



Dear AAFES Retiree/Survivor,

As you may have read in newspapers, or heard on the news, many companies have terminated their pension plan and reduced or eliminated their post retirement medical benefits for retirees. AAFES is aware of your concerns and has developed a plan to make sure there is enough money set aside to secure the retirement promises we've made to you and future retirees. We're happy to report that the basic retirement plan, as well as the separate plan that funds the extra pension benefit provided to eligible Executive Management Program (EMP) employees, are well funded. This means that the pension plan has more assets than it needs to fund current and future pension obligations. You can feel secure that the promised pension benefits will be there for your life time and that of your surviving spouse, if applicable.

While we are far ahead of other employers in pre-funding post retirement medical, dental and life insurance expenses, the post-retirement medical Trust, called the PRM Trust, is only about 63% funded to date and this concerns us. Specifically, AAFES has a \$491 million shortfall in this Trust. The reason for the shortfall is escalating health care costs. AAFES' yearly contributions can't keep up with medical inflation. Our concern is that this shortfall will eventually hurt AAFES financially.

The good news is that overall, the combined assets (money set aside to pay benefits) of the two pension Trusts and the PRM Trust are well in excess of our liabilities (the projected benefit obligation for current and future retirees). As a result, AAFES has proposed a plan to the Principal Deputy Under Secretary of Defense (Personnel and Readiness) to realign the Trust assets and liabilities to better cover the overall benefit package promise. This proposal is called "aggregation" and it's described in the enclosed DVD. The end result of aggregation is to increase the PRM Trust funding ratio from 63% to 87% with no harm being done to the well funded status of the pension plans. Aggregation provides a true win-win for AAFES and associates/retirees and I hope you will support AAFES in this initiative.

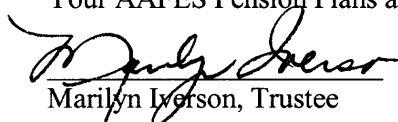
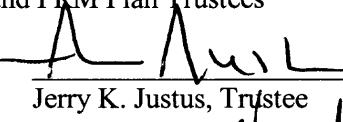
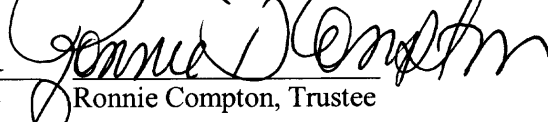
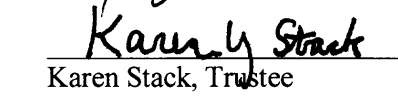

Here are the most important things you need to know about the proposal:

- Fund aggregation will not result in any change to your pension benefits.
- Your benefits are secure. AAFES benefit plans are financially strong and will remain so because of this change in alignment of the funding.
- There is no extra cost to retirees or active employees as a result of aggregation. AAFES continues to fund the cost for post retirement medical, dental and life insurance coverage for eligible retirees and their family members as promised.
- Regardless of funding status, AAFES is committed to providing the basic pension benefit.
- If you did not qualify for post-retirement medical coverage, nothing about the aggregation proposal affects you whatsoever.

The reason why we are communicating this proposal to you is to make you aware of the plan and ensure that you are comfortable with the fact that this rebalancing of the Trusts will not affect you in any way. If you want to learn more about aggregation, go to the www.aafes.com/area web site and look for the information on aggregation under "what's new!" Please complete the on-line survey at this web site. If you prefer to return the enclosed hard copy survey, send to the address noted at the bottom of the survey. If you have questions, you can send them to benefits@aafes.com or call 1-800-519-3381. Thank you.

Sincerely,

Your AAFES Pension Plans and PRM Plan Trustees

 Marilyn Iverson, Trustee	 Jerry K. Justus, Trustee	 Ronnie Compton, Trustee
 Karen Stack, Trustee	 Martin Handel (AAFES Retired Employees Association) Trustee	