QUESTIONS AND ANSWERS RESPONDING TO BUSINESS CONDITION CONCERNS

Qualified Pension Plans and the PBGC

We continue to receive questions from employees about the current status of Bethlehem's Pension Plan (i.e., the Pension Plan of Bethlehem Steel Corporation and Subsidiary Companies) and future consideration and changes to the Pension Plan. These "what if" questions are complex. What follows are a set of Q&As about Bethlehem's Pension Plan and a separate set of Q&As explaining the Department of Labor's Pension Benefit Guaranty Corporation (PBGC) coverage.

Every effort has been made to accurately respond to questions based on our understanding of the current pension benefit law. While Bethlehem believes the information provided concerning the law to be accurate, it is provided to employees for general information purposes and it is not to be deemed legal advice.

Bethlehem Pension Plan

1. Q: How are Bethlehem Pension benefits paid?

   A: Benefits under the Bethlehem Pension Plan are payable through the Pension Trust of Bethlehem Steel Corporation and Subsidiary Companies to the extent a Plan's assets (the "Pension Fund") are sufficient. The Pension Trust is funded by contributions from Bethlehem Steel Corporation and its subsidiary companies that participate in the Plan.

2. Q: Are the Pension Funds separate from the assets of Bethlehem Steel Corporation?

   A: Yes. A Pension Fund can be used only for the payment of benefits or other expenses incurred in connection with the administration of the pension plan or for such other purposes that are for the exclusive benefit of participants.

3. Q: Can the Pension Funds be used to pay Bethlehem's creditors?

   A: No.

4. Q: Has Bethlehem been complying with the funding requirements of the Employee Retirement Income Security Act of 1974 (ERISA)?

   A: Yes. In fact, Bethlehem's contributions have exceeded ERISA's requirements.

5. Q: Does Bethlehem plan to terminate the Pension Plan?

   A: While Bethlehem does have the right to terminate the Pension Plan subject to applicable Collective Bargaining Agreement and ERISA provisions, it has no plans to do so at this time.

6. Q: Does Bethlehem plan to change the Pension Plan? Specifically, will it eliminate or change the 30-year pension?

   A: Like all other benefit programs, the Pension Plan is subject to periodic review but Bethlehem does not believe it is appropriate or good policy to speculate on the possibility of changes or even on whether specific changes are under study. If, however, the company desired to change or eliminate a Pension Plan provision, ERISA includes "anti-cutback" rules which provide for the grandfathering of certain pension benefits in the event they are either reduced or eliminated. For example, the pension benefit that an employee receives at retirement can not be less than the benefit the employee had earned at the date of the Pension Plan change.

7. Q: May an active employee request retirement and retire after a company has filed for bankruptcy protection?

   A: Yes. The filing for bankruptcy protection does not affect the continued normal operation of the Pension Plan.

Questions and Answers Regarding the Pension Benefit Guaranty Corporation (PBGC):

1. Q: What is the PBGC?

   A: ERISA created a system of plan termination insurance which, in general, is aimed at preventing a participant or beneficiary of a pension plan from losing retirement benefits because of the failure of the plan. To carry out the plan termination insurance program, ERISA established a separate Federal corporation known as the Pension Benefit Guaranty Corporation (PBGC) within the Department of Labor. Additional information on PBGC insurance protection and its limitations may be obtained by writing to the PBGC's Technical Assistance Division, 1200 K Street, N.W., Suite 930, Washington, D.C. 20005-4026 or by calling the PBGC at (202) 326-4000. Additional information about the PBGC is also available through the PBGC's website on the Internet at http://www.pbgc.gov.

2. Q: Would the bankruptcy of a company automatically terminate its pension plan?

   A: No. However, in the case of the bankruptcy of a company, the plan administrator of its pension plans must give written notice to the PBGC. The PBGC has authority to terminate underfunded plans under ERISA in order to prevent adding additional unfunded benefits insured by PBGC but it has rarely exercised this power to date.

3. Q: If a pension plan were to be terminated, what happens to the money in the plan?

   A: If a pension plan is terminated, the first step is to determine whether the plan has enough assets to pay all of the benefits that are insured by the PBGC. This is a complex process requiring that assets in the plan be allocated to various benefit categories, as follows (the categories are arranged in order of priority):

Categories 1 & 2 - Accrued benefits derived from voluntary (Cat. 1) or mandatory (Cat. 2) employee contributions, if any. This only applies to pension plans where employees contribute part of their salary to the plan (i.e., does not apply to the Bethlehem Pension Plan).

Category 3 - Annuity benefits for employees actually in pay status 3 years prior to the plan's termination date, and benefits that could have been in pay status if eligible participants had elected to receive annuity benefits 3 years prior to the termination date, regardless of whether those benefits are greater or less than the PBGC guarantee limit. The PBGC guarantee amount is a maximum of $3,392.05 per month for plans terminating in 2001 but is actuarially reduced for plan benefits that are payable prior to age 65 or in a form other than a single life annuity (e.g., for a benefit payable at age 60 in the form of a joint and survivor annuity, both parties the same age--the PBGC guarantee amount is $2,204.83).

Category 4 - All other PBGC guaranteed benefits (i.e., all other vested benefits up to the guarantee limits). For example, if an employee retired 12/31/00 with 30 years' service and did not qualify under Category 3, and his pension was $3,500 per month, not more than $3,392.05 of his benefit would be in this Category 4; the balance would be in Category 5 below.

Category 5 - Benefits which, although vested under the plan, are not guaranteed by the PBGC (i.e., benefits which exceed the guarantee limits).

Category 6 - All other benefits under the plan (e.g., those benefits that vest solely due to plan termination and solely to the extent a pension plan's assets are sufficient to provide such benefits).

If there are enough assets to pay all of the benefits allocated to Categories 1 through 4, the plan would be considered "sufficient" (meaning that there were enough assets to at least pay benefits to the extent they are guaranteed by the PBGC) and the PBGC would have no liability to guarantee benefits. Benefits allocated to Categories 5 and 6 would only be payable, however, to the extent there are plan assets to do so. If there are not enough assets to fully fund the benefits in Categories 1 through 4, the pension plan would be considered "insufficient", in which case the PBGC would proceed to take over the role of plan trustee under ERISA and the plan administrator would be required to reduce benefit payments in accordance with PBGC regulations to minimize benefit payments in excess of the PBGC guarantee limits.

4. Q: If a pension plan were to be terminated, do participants continue to accumulate additional benefits?

A: No. All further benefit accruals stop as of the date of plan termination. An employee eligible to voluntarily retire on the plan termination date may, however, retire after the plan has terminated but his pension would be based on his benefit accrued as of the date of plan termination.

5. Q: Would pensions covered by the PBGC ever increase or decrease?

   A: The maximum PBGC guarantee amount applicable to a specific plan is determined based on the year in which the plan terminates and is not subject to change for such plan. Thus far the maximum guarantee amount has increased each year since ERISA was enacted in 1974.

6. Q: Is it true that, to qualify for the top priority allocation (Category 3 as described in the answer to Question No.3 above), it does not matter whether a person is collecting pension payments or not, so long as he/she <u>could have been</u> collecting payments three years prior to the plan termination?

   A: Yes. A participant who is actively at work and eligible for an immediate pension (30-year, 60/15, 62/15 or 65/5 retirement) at least 3 years prior to the plan termination will have a portion of his benefit allocated to Category 3.

7. Q: Can a person who was, or could have been, receiving pension payments for 3 years continue to receive more than the maximum PBGC guarantee amount?

   A: Yes. If the allocation of plan assets results in the funded portion of a person's Category 3 benefit being greater than the applicable PBGC guarantee amount, the person will continue to receive the higher benefit. For example, if 100% of the pension benefit is in Category 3 (i.e., the person retired more than 3 years before plan termination) and plan assets are sufficient to pay all Category 3 benefits, the person will continue to receive his/her full benefit payment; if Category 3 benefits are less than 100% funded, the person's Category 3 benefit is reduced accordingly, but not below the applicable PBGC guarantee amount.

8. Q: Suppose an employee could have been (but was not) retired for a period of <u>less than</u> 3 years. Is that employee at any disadvantage to another person who also only became eligible to retire less than 3 years before plan termination but actually retired? In other words, does it make any difference whether a person is retired or not if the pension plan is terminated at a time less than 3 years after he/she becomes eligible for pension?

   A: In neither case would that person’s pension or any part of such person's benefit be placed in Category 3.

9. Q: Are there any circumstances under which a person now retired could have his/her monthly pension payments reduced? If so, what are the circumstances?

   A: Yes. If plan assets are not sufficient to pay all benefit liabilities at the date of termination, a retired person's pension would be limited to benefits which are guaranteed by the PBGC or to which assets are allocated (see the answer to Question No.3 above). Also, the PBGC may conclude that the $400 supplement payable on certain retirements is not subject to the PBGC guarantee.

10. Q: I currently have 31½ years of service with the company and am eligible for a pension. Would my pension be more secure in any way if I were to take it now as opposed to some later date?

A: If the plan were to be terminated in the next 1½ years no part of your benefit would be in Category 3 even if you were retired at the time of plan termination because you could not have been in pension pay status 3 years prior to plan termination. In 1½ years you will move up to Category 3 whether you are active or retired.

11. Q: If the plan is not sufficient to pay all benefit liabilities, what is the maximum amount of benefit payable by the PBGC?

A: The PBGC maximum guarantee of $3,392.05 for 2001 applies to benefits commencing at age 65 in the form of a straight life annuity. The maximum is adjusted for survivor and co-pensioner benefits. The PBGC maximum for benefits commencing earlier than age 65 is reduced; i.e., $2,679.72 at age 62 and $1,933.47 at age 58.

12. Q: When is the age for purposes of the PBGC maximum guarantee determined?

A: Although the year of plan termination determines the applicable age 65 maximum guarantee level, for participants receiving benefit payments prior to age 65 the PBGC applicable age maximum is determined as of the later of the plan termination date or the participant's date of retirement. For retired participants receiving monthly pension benefits, the maximum would be determined based on their age on the date of plan termination. For employees working beyond the plan termination date, the maximum would be determined based on their age at date of retirement.

13. Q: The pension formulas under the Bethlehem Pension Plan applicable to salaried employees were improved effective January 1, 2000. If the pension plan were to be terminated, would those improved pensions be reduced?

A: Yes. Pension benefit increases in effect for less than five years as of the plan termination date are subject to the PBGC's five-year phase in rule and are not fully guaranteed. Generally, the five-year phase in rule provides for multiplying the number of years that the plan amendment was in effect by the greater of $20 per month or 20% of the monthly increase in benefits.

14. Q: The service minimum pension formula under the Bethlehem Pension Plan applicable to USWA represented employees was improved effective August 1, 2000 and will be further improved effective August 1, 2002. If the pension plan were to be terminated, would these improvements be affected?

A: Yes. The pension plan amendment for the USWA 1999 pension improvements was adopted by the Employee Benefits Administration Committee on September 13, 1999. As indicated in the answer to question 13 above, if the pension plan were to be terminated within five years of the plan amendment date, the service minimum pension formula improvements would be reduced.

15. Q: There are eight types of retirement under the pension plan. Does the PBGC guarantee apply to monthly benefits payable regardless of the type of retirement?

A: In most cases the PBGC guarantee does apply; however, under certain retirements, such as Permanent Incapacity, 70/80 or Rule-of-65, if the event triggering the retirement eligibility occurs after the plan termination date, benefits are not guaranteed by the PBGC.

16. Q: Is all service up to retirement recognized by the PBGC in determining guaranteed benefit amounts?

A: No. Service that is earned after the plan termination date is not taken into account by the PBGC in determining the guaranteed benefit amounts.

17. Q: A Special Payment is payable for the first three full calendar months of retirement, except in the case of permanent incapacity retirement or a deferred vested pension. Does the PBGC guarantee this 13 or 14 week Special Payment?

A: No. The monthly amount for the first three months of retirement in excess of the basic monthly pension benefit is not guaranteed by the PBGC.

18. Q: Would a pension plan termination have any impact on pension benefits provided under either the Five-Year Term Certain or other post-retirement survivor option provisions of the pension plan?

A: The Five-Year Term Certain is an optional form of benefit that is not guaranteed by the PBGC. The PBGC guarantees are generally limited to the ERISA required joint and survivor options which are the Pre-retirement Survivor Annuity and the Automatic 50% Spouse Option. In addition, the PBGC may reinstate the charge for Pre-retirement Survivor Annuity benefits.

19. Q: Would a pension plan termination have any impact on pension benefits provided to employees and retires under the Surviving Spouse's Benefit provisions?

A: The PBGC Surviving Spouse's Benefits guarantee is limited to pensioners receiving benefits as of the plan termination date and to employees eligible for immediate retirement on the plan termination date.