

December 12, 2003

To: Eligible Covered Employees and Beneficiaries

Re: **Alaska Electrical Pension Plan**
Important Notice of Plan Changes Effective January 1, 2004

We are writing to let you know about important changes to the Alaska Electrical Pension Plan (the "Plan") that the Board of Trustees approved at its meeting on December 2, 2003. These changes:

- Reduce the rate at which you will earn benefits to 1.5% of employer contributions made on and after January 1, 2004;
- Increase the normal retirement age to age 60 for benefits you earn on and after July 1, 2005;
- Cap the maximum retirement benefit you can receive at the 2003 level; and
- Reduce by 50% the past service benefit that will be credited for service with employers who first enter the Plan on and after January 1, 2005.

The Trustees have been driven to make these changes by the sustained stock market downturn which has had a significant impact on the investment returns of many retirement trusts – including the Plan. In light of these lower investment returns, the Trustees determined these changes are necessary to provide a solid financial base for the benefits you have already earned, and to help secure those benefits you will continue to earn in the future.

The following sections of this notice describe these changes in greater detail and how they may affect your benefits in the future. As you review these changes, bear in mind that the changes described relate to benefits earned on and after January 1, 2004. ***The benefit you have already earned through December 31, 2003, will not change.***

The Change to Your Future Service Benefit

Your accrued benefit under the Plan is your past service benefit (if any), plus your future service benefit.

Your *future service benefit* is based on the credited future service you earn for each year of covered employment with a participating employer. The benefit amount you earn is a percentage of the employer contributions made to the Trust on your behalf. Your future service benefit for service prior to 1986 is based on the hours you worked and the contribution rate for each hour. Your future service benefit beginning in 1986 and before 2004 is determined as follows:

<u>Period of Credited Future Service</u>	<u>Percent of Employer Contributions</u>
1/1/1986 through 12/31/2000	4.0%
1/1/2001 through 12/31/2003	2.0%

Beginning January 1, 2004, you'll receive a monthly future service benefit equal to 1.5% of the employer contributions made on your behalf. In other words, on and after January 1, 2004, you'll earn \$15 per month in benefits for every \$1,000 in employer contributions made on your behalf. Under the formula in effect prior to this change, \$1,000 in employer contributions would produce a \$20 monthly benefit.

You may have also earned a past service benefit in certain circumstances if you were employed by your employer at the time that the employer first became a participating employer in the Plan. This date is known as the "effective date of coverage." Your past service benefit, if any, that relates to periods of continuous employment *prior to* the employer's effective date of coverage (and occurring prior to January 1, 2005) is not affected by this amendment.

The Change to Your Normal Retirement Date

Normal retirement age under the Plan is currently age 58. If you retire before your normal retirement age (as early as age 48), your benefit is reduced for each month that your age at retirement precedes age 58. If you retire after your normal retirement age, your benefit is increased.

The normal retirement age for benefits accrued on and after July 1, 2005, will change to age 60. As a result, the percentage increase/decrease applied to that portion of your benefit will be different than it has been in the past, as shown in the following table. The percentages in the middle column would apply to the benefit you earn prior to July 1, 2005. The last column applies to benefits earned on and after July 1, 2005.

Your age at retirement	Percentage increase/decrease applied to benefits earned before July 1, 2005*	Percentage increase/decrease applied to benefits earned on and after July 1, 2005*
67	142%	142%
66	142%	136%
65	142%	130%
64	136%	124%
63	130%	118%
62	124%	112%
61	118%	106%
60	112%	100%
59	106%	94%
58	100%	88%
57	94%	82%
56	88%	76%
55	82%	70%
54	76%	64%
53	70%	60%
52	64%	56%
51	60%	52%
50	56%	48%
49	52%	44%
48	48%	40%
* <i>The percentages shown are based on whole ages. The percentage increase applies to benefits earned through normal retirement age. The percentage applied to your actual benefit will be based on your age in years and months.</i>		

Benefit Example for Early Retirement Before July 1, 2005

Suppose you retired at age 55 on December 31, 2003, with a monthly benefit of \$3,000 payable at normal retirement (age 58). The reduction factor applied to your entire benefit would be 82%, and would be based on the number of years and months that your age at retirement precedes your normal retirement age.

Monthly benefit amount		\$3,000
Reduction factor	x	<u>82%</u>
Monthly benefit payment	=	\$2,460

Benefit Example for Early Retirement on and After July 1, 2005

If you retire at age 55 on December 31, 2006, two reduction factors would be applied to different parts of your benefit. Assume that the benefit you earned before July 1, 2005, is \$2,800, while the benefit you earned between July 1, 2005, and December 31, 2006, is \$200, for a total monthly benefit of \$3,000.

Your total benefit would be calculated as follows:

Benefit Earned Before July 1, 2005		
Monthly benefit amount		\$2,800
Reduction factor	x	<u>82%</u>
Monthly benefit payment	=	\$2,296
Benefit Earned on and After July 1, 2005		
Monthly benefit amount		\$ 200
Reduction factor	x	<u>70%</u>
Monthly benefit payment	=	\$ 140
Total Benefit at Retirement		
Monthly amount earned before July 1, 2005		\$2,296
Monthly amount earned on and after July 1, 2005	+	<u>\$ 140</u>
Total Monthly Benefit	=	\$2,436

In this example, the change to the Plan's normal retirement age for benefits earned on and after July 1, 2005, results in \$24 per month less than the amount that would have been payable before the change.

Annual Benefit Payments are Capped at 2003 Level

Annual benefits under qualified plans are subject to a maximum limit, as specified by federal law. The federal limits increase according to a schedule based on increases in the consumer price index. The Trustees have frozen this maximum limit in the Plan at its 2003 level. As a result, no participant will receive an annual benefit attributable to any employer that is more than the actuarial equivalent of a single life annuity of \$160,000 payable at age 62.

The Change to the Past Service Benefit for Employees of Employers First Joining the Plan on or after January 1, 2005

Your *past service benefit* is based on the credited past service you earned during periods of continuous service with your employer prior to the employer's effective date of coverage. Currently the Plan provides a past service benefit of \$32 for each year of credited past service if the employer's contribution rate is \$2.00 or more.

For employees of employers who first become participating employers on or after January 1, 2005, the past service benefit will be \$16 for each year of credited past service if the employer's contribution rate is \$2.00 or more. ***This change does not affect any past service benefit credited for employees of employers who first become participating employers before January 1, 2005.***

For More Information

Please refer to your summary plan description booklet for information about other Plan provisions. You and your spouse may also wish to consult a personal financial adviser to determine the specific impact on your retirement benefits.

Meanwhile, if you have any questions about this notice, the Administrative Office will be happy to assist you. You may reach the Administrative Office at (907) 276-1246 or (800) 478-1246.

Sincerely,

Board of Trustees