Boeing Pension—Questions and Answers

“The combination of the recent Treasury Department report issuing new proposed rules on cash-balance pension plans and media reports about pension funding levels has generated a variety of questions from our employees,” said Laurette Koellner, Chief People and Administration Officer and member of the Office of the Chairman. “We have heard these concerns and have prepared this overview to reassure everyone that:

• our pension is strong, secure and insured,
• its funding level is well managed and kept above regulation-required levels, and
• our ‘modified’ cash-balance Pension Value Plan (PVP)—in place since 1999—for nonunion employees has built-in safeguards to protect our older and long-service people.

Our pension is part of the Company’s commitment to ‘total retirement income’ benefits, which include Boeing’s savings plans. These benefits are designed to work with individuals’ personal savings and Social Security to help meet their personal and family financial goals in retirement.”

Cash-Balance Pensions

Q: What is a cash-balance pension?
A: In general, a cash-balance pension provides a fixed monthly retirement benefit that is determined by the ending value of an employee’s account balance. The balance builds up over the employee’s career through annual credits, which are based on salary and interest credits.

Many companies have created or converted to cash-balance plans because they believe that cash-balance plans are better suited to today’s mobile workforce. Under cash-balance plans, the benefits accrue more evenly over a career. Traditional pension plans grow slowly at first and then accelerate the closer an employee gets to retirement age.

Q: Does Boeing have or plan to set up a cash-balance plan?
A: Boeing has had a “modified” cash-balance plan (the Pension Value Plan or PVP) since January 1, 1999. At Boeing, most nonunion employees have the PVP, while union employees generally have traditional pension plans.

Before the PVP was implemented, nonunion employees earned benefits under more than 20 different plans that were sponsored by the premerger companies. It’s important to note that the reason for changing to the PVP design was not to reduce Boeing’s pension-related costs but rather to provide a plan that integrated the benefits from the many past plans. In fact, the PVP increased the Company’s pension liability significantly (please see the 1998 Annual Report for more details http://www.boeing.com/companyoffices/financial/finreports/annual/boeing98.pdf).

Q: How is Boeing’s cash-balance plan different?
A: Boeing’s PVP includes safeguards. The Pension Value Plan was structured to retain benefits employees earned under prior plans (by moving them into the PVP). This means that when long-service employees retire, they will receive their prior benefit along with a benefit they started
earning under the PVP on January 1, 1999 (or on such later date as the employee group was moved into the PVP).

Q: Critics have raised concerns about cash-balance plans. What is Boeing’s position on this?
A: Boeing’s PVP includes important safeguard features that are different from most other cash-balance pension plans:

- Many companies simply “freeze” the prior accrued benefits when they convert their old plan to a cash-balance plan. Boeing did more than was legally required, as the legal requirement is to merely preserve accrued benefits the plan conversion. Boeing protected the prior plans’ accrued benefits, while also providing for the future growth of those benefits in proportion to employees’ future salary growth.
- Many other employers’ plans experienced a “wear-away” period following the conversion, which is a transition period before employees could accrue any new benefits under the cash-balance plan. Under the PVP, Boeing employees began earning new benefits immediately upon their move into the PVP.
- Some media reports state that employer cash-balance plans hurt older, long-service employees. In addition to the features described above that protect older, long-service employees, the PVP increases the percentage of pay that is credited to the employee under the plan as the employee gets older. Thus it does not hurt our older, long-service employees.

Q: As a long-service employee, what does this mean for me?
A: Based on its analysis, the Company believes that, for most employees who had long service when the PVP took effect, there is little difference in projected retirement benefits. Overall, the PVP provides a level of benefits that is similar to, and in some cases better than, the benefits provided by the premerger pension plans.

Security of the Pension Fund

Q: Some news reports show employees of bankrupt companies losing their pensions. Could we ever lose our pension?
A: Boeing’s pension is fundamentally protected in two ways: 1) separation of pension funds from Company operating funds and 2) insurance by the government. The pension plan assets are kept in a trust that is separate from other Company assets. If the Company ever were to go bankrupt, the Pension Trust would be used to pay pension benefits. In the worst-case scenario--if there are insufficient funds in the trust to pay all benefits--the Pension Benefit Guaranty Corporation (PBGC), a U.S. government agency, will insure benefits up to certain limits.

Pension Funding Levels

Q: Recent news reports show Boeing’s pension is “underfunded,” is that true?
A: The terms “fully funded” and “underfunded” can vary depending on the different regulatory agencies and their rules. The most basic definition for having a “fully funded” pension is that the pension assets are greater than projected long-term obligations (please see the Dec/Jan issue of Frontiers [http://www.boeing.com/news/frontiers/i_fof.html](http://www.boeing.com/news/frontiers/i_fof.html)).

It is true that some specific pension plans within Boeing’s Pension Trust could require Company contributions over the next several years. According to Boeing’s Fourth Quarter and Full Year 2002 Financial Results released on January 30, 2003, the Company “had no significant required pension
funding in 2002 and does not expect significant requirements for 2003. However, it did contribute
$340 million of cash funding in 2002 and expects to make additional discretionary funding
contributions in 2003. Requirements in 2004 will depend upon market performance and other
factors, but currently are expected to be approximately $1 billion.”

Boeing will add money to the funds to ensure the Pension Trust is maintained at or above required
levels to meet the needs of our current and future retirees and their families. The timing of these
funding additions is simply occurring sooner than we had previously anticipated.

More Information

Q: Does Boeing have a modeling tool or other resources I can use to see what my pension
benefits will be in the future?
A: Yes. Additional information about specific Pension Value Plan or The Boeing Company
Employee Retirement Plan retirement benefits, including projected benefit levels, can be obtained
by phone through the Boeing Pension Service Center at 1-800-356-7240 (hearing impaired 1-800-
356-7287; from non-US locations 1-206-655-2121).

A new online modeling tool is available on the pension web site (https://boeing.benefitcenter.com/)
for most employees who have only one Boeing pension plan and have been with Boeing for at
least one year. The tool is not ready for use by employees who have multiple Boeing pension plans
as a result of past movement between heritage companies or between union and nonunion
positions.

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