
Continental Airlines Q&A



Cleary Gull - An Independent Perspective

Services

Pre-Retirement Planning

Full Investment Management Services

Estate Planning

Family Survivorship Guidance

CURRENT ISSUES OF INTEREST

Pension Protection Act - 2006 (HR 4)

Beginning January 1, 2008, there will be a five year phase-in of Corporate Bond rates as a replacement for the 30-year Treasury note as the interest rate used to figure lump sum payments. The Corporate Bond rates are published monthly by the IRS. This will tend to reduce A-Plan lump sum payouts.

The 2008 **Defined Benefit Plan Lump Sum Determination** will be based on an 80% 30-year Treasury / 20% Corporate Bond rate and a new mortality table also effective January 1, 2008.

If you would like to see a copy of the pension Bill, click [here](#).

QUESTIONS & ANSWERS

1.) What services does Cleary Gull provide?

Pre-Retirement (free)

- 36-Month Timeline Assistance
- Help with Retiree Benefits
- Final Bidding Techniques
- Wealthcare Retirement Plan - Providing a "Success Odds Analysis"
- Estate Planning Guidance

Client Retirement

- Investment Management Services
- Survivor Guidance and Assistance
- Financial Planning Guidance
- Estate Planning Guidance

2.) How is the Defined Benefit Plan Lump Sum going to be determined in 2008?

Beginning on January 1, 2008 a new Lump Sum formula in conjunction with new Mortality Tables will go into effect. Lump Sums are the present value of a stream of lifetime annuity payments from retirement based on an actuarial life expectancy. The Pension Protection Act – 2006 (PPA) mandated a new formula to calculate present values. In addition, Mortality Tables must be updated at least once every 10 years or less.

Under PPA, the annuities are based on three segments (Three Segment Rates):

1. first 5 years of annuity payments;
2. 6-20 years of annuity payments; and
3. expected payments over 20 years.

The PPA also mandates the new Three Segment Rates be phased in between 2008-2012 along with a phase out of the 30-year Treasury Bond rate. Effective 1/1/08, present values will be based on 80% of the 30-year Treasury Bond and 20% of the Three Segment Rates. For each succeeding year, the 30-year Treasury will be reduced by 20% along with an increase of 20% in the Three Segment Rates.

Impact: The initial change in formula and Mortality Tables will result in a reduction of the Lump Sum value by approximately 0.9% for age 60 retirements and approximately 1.9% for age 50 retirements as compared to the pre-PPA formula.

Future Lump Sum factors can be expected to change relative to market fluctuations. For additional information please see IRS Notice 2007-91:

http://www.irs.gov/irb/2007-48_IRB/ar08.html

<http://www.irs.gov/pub/irs-irbs/irb07-48.pdf> (Notice 2007-91 starting page1069)

3.) What is the GATT rate and how does it affect my retirement benefits?

The GATT rate is the average monthly yield of the 30 year U.S. Treasury Bond maturing in February 2031. The GATT rate is one of the components used to calculate your Lump Sum and has a direct impact on the value. An inverse relationship exists between the GATT rate and your Lump Sum, so as the rate rises, your Lump Sum value decreases and vice versa. Cleary Gull can help you better understand your CARP Lump Sum and how different components of its complex calculation affect your retirement benefit.

4.) How can I get an estimate of my Lump Sum benefit?

You can visit <http://resources.hewitt.com/continental> and log on using your Social Security number and your password. Once logged on you may go to the Pension area and project your benefit using a variety of assumptions, such as, your last day of employment, date you begin receiving benefits, your beneficiary's birth date and the GATT rate. The projection will be broken down between the various annuity options available and the Lump Sum distribution, which is the most popular form of payment.

Yes, we can help you determine the amount of benefits you would receive if you retire early and compare it to what you would receive if you continue to your normal retirement date. Cleary Gull has developed the *C. P. A. Customized Projection Analysis* program to project your desired after-tax retirement income and sources of funding, including other pensions, Social Security and investment income. You can receive your *C. P. A. Customized Projection Analysis* by printing out a **ClearWealth® Confidential Questionnaire** and mailing it to **Cleary Gull**. For faster service, fax the completed questionnaire to us toll-free at 877-FLY-CGULL (877-359-2485).

5.) Is there a way to avoid the 10% penalty if I take withdrawals from my IRA account before I am 59 ½ years old?

A 10% penalty tax applies on retirement plan distributions that are includable in gross income (not rollovers) and are made before age 59 ½. Under IRS 72(t), an exception to the penalty tax is for distributions that are part of a series of "substantially equal periodic payments" calculated for the life of the taxpayer or the joint life (lives) of the taxpayer and his or her spouse. Once the distribution begins, it must be continued to age 59 ½ or for a minimum of five years, which ever comes last.

Cleary Gull can help you determine the optimal way to structure your "substantially equal payments" to provide you with the income you require.

If you are thinking about making early withdrawals, we suggest that you consult with Cleary Gull to have a **Wealthcare Analysis** run for you. The Wealthcare report employs a **Monte Carlo** analysis to model uncertainty and provides you with a confidence level that your retirement plan will deliver the lifestyle you seek without undue risk or sacrifice. If you are within five years of retirement and would like to learn more about Wealthcare and how it can be useful to you in your retirement planning, please contact us at 877-747-1133 or contact our **Cleary Gull Retirement Consultant Team**.

6.) Can Cleary Gull assist me in determining my accrued Lump Sum benefit and options for early retirement? Can you help me estimate whether I have enough assets to retire early and live comfortably?

If you are within five years of retirement, Cleary Gull can help you determine the amount of benefits you would receive if you retire early and compare it to what you would receive if you continue to your normal retirement date. We can also help you determine whether to lock-in the value of your B-Plan. Cleary Gull utilizes the **Wealthcare program** to project your desired after-tax retirement income and sources of funding, including other pensions, Social Security and investment income. You can receive your **Wealthcare Analysis** by printing out a **ClearWealth® Confidential Questionnaire** and mailing it to **Cleary Gull**. For faster service, fax the completed questionnaire to us toll-free at 877-FLY-CGULL (877-359-2485).

If you are considering early retirement, contact Cleary Gull for professional assistance. We can provide you with the information to assist in an intelligent decision.

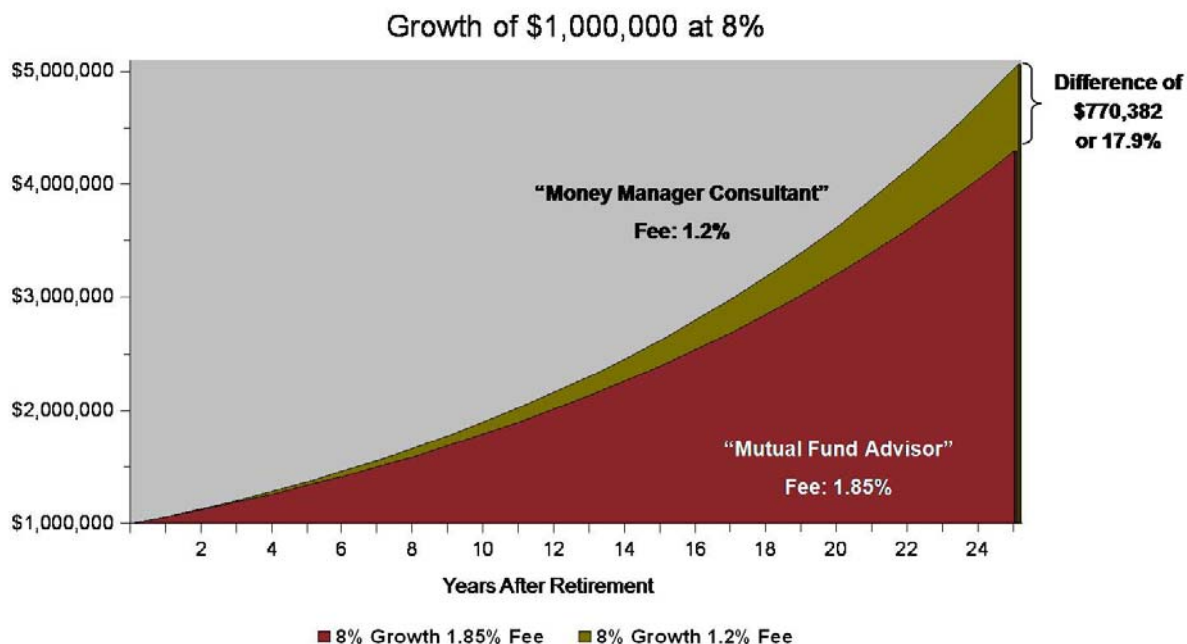
7.) I have heard a few pilots talk about splitting retirement money between two firms. Is there any downside to splitting your investments?

While some people feel more comfortable splitting their money, we feel there is some downside to be considered.

- Consider, for a moment, the implications of using multiple tax advisors, insurance agents, estate planners, or having three separate physicians each treat a third of your ailment. In each of this situations, those advisors must have all of the information at hand in order to properly respond to your needs. The same principal applies to using multiple investment advisors. Without the opportunity to see your entire financial picture, it is difficult to make the best recommendation for your overall planning.

It is sometimes more expensive to diversify two separate portfolios.

- At Cleary Gull, we provide the diversification that you seek using multiple investment advisors (account splitting) but it eliminates the inefficiencies. In addition, part of your retirement portfolio at Cleary Gull will be invested in individual bonds for most account sizes, and this is generally more cost efficient and flexible.
- Fee structures can vary considerably. Mutual fund costs are not always transparent and, in many cases, **are in addition to** the management fee quoted by an advisor.
- Cleary Gull fully discloses **all** fees and costs associated with your portfolio.



8.) Some of my friends have told me about investing my retirement assets in an annuity. Does this make sense and what should I know before doing so?

Annuities are packaged and sold by insurance companies and come in as many flavors as ice cream – immediate, deferred, variable, equity indexed, principal protected and more. The attractiveness of the annuity is that it shifts some of the financial risk from the individual to the insurance company. Unfortunately, that shift of risk comes with a substantial price tag and loss of flexibility. Also, don't forget that insurance companies can also fail.

A major benefit of an annuity is tax-deferred growth. Because the annuity is an insurance contract, the insurance company charges a mortality and expense charge which can exceed 1% per year of the annuity value. This M&E charge is in addition to the investment management fees, other rider costs and any "market value" adjustments commonly found in variable annuities. Since an IRA already enjoys tax-deferred growth, many advisors are not in favor of buying an annuity inside an IRA.

The types of annuities that are "hot" vary with current market conditions. For example, when the market is good, variable annuities are popular; when the market is down/stagnant, fixed products are heavily marketed. Equity Indexed annuities (EIAs) are a hybrid annuity that promise participation in the upside of a market with downside protection. Unfortunately EIAs offer limited upside participation and the downside protection is no better than breaking even. They also come with significant costs.

Insurance companies are generally very good at making profits. They are experts in evaluating mortality and economic trends and price their products accordingly. Since the vast majority of annuities are sold rather than bought, it is clear that the consumer faces a difficult hurdle in deciphering the cost/benefit issues in these products.

While annuities can be a useful component of a total financial plan, they are not generally recommended until all the other cost efficient methods are exhausted. And remember, Social Security, a military pension or other qualified pension elections you have are also annuities, which may be more than enough guaranteed cash flow.

Here are some links that you will find useful in gaining some perspective of the annuity product before committing to a purchase. In addition, we would be happy to discuss this material in more detail if you call us at 877-747-1133 or contact our [Cleary Gull Retirement Consultant Team](#).

<http://www.finra.org/InvestorInformation/InvestorAlerts/AnnuitiesandInsurance/VariableAnnuitiesBeyondtheHardSell/index.htm>

<http://www.finra.org/InvestorInformation/InvestorAlerts/AnnuitiesandInsurance/Equity-IndexedAnnuities-AComplexChoice/index.htm>

<http://www.finra.org/InvestorInformation/InvestorAlerts/FraudsandScams/FreeLunchInvestmentSeminars-AvoidingtheHeartburnofaHardSell/index.htm>

<http://www.fool.com/retirement/annuities/annuities02.htm>

<http://moneycentral.msn.com/content/Retirementandwills/InvestYourSavings/P73742.asp>

ADDITIONAL WEBSITE LINKS

In addition you may be interested in the following website links:

Social Security Administration - www.ssa.gov

Federal Aviation Administration - www.faa.gov

Veterans Administration - www.va.gov

Aviation Weather site with many links - www.dispatcher.org/brief/adfbrief.html

Pension Benefit Guarantee Corporation - www.pbgc.gov

ADDITIONAL QUESTIONS?

If you have additional questions, please e-mail us at pilotinfo@clearygull.com. We will respond to your questions as soon as possible.

Disclaimer:

Cleary Gull will endeavor to update information on this website as it becomes available but makes no representation as to its accuracy or completeness. This information, including links to other websites, is thought to be reliable but we can not guarantee its accuracy. Many of the answers to questions about retirement benefits may be changed by bankruptcy and upcoming negotiations. Cleary Gull has no knowledge that your A-Plan will be involved in a termination involving the turnover of the plan to the PBGC.