr. Ronald Courtney
U.S. Army Community and Family Support Center
Chief, Employee Benefits Office
4700 King Street
Alexandria, Virginia 22302

Dear Mr. Courtney:

At your request, we have conducted our annual actuarial valuation of the United States Army Nonappropriated Fund Employee Retirement Plan as of October 1, 2008. The results of the valuation are contained in the following report.

The actuarial assumptions used in performing this valuation have been recommended by the actuary in the most recent review of the Plan's experience completed concurrently with the October 1, 2005 actuarial valuation. We believe the assumptions used, in the aggregate, reflect our best estimate of anticipated future experience of the Plan. The results of this report are dependent upon future experience conforming to these assumptions. To the extent that future experience deviates from these assumptions, the true cost of the Plan could vary from our results.

In preparing our report, we relied, without audit, on information (some oral and some written) supplied by the Employee Benefits Office, John Hancock Mutual Life Insurance Company, and Ameritas. This information includes, but is not limited to, plan provisions, employee data, and financial information. We have reviewed the census data provided to us for reasonableness.

We hereby certify that, to the best of our knowledge, this report is complete and accurate and has been prepared in accordance with generally recognized and accepted actuarial principles and practices which are consistent with the Code of Professional Conduct and applicable Actuarial Standards of Practice set out by the Actuarial Standards Board, and that as Members of the Academy of Actuaries, we meet the Qualification Standards to render the opinion contained in this report.

Sincerely,
Cheiron



John L. Colberg, FSA, EA
Consulting Actuary



Kevin J. Woodrich, ASA, EA
Actuary



FOREWORD

Cheiron has performed the actuarial valuation of the United States Army Nonappropriated Fund Employee Retirement Plan as of October 1, 2008. The purpose of this report is to:

- 1) **Determine the contributions** to be paid by the Plan for the fiscal year beginning one year after the valuation date;
- 2) **Measure and disclose**, as of the valuation date, the financial condition of the Plan;
- 3) **Indicate trends** in the financial progress of the Plan; and
- 4) **Provide specific information** and documentation required by P.L. 95-595.

An actuarial valuation establishes and analyzes Plan assets and liabilities on a consistent basis, and traces the progress of both from one year to the next. It includes measurement of the Plan's investment performance as well as an analysis of actuarial liability gains and losses.

Section I presents a summary containing our findings and disclosing important trends experienced by the Plan in recent years.

Section II contains various exhibits used in determining the financial condition of the Plan.

Section III includes the required disclosures and specific information required by P.L. 95-595.

Within Section III of this report is a summary of the Plan's membership at the valuation date, a summary of the major provisions of the Plan, and the actuarial methods and assumptions used in the valuations.

In preparing our report, we relied without audit, on information (some oral and some written) supplied by the Employee Benefits Office, John Hancock Mutual Life Insurance Company, and Ameritas. This information includes, but is not limited to, the Plan provisions, employee data, and financial information.

The actuarial assumptions reflect our understanding of the likely future experience of the Plan and the assumptions as a whole represent our best estimate for the future experience of the Plan. The results of this report are dependent upon future experience conforming to these assumptions. To the extent that future experience deviates from the actuarial assumptions, the true cost of the Plan could vary from our results.

Finally, in preparing this report, we have conformed to generally accepted actuarial principles and practices which are consistent with the Code of Professional Conduct and applicable Actuarial Standards of Practice set out by the Actuarial Standards Board.

SECTION I SUMMARY

Comments

In this section, we will first discuss the trends of the system over the past decade, and then show projections of the contribution rate and funding status. Please remember that these projections make certain assumptions about future investment returns, future salary increases, future inflation, and future behavior of plan participants. We cannot know what will actually happen, but these projections should provide a better understanding of the fund's dynamics. Future experience of the fund – particularly the financial market performance – will greatly impact what future contributions are necessary.

Employers currently contribute to the Plan at the rate of 6.5% of payroll. The underlying value of benefits being accumulated is 6.47% of payroll (net of the 2% employee contribution). The actuarial employer contribution rate, which includes the value of the benefits plus or minus the 15-year level amortization of any unfunded liability or surplus, is 6.9% for FY 2009-10. Our analysis shows that the policy contribution of 6.5% is unlikely to be sufficient, as evidenced by the long term funding projections shown later in this section.

Recent Experience

The financial markets performed well below our assumption during the fiscal year ending in 2008. The actual return net of expenses on a market value basis was approximately -14% compared with an assumed rate of return of 8%. The return on an actuarial value basis, smoothing recent market fluctuations, was approximately -5%, which equates to a loss of \$25.5 million.

On the liability side, the Plan's experience resulted in an actuarial loss of \$30.4 million (approximately 3.3% of the total actuarial liability). This liability loss was attributable to beneficiaries added as a result of more detailed information provided by John Hancock, additional retirees that weren't in last year's data, and active employees with past service awarded. Offsetting some of these losses was a gain associated with the retirees receiving a cost of living adjustment below the assumed 3.5%.

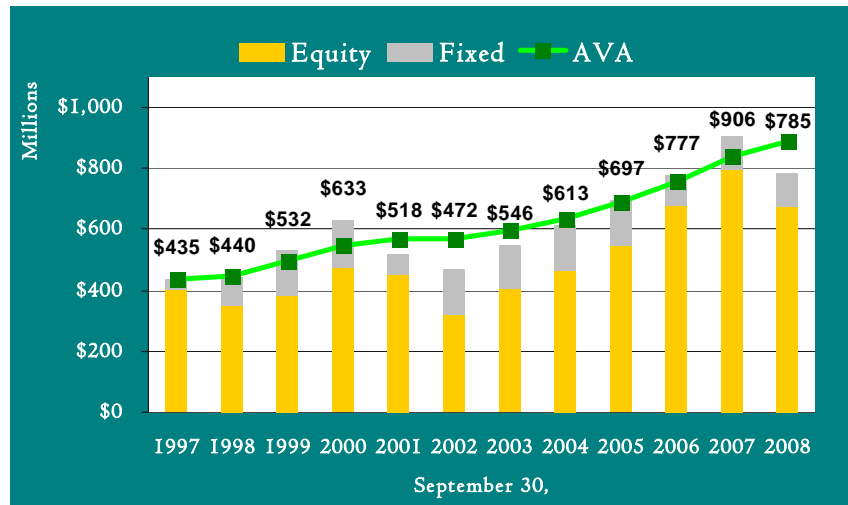
The combination of liability and investment experience over the last year along with modifications to the actuarial assumptions has produced a decrease in the Plan's funding ratio (actuarial value of assets over actuarial accrued liability) from 103.1% at October 1, 2007 to 97.6% at October 1, 2008.

Trends

We think it is important to take a step back from these latest results and view them in the context of the Plan's recent history. On the following pages we present a series of charts which display key factors of the valuations in previous years.

SECTION I SUMMARY

Growth in Assets

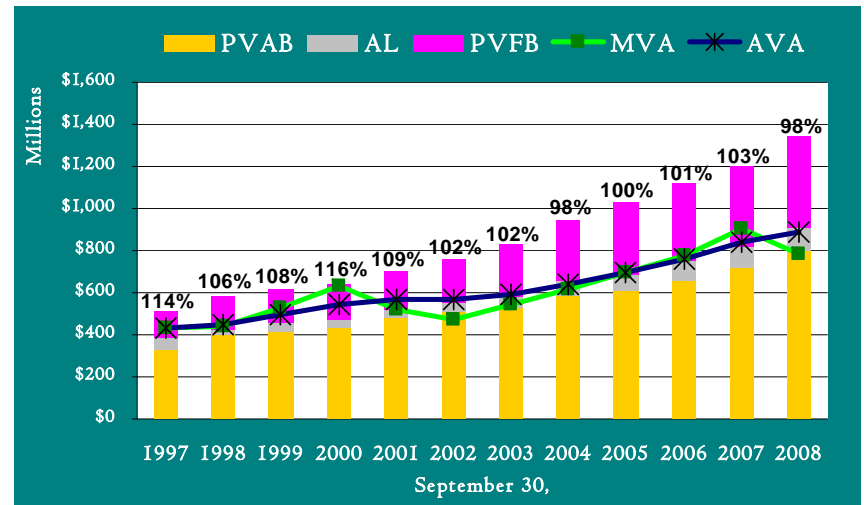


This chart compares the market value of assets (MVA) and the actuarial value of assets (AVA), which represents the market value “smoothed” over 5 years.

The downward trend in market value of assets due to the bear market was reversed in 2003 and the market value had continued to rebound up until this past year. The actuarial value of assets of \$887 million is now greater than the market value of \$785 million.

Over the period October 1, 2007 to September 30, 2008 the Plan’s assets returned approximately -14% when measured at market value net of expenses. The actuarial value returned approximately -5%, compared to the valuation assumption of 8%.

Assets and Liabilities

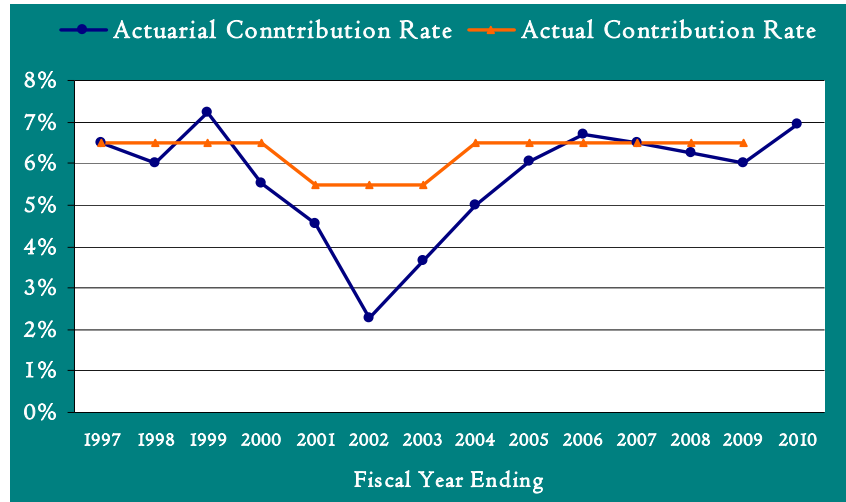


The three colored bars represent the three different measures of liability mentioned in this report. The top of the yellow bar represents the present value of benefits that participants have accrued as of that date (PVAB). The actuarial liability (AL), a measure for funding purposes, is represented by the top of the gray bar. We compare the actuarial value of assets to this measure of liability in developing the funded percent. These are the percentages shown in the graph labels.

The amount represented by the top of the pink bars, the present value of future benefits (PVFB), is the amount needed to provide all benefits for the current participants and their beneficiaries. If the Plan had assets equal to the PVFB no contributions (neither from the employer nor from members) would be needed for the current members if all the assumptions were realized.

SECTION I SUMMARY

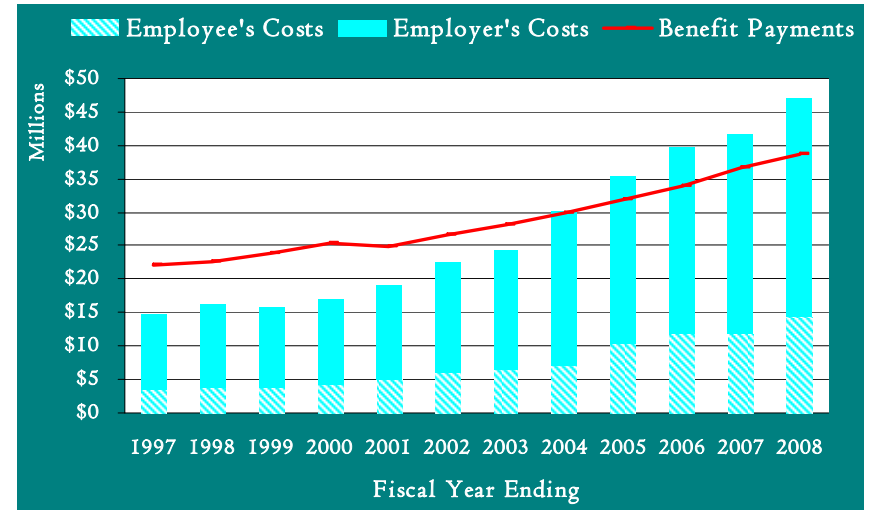
Contribution Rates



This graph shows the employer contributions compared to actuarially calculated contribution rate, denominated as a percent of payroll, and the actual contribution rate. The actuarially calculated rate represents the normal cost plus 15-year amortization of any unfunded liability (or surplus).

After bottoming out in fiscal year 2001-02, the underlying actuarial rates have risen to exceed the funding level of 6.5% in FY2006-07. Prior to this year, favorable experience reduced the rate. However, underperforming assets coupled with a liability loss increased the underlying actuarial rate to 6.93% for FY2009-10, which is above the current policy of 6.50%.

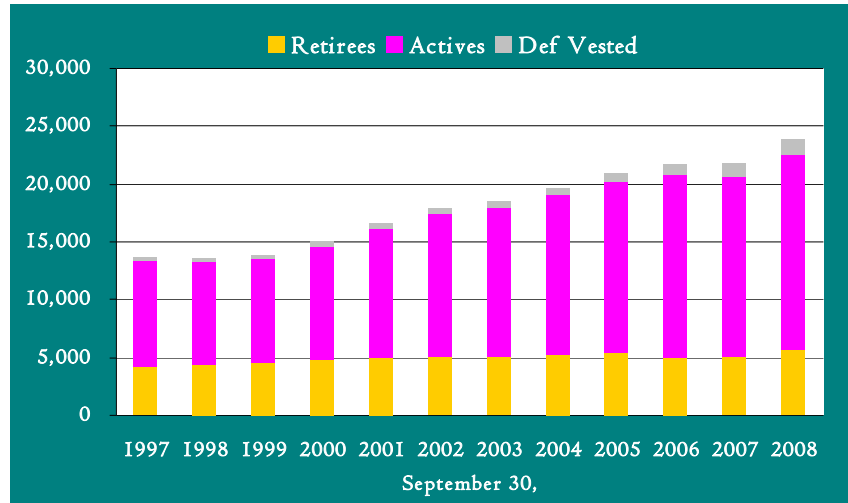
Cash Flows



This graph shows the historical cash flows of the Plan – employer and member contributions compared to the benefit payments from the Plan. The fund is maintaining a positive cash flow since changing to mandatory participation for new hires.

SECTION I SUMMARY

Participant Trends



As with many funds in this country, there has been a steady growth in the number of retired members as the Plan has matured.

The chart also shows that the number of actives covered by the Plan has continued to increase. This is primarily due to the retirement plan being mandatory for new hires.

In addition to the participants shown above, there are approximately 19,190 participants for whom an account balance refund is due. These balances represent about \$10.2 million, or 1.1% of the actuarial liability.

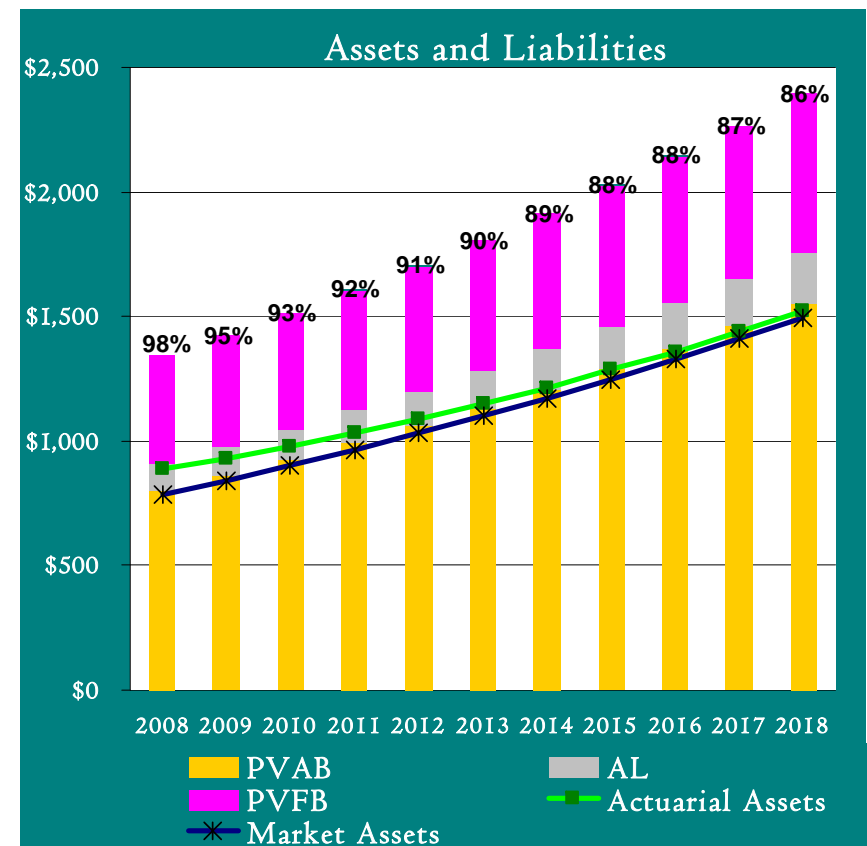
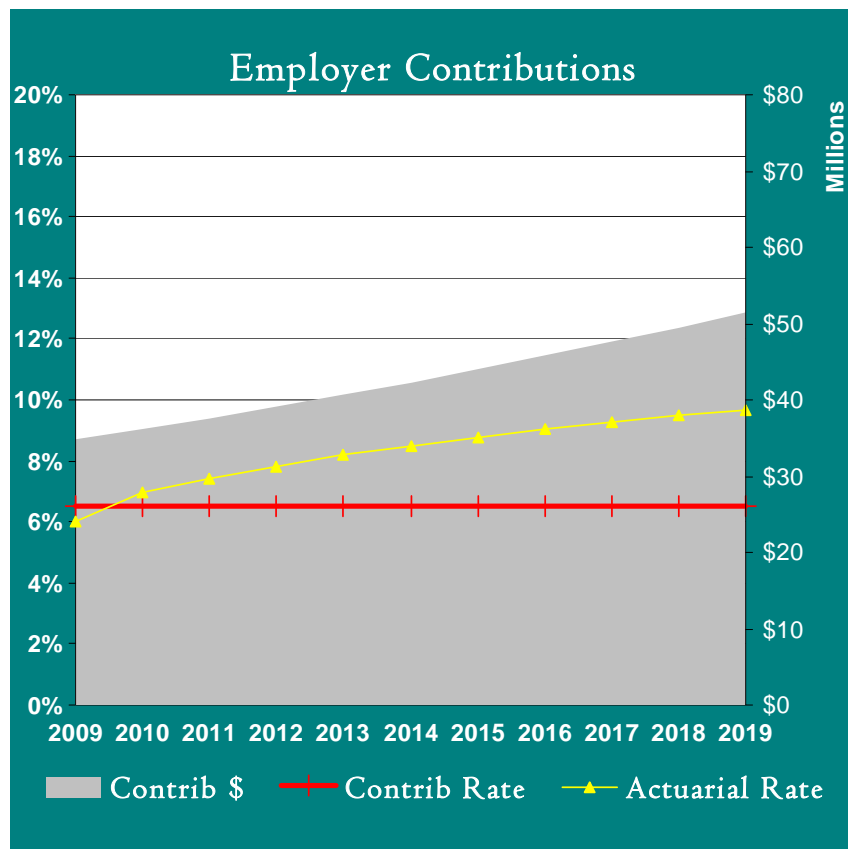
SECTION I SUMMARY

Future Outlook

Base Line Projections

The two charts below show the expected progress of the Plan over the next 10 years assuming that the Plan's assets earn 8% on their *market value*. The chart entitled Employer Contributions shows that the current contribution rate of 6.5% will not be sufficient (if all other actuarial assumptions are met, including the 8% investment return).

The Assets and Liabilities chart shows the projected funding status over the next decade. Since the Plan is projected to drop from 98% funded to 86% funded over the decade, the contribution may need to be increased to reflect the underlying value of benefits being earned.

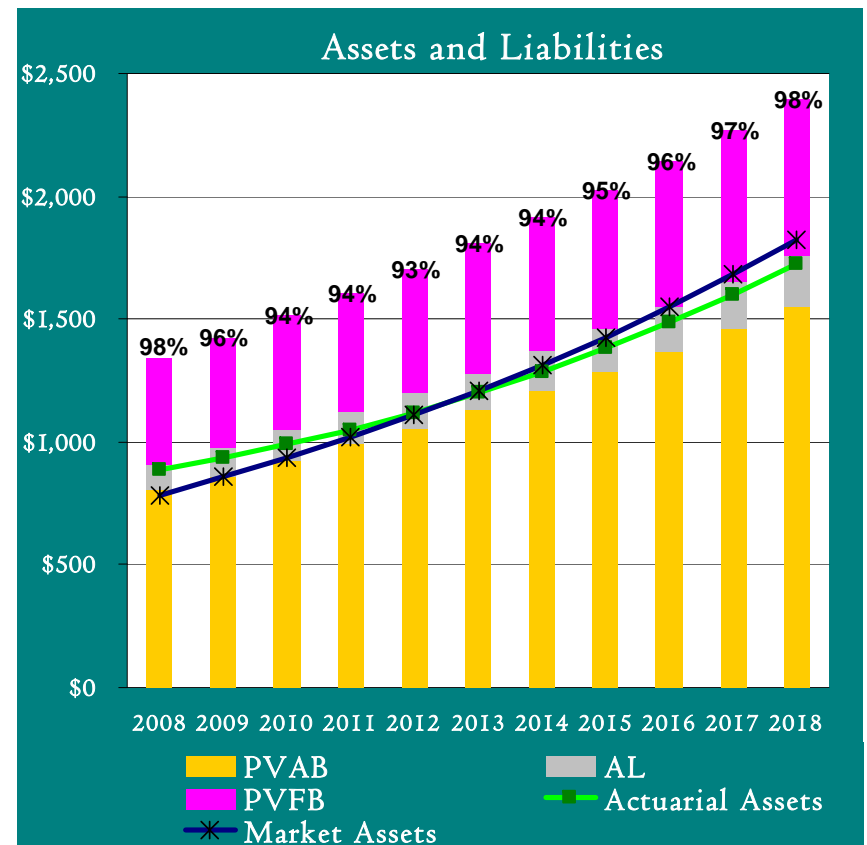
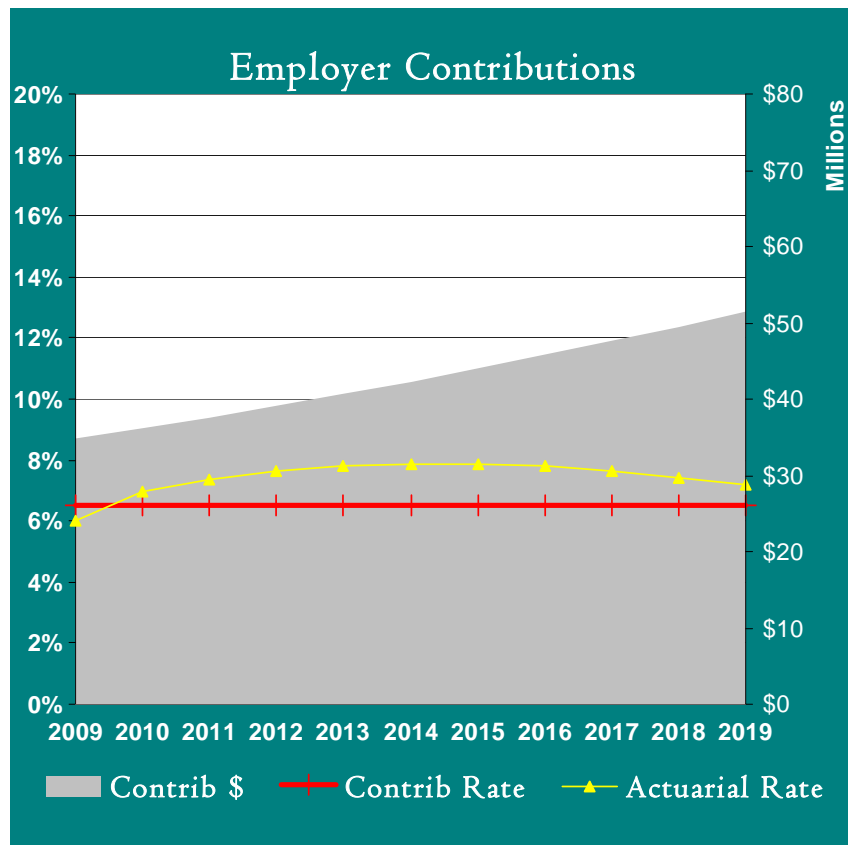


SECTION I SUMMARY

Projections with Asset Returns of 10%

The future funding of this Plan will be largely driven by the investment earnings. Due to the size of assets, as compared to liabilities, the Plan is in a highly leveraged position. This means that relatively minor changes in the market returns can have significant effects on the Plan's status. The next two charts show what the coming decade would look like with a 10% annual return.

The Plan's funded status, with these investment returns, is projected to drop for a few years before returning to its current level of 98%.

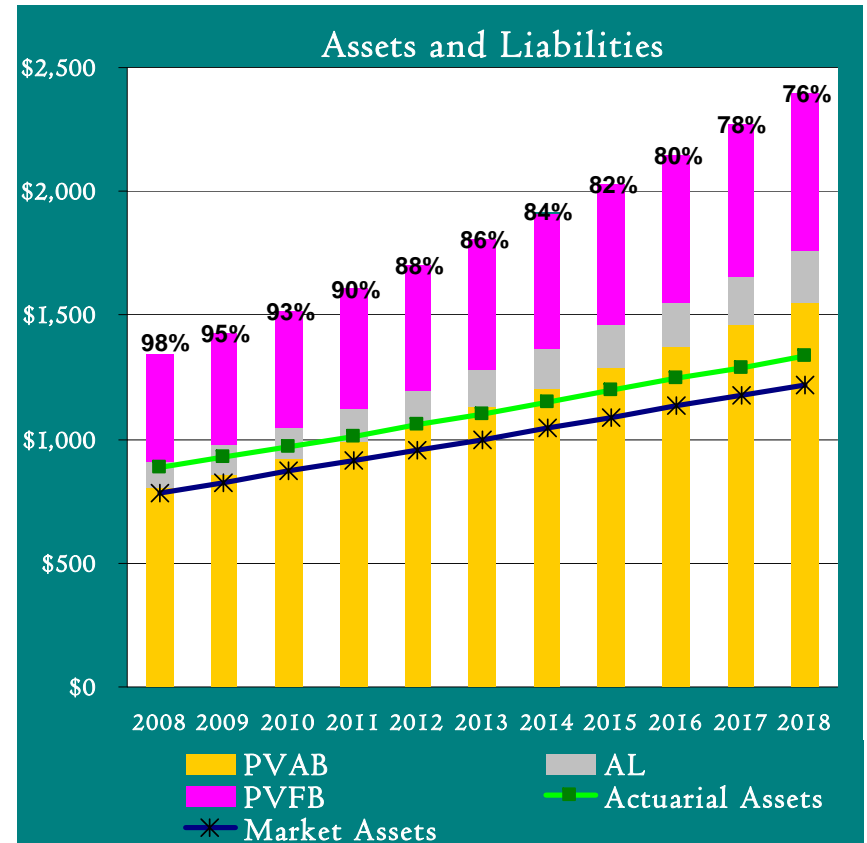
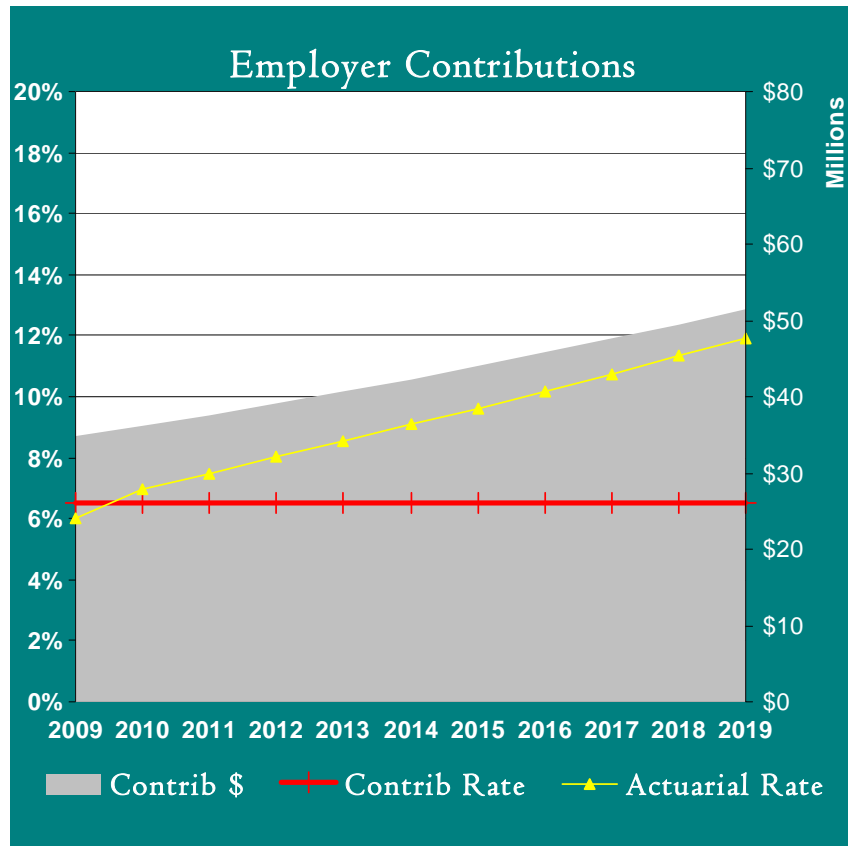


SECTION I SUMMARY

Projections with Asset Returns of 6%

The next two charts show what the coming decade would look like with a 6% annual return. Under this scenario, the current funding rate does not remain sufficient through the end of the decade.

The Plan's funded status, with these investment returns, is projected to steadily drop from the current level of 98% down to around 76% unless contributions are increased.



SECTION I SUMMARY

Report of the Actuary on the Valuation of the United States Army Nonappropriated Fund Employee Retirement Plan as of October 1, 2008			
Summary of Principal Results (\$ in millions)			
<u>Participant Data</u>			
	October 1, 2008	October 1, 2007	% Change
Retired Members and Beneficiaries*	5,613	5,112	9.8%
Vested Deferred Members	1,227	1,051	16.7%
Participants Due Account Balance	19,190	20,426	-6.1%
Active Members	16,986	15,621	8.7%
Total Participants	43,016	42,210	1.9%
Annual Salaries of Active Members	\$ 530.5	\$ 469.1	13.1%
Annual Retirement Allowances for Retired Members and Beneficiaries	\$ 38.0	\$ 33.6	13.1%
<u>Assets and Liabilities</u>			
Present Value of Future Benefits	\$ 1,341.8	\$ 1,198.6	11.9%
Actuarial Liability	\$ 909.5	\$ 813.6	11.8%
Actuarial Present Value of Accumulated Plan Benefits	\$ 802.3	\$ 717.1	11.9%
Assets for Valuation Purposes	\$ 887.4	\$ 838.8	5.8%
Unfunded Actuarial Liability	\$ 22.1	\$ (25.2)	187.7%
<u>Contribution Results</u>			
Total Annual Normal Cost with Expenses	\$ 43.6	\$ 39.2	11.2%
Expected Employee Contributions	\$ (10.7)	\$ (9.5)	12.6%
UAL Amortization	\$ 2.4	\$ (2.7)	188.9%
Interest	\$ 1.8	\$ 1.4	28.6%
Net Employer Contribution	\$ 37.1	\$ 28.4	30.6%
As a % of Payroll	6.9%	6.0%	0.9%

* Includes 157 participants receiving benefits from Ameritas Financial Corporation as of 10/1/2007 and 133 as of 10/1/2008. Cost of living increases granted after 1980 for these 133 participants total \$335,842 with an actuarial liability of \$1,710,616. The actuarial liability for these increases is included above.

**SECTION II
STATUTORY VALUATION EXHIBITS**

**EXHIBIT II-1
DEVELOPMENT OF ACTUARIAL VALUE OF ASSETS**

1. Actuarial Value of Assets as of October 1, 2007	\$ 838,789,287
2. Amount in (1) with interest to September 30, 2008	\$ 905,892,430
3. Employer and Employee Contributions for Plan Year ended September 30, 2008	\$ 47,032,806
4. Interest on Contributions assuming payments made uniformly throughout the year to September 30, 2008	\$ 1,845,120
5. Disbursements from Trust except investment expenses, October 1, 2007 through September 30, 2008	\$ 40,302,305
6. Interest on disbursements to September 30, 2008 at 8.00% per year	\$ 1,581,079
7. Expected Actuarial Value of Assets as of September 30, 2008 = (2) + (3) + (4) - (5) - (6)	\$ 912,886,972
8. Actual Market Value of Assets at September 30, 2008	\$ 785,236,100
9. Excess of (8) over (7)	\$ (127,650,872)
10. Pro-forma Actuarial Value of Assets at September 30, 2008 = (7) + 20% of (9)	\$ 887,356,798
11. Maximum value = 1.20 x (8)	\$ 942,283,320
12. Minimum value = 0.80 x (8)	\$ 628,188,880
13. Actuarial Value of Assets as of September 30, 2008 = (10), but not more than (11) nor less than (12)	\$ 887,356,798

**SECTION II
STATUTORY VALUATION EXHIBITS**

EXHIBIT II-2 REGULAR EMPLOYER CONTRIBUTION		
1.	Actuarial accrued liability	\$ 909,534,161
2.	Actuarial value of assets	<u>887,356,798</u>
3.	Unfunded actuarial accrued liability (surplus)	\$ 22,177,363
4.	Total annual normal cost	43,615,177
5.	15-year amortization of unfunded actuarial accrued liability (surplus)	2,399,047
6.	Estimated employee contribution	10,706,468
7.	Interest on (4) and (5) for half year *	<u>1,805,160</u>
8.	Net employer contribution: (4) + (5) - (6) + (7)	\$ 37,112,916
9.	Valuation Earnings	\$ 535,323,419
10.	Employer contribution as a percentage of valuation earnings: (8) / (9)	6.93%

* Contributions are assumed to be made uniformly throughout the year.

**SECTION II
STATUTORY VALUATION EXHIBITS**

EXHIBIT II-3
TEN YEAR PROJECTION OF RETIREES

Future Retirees

Plan Year Ending 9/30	Current Retirees*	From Deferreds	From Actives	Total Retirees	Annual Benefits*
2009	5,462	97	918	6,477	\$ 47,378,398
2010	5,302	119	1,457	6,878	\$ 50,972,944
2011	5,137	141	1,986	7,264	\$ 54,858,434
2012	4,966	168	2,519	7,653	\$ 58,970,157
2013	4,790	191	3,052	8,033	\$ 63,359,822
2014	4,610	214	3,580	8,404	\$ 68,095,916
2015	4,425	247	3,978	8,650	\$ 73,038,712
2016	4,237	287	4,341	8,865	\$ 78,522,101
2017	4,045	322	4,652	9,019	\$ 84,111,330
2018	3,851	354	4,902	9,107	\$ 89,780,849

* Includes number of participants and their cost of living benefits to be paid from Ameritas Financial Corporation

**SECTION II
STATUTORY VALUATION EXHIBITS**

EXHIBIT II-4 SUMMARY OF CENSUS DATA AS OF OCTOBER 1, 2008		
A. ACTIVE PARTICIPANTS		
1.	Number	16,986
2.	Total Annual Valuation Payroll (as reported)	\$ 530,512,268
3.	Average Age	43.4
4.	Average Credited Service	6.2
5.	Average Annual Pay	\$ 31,232
B. INACTIVE PARTICIPANTS		
1.	Terminated Vested Participants:	
a.	number	1,227
b.	total monthly benefit	\$ 286,651
c.	average monthly benefit	\$ 234
2.	Currently Retired Participants, Disableds and Beneficiaries:	
a.	number	5,480
b.	total monthly benefit	\$ 3,139,374
c.	average monthly benefit	\$ 573
3.	Participants receiving cost-of-living benefits from Ameritas Financial Corporation:	
a.	number	133
b.	total monthly benefit	\$ 27,987
c.	average monthly benefit	\$ 210
4.	Participants due an account balance	
a.	number	19,190
b.	balance	\$ 10,188,691

**SECTION III
ANNUAL REPORT PRESCRIBED BY P.L. 95-595**

Exhibit III-1

**UNITED STATES ARMY NONAPPROPRIATED FUND
EMPLOYEE RETIREMENT PLAN**

**Report for Plan Year Ending
September 30, 2008**

General Information Sheet

1. Name of Plan: U.S. Army Nonappropriated Fund Employee Retirement Plan
2. Name and address of plan sponsor:

U.S. Army Community and Family Support Center
Employee Benefits Office
P.O. Box 107
Arlington, Virginia 22210-0107
3. Name and phone number of plan administrator (or other responsible plan official):

Ronald Courtney
Chief, Employee Benefits Office
(703) 681-7260
4. Type of plan entity: Single employer plan
5. Date plan established: January 1, 1966

SECTION III
ANNUAL REPORT PRESCRIBED BY P.L. 95-595

6. Information on plan participants at beginning of plan year:

Participant data was collected as of October 1, 2008

Active participants	16,986
Separated employees entitled to deferred benefits	1,227
Retired, disableds and beneficiaries	5,613
Former participants due an account balance	<u>19,190</u>
Total Participants	43,016

7. Type of plan: Defined benefit pension plan

8. Administrative cost: See Note 4.

9. During the current plan year, the Plan was not merged into nor consolidated with another plan nor were assets or liabilities transferred to another plan.

10. The Plan is funded through BGI U.S. Debt, John Hancock Mutual Life Insurance Co., Janus Midcap, Brinson Partners, Inc., SSGA International Alpha, Ameritas (Former Bankers Life of Nebraska), GMG Seneca, Wells Capital Management Small Cap, RREEF America REIT II, UBS - RESA, Artisan International Value, Dodge & Cox International Stock Fund, NYLIM – Large Cap Enhanced Index, T. Rowe Price Large Cap Enhanced, and U.S. Army N.A.F. Retirement Trust.

11. The October 1, 2008 valuation was performed based on active, retiree and vested terminated data provided to us as of October 1, 2008.

12. The projected unit credit actuarial cost method was used in completing Tables 1 and 2. A summary of the actuarial methods is attached.

SECTION III
ANNUAL REPORT PRESCRIBED BY P.L. 95-595

13. Actuarial assumptions:

1. Economic:

- (1) Rate of return on plan investments: 8.0% per annum.
- (2) Ratio of salary expected at normal retirement age (62) to salary at:

	<u>Men</u>	<u>Women</u>
Age 25	7.90	7.90
Age 40	4.37	4.37
Age 55	2.00	2.00

- (3) Inflation Rate (in relation to plan provisions for post-retirement benefit adjustments): 3.5% per annum.

2. Decrements:

- (1) Basis of mortality assumptions:
Published table: RP-2000 Employee Mortality projected with Scale AA to 2005
- (2) (a) Normal retirement age: 62 and 5 years of service
- (b) Lowest age at which employee may voluntarily retire with full benefits: age 55 with 30 years of service
- (3) Basis of withdrawal assumptions:
Table based on heavy turnover, adjusted to reflect Plan's experience.

A summary of the assumptions and changes made since the prior report is attached.

14. A summary of the Plan provisions and changes made since the prior report is attached.

SECTION III
ANNUAL REPORT PRESCRIBED BY P.L. 95-595

I declare that I have examined this report, including accompanying tables and statements, and to the best of my knowledge and belief it is true, correct and complete.

Signature of Plan Administrator:

Ronald Courtney
Chief, Employee Benefits Office

Date:

**SECTION III
ANNUAL REPORT PRESCRIBED BY P.L. 95-595**

Exhibit III-2

**UNITED STATES ARMY NONAPPROPRIATED FUND
EMPLOYEE RETIREMENT PLAN**

Statement of Enrolled Actuary

This report has been prepared pursuant to P.L. 95-595 for the year ending September 30, 2008. To the best of my knowledge, the report is complete and accurate. It should be noted, however, that the asset information shown has not been audited by Cheiron, Inc. In addition, the liabilities shown in this report are from the United States Army Nonappropriated Retirement Plan Valuation Report as of October 1, 2008 as prepared by Cheiron, Inc. In my opinion, the actuarial assumptions appear to be in the aggregate reasonable related to the experience of the Plan and to reasonable expectations, and represent my best estimate of anticipated experience under the Plan.

Signature:



Kevin Woodrich
Enrolled Actuary
#08-7086
Cheiron, Inc.
8200 Greensboro Drive, Suite 1125
McLean, VA 22102

Date:

March 13, 2009

SECTION III
ANNUAL REPORT PRESCRIBED BY P.L. 95-595

EXHIBIT III-3		
UNITED STATES ARMY NONAPPROPRIATED FUND		
EMPLOYEE RETIREMENT PLAN		
STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS		
	September 30, 2008	September 30, 2007
Assets		
Investments, at fair value		
Deposit administration contracts, at contract value (Notes 1 and 2)		
John Hancock Mutual Life Insurance Co.	\$ 22,508,431	\$ 24,492,170
Ameritas (Bankers of Life of Nebraska)	197,055	195,521
BGI U.S. Debt	76,636,974	81,503,318
Janus Midcap	38,001,424	47,527,618
Putnam International	-	171
Brinson Partners, Inc.	60,721,491	61,045,924
SSGA S&P 500 Flagship	-	-
SSGA International Index Fund	-	90,880,543
SSGA International Alpha	53,750,962	3,204
Wells Capital Management Small Cap	34,060,890	39,512,668
GMG Seneca	74,333,257	81,099,539
Bank of Ireland Asset Mgmt, Ltd.	-	2,454
U.S. Army N.A.F. Retirement Trust (SSGA STIF)	3,221,280	2,399,523
RREEF America REIT II	43,471,835	43,895,094
Artisan International Value	34,208,581	36,501,728
Dodge & Cox Intl. Stock Fund	28,243,662	39,389,042
NYLIM - Large Cap Enhanced Index	131,314,444	152,564,454
T. Row Price Lg Cap Enhanced	131,173,809	155,152,010
Cash Overlay	63,957	-
UBS - RESA	46,941,548	45,981,516
Total Investments	\$ 778,849,600	\$ 902,146,497
Receivables		
Employer and employee contributions	\$ 3,212,446	\$ 2,332,045
Interest Receivable	16,994	11,949
Accounts Receivable	641,849	496,221
Total	\$ 3,871,289	\$ 2,840,215
Cash on deposit with U.S. Army Banking and Investment Fund (Note 3)	\$ 3,714,841	\$ 2,634,140
Total Assets	\$ 786,435,730	\$ 907,620,852
Liabilities		
Accounts payable and accrued liabilities	1,199,630	1,383,003
Net Assets Available for Benefits	\$ 785,236,100	\$ 906,237,849

SECTION III
ANNUAL REPORT PRESCRIBED BY P.L. 95-595

EXHIBIT III-4		
UNITED STATES ARMY NONAPPROPRIATED FUND		
EMPLOYEE RETIREMENT PLAN		
STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS		
	September 30, 2008	September 30, 2007
1. Net assets available for benefits at beginning of plan year *	\$ 907,912,442	\$ 779,322,941
2. Investment Income:		
(a) Net appreciation (depreciation) in fair value of investments	\$ (146,543,596)	\$ 108,341,213
(b) Interest	17,016,517	11,974,715
(c) Other income	4,072,939	6,949,370
(d) Less: Investment expenses	<u>3,952,702</u>	<u>3,668,126</u>
(e) Total	\$ (129,406,842)	\$ 123,597,172
3. Contributions: (Note 5)		
(a) Employer	\$ 32,593,349	\$ 29,772,779
(b) Employee	<u>14,439,457</u>	<u>11,848,585</u>
(c) Total	\$ 47,032,806	\$ 41,621,364
4. Total additions (2) + (3)	\$ (82,374,036)	\$ 165,218,536
5. Benefits paid directly to participants		
(a) Refunds	\$ 1,674,603	\$ 1,641,320
(b) Annuities	36,963,818	34,934,718
(c) Total	\$ 38,638,421	\$ 36,576,038
6. Administrative Expenses (Note 4)	\$ 1,663,885	\$ 1,727,590
7. Total deductions (5) + (6)	\$ 40,302,306	\$ 38,303,628
8. Net additions (deductions): (4) - (7)	\$ (122,676,342)	\$ 126,914,908
9. Net assets available for benefits at end of plan year: (1) + (8)	\$ 785,236,100	\$ 906,237,849

* Restated value as of September 30, 2007 shown.

**SECTION III
ANNUAL REPORT PRESCRIBED BY P.L. 95-595**

EXHIBIT III-5		
UNITED STATES ARMY NONAPPROPRIATED FUND		
EMPLOYEE RETIREMENT PLAN		
STATEMENT OF ACCUMULATED PLAN BENEFITS		
	September 30, 2008	September 30, 2007
<u>Actuarial Present Value of Accumulated Plan Benefits</u>		
Vested Benefits		
Participants currently receiving payment*	\$ 397,874,882	\$ 355,001,734
Other participants	<u>361,027,283</u>	<u>321,506,213</u>
Total	\$ 758,902,165	\$ 676,507,947
Nonvested Benefits	\$ 43,357,385	\$ 40,565,416
Total actuarial present value of accumulated plan benefits	\$ 802,259,550	\$ 717,073,363
Interest Rate Used	8.0%	8.0%

* Includes remaining liability under the plan for participants receiving benefits from Ameritas Financial Corporation.

NOTE: The employees' accumulated contributions with interest were \$64,586,463 and \$71,598,558 as of September 30, 2007 and September 30, 2008 respectively.

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**EXHIBIT III-6
UNITED STATES ARMY NONAPPROPRIATED FUND
EMPLOYEE RETIREMENT PLAN**

**STATEMENT OF CHANGES IN ACTUARIAL PRESENT
VALUE OF ACCUMULATED PLAN BENEFITS**

	September 30, 2008	September 30, 2007
1. Actuarial present value of accumulated plan benefits at beginning of plan year	\$ 717,073,363	\$ 658,999,215
2. Increase (decrease) during the year attributable to:		
(a) Benefits accumulated and actuarial (gain) or loss	\$ 67,974,543	\$ 36,528,951
(b) Interest due to decrease in discount period	55,850,065	51,285,042
(c) Plan amendment(s)	-	-
(d) Changes in actuarial assumptions	-	6,836,193
(e) Benefit Payments	<u>(38,638,420)</u>	<u>(36,576,038)</u>
3. Net increase (decrease):	\$ 85,186,188	\$ 58,074,147
4. Actuarial present value of accumulated plan benefits at end of plan year	\$ 802,259,550	\$ 717,073,363

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EXHIBIT III-7			
TABLE 1			
UNITED STATES ARMY NONAPPROPRIATED FUND			
EMPLOYEE RETIREMENT PLAN			
<u>ACTUARIAL STATUS INFORMATION</u>			
		October 1, 2008	October 1, 2007
1.	Present value of future benefits:		
	(a) Annuitants now on roll*	\$ 397,874,882	\$ 355,001,734
	(b) Separated employees	18,928,624	15,200,948
	(c) Participants due an account balance	10,188,691	11,393,656
	(d) Active participants	<u>914,767,721</u>	<u>817,049,940</u>
	(e) Total	\$ 1,341,759,918	\$ 1,198,646,278
2.	Less: Present value of future normal cost contributions	432,225,757	385,019,207
3.	Actuarial accrued liability	909,534,161	813,627,071
4.	Less: Assets in fund	887,356,798	838,789,287
5.	Unfunded accrued liability (surplus)	\$ 22,177,363	\$ (25,162,216)
6.	Normal cost as a percentage of covered payroll (mid-year)		
	(a) Employee	2.00%	2.00%
	(b) Employer	<u>6.47%</u>	<u>6.60%</u>
	(c) Total	8.47%	8.60%
7.	Ratio of assets in fund to present value of future benefits for annuitants now on roll		
	(a) Line 1(a) plus accumulated employee contributions	\$ 469,473,440	\$ 419,588,197
	(b) Assets divided by (a)	1.89	2.00
	(c) Ratio in (b) last year	2.00	1.88
	(d) Ratio in (b) two years ago	1.88	1.86

* Includes remaining liability under the plan for participants receiving benefits from Ameritas Financial Corporation.

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EXHIBIT III-8

Table 2

**UNITED STATES ARMY NONAPPROPRIATED FUND
EMPLOYEE RETIREMENT PLAN**

COMPARISON OF ACTUARIAL FUNDING WITH ACTUAL CONTRIBUTIONS

(in dollars)

(1)	(2)	(3)	(4)	(5)	(6)	(7)
Plan Year	Total Normal Cost*	40-Year Amortization of Unfunded Liability	Total (Col. 2 plus Col. 3)	Actual Contributions To Plan From All Sources	Difference (Col. 5 less Col. 4)	Col. 5 divided by Col.4
2008-09	45,326,221	1,789,591	47,115,812	\$ --	\$ --	--
2007-08	40,733,684	(2,030,452)	38,703,232	47,032,806	8,329,574	1.22
2006-07	38,457,296	(711,664)	37,745,632	41,621,364	3,875,732	1.10
2005-06	35,387,224	(100,202)	35,287,022	39,596,220	4,309,197	1.12
2004-05	31,724,981	1,209,066	32,934,047	35,435,693	2,501,646	1.08
2003-04	27,016,602	(752,297)	26,264,305	30,115,404	3,851,099	1.15
2002-03	20,651,255	(971,529)	19,679,726	24,486,375	4,806,649	1.24
2001-02	19,120,495	(3,961,885)	15,158,610	22,674,448	7,515,838	1.50
2000-01	17,889,965	(6,198,677)	11,691,288	19,171,038	7,479,750	1.64
1999-00	17,747,969	(3,094,083)	14,653,886	17,114,504	2,460,618	1.17
1998-99	17,334,358	(2,096,155)	15,238,203	15,782,816	544,613	1.04
1997-98	15,097,748	(4,337,203)	10,760,545	16,379,544	5,618,999	1.52

* Amounts as of mid-year. Beginning in 2005, \$1.4 mil added as admin expense assumption.

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EXHIBIT III-8 cont.

Table 2a

**UNITED STATES ARMY NONAPPROPRIATED FUND
EMPLOYEE RETIREMENT PLAN**

COMPARISON OF ACTUARIAL FUNDING WITH ACTUAL CONTRIBUTIONS
(as percentage of estimated payroll for the year)

(1)	(2)	(3)	(4)	(5)	(6)
Plan Year	Total Normal Cost*	40-Year Amortization of Unfunded Liability	Total (Col. 2 plus Col. 3)	Actual Contributions To Plan From All Sources	Difference (Col. 5 less Col. 4)
2008-09	8.47%	0.33%	8.80%		
2007-08	8.60	(0.43)	8.17	9.93	1.76
2006-07	8.46	(0.16)	8.30	9.16	0.86
2005-06	8.52	(0.02)	8.50	9.54	1.04
2004-05	8.26	0.31	8.57	9.23	0.66
2003-04	8.37	(0.23)	8.14	9.33	1.19
2002-03	7.58	(0.36)	7.22	8.99	1.77
2001-02	8.04	(1.67)	6.37	9.53	3.16
2000-01	8.42	(2.92)	5.50	9.02	3.52
1999-00	8.73	(1.52)	7.20	8.41	1.21
1998-99	9.06	(1.10)	7.96	8.25	0.29
1997-98	8.52	(2.45)	6.07	9.24	3.17

* Amounts as of mid-year. Beginning in 2005, \$1.4 mil added as admin expense assumption.

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Exhibit III-8, cont.

Table 3-3a

**UNITED STATES ARMY NONAPPROPRIATED FUND
EMPLOYEE RETIREMENT PLAN**

Past and Projected Flow of Plan Assets

These tables are not required for the United States Army Nonappropriated Fund Employee Retirement Plan since the Plan covers fewer than 50,000 participants.

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Exhibit III-9

UNITED STATES ARMY NONAPPROPRIATED FUND
EMPLOYEE RETIREMENT PLAN

NOTE 1 – VALUATION OF INVESTMENTS

Investments are stated at market value. The Plan's deposits with insurance carriers are valued at contract value. Contract value represents contributions made under the contract, plus interest income, plus realized security gains net of losses, plus unrealized security gains net of losses, less transfers of funds back to the U.S. Army Central Retirement Fund (ACRF), less funds used to meet ACRF obligations, less administrative expenses.

NOTE 2 – CONTRACTS WITH INSURANCE COMPANIES AND INVESTMENT MANAGEMENT AGREEMENT

The Plan has deposit administration contracts with two insurance companies as described below:

(a) *John Hancock Mutual Life Insurance Company*

The John Hancock Mutual Life Insurance Company (John Hancock) serves as the paying service for all participants receiving benefits since the termination agreement with Ameritas (formerly Bankers Life of Nebraska).

John Hancock also administered funds totaling \$22,508,431 under the following contract at September 30, 2008.

Type: General account (primarily long-term bonds)

Yield: Based upon overall fund performance

Term: Cancelable at any time

Amount: \$22,508,431 at September 30, 2008.

(b) *Ameritas (Formerly Bankers Life of Nebraska)*

On March 1, 1983, the Plan terminated its deposit administration contract with Ameritas. Under the terms of the termination agreement Ameritas paid the Plan \$5,179,098 on September 1, 1987.

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The Plan's only future obligation with respect to Ameritas is to pay the annual cost of living adjustments for the retirees for whom annuity contracts were purchased in 1983 when the agreement with Ameritas was terminated. The amount held on deposit with Ameritas at September 30, 2008 was 197,055 .

Investment Management Agreement

The Plan also has investment management agreements with various companies. The agreements provide that the companies have sole responsibility for investing the funds under their management within certain pre-described guidelines, and that earnings on the funds are based solely on the performance of the investments with a performance goal expressed as a total rate of return as defined in the agreement. The fair value of investments under management agreements at September 30, 2008 was:

BGI U.S. Debt	\$ 76,636,974
Janus Midcap	38,001,424
Brinson Partners, Inc.	60,721,491
SSGA International Alpha	53,750,962
Wells Capital Management Small Cap Fund	34,060,890
GMG Seneca	74,333,257
RREEF America REIT II	43,471,835
UBS – RESA	46,941,548
U.S. Army NAF Retirement Trust	3,221,280
Artisan International Value	34,208,581
Dodge & Cox Intl. Stock Fund	28,243,662
NYLIM - Large Cap Enhanced Index	131,314,444
T. Row Price Lg Cap Enhanced	131,173,809

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NOTE 3 – CASH WITH ARMY BANKING AND INVESTMENT FUND

The Plan had \$3,714,841 invested in the United States Army Banking and Investment Fund (ABIF) at September 30, 2008. The ABIF acts as a pooling agent for all Army nonappropriated activities and invests principally in U.S. Treasury securities, U.S. government agency securities, and certificates of deposit. The rate of interest paid to depositors is determined periodically by ABIF management.

NOTE 4 – RELATED PARTY TRANSACTION

Appropriated funds of the United States Army provide certain general administrative support, including office space, communication and certain supplies to the U.S. Army Command which administers the Plan. The value of some of these contributed services and supplies is not currently available and thus is not reflected in the accompanying financial statements.

The Plan, the United States Army Medical/Life Fund (AMLF), and the 401(k) plan share common offices and administrative personnel. Common expenses are paid by the Plan and the AMLF and 401(k) plan allocated portions are reimbursed to the Plan. The balance due to the Retirement Plan as of September 30, 2008 for expenses allocated to the Army Medical/Life Fund and the 401(k) Saving Plan is \$1,056,878 and \$281,834, respectively.

The NAF Financial Services deducted employer and employee contributions from the various payroll cycles and remitted the funds to the Plan at a cost of \$1,200 in the year ended September 30, 2008. The United States Army Morale Welfare and Recreation Fund charged the ACRF \$203,096 for certain allocated administrative expenses in the year ended September 30, 2008.

NOTE 5 – CONTRIBUTIONS

As a condition of participation, employees are required to contribute 2% of their salary to the Plan. Prior to January 1, 1991, employees were required to contribute 3% of their salary.

Effective January 1, 2001, new hires, re-hires, and newly eligibles may elect to stop contributing to the Plan after six months. The employee's past contribution will be refunded upon termination only if the employee elects a refund in lieu of future retirement benefits when vested.

Although they have not expressed any intention to do so, the United States Army Nonappropriated Fund has the right under the Plan to discontinue their contributions at any time and to terminate the Plan.

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Exhibit III-10

UNITED STATES ARMY NONAPPROPRIATED FUND EMPLOYEE RETIREMENT PLAN

Summary of Methods and Assumptions as of October 1, 2008

A. Actuarial Methods

1. Calculation of Normal Cost and Actuarial Accrued Liability: The actuarial method used to determine the normal cost and actuarial accrued liability was the projected unit credit actuarial cost method described below.

Projected Unit Credit Actuarial Cost Method

The objective under this method is to allocate the total pension benefit to which each participant is expected to become entitled at retirement to the participant's past and future service. The allocation is accomplished by applying the Plan's accrual formula to projected final salary at retirement.

An Actuarial Liability is calculated at the valuation date as the present value of benefits allocated to service prior to that date.

The Unfunded Actuarial Liability at the valuation date is the excess of the Actuarial Liability over the assets of the Plan.

The Normal Cost is the present value of those benefits which are expected to be allocated to service during the year beginning on the valuation date.

Under this method, differences between the actual experience and that assumed in the determination of costs and liabilities will emerge as adjustments in the Unfunded Liability, subject to amortization.

2. Calculation of Actuarial Value of Assets: Market value of assets is the amount certified by outside auditors as available net assets. This includes funds on deposit with insurance companies, funds on deposit with the U.S. Army Banking and Investment Fund, cash and accrued items.

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As of October 1, 1997, the actuarial value of assets was set equal to the Market Value of Assets. For each subsequent year, the actuarial value of assets is calculated as follows:

- (a) The prior year's actuarial value of assets is
 - Increased by contributions, interest at the assumed rate of return on prior year's actuarial value of assets for a full year and interest at assumed rate of return on contributions for one-half year.
 - Decreased by benefit payments, expenses and other payments and interest at assumed rate of return on these payments for one-half year.
- (b) The amount from (a) above is the expected value.
- (c) 20% of the difference between market value and expected value is added to "expected" value.
- (d) The result from (c) is the actuarial value of assets adjusted, if necessary, to be not less than 20% below and not more than 20% above the market value of assets.

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Exhibit III-10, cont.
UNITED STATES ARMY NONAPPROPRIATED FUND
EMPLOYEE RETIREMENT PLAN

Summary of Methods and Assumptions as of October 1, 2008

B. Actuarial Assumptions

1. Investment Return: 8.0%
2. Annual Rate of General Wage Increase: 4%
3. Annual Rate of Merit/Seniority Wage Increase (in addition to 2., applied multiplicatively):
See Rates in Exhibit A
4. Social Security Wage Base Increase: 4%
5. Mortality:
RP-2000 Employee Mortality projected with Scale AA to 2005 (Exhibit B).
6. Termination:
Sample rates set forth in Exhibit A.
7. Disability:
Rates from disability set forth in Exhibit C, combined with RP-2000 Disabled Retiree Employee Mortality projected with Scale AA to 2005 (Exhibit B).
8. Retirement Age:
See Exhibit C.
9. Proportion of participants with eligible beneficiaries for survivor:
88% of participants are assumed to be married with wives 3 years younger than their husbands.
10. Expenses:
\$1,400,000
11. Noncontributing active participants:
Nonvested participants are excluded from the valuation and are assumed to terminate employment 5 years from the date they ceased making contributions. Vested participants are assumed to remain in service but continue in a noncontributory status.
12. Covered payroll:
Gross annual earnings for the prior plan year ending on the valuation date increased by the salary assumption to reflect estimated payroll for the year following the valuation date.
13. Maximum benefit:
The maximum benefit payable under IRC Section 415 effective at valuation date increased by 3.5% per year thereafter.

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14. Maximum pensionable pay:
IRC Section 401(a)(17) limit effective at valuation date increased 3.5% per year thereafter.
15. Post-retirement cost of living adjustments:
3.5% per year
16. Assumption for participants due an account balance:
100% are assumed to still be due a refund of their account balances.
17. Changes since prior year:
None.

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Exhibit A				
<u>Service</u>	Merit/Seniority Wage Increase		Termination Number of terminations per 1,000 members	
	<u>Male</u>	<u>Female</u>	<u>Male</u>	<u>Female</u>
0	10.00%	10.00%	200.0	200.0
1	9.00%	9.00%	165.7	165.7
2	7.50%	7.50%	141.1	141.1
3	6.00%	6.00%	127.8	127.8
4	4.75%	4.75%	112.4	112.4
5	3.50%	3.50%	100.5	100.5
6	2.50%	2.50%	90.8	90.8
7	2.25%	2.25%	82.5	82.5
8	2.13%	2.13%	75.4	75.4
9	1.99%	1.99%	69.1	69.1
10	1.86%	1.86%	63.5	63.5
11	1.72%	1.72%	58.4	58.4
12	1.58%	1.58%	53.8	53.8
13	1.45%	1.45%	49.5	49.5
14	1.31%	1.31%	45.5	45.5
15	1.17%	1.17%	41.9	41.9
16	1.04%	1.04%	38.4	38.4
17	0.90%	0.90%	35.2	35.2
18	0.76%	0.76%	32.1	32.1
19	0.63%	0.63%	29.2	29.2
20	0.49%	0.49%	26.5	26.5
21	0.35%	0.35%	23.9	23.9
22	0.22%	0.22%	21.4	21.4
23	0.08%	0.08%	19.0	19.0
24	0.00%	0.00%	16.8	16.8
25+	0.00%	0.00%	10.0	10.0

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Exhibit B						
	Pre Retirement RP 2000 Employee Mortality ¹ Number of deaths per 1,000 members		Disabled Annuitant RP 2000 Disabled Mortality ¹ Number of deaths per 1,000 members		Post Retirement RP 2000 Healthy Annuitant Mortality ¹ Number of deaths per 1,000 members	
<u>Age</u>	<u>Male</u>	<u>Female</u>	<u>Male</u>	<u>Female</u>	<u>Male</u>	<u>Female</u>
20	0.3	0.2				
25	0.4	0.2	21.5	6.9		
30	0.4	0.3	22.0	7.1		
35	0.8	0.4	22.0	7.0		
40	1.0	0.7	21.7	6.9		
45	1.4	1.0	21.1	6.9		
50	2.0	1.5	26.5	10.6	4.9	2.2
55	2.8	2.4	32.2	15.9	5.4	3.4
60	4.5	3.8	38.8	21.3	7.6	6.0
65	7.1	5.7	46.8	27.3	12.5	10.1
70	9.2	7.4	58.0	36.7	20.6	16.3
75					35.3	27.0
80					61.2	44.3

¹ All RP 2000 Mortality Tables shown above reflect the projection with Scale AA to 2005

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Exhibit C			
Retirement Rates¹		Disability	
Number of retirements per 100 members		Number of Disablements per 1,000 members	
<u>Age</u>	<u>Rate</u>	<u>Age</u>	<u>Rate</u>
50 – 54	5	<30	0.28
55	10	35	0.33
56 - 59	5	40	0.75
60	10	45	1.60
61	5	50	2.78
62 - 64	25	55	4.75
65+	100	60	8.63
		62+	0.00

¹ 100% retirement upon attaining age 55 with 30 years.

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Exhibit III-11
UNITED STATES ARMY NONAPPROPRIATED FUND
EMPLOYEE RETIREMENT PLAN

A. SUMMARY OF PLAN PROVISION AS OF OCTOBER 1, 2008

1. Effective Date of Plan: January 1, 1966. Most recent amendment effective January 1, 1997. time, of Internal Revenue Service Notice 89-70 for the Plan year in which the Participant attains his Social Security Retirement Age.
2. Employees Eligible for Participation: All employees of covered U.S. Army-NAF activities working at least 20 hours per week are eligible to become Participants on their date of employment. Effective January 1, 2001, new hires, re-hires, and newly eligibles are required to participate in the Plan for the first six months. Employee contributions are required for participation.
3. Definitions:
 - (a) Earnings: Gross annual compensation as reported on Form W-2, plus the Participant's pre-tax contributions to the Employer's 401(k) plan, capped by the \$220,000 limit as indexed under the Code.
 - (b) Final Average Earnings: The average of the highest 36 consecutive months of Earnings.
 - (c) Credited Service: All service from date of employment to retirement, death or termination, except that service on and after April 1, 1981, is counted only if the employee makes contributions to the Plan.
 - (d) Covered Compensation: The amount specified in Table 1 of Attachment 1, as amended from time to
4. Retirement Dates:
 - (a) Normal Retirement Date: The first day of the month following the later of Participant's 62nd birthday and completion of 5 years of Credited Service.
 - (b) Early Retirement Date: A Participant may retire on the first day of a month before age 62 provided:
 - (i) he has attained age 55 and has completed 30 years of Credited Service, or
 - (ii) he has attained age 60 and has completed 20 years of Credited Service, or
 - (iii) he has attained age 52, and has completed 5 years of Credited Service, or
 - (iv) as of September 1, 1983, the sum of age plus years of Service equaled or exceeded 80.
 - (v) Attainment of age 50 and completion of 20 years of Credited Service on or after August 1, 1993 and prior to December 31, 1994, or

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on or after January 1, 1997, and is involuntarily separated from service or if the Employer shall have obtained a voluntary early retirement authority from the Assistant Secretary of the Army (Manpower and Reserve Affairs).

- (vi) Attainment of any age and completion of 25 years of Credited Service on or after August 1, 1993, and prior to December 31, 1994, or on or after January 1, 1997, and is involuntarily separated due to loss of position under a business-based action, per authority of the installation commander.

(c) Disability Retirement Date: A Participant who becomes permanently disabled and unable to perform his duties may retire, provided that he has attained age 52 or has completed 5 years of Credited Service.

(d) Deferred Retirement Date: A Participant may remain in employment beyond his Normal Retirement Date.

5. Pension Benefit at Normal Retirement:

(a) Participants Eligible: All Participants who retire on their Normal Retirement Date.

(b) Annual Benefit: The sum of (i), (ii), and (iii).

- (i) 1.2% of Final Average Earnings plus .3% of Final Average Earnings in excess of Covered Compensation times Years of

Credited Service not in excess of fifteen (15) years.

- (ii) 1.6% of Final Average Earning plus 0.3% of Final Average Earnings in excess of Covered Compensation times Years of Credited Service in excess of fifteen (15) years up to thirty (30) years.

- (iii) 1.6% of Final Average Earnings times Years of Credited Service in excess of thirty (30) years.

But not less than the Participant's accrued benefit as on June 30, 1990 under the prior formula.

6. Pension Benefit at Early Retirement:

(a) Participants Eligible: All Participants who retire on an Early Retirement Date.

(b) Annual Benefit: Calculated as in item (5) based on Final Average Earnings and Credited Service at the time of early retirement, reduced by 4% for each year that early retirement precedes Normal Retirement Date. For retirement after attainment of age 55 and completion of 30 years of Credited Service, or after attainment of age 60 and completion of 20 years of Credited Service, no reduction in benefit is applicable.

(c) A Participant who retires on an Early Retirement Date shall receive an annual early retirement supplement payable until the Participant attains his Normal Retirement Date, or dies, if earlier. The amount of the annual supplement shall be (i) \$192

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or (ii) one half percent (0.5%) of the Participant's Final Average Earnings whichever is lesser, times Years of Credited Service up to twenty-five (25).

- (d) A Participant who retires on an Early Retirement Date as described in item 4.(b)(v) or (iv) above shall receive a benefit calculated as in item (5) based on Final Average Earning and Credited Service at the time of early retirement, reduced by 2% for each year that early retirement precedes age 55.

7. Pension Benefit at Disability Retirement:

- (a) Participants Eligible: All Participants who retire on a Disability Retirement Date.
- (b) Annual Benefit: The sum of (i) and (ii)
- (i) 1.2% of Final Average Earnings times Years of Credited Service up to fifteen (15),
- (ii) 1.6% of Final Average Earnings time Years of Credited Service in excess of fifteen (15).

8. Pension Benefit at Deferred Retirement:

- (a) Participants Eligible: All Participants who retire on a Deferred Retirement Date.
- (b) Annual Benefit: Calculated as in item (5) based on Final Average Earnings, Covered compensation, and Credited Service at the time of actual retirement.

9. Vested Benefits:

- (a) Participants Eligible: All Participants who complete 5 years of Credited Service.
- (b) Annual Benefit: Calculated as in item (5) based on Final Average Earnings, covered Compensation, and Credited Service at the time of termination of employment, if participant does not elect to have his contributions with interest returned to him.

10. Survivor Benefits:

- (a) Participants Eligible: Any Participant who was retired on account of disability or who completed 5 years of Credited Service, and at the time of death, either:
- (i) was actively employed, or
- (ii) was separated from active service entitled to a deferred benefit but had not yet begun to receive retirement benefits.
- (b) Annual Benefit:
The eligible spouse survivor will receive the amount of benefit, including the early retirement supplement unreduced for early commencement, that would have been paid had the Participant retired on the date of death and elected the normal form of payment for married participants.

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If a Participant has retired on account of disability, his Spouse shall receive a benefit equal to the retirement benefit that would have been payable had the Participant retired at the time his disability commenced, and elected the normal form of payment for married participants.

11. Employee Contribution

- (a) Annual Contribution: 3% of Earnings up to December 31, 1990, 2% of Earnings afterwards.
- (b) Interest Credited: 3% per annum.

12. Forms of Benefit Payment:

- (a) Normal Form: Reduced 55% joint and survivor annuity for married participants; life annuity for single participants. (For single participants, the excess of the retired Participant's contributions with interest over the sum of benefits paid is returned at his death in a lump sum payment to the retired Participant's beneficiary or estate).
- (b) Optional Forms: Actuarially equivalent 5 or 10 years Certain and Continuous, life annuity, or a 100% Contingent Annuitant option.

13. Cost of Living Adjustments

Effective April 1, 1987, benefits paid to pensioners and beneficiaries as of April 1, 1987 were increased .25% for each month from the later of benefit commencement date or April 1, 1985 through March 31, 1987. Pensioners'

benefits were previously increased in 1981, 1983, and 1985.

Effective April 1, 1988, and each April 1 thereafter, each participant and beneficiary receiving retirement or survivor benefits from the Plan shall be entitled to have the benefit he or she is then receiving increased by the same percentage as the increase in the average Consumer Price Index – Urban Wage Earners and Clerical Workers (CPI-W) for the third quarter of the preceding year, or by four percent (4%), whichever is the lesser figure. For those years when the Consumer Price Index exceeds 4%, the Benefits Program Manager and the Trustees, upon review of the financial conditions of the Plan, may recommend to the Commander increases of more than 4%.

B. CHANGES IN PLAN SINCE PRIOR VALUATION

None.