USAF SERVICES

Combat Support & Community Service

401(k) SAVINGS PLAN

For Employees of The United States Air Force

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1. INTRODUCTION

A. What is a 401(k) Savings Plan? Section 401(k) of the Internal Revenue Code permits employers to establish retirement savings plans for their employees. Known as 401(k) plans, they allow employees to contribute a portion of their salaries to the plan. Employers may also contribute matching funds. Employee and employer contributions, plus earnings from those contributions, are not subject to federal income tax until withdrawn from the plan. Employees may withdraw their contributions and earnings only upon termination of employment, retirement, death, disability, or under certain financial hardship conditions.

B. Name Of The Plan. This 401(k) plan, sponsored by the United States Air Force, is officially called the United States Air Force Nonappropriated Fund Employees' 401(k) Savings Plan (Plan). It is known as a defined contribution plan because your benefits under the Plan depend upon how much you contribute.

C. Basic Features Of The Plan. Saving money is not easy, but the Plan makes saving as easy as possible. It has three basic features that enable you to build a sizable supplement to your other sources for retirement income.

1. Pre-Tax Contributions. First, through convenient payroll deduction, you can contribute a percentage of each paycheck depending on any other deductions in place. The limit on contributions is the IRS dollar limit set each year. This contribution is a "pre-tax" contribution. That is, the amount you contribute is not subject to Federal income tax, nor is it subject to state income tax unless you live in Pennsylvania. (Some local governments tax contributions.)

2. Employer Matching Contributions. Second, if you contribute to the Plan, your employer will make matching contributions to the Plan on your behalf. The size of the employer matching contribution depends on the size of your contribution. (See Section 4.)

3. Tax-Deferred Investment Income. Third, the money in your account will be invested according to your instructions, and the income from those investments will be "tax-deferred." That is, the IRS will not tax that investment income until, at your request, the Plan distributes it to you. Ideally, you will not request a distribution until later in life when your income and your tax rate are lower than they are today. This long-term compounding of tax-deferred investment income allows your Plan account to grow much faster than most savings accounts that are subject to current taxation.

D. Plan Document. The specific terms of the Plan are set forth in a document known as the Plan Document which is on file with the Plan Administrator.

E. Summary Plan Description. This booklet, known as a summary plan description (SPD), is a summary of the Plan Document. It summarizes your rights, obligations, and benefits under the Plan. Please read it carefully.

F. Conflicts Between This Summary Plan Description and the Plan Document. This SPD is not meant to interpret, extend, or change any provision of the Plan Document. The provisions of the Plan can only be accurately determined by reading the Plan Document. If a provision of this SPD conflicts with a provision of the Plan Document, the Plan Document, as interpreted by the Plan Administrator, will prevail.

G. Plan Administrator. The Plan Administrator is the Chief, Retirement Branch, Air Force Services Agency.

H. Trust and Trustee. Your contributions to the Plan are deposited in a trust fund, the Employees' Savings Plan Trust. It is the NAFI that holds, invests, and distributes funds in accordance with the Plan's provisions. The trustee of the trust fund is the Commander, Air Force Services Agency.

I. Employer. The term "employer" means any Air Force Nonappropriated Fund Instrumentality (NAFI) that employs Nonappropriated Fund (NAF) employees.

J. Plan Year. The plan year is the calendar year.

K. Collective Bargaining Agreements. If you are a member of a bargaining unit represented by a union, check with your servicing Human Resources Office (HRO) to determine whether the union and management at your installation have entered into any agreement which affects your entitlements under the Plan.

L. Questions. If you have questions about the Plan, contact your servicing HRO.

2. ELIGIBILITY

A. General Eligibility Requirements. If you were a regular Air Force NAF employee on the effective date of the Plan (6 Nov 94), and are a US citizen, a US national, or a permanent resident alien of the US, you are eligible to participate as long as you remain a regular employee. If you were not a regular Air Force NAF employee on the effective date, you will be eligible to participate at any time after you have 30 days of service as a regular employee (if you are a US citizen, a US national, or a permanent resident alien of the US). Off-duty military members are not eligible for participation. If you become a regular Air Force NAF employee within 1 year of being employed by another Federal employer, whether NAF or Civil Service, you will be immediately eligible to participate in the Plan provided you have at least 30 days of service with your former employer. In the case of former Civil Service employees, you will be eligible for the NAF 401(k) Plan only if you do not retain your membership in the Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS).

B. The Effect of Portability.

1. NAF to Civil Service. If you are a NAF employee who transfers to a Civil Service position, and retain your membership in the NAF Employee Retirement Plan, you are eligible to participate in the Plan.

2. Civil Service to NAF. If you are a Civil Service employee who transfers to a NAF position, and if you retain your membership in CSRS or FERS, you are not eligible to participate in the Plan. However, if you do not retain such membership, you would be immediately eligible to participate provided you had at least 30 days of service as a Civil Service employee. Otherwise, your Civil Service employment will count toward the 30 days eligibility requirement.

3. ENROLLMENT

A. Enrollment. To enroll in the Plan, obtain an enrollment form from your HRO, complete the form, and return it to your HRO.

B. Decisions You Must Make At The Time Of Enrollment. When you fill out the enrollment form, you will be asked to make three important decisions.

1. Designation Of Percentage Of Employee Contributions. You will be asked to specify the percentage of your salary that you want to go to your Plan account. You will be permitted to change this percentage at any time.

2. Designation Of Your Beneficiary. You will be asked to designate a beneficiary who will receive your benefits from the Plan if you die. If you are married at the time of enrollment or become married while you are enrolled in the Plan, the law requires that you name your spouse as your sole primary beneficiary unless your spouse consents in a written, notarized statement to your selection of a different beneficiary.

3. Designation of Your Investment Election. You will be asked to indicate how you wish to have your contributions and employer matching moneys invested. If you do not complete the investment election or complete it improperly, your money will be invested in the Money Market Fund (the most conservative of the investment funds) until you make an investment election.

4. CONTRIBUTIONS

A. General. Your Plan account consists of three categories of contributions (employee contributions, employer matching contributions, and rollover contributions, if any) and any net earnings those contributions may generate.

B. Employee Contributions. You may contribute a percentage of your biweekly pay depending on your other deductions. Your only limit is the dollar limit set by the IRS each calendar year. Contributions are made by means of regular payroll deductions.

1. Choosing A Contribution Percentage. You may choose a contribution percentage by submitting a form to your HRO.

2. Changing The Contribution Percentage. You may increase or decrease your contribution at any time by submitting a form to your HRO. If you stop contributing to the Plan, the amount you have already contributed will remain in your account.

3. Annual Dollar Limit. The law limits the dollar amount you may contribute to your Plan account each year. This dollar limit may change annually to reflect changes in the cost of living.

4. Income Tax Consequences. After you choose a contribution percentage, your employer will deduct that percentage from each of your paychecks and deposit it directly in your Plan account. These contributions are not subject to federal income tax, nor are they subject to state income tax unless you live in Pennsylvania. (Some local governments tax contributions.) This reduces your current taxable income. In other words, you pay less federal and state income tax. For example, if your annual gross pay is $20,000, and if you elect to contribute 3 percent of your gross pay to the Plan, you will pay income tax on only $19,400, rather than $20,000, as shown below:

Annual gross pay	$20,000
Plan contribution	600
Taxable pay	$19,400

You pay no federal or state income tax on these contributions ($600) until you receive a distribution from the Plan.

5. Social Security Tax Consequences. Although your 401(k) contributions are not subject to federal or state income tax, they are subject to Social Security and Medicare taxes. This allows you to get credit for your full salary towards your Social Security benefits.

C. **Employer Matching Contributions.** If you contribute to the Plan, your employer will make a matching contribution to your Plan account. The amount of the employer matching contribution depends upon the amount of your contribution, according to the following schedule.

Employee Contribution	Employer Matching Contribution
1.0%	1.0%
2.0%	2.0%
3.0%	2.5%
4.0% or more	3.0%

If, as in the example shown in Section 4.B.5, your gross pay is $20,000 and you contribute 3 percent ($600) to your Plan account, your employer will contribute 2.5 percent ($500) to your Plan account. Thus, in this example, your account actually grows by $1,100, tax-deferred.

D. Rollover Contributions. If you have participated in another "qualified" (401(k), IRA, 403(b), 457, etc.) retirement plan, you may be entitled to "roll over" all or a portion of any lump-sum distribution from that plan into your Plan account.

E. Catch-Up Contributions. An eligible participant may make catch-up contributions in addition to the basic employee contributions. An eligible participant is a participant who is contributing the maximum allowed by the Plan, and who will be 50 years of age by 31 December each year. An eligible participant may elect to enroll at any time, and may also elect to change the amount of the contribution or cancel the catch-up contribution at any time.

1. Catch-Up contribution Limits. The IRS has set a dollar limit on the amount of catch-up contribution allowed each year through 2006 according to the following schedule:

2002	$1,000
2003	$2,000
2004	$3,000
2005	$4,000
2006	$5,000

2. Basic Employee Contribution. The IRS has set a dollar limit on the basic contribution allowed each year through 2006 according to the following schedule:

2002	$11,000
2003	$12,000
2004	$13,000
2005	$14,000
2006	$15,000

5. THE EFFECT OF TAX-DEFERRAL

If you participate in the Plan, not only will you pay less income tax on your salary, but your account will normally grow faster than a traditional savings account. It grows faster because the income from your Plan account is "tax-deferred." That is, the Internal Revenue Service (IRS) will not tax the earnings of your account until, at your request, the Plan distributes them to you. Ideally, you will not request a distribution until later in life when your income and your tax rate are lower than they are today. This long-term compounding of tax-deferred investment earnings allows your account to grow faster than most traditional savings accounts, the earnings of which are subject to taxation in the year that they are earned. The long-term compounding of tax-deferred earnings has a dramatic effect on the growth of your account.

6. YOUR INVESTMENT OPTIONS

A. **General.** The money you contribute to the Plan, plus your employer's matching contributions, is invested according to your instructions

B. Investment Funds. The Trustee designates a reasonable number of investment funds in which you may invest. You may invest in any or all such investment funds. These investment funds differ with respect to the rate of return they offer and the degree of risk they pose.

The funds are described in further detail in prospectuses which you may order directly from the fund manager. The telephone number is available from your HRO and is also printed on your quarterly statement.

C. Selection Of Investment Funds. When you enroll in the Plan, you will be given the opportunity to select one or more of the investment funds. If you select more than one investment fund, you will also be asked to specify the percentage of your contributions which you wish to be deposited in each of the funds you select. Your contribution percentages must be in whole numbers, and the total that you choose to invest in the funds offered must add up to 100 percent. This initial choice applies to new employee contributions, and new employer matching contributions.

D. Changing The Investment Percentages Applicable To New Contributions. You may change the investment percentages on new contributions as often as you like. Your investment allocations must be in whole percentages. You may change those allocations to any mix of investment funds you wish, as long as the percentages total 100. If you want to change your investment percentages, simply call the record-keeper's voice response system or log on to their web site. When you make the call, you will need your plan number (767) and your Personal Identification Number (PIN). If you wish, you can speak to a representative by pressing "0" at any time during the call. If you lose your PIN, contact the Scudder Service Center at 1-800-595-

1989, or you can replace it on the web site at http://university.scudder.com. Remember, if you change the investment percentages, the new investment percentages apply only to new employee contributions, and new employer matching contributions. The change does not apply to money that is already invested in a particular investment fund. The following paragraph explains your right to move money from one investment fund to another.

E. Transferring Money From One Investment Fund To Another. You may transfer money from one investment fund to another as often as you like by using the record-keeper's voice response system or their web site. Remember, a transfer from one investment fund to another does not affect the investment percentages, which apply to new contributions. For example, if you initially designate 100 percent of new contributions to the money market fund and you accumulate $5,000 in the money market fund, and if you later transfer that $5,000 to another fund, all of your future contributions continue to go to the money market fund until you change the investment percentage as explained in the preceding paragraph.

F. Responsibility For Ensuring That Investment Options Are Correct. It is your responsibility to ensure that your investment options are correct. You can check your account as often as you wish by using the record-keeper's voice response system or their web site. You should always check it after you have made a change to ensure the change was made correctly. A written confirmation will be sent through the mail.

7. VESTING

A. General. The concept of "vesting" refers to ownership of your account balance.

B. Employee Contributions And Rollover Contributions. You have a fully vested interest in your employee contributions and your rollover contributions. That is, you own these contributions from the moment you deposit them in your Plan account; you cannot be forced to forfeit them. You also have a vested interest in the earnings of those contributions.

C. Employer Matching Contributions. You will have a fully vested interest in your employer matching contributions when you either:

1. Complete 3 years of service as a regular Air Force NAF employee (Employees who join the Plan and who already have 3 years of service as a regular Air Force NAF employee as of that date will be immediately vested. If you join the plan with less than 3 years of service as a regular employee, you will become vested when your service totals 3 years, regardless of how long you have been a participant in the plan);

2. Die while actively employed

3. Become disabled while actively employed; or

4. Attain age 65.

If you transfer to regular Air Force NAF employment from another Federal employer, you will receive credit toward vesting for service with the prior employer if you became a regular Air Force NAF employee within 1 year of being employed by another Federal employer, whether NAF or Civil Service.

D. Forfeiture Of Employer Matching Contributions. If you separate from employment, and are not vested at the time of separation, you forfeit any employer matching contributions made to your account. If, however, you are re-employed in a regular Air Force NAF position within 5 years after your separation, such employer matching contributions will be restored to your account if you restore any distributions returned to you at the time of your separation.

8. DISTRIBUTION OF YOUR ACCOUNT

A. General. The Plan is not like a regular savings account. The IRS requires the Plan to impose severe restrictions on your right to withdraw money from your Plan account. You cannot withdraw your money anytime you want it. Rather, you are entitled to receive distributions from your account only in the situations described below.

B. Distributions While You Are Employed As An Air Force NAF Employee. The primary purpose of the Plan is to provide you with a long-term savings program for retirement. Therefore, while you are still employed as an Air Force NAF employee, you may receive a distribution from your account only in the following situations:

1. Financial Hardship. If you experience a "financial hardship," you may withdraw from your account the funds necessary to satisfy the financial need.

a. Definition Of Financial Hardship. A financial hardship arises from an immediate and heavy financial need.

(1) To pay the expenses of medical care for you, your spouse, or certain members of your family;

(2) To pay the costs directly related to the purchase of your principal residence (excluding mortgage payments)

(3) To pay tuition and related expenses for the next 12 months of post-secondary education for you, your spouse, or certain members of your family; or

(4) To prevent eviction from or foreclosure upon your principal residence.

b. Additional Restrictions. The following additional restrictions apply to in-service hardship withdrawals.

(1) Your withdrawal cannot exceed the amount required to satisfy the specified need.

(2) You must have obtained all distributions, other than hardship distributions, and all loans currently available in order to qualify.

(3) You may not contribute to the Plan for at least 6 months after you receive your distribution, but you may again make contributions after the 6-month period is over.

(4) Hardship withdrawals can be made only from your employee contributions, not from any earnings on your contributions or from your employer matching contributions. [You may withdraw all or any part of your rollover contributions for any reason.]

(5) Generally, any amount you withdraw before age 59 1/2 is subject to 20 percent federal income tax withholding, and a 10 percent penalty.

(6) You may make no more than four hardship withdrawals in any 12-month period.

c. Application For Hardship Withdrawal. If you wish to apply for a hardship withdrawal, submit an application to your HRO who will forward it to the Plan Administrator. In addition, you must provide copies of documentation to support your claim of a financial hardship, such as medical or education invoices, a foreclosure or eviction notice, or a statement of costs for the new home.

2. Age 59 1/2. The Plan allows you to make withdrawals from your Plan account for any reason after you are age 59 1/2. Distributions after age 59 1/2 are not subject to a 10 percent tax penalty, but they are subject to 20 percent tax withholding.

C. Distributions After You Cease To Be An Air Force NAF Employee. If you cease to be an Air Force NAF employee due to retirement or separation, you are entitled to receive the vested portion of your Plan account in cash, in a single lump-sum payment, or you may wish to roll over your account balance to an Individual Retirement Account (IRA) or a qualified retirement plan. In addition, you may defer your distribution subject to the limitations explained below.

D. Change in Classification from Regular to Flexible Employment. Please note that if you cease to be a regular Air Force NAF employee due to a change in classification from regular to flexible employment, you will not be eligible for a distribution. This is because you are not separated from employment.

E. Age 70 1/2. Federal law requires that the Plan distribute the vested portion of your Plan account no later than April 1 of the calendar year following the calendar year during which you attain 70 1/2 years of age if you are no longer employed as a regular Air Force NAF employee. If you are affected by this requirement, you will be notified.

F. Disability. If you become disabled (generally speaking, unable to engage in any substantial gainful activity due to a physical or mental impairment), you are entitled to receive the accrued portion of your Plan account.

G. Death. If you die while actively employed by an Air Force NAFI, your designated beneficiary is entitled to receive all of your Plan account. If you die after your employment with an Air Force NAFI has terminated, but before you receive any distribution to which you may be entitled, your designated beneficiary is entitled to receive the accrued portion of your Plan account.

H. Termination Of The Plan. If the Plan is terminated and is not replaced by another comparable plan, you are entitled to receive the vested portion of your Plan account. (The Air Force has no intention of terminating the Plan and intends to operate the Plan indefinitely.)

I. Involuntary Distributions. If your employment terminates and your vested accrued benefit is a small amount as defined in the IRS regulations, it may be distributed without your consent.

J. Tax Advice. The rules governing distributions from a 401(k) account are complicated and subject to change. You should consult your tax advisor before receiving a distribution from your Plan account.

9. LOANS FROM YOUR ACCOUNT

Loans are allowed from the Plan. Terms of the loan will be governed by IRS regulations and the Plan's Loan Policy, as specified by the Plan Administrator.

A. How To Request A Loan. You may apply for a loan from your 401(k) account by using the record-keeper's voice response system or their web site. The loan documents will be mailed to you and must be returned to the 401(k) Loan Administrator, Retirement Branch, Air Force Services Agency.

B. Requirements For Loan Approval. You must be in an active pay status to receive a loan. If you have changed from "regular" to "flexible," you may request a loan.

C. Number of Loans. You are allowed 2 outstanding loans at one time

D. Maximum Amount of Loan. The amount borrowed cannot exceed the lesser of 50 percent of your vested accrued benefit or $50,000.

E. Minimum Amount of Loan. The minimum loan amount is $500.

F. Taxation of Loans. There is no tax or penalty on loans as long as they are repaid. If you terminate employment without repaying the total loan, the balance of the loan will become a "deemed distribution" subject to tax and/or tax penalties. There are special rules regarding failure to make loan payments during leave without pay (LWOP). Ask your HRO for details.

G. Interest on Loans. If you take out a loan from your Plan's 401(k) account, you will pay interest on the loan according to the terms of the loan policy. The interest will be paid into your 401(k) account.

H. Loan Fee. There is a one-time set up fee of $75.00 per loan.

I. Qualified Military Service. A borrower who cannot make 401(k) loan payments due to "Qualified Military Service" may apply for an extended period of time in which to repay the loan when returning to an active employment status.

10. STATEMENT OF YOUR ACCOUNT

After the end of each calendar quarter you will receive a statement of your 401(k) Savings Plan account. The statement will show the:

A. Amount you contributed to your employee contributions account;

B. Amount your employer contributed to your employer contributions account;

C. Amount you "rolled over" into your rollover contributions account from another qualified plan;

D. Amount each of these accounts earned;

E. Amount of any hardship withdrawals;

F. Outstanding loan information.

G. Your total account balance and your vested account balance; and

H. The total market value of your account as of the end of the quarter.

11. QUESTION AND ANSWERS

1. **When may I enroll in the Plan?** You may enroll in the Plan at any time after you become eligible. There is no open enrollment period. Once you are eligible to participate in the Plan, you may start or stop, or increase or decrease, your contributions at any time.

2. **Do I have to be a member of the NAF Retirement Plan to join the 401(k) Savings Plan?** No. You may participate in either or both, but we encourage all NAF employees to participate in both the NAF Retirement Plan and the 401(k) Savings Plan.

3. **Can flexible employees enroll in the 401(k) Plan?** No.

4. **Instead of contributing to the 401(k) Plan through payroll deductions, can I simply transfer some of my personal savings to my Plan account?** No. 401(k) contributions must come from your current earnings through payroll deductions.

5. **How do I withdraw money from my Plan account?** If you want to withdraw money from your 401(k) Plan account, go to your servicing HRO and ask for assistance. You may withdraw from your account only if you satisfy one of the distribution rules summarized in Section 8, or qualify for a loan.

6. **How do I repay a 401(k) loan?** The loan is repaid through payroll deduction on an after-tax basis.

7. **Can I pay the 401(k) loan off in full?** You can pay the loan off early with no penalty. Contact your HRO for details.

8. **Who do I go to if I have questions about the Plan?** If you have questions about the Plan, contact your servicing HRO. If the HRO cannot answer your questions, it will refer them to the Plan Administrator.