

Key Pension Terms

Credited service — The service that you accumulate while working at Northrop Grumman, which is used as a factor in determining the amount of your pay-based credit. After your Program effective date, you accrue one month of credited service for each month you are paid for one or more hours of work with Northrop Grumman.

Break in service — A period during which you complete less than 501 hours of service in a calendar year — due to certain leaves of absence, for example.

Cash balance plan — A defined benefit pension plan that looks like and expresses its benefits like a defined contribution plan (i.e., accounts and account balances, contributions, and interest credits).

Defined benefit (DB) plan — A plan in which the employer predetermines or “defines” the benefit to be paid upon retirement. The benefit is based on a formula that takes into account an employee’s compensation, years of service, or a combination of the two. This type of plan provides a predictable benefit amount.

Defined contribution (DC) plan — A plan in which the employer determines or “defines” the amount it will contribute periodically to an employee’s account, expressed as a percentage of the employee’s compensation or of his/her contribution. The benefit payable is based on the money that accumulates in an employee’s account, and reflects employer contributions, employee contributions (if any) and any investment gains or losses.

Excess pay — pay above the Social Security wage base.

Interest credit — Interest credited to your cash balance account each month. The interest rate for the Pension Program is updated monthly, using the rate in effect four months before the interest credit is allocated.

Nonqualified plan — A general term for describing a U.S. plan that is not subject to the restrictions of qualified plans as specified by the Employee Retirement Income Security Act of 1974 (ERISA), and consequently does not receive the favorable tax treatment of qualified plans.

Pay-based credit — The amount as a percentage of your pension-eligible compensation, based on your "points," that Northrop Grumman credits to your cash balance account each month.

Pension-eligible compensation — Pensionable earnings used to determine pay-based credits.

Points — The sum of your age on the first day of the month and credited service on the last day of the prior month (rounded down to a whole number). Points determine the amount of pay-based credit that Northrop Grumman allocates to your cash balance account.

Qualified plan — An employee pension plan that meets certain requirements of the IRS and is therefore eligible for special tax treatment for both the employee and employer.

Social Security wage base (SSWB) — The maximum amount of pay subject to Social Security (OASDI portion of FICA) tax each year. Both you and Northrop Grumman pay the OASDI portion of FICA taxes on your pay up to the Social Security wage base (SSWB), which is updated each year by the Internal Revenue Service (IRS). The Pension Program provides an additional pay-based credit if you have pension-eligible compensation above the SSWB.

Vested benefits — Accrued benefits that you own. If you leave Northrop Grumman before your benefit is vested, you will not receive an employer-provided benefit.

Year of vesting service — A year of service with Northrop Grumman that accumulates to meet the Program's vesting requirement.