

Questions and Answers for the 2009 Plan Year Annual Funding Notice of the State Farm Insurance Companies Retirement Plan for U.S. Employees

Q1: What is the Annual Funding Notice, and why am I receiving this Notice?

A1: The Pension Protection Act of 2006 requires State Farm to provide an Annual Funding Notice (the “Notice”) to each pension plan member and beneficiary and, upon request, to the Pension Benefit Guaranty Corporation (PBGC). Since you are a member of State Farm’s pension plan, formally known as the State Farm Insurance Companies Retirement Plan for United States Employees (the “Plan”), you are receiving a copy.

The Annual Funding Notice replaces the Summary Annual Report you have received in the past. It provides information for the 2009 plan year and allows you to monitor the financial health of our plan by providing you with, among other things, the Plan’s funding percentage, a statement of the value of the Plan’s assets and liabilities, a description of how the Plan’s assets are invested as of specific dates, and a description of the benefits under the Plan that are eligible to be guaranteed by the PBGC.

This is only the second year that pension plans, like the Plan, have been required to provide the Notice. No action is required on your part, and there is no impact to benefits under the Plan.

Q2: What’s important for me to know about our pension plan?

A2:

- At State Farm, we’re committed to helping our employees plan and save for retirement.
- State Farm is one of the few companies still offering a defined benefit pension plan *and* a defined contribution 401(k) plan to help employees reach their retirement income goals.
- State Farm pays for the pension benefit – members are not required to make any contributions to the Plan.
- State Farm assumes the pension investment risk – members do not make pension investment decisions, and their pension benefits are not impacted by fluctuations in the markets.
- Employees who are eligible to receive a monthly pension benefit receive those benefits for life.
- The pension plan is protected by the Pension Benefit Guaranty Corporation (PBGC), a federal agency.

Q3: There is a section in the Notice called “funding target attainment percentage.” What does this mean?

A3: Funding target attainment percentage is a technical term that compares net plan assets to plan liabilities (i.e., today’s value of future payments to current plan members and retirees). It is one measure of the Plan’s funded status. The maximum reportable funding target attainment percentage is 100%.

As you can see from the table on page one of the Notice, net plan assets exceed plan liabilities as of 1/1/2009, which means our plan is fully funded.

Q4: Why does the 2007 column in the table indicate “not applicable?”

A4: The Pension Protection Act of 2006 changed pension funding terms and calculation methods. These changes include, among other things, the use of a different interest rate measure, different mortality tables, different asset smoothing assumptions and a different method of handling voluntary contributions. Providing data in the table based upon the calculation method in effect for 2007 would be like “comparing apples and oranges.”

Q5: The Notice mentions a credit balance. What is this?

A5: A credit balance represents contributions to the Plan that are greater than the minimum required by law. These excess contributions are counted as “credits” because they may be applied in future years toward the minimum contributions the plan sponsor is required to make in those years. For purposes of the Notice, credit balances are the sum of “funding standard carryover balance” and “prefunding balance.” We are required to subtract the credit balances from assets when calculating the “funding target attainment percentage.”

Q6: Who determines the plan liabilities that are reflected in the Notice?

A6: Pension actuaries determine the plan liabilities. Actuaries look at life expectancies, expected salary increases and interest rates to estimate today’s value of future payments required by the Plan.

Q7: The Notice references the Pension Benefit Guaranty Corporation (PBGC). What is the PBGC?

A7: The PBGC is a federal agency that protects pension benefits. If a pension plan terminates without sufficient money to pay all benefits, the PBGC steps in and pays the benefit up to certain limits. In order to provide this protection, the PBGC charges each plan a premium. All companies with defined benefit pension plans pay a premium to the PBGC based on the number of members and the current funded status of their pension plan. Please understand the language in the Notice about plan terminations is part of the government-mandated form.

Q8: May I get more documentation about the Plan’s financial status?

A8: The Annual Funding Notice gives you the right to request the pension plan’s full Annual Report. Information for the 2009 plan year will be available in the fall of 2010.