This document contains common questions about the Pension Protection Act and restrictions on pension lump sum payments. A summary of the questions is outlined below and the full questions and answers can be accessed by clicking on one of the links below.

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- **Q-22:** I do not plan to retire for several years. What assurance do I have that the lump sum restrictions will not be in place when I am ready to retire?
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General Questions about the Pension Protection Act

Q-1: At the end of April, I received an Annual Funding Notice in the mail about the General Dynamics Retirement Plan (Government). Why was this notice sent to me?

A-1: Under a Federal Law known as the Pension Protection Act of 2006, all sponsors of tax qualified pension plans (including General Dynamics), are required to send a notice of funded status to participants each year.

Q-2: What can you tell me about the Pension Protection Act (PPA) and its purpose?

A-2: In August 2006, President George W. Bush signed The Pension Protection Act of 2006 (PPA) into law. In general terms, the PPA requires more rapid funding of pension plan deficits, protects the Pension Benefit Guaranty Corporation (PBGC), and improves transparency for pension plan participants by requiring the plan sponsor to provide an annual notice of the plan’s funding status.

Q-3: How does the PPA affect pension plans, plan sponsors, and participants in general?

A-3: As a result of the PPA, pension plans are required to fund deficits more quickly than in the past, restrict lump sum distributions to participants when the plan is not well funded, and meet participant notification requirements.

Many provisions of the PPA first became effective on January 1, 2008. Unfortunately, this was also the time when the world financial markets began to unravel. During the 2008 / 2009 market upheaval, most pension plans in the U.S. suffered significant investment losses. While many of the losses have reversed as the markets have recovered, most pension plans are still “underfunded”. This means they do not have enough assets in the trust to cover the promised benefit payouts over the next 40-50 years.

Q-4: How does the PPA impact our pension plan, the Company, and me, as a plan participant?

A-4: Like most plan sponsors, the General Dynamics master pension trust suffered investment losses during 2008. Under the PPA, the company now faces significantly higher pension contributions and the potential for benefit restrictions to apply starting April 1, 2011. “Benefit restrictions” include reduced distributions of accelerated payments and potential limitations on increases to plan benefits (including collectively bargained increases).

Q-5: What are “accelerated payments”?

A-5: Accelerated payments include Lump Sum payments and payments under the Level Income Option. For example, if you are eligible to retire in 2011 and wish to elect a lump sum payment, restrictions may be placed on the amount you can receive in the form of a lump sum. However, annuity options that pay level lifetime annuities (e.g. single life annuity, contingent annuity, joint and survivor annuity, and certain and life annuity) are not considered accelerated payments and are not affected by these restrictions.
Questions about Restrictions on Lump Sum Payments

Q-6: What events will trigger restrictions on my ability to elect a lump sum payment at retirement?

A-6: The Pension Protection Act of 2006 (PPA) introduced broad changes to federal pension law, including restrictions on paying lump sum benefits when a pension plan does not meet certain funded status thresholds. These restrictions are required by law in order to maintain a pension plan’s tax-qualified status. The General Dynamics Retirement Plan (Government) is first subject to the benefit restriction provisions of PPA in 2011.

Under the law, if a plan is less than 80% funded (meaning assets of the plan are less than 80% of the expected obligations of the plan), only a portion of the plan benefit may be paid in a lump sum. If a plan is less than 60% funded, no portion of the benefit may be paid in a lump sum.

Q-7: Will I be able to elect a lump sum benefit in 2011?

A-7: The availability of the lump sum as an optional form of payment is not being taken away, but the portion of your elected lump sum actually payable in your year of retirement may need to be restricted.

Q-8: I may retire in 2011 or 2012. If I plan to take my entire pension benefit as an annuity, will I receive a reduced benefit under the new law?

A-8: No. Your annuity benefits are unaffected by the PPA or the Plan’s funded status. Regardless of the funded status of the Plan, you will be able to receive full annuities at your retirement date. There is one exception: Payments under the Level Income Option may need to be reduced, with the balance paid under a different optional form of annuity.

Q-9: The Annual Funding Notice indicates that the General Dynamics Retirement Plan (Government) is 87% funded for 2009. Doesn’t that mean that the plan’s funded status is sufficient to avoid the lump sum restrictions? If the stock market performs well, will the restrictions still apply?

A-9: Under the law, pension plans are allowed to delay immediate and full recognition of changes in interest rates and asset returns and instead gradually recognize them over time. Because such changes tend to fluctuate between gains and losses, this approach generally produces smoother results and avoids short-term volatility. However, these smoothing provisions are fairly short-lived and, coupled with the significant asset underperformance that occurred in 2008, the plan’s funded status is expected to be below 80% for 2011.

Q-10: Do we know for certain if the restrictions will come into play in 2011?

A-10: Based on current projections, it is likely that Plan participants commencing benefits on or after April 1, 2011 will be restricted from receiving a full lump sum at that time. The restriction does not reduce the amount of pension benefit ultimately payable from the Plan, nor does it affect the amount of benefit currently payable under the normal annuity form of payment or other optional annuity forms available under the Plan that pay level lifetime annuities.

If restrictions are put in place in 2011, Plan participants will only be able to receive a portion of the otherwise payable lump sum under the Plan, as determined by applicable law. Lump sum payouts of
$5,000 or less are not affected by this restriction. Note that restrictions will be lifted once the funded status of the Plan improves to a sufficient level (dictated by Federal law).

**Q-11: I read an article regarding pension restrictions that referenced an October 1 “deadline” for lump sums, why is General Dynamics potentially looking at an April 1 deadline in 2011?**

**A-11:** Under PPA, there are two deadlines for certifying a plan’s funded status. The first deadline is on April 1. If a plan does not have a certification in place on that date, the funded status is assumed to be 10% lower than the prior year. In General Dynamics’ case, the 10% reduction in funded status will trigger benefit restrictions and at this point, it does not appear that the actual certification will produce better results. For plans that “pass” the first test on April 1 with an assumed funded status, there is a second deadline on October 1. At that date, the plan must have a certification in place or the funded status is assumed to be less than 60%, restricting all additional benefit earnings in the plan and disallowing all lump sum distributions.

**Q-12: When will we find out if the restriction on lump sum benefits goes into effect for 2011?**

**A-12:** The restriction on lump sum benefits will not be determined until early 2011, once the Plan’s January 1, 2011 funded status is known. General Dynamics will issue additional communications in November 2010 once the plan’s funded status for January 1, 2011 can be more reasonably estimated.

**Q-13: If the restriction on lump sum benefits does go into effect, will it be a permanent change?**

**A-13:** The law does not permit a plan to permanently remove a lump sum benefit that is available with respect to benefits already earned by a participant. The restrictions are only imposed while the Plan’s funded status is below the thresholds noted above. If/when the funded status of the Plan exceeds 80% the restriction on lump sum payments will be removed.

**Q-14: Will the restrictions automatically be lifted once the 80% threshold is reached?**

**A-14:** The 80% test is performed each year based on updated January 1 participant census and asset information. Once the Plan’s actuary is able to certify that the 80% threshold is met, the benefit restrictions are lifted. Typically, this certification is completed around May. For example, if the Plan’s assets cover over 80% of the Plan’s obligations at January 1, 2012, and the actuary certifies this result in May 2012, any pension distributions after that point will be unrestricted.

**Q-15: How is the amount of the lump sum restriction determined?**

**A-15:** The restriction on lump sum payments requires a complicated calculation dictated by IRS regulations. The final lump sum allowed to be paid from the Plan will be based on an individual’s age, service and pay. The basic requirement is that the lump sum benefit paid from the Plan cannot exceed the lesser of the following two amounts:

1. 50% of the total value of the pension currently payable under the Plan (note that this total includes any legacy benefits and Salaried benefits payable on your retirement date using dictated IRS assumptions).

2. The maximum lump sum benefit guaranteed by the Pension Benefit Guarantee Corporation (PBGC) under a plan termination (this amount varies with age – the younger a participant, the smaller the PBGC guaranteed lump sum).
Generally speaking, the portion of the lump sum that can be paid under the restrictions will be as follows:

a. For participants whose legacy lump sum benefit and Salaried annuity benefits are all immediately payable at retirement (generally, age 55 and older), the actual lump sum amount payable will be greater than 50% of the original lump sum.

b. For participants whose legacy lump sum benefit is available but whose Salaried benefits are not available (generally, younger than age 55), the actual lump sum amount payable will be less than or equal to 50% of the original lump sum.

Since this calculation is very individualized, it is highly unlikely that any two employees will see similar results. Based on a sampling of representative long-service employees (25+) years, the proportion of lump sum that will be available to a long-service employee will likely fall in the 40% to 60% range.

**Q-16: What is the PBGC maximum lump sum guarantee?**

A-16: The table below summarizes the PBGC lump sum guarantees for 2010 (the 2011 guarantee amounts are not yet known).

<table>
<thead>
<tr>
<th>Age</th>
<th>PBGC Lump Sum Guarantee Amount (2010)</th>
</tr>
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<tbody>
<tr>
<td>50</td>
<td>$291,707</td>
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<tr>
<td>51</td>
<td>304,701</td>
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<td>52</td>
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<td>59</td>
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<tr>
<td>60</td>
<td>469,549</td>
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</table>

Only a small number of participants (young retirees with long service and very high pay) will be impacted by the PBGC maximum restriction.
Q-17: If I plan to elect a lump sum benefit but can’t take my full lump sum because of benefit restrictions, can I wait until a later date and then take the full lump sum?

A-17: As noted above, the Plan’s funded status will be recalculated each year to determine what restrictions, if any, apply for that year. If Plan assets increase to 80% or more of Plan liabilities, the Plan will be permitted to pay full lump sum distributions. However, if Plan assets fall below 60% of Plan liabilities, no lump sum distributions will be permitted (other than lump sum payouts of less than $5,000).

If the full lump sum is not available when you retire, you will have the following choices: (1) take a portion of the total value of your benefit as a lump sum and the remainder as a level lifetime annuity, (2) take a portion of the total value of your benefit as a lump sum and defer the remainder until a later date (not later than Normal Retirement Date), (3) wait to take your entire benefit at a later date (not later than Normal Retirement Date), or (4) take your entire benefit as a level lifetime annuity. Remember, the restriction does not reduce the amount of your pension benefit, it only prevents you from taking it all in a lump sum.

Also remember that the lump sum amount is affected by the level of interest rates in effect in the year that you take the lump sum. Lower interest rates produce higher lump sums and vice versa.

Q-18: Why do some of the choices in answer 17 say “(not later than Normal Retirement Date)”?
What happens if I am at or near my Normal Retirement Date when I retire?

A-18: The Plan does not allow terminated participants to defer commencement of benefits beyond their Normal Retirement Date (generally age 65; age 62 for NASSCO Legacy benefits).

If you retire on or after your Normal Retirement Date, you must commence all of your benefits on your retirement date. If benefit restrictions are in place on that date, you may receive all of your pension benefits as a level lifetime annuity, or you may elect to receive a portion of your lump sum and the remainder as a level lifetime annuity.

If you retire before your Normal Retirement Date, you may defer commencement of some or all of your lump sum until restrictions are lifted, but you may not defer commencement later than your Normal Retirement Date, even if benefit restrictions are still in place. If benefit restrictions have not been lifted by your Normal Retirement Date, you will need to commence the remainder of your benefits as a level lifetime annuity at that time.

Q-19: If the restrictions are put in place for 2011, what is the last date I can put in for retirement and still receive my full lump sum?

A-19: Assuming restrictions are in place as of April 1, 2011, you will need to terminate employment and have all of your paperwork in order prior to March 1, 2011 (your pension start date). Because you must initiate the retirement process (by contacting the General Dynamics Service Center) at least one month prior to your pension start date, the deadline to begin the process and receive a full lump sum payment is February 1, 2011.
Q-20: If I retire before the restrictions are in place, can I take the full lump sum benefit?

A-20: Yes, if you terminate employment and commence your benefits before the restriction becomes effective, you can take the full lump sum benefit. However, you should keep in mind that retirement is a complex decision and there are many other factors to consider:

- Lost salary
- Potentially more expensive health care coverage during retirement
- You can keep dental/vision coverage for 18 months, but you will need to pay for it
- Reduced life insurance coverage
- Lost pension / 401(k) match

Also keep in mind that General Dynamics is working to eliminate the benefit restrictions through company contributions to the pension trust. The availability of the full lump sum distribution should not be the only factor in your decision to retire.

Q-21: Can I take my full lump sum now and continue working?

A-21: Except for certain employees already over the age of 70-1/2, the Plan does not allow distributions to be made to participants while they remain employed with General Dynamics. Under the law, if such distributions were allowed, it could jeopardize the qualified status of the Plan and create adverse tax consequences for all Plan participants.

Q-22: I do not plan to retire for several years. What assurance do I have that the lump sum restrictions will not be in place when I am ready to retire?

A-22: One of the primary objectives of the Pension Protection Act (PPA) was to require sponsors to fund pension deficits more quickly. In fact, PPA requires plans to fully fund any deficit over no more than a seven (7) year period. In addition, there are triggers in place to require even faster funding for plans that do not meet the 80% funded status test.

While this does not guarantee that the restrictions will be lifted soon, the law is designed to force sponsors of underfunded plans to fund aggressively, which will likely lessen the time that restrictions will be in place.

Q-23: Does the funded status of the plan affect payment options available to my beneficiary upon my death?

A-23: The amount of the survivor benefit is unaffected by benefit restrictions. However, under benefit structures where the beneficiary may receive a lump sum payment, the maximum lump sum that can be paid to the beneficiary when benefit restrictions are in place is 50% of the value of the benefit. The remainder of the benefit will be used to provide a monthly lifetime income to the beneficiary.
Q-24: I’d like to be able to compare the pension benefits available to me before and after benefit restrictions come into place. What resources will be offered?

A-24: Visit [www.mygdlumpsum.com](http://www.mygdlumpsum.com) to access a modeling tool that will allow you to compare pension benefits with and without lump sum restrictions.

Q-25: Where can I get more information?

A-25: If you have any further questions, please contact the General Dynamics Service Center at 1-888-GD-BENEFITS.

All benefits under the Plan are governed by the Plan document and applicable law.