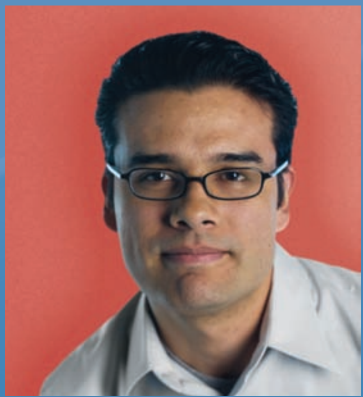
Your Benefits Book 3



Pension Plan

JCPenney

WINNING TOGETHER

Summary Plan Description

Effective January 1, 2007

About This Book

This Summary Plan Description (SPD) describes the Pension Plan to help you understand the plan and to satisfy the requirements of the Employee Retirement Income Security Act of 1974, as amended (ERISA). Because this document is a summary and not intended to be complete in every aspect, your rights and obligations are governed completely by the legal document for the Pension Plan. For complete details of your rights and obligations under the Pension Plan, refer to the plan document. A copy of the plan document is available for a reasonable photocopying charge by calling PowerLine.

This book contains a summary in English of your plan rights and benefits. If you have difficulty understanding any part of this book, contact PowerLine for help. Additionally, if you need help translating the benefit information contained in this book into a language you speak more fluently, contact PowerLine and speak with a specialist.

PowerLine
Your Benefits Resource Center
100 Half Day Road
Lincolnshire, IL 60069-1458

1-888-890-8900

Note: Active participation in the Pension Plan is limited to Associates hired or rehired on or before December 31, 2006. Terminated Associates who were previously eligible for the Pension Plan that are rehired after December 31, 2006, and have an accrued balance will continue to earn vesting but will not accrue additional benefits.

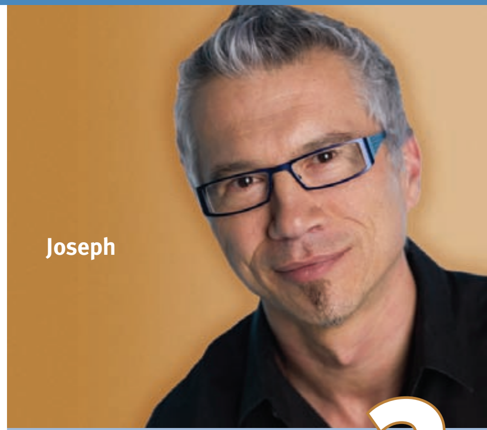
Este libro contiene un resumen en inglés de sus derechos y beneficios en el plan. Si tiene dificultad para entender cualquier parte de este libro, póngase en contacto con PowerLine para que le ayuden. Además, si necesita ayuda para traducir la información sobre los beneficios que se incluye en este libro a un idioma que hable con más fluidez, póngase en contacto con PowerLine para hablar con un especialista.

PowerLine
Su Centro de Recursos de Beneficios de JCPenney
100 Half Day Road
Lincolnshire, IL 60069-1458

1-888-890-8900

JCPenney Pension Plan

Whether you're just starting your working career or you're close to retirement, the Company offers the Pension Plan to help Associates prepare for the future. The Pension Plan, along with Social Security, the 401(k) Savings Plan and your own savings, can help you build your savings for retirement.



FAQs:

See Page 2 for more FAQs

Key Terms:

Definitions of key terms can be found throughout this book. A complete list of "Key Terms" can be found in the back of this document.

JCPenney
WINNING TOGETHER

FAQs:

What happens if I leave the Company, have a vested benefit and don't make an election? **Page 22**

Who is considered my spouse under the Joint and Survivor Annuity once payments begin? **Page 25**

The Pension Plan is offered by participating employers and sponsored by the Company. Log on to Your Benefits Homepage from the Associate Kiosk or www.jcpenneypowerline.com for information about the Pension Plan.

Pension Plan

This information is intended to be a summary of your benefits and does not include all plan provisions, limitations and exclusions. If there is a discrepancy between this document and the official plan document, the plan document will govern. The description of the Pension Plan is not intended as an employment contract nor a guarantee of current or future employment. The Company reserves the right to modify, amend, suspend or terminate the plan at any time.

Pension Plan At-a-Glance

JCPenney provides Associates with competitive benefit programs. Consistent with our WINNING TOGETHER Principles, we also provide a Pension Plan to help Associates during their retirement. The Company contributes to a trust fund that will pay you benefits when you retire.

When You Can Participate	If you were hired on or before December 31, 2006, you begin participating on the January 1, April 1, July 1 or October 1 after you turn age 21 and have at least 1,000 hours of service in an eligibility period.
Your Contributions	You make no contributions to the Pension Plan.
Vesting	Vesting is ownership in your benefit. You earn vesting in your pension based on your years of vesting service. You earn the right to your Pension Plan benefit after five years of service.
Receiving Your Benefit	Generally, you can elect to receive your benefit after you retire and reach age 55. You may be able to choose how you will receive your benefit from several payment options.
Access to Pension Information	Normally you can access Your Benefits Homepage from the Associate Kiosk or www.jcpenneypowerline.com 24-hours-a-day, Monday – Saturday and after 12:00 p.m. Central time on Sunday. When you log on to Your Benefits Homepage you can: • Request an estimate of your Pension benefit • Save and view your previous estimates • Inform PowerLine of your intent to retire, and • Change or cancel your retirement.
If You Die Before Your Payment Start Date	If you are married, your spouse will be eligible for a benefit from the plan. Generally, your spouse will receive lifetime payments equal to 50% of the benefit you would have received if you had chosen the 50% joint and survivor annuity. If you are not married at the time of your death, no benefit is paid.
If You Die After Your Benefit Payments Have Begun	Any benefit payable to your beneficiary will be determined under your form of benefit.

Pension Plan

Many experts agree that you'll need 70 to 80 percent of the income you had while working when you retire. Add your future sources of income to see if you'll have enough money. You may need to save more now to be ready for your future.

Other possible sources of retirement income include:

- 401(k) Savings Plan
- Balances from another employer's 401(k) or other qualified plans
- IRA balances
- Social Security benefits
- Other savings, and
- Other personal retirement income.

Here's what you need to know now:

- **Will I have a benefit in the Pension Plan?**
  It depends on your age, your date of hire or rehire and your years of service. See "Eligibility" on page 7 for more information.
- **When can I retire and get payments?**
  You may be able to take early or normal retirement. See "Normal Retirement Benefit" on page 11 and "Early Retirement Benefit" on page 14 for details.
- **How can I receive my benefit?**
  There are choices for married and unmarried Associates. See "Forms of Payment" and "Optional Forms of Payment" beginning on page 19 for the choices available to you.
- **Can I elect another form of payment once benefits start?**
  No. Once your benefit payments begin, you cannot change your election to another form of payment.
- **What happens if I die before payments start?**
  Your benefit may be paid to your spouse. See "Benefit for Your Surviving Spouse" beginning on page 25 for more information.

  If you are not married at the time of your death, no benefit is paid.

Eligibility

If you were hired or rehired by the Company before January 1, 2007, your eligibility for the Pension Plan is based on your hours of service and your age. You are eligible to participate in the plan after you reach age 21 and have completed 1,000 hours of service during your eligibility period.

Some individuals are not eligible to participate in the Pension Plan. This includes:

- Associates hired or rehired after December 31, 2006
- Leased employees
- Anyone classified by the Company as an independent contractor (whether or not this is reclassified later by the Internal Revenue Service or a court)
- Nonresident aliens who receive no U.S.-source earned income from a participating employer which constitutes income from sources within the United States
- Associates covered by a collective bargaining agreement that does not provide for participation in the Pension Plan, and
- An Associate of a non-participating employer.

Eligibility Period

Generally, a year of eligibility service is a 12-consecutive-month eligibility period in which you complete at least 1,000 hours of service with the Company or any of its subsidiaries.

However, your initial eligibility period runs from your employment date through the end of the month in which your first anniversary date occurs. If you complete at least 1,000 hours of service within this period, you have a year of eligibility service. If you do not work at least 1,000 hours within this period, you can meet the service requirement in any future eligibility period.

A new eligibility period begins on the first of each calendar month following the month in which you first earn an hour of service. For example, if you were hired on January 15, 2006:

- Your initial eligibility period runs through January 31, 2007
- Your second eligibility period is February 1, 2006 through January 31, 2007, and
- Your third eligibility period is March 1, 2006 through February 28, 2007, and so on.

If you become disabled (as defined by the Pension Plan) before you complete a year of eligibility service, special rules may allow you to participate. For more information, log on to Your Benefits Homepage or www.jcpenneypowerline.com.

Key Terms:

Hour of Service – An "hour of service" is each hour for which you are paid or entitled to be paid — including vacation time, Illness Recovery Time, overtime, holidays, jury duty, an approved leave of absence or layoff. If you are not paid on an hourly basis, you are credited with 45 hours of service per week.

Key Terms:

Credited Service – The amount of service used to determine your Pension Plan benefit. Credited service consists of your years and months of service as an active plan participant. You receive a full month of credited service for any partial month of service. Credited service also includes certain leaves of absence and periods of disability, but does not include any period after your employment or disability ends. For Associates who became a participant in the plan on or between February 1966 and January 1, 1976, credited service is measured from the first of the month following one year of employment.

If I left the Company before January 1, 2007, and am rehired later, can I earn more pension benefits?

Participants in the Pension Plan before January 1, 2007, who leave the Company and are rehired after December 31, 2006, cannot resume earning additional benefits in the Pension Plan.

If You Were Rehired On or Before December 31, 2006

If you were a Pension Plan participant when you left the Company, your participation in the Pension Plan resumes automatically if you were rehired on or before December 31, 2006. The amount of your prior credited service will be combined with any additional credited service you may earn from your rehire date. Your combined credited service will determine the benefit you earn from the Pension Plan. If you have received any payments from the plan, those payments will be counted toward your total pension benefit.

If you were not a participant in the Pension Plan when you left the Company and you were rehired on or before December 31, 2006, and were an Associate on December 31, 2006, and:

- **You did not have 1,000 hours of service at the time you left:**
  - If you were rehired during your initial eligibility computation period (as explained on page 7), your hours of service before your termination date will be added to your hours of service since your rehire date to determine when you will become a participant in the Pension Plan. You must also be at least age 21 to become a participant in the Pension Plan.
  - If you were rehired after your initial eligibility computation period (as explained above), your first eligibility computation period will be the 12-consecutive-month period that ends on the last day of the month in which you are rehired. Your subsequent eligibility computation periods will be the 12-consecutive-month periods ending on the last day of each month following the month you are rehired. Your hours of service before your termination date during any such eligibility computation period will be added to your hours of service during that same period since your rehire date to satisfy the 1,000 hours requirement. You must also be at least age 21 to become a participant in the Pension Plan.

  If you were rehired and the time you were not in the Company's employ is longer than the greater of the period you originally worked for the Company before your termination or five consecutive years, any hours of service completed before your separation date will be disregarded.

- **You did have 1,000 hours of service at the time you left:**
  - If you were rehired during your initial eligibility computation period (as explained on page 7) or after the end of this period, but before the date you were eligible to become a participant in the Pension Plan (your entry date), you will become a participant on your initial entry date after the end of your initial eligibility computation. You must also be at least age 21 to become a participant in the Pension Plan.
  - If you were rehired after the first entry date that follows your initial eligibility computation period (as explained above), you will become a participant in the Pension Plan on the later of the date you were reemployed or the entry date following the date you turn age 21.

- **You are gone more than five years:**
  - If you terminate employment after completing 1,000 hours of service during an eligibility computation period (as explained earlier) and you were rehired after being gone from the Company for a period equal to the greater of five consecutive years (where a year of absence is equal to 365 days of absence) or the period of service that you completed before your termination, you will be considered a new Associate, and your prior hours of service will be disregarded. Once you meet the eligibility requirements following your rehire before January 1, 2007, you will become a participant.

If You Are Rehired After December 31, 2006

If you are rehired after December 31, 2006, you will not become a participant or resume participation in the Pension Plan, but will continue to earn service for vesting and early retirement purposes.

When Participation Begins

If you were hired on or before December 31, 2006, you are eligible to participate in the Pension Plan on the first January 1, April 1, July 1 or October 1, on or after the date you:

- Complete at least one year of eligibility service
- Reach age 21, and
- Are an Associate of the Company or one of its subsidiaries that has adopted the Pension Plan. (See Participating Employers listed in the "Administrative Information" section.)

The date you begin participating in the Pension Plan is called your entry date.

If you were hired after December 31, 2006, you are not eligible for Pension Plan participation.

When Participation Ends

Your participation in the Pension Plan continues until you have received all your vested benefits (the benefits you own) under the Pension Plan.

How will I know when I can participate in the Pension Plan?

If you are an eligible Associate, enrollment in the Pension Plan is automatic. You do not have to do anything to have your participation begin.

Eligibility & Enrollment

Key Terms:

Covered Compensation – The average (without adjusting for inflation) of the Social Security taxable wage bases in effect for each calendar year during the 35-year period ending on December 31st of the year you reach your Social Security retirement age. To find out your covered compensation, call the local office of the Social Security Administration or its national information line at 1-800-772-1213. You can also log on to www.socialsecurity.gov.

Average Final Pay – Your average pay for the five full consecutive calendar years of service as a plan participant — out of your last 10 full consecutive calendar years of service (all of your last full consecutive calendar years of employment, if less than 10) with the Company or any of its subsidiaries — that produces the highest average.

Life Events and Your Participation

When You	What Happens
Begin Work for JCPenney	You begin earning service.
Become a Participant in the Pension Plan	You begin accruing pension benefits.
Leave the Company Before Age 65	If you leave the Company *before* you have completed five years of vesting service, you do not receive a benefit from the Pension Plan. If you leave the Company *after* you have five years of vesting service and *before* you are 65, you generally may not begin receiving benefit payments until the later of the date you leave the Company or your 55th birthday. If you choose to begin payments before age 65, your benefit is reduced.
Leave the Company After You Reach Age 65	If you continue to work after your 65th birthday, your Pension Plan benefit is calculated under the formula for a normal retirement benefit using your pay and credited service through the end of the month in which your employment ends. Your benefit will begin as of the first of the month after you leave the Company. If you work fewer than 40 hours in any month after you turn age 65, you may begin receiving your Pension Plan benefit. By law, to receive payment of your benefit you must notify PowerLine and provide written proof that you have worked fewer than 40 hours in a calendar month and that you want to begin your pension benefit.
Become Disabled	You will continue to earn a benefit under the Pension Plan until your disability service ends. If you retire when you are disabled, your benefit will be based on: • Your average final pay on the date your disability service began • The covered compensation in effect in the year your disability service began, and • Your total years of credited service (including disability service), up to the maximum of 35 years (or age 65, if earlier). Disability service ends on whichever of the following comes first: • You no longer satisfy all the conditions for disability service • Payment of your Pension Plan benefit begins • The first of the month after you reach age 65, or • Your death.
Die Before Your Benefits Start	If you are married, your spouse will be eligible for a benefit from the plan. Generally, your spouse will receive lifetime payments equal to 50% of the benefit you would have received if you had chosen the 50% joint and survivor annuity. If you are not married at the time of your death, no benefit is paid.

How the Pension Plan Works

Your Pension Plan benefit is determined under a formula that is based on your years of credited service, average final pay and covered compensation. Generally, when you retire, you receive a monthly payment from the Company until your death. Depending on the form of payment you choose, your beneficiary will receive your payments if you die before the benefit is completely paid to you.

Normal Retirement Benefit

Your normal retirement benefit is the amount payable beginning on the first of the month following your 65th birthday (your normal retirement date). Your benefit may be calculated under the current plan formula or an alternate plan formula.

Current Plan Formula

If you have service with the Company (including disability service) **after December 31, 1988,** and no credited service under the JCPenney Financial Services Pension Plan, the current plan formula or the alternate formula applies to you. The current plan formula for your annual retirement benefit is:

$$\left[\left(0.75\% \times \text{your average final pay}\right) + \left(0.50\% \times \text{the portion of your average final pay that is greater than your covered compensation}\right)\right] \times \text{credited service up to 35 years}$$

Note: Federal law limits the amount of annual pay that can be used to calculate average final pay. With respect to benefits accruing after December 31, 2006, the amount of annual pay taken into account under the Pension Plan cannot exceed $225,000. This limit is determined by Congress and may be adjusted from time to time by the Secretary of the Treasury for increases in the cost of living.

Alternate Formulas

The plan formula for the normal retirement benefit was changed effective January 1, 1989. If you were a participant on or before December 31, 1989, and were not a super highly paid Associate as described on page 12, you receive the greater of these two benefit amounts:

Benefit Amount #1
Your benefit as of December 31, 1989, under the formula in effect on December 31, 1988, (the prior formula) for your credited service through December 31, 1989*
+
Your benefit under the current plan formula for credited service *after* December 31, 1989 (up to a maximum of 35 years of credited service under both formulas combined)

OR

Benefit Amount #2
Your benefit calculated under the current plan formula for *all* your credited service up to 35 years.

**If you leave the Company before age 65, the early retirement age and factors described on page 14 will be used for calculations under the prior plan formula, not the early retirement age and factors used under the plan at December 31, 1988.*

Key Terms:

Normal Retirement Benefit – Your normal retirement benefit is the amount payable beginning on the first of the month following your 65th birthday (your normal retirement date). Your benefit may be calculated under the current plan formula or an alternate plan formula.

How is my benefit determined?

To determine the amount of your benefit, the plan calculates your normal retirement benefit using your actual credited service and average final pay on the date your employment ends.

Alternate Formula For Super Highly Paid Associates in 1988 and 1989

If your 1988 pay was more than $78,353 or your 1989 pay was more than $81,720 and you were among the 100 highest paid Associates, your benefit is calculated as follows:

Benefit Amount #1
Your benefit that had accrued as of December 31, 1988, under the prior formula for your credited service through December 31, 1988*
+
Your benefit under the current plan formula for credited service *after* December 31, 1988 (up to a maximum of 35 years of credited service under both formulas combined)

OR

Benefit Amount # 2
Your benefit calculated under the current plan formula for *all* your credited service up to 35 years

**If you leave the Company before age 65, the early retirement age and factors described on page 14 will be used for calculations under the prior plan formula, not the early retirement age and factors used under the plan at December 31, 1988.*

If you have credited service under the JCPenney Financial Services Plan, see "Provisions Relating to Financial Services Plan Participants" beginning on page 41.

Alternate Formulas for JCPenney Financial Services Plan Participants

Other benefit formulas may apply if you have credited service under the JCPenney Financial Services Pension Plan (the "Financial Services Plan") before January 1, 1990. See "Provisions Relating to Financial Services Plan Participants" on page 41 of this book.

Additional Retirement Benefit

Once you have at least 25 years of credited service, you are eligible for an additional retirement benefit. The additional retirement benefit is added to your normal retirement benefit. Because there is a 10 year maximum, years of credited service beyond 35 years will not count for this benefit.

If you earned credited service during the month of March 1995 – You receive the additional benefit for your years of credited service that exceed 25 years of credited service, but that do not exceed 35 years of credited service.

If you did not earn credited service during the month of March 1995 – You receive the additional benefit only with respect to your years of credited service in excess of 25 years of credited service that are earned after March 1995. In no event will more than 10 years of credited service, or any year of credited service in excess of 35 years, be taken into account.

The annual additional retirement benefit is equal to:

$$\left(0.25\% \times \text{your average final pay}\right) \times \text{qualified years of credited service after year 25, up to a maximum of 10 years}$$

Example of a Pension Benefit

Here is how your annual normal retirement benefit is calculated (assuming the alternate formula does not apply). Suppose you retire in 2007 at your normal retirement age of 65 with:

- Average final pay of $55,820
- Covered compensation of $53,820
- 37 years of credited service, and
- Credited service in March 1995 (making you eligible for the additional retirement benefit for your years of credited service over 25 but not more than 35).

Note: The maximum credited service that can be used in the pension formula is 35 years, even if your actual credited service is greater.

Your normal retirement benefit is your retirement benefit *plus* your additional retirement benefit.

First, we'll calculate your normal retirement benefit. Here is the retirement benefit formula.

$$\left[\left(0.75\% \times \text{your average final pay}\right) + \left(0.50\% \times \text{the portion of your average final pay that is greater than your covered compensation}\right)\right] \times \text{credited service up to 35 years}$$

Here's how it works:

1. Multiply your average final pay by 0.75%.
   $55,820 x 0.75% = $418.65
2. Subtract your covered compensation from your average final pay.
   $55,820 - $53,820 = $2,000
3. Multiply your answer for #2 by 0.50%.
   $2,000 x 0.50% = $10.00
4. Add your answers for #1 and #3.
   $418.65 + $10.00 = $428.65
5. Multiply your answer for #4 by the number of years of credited service (up to 35 years of credited service). **This is your normal retirement benefit.**
   $428.65 x 35 = **$15,002.75**

Key Terms:

Normal Retirement Age – Age 65.

Now we'll calculate your additional retirement benefit. Here is the additional retirement benefit formula.

$$\left(0.25\% \times \text{your average final pay}\right) \times \text{qualified years of credited service after year 25, up to a maximum of 10 years}$$

Here's how it works:

1. Multiply your average final pay by 0.25%.
   $55,820 x 0.25% = $139.55
2. Subtract 25 from your years of service (no more than 35 years).
   35 – 25 = 10
3. Multiply your answer for #1 by #2. **This is your additional retirement benefit.**
   $139.55 x 10 = **$1,395.50**

Next we'll calculate your total Annual Benefit by adding your normal retirement benefit to your additional retirement benefit.

$15,002.75 + $1,395.50 = **$16,398.25**

Now we'll calculate your Monthly Benefit. Just divide the Annual Benefit by the number of months in a year.

$16,398.25 ÷ 12 = **$1,366.52**

In this example, your normal retirement benefit payable as a single life annuity form of payment from the plan is $16,398.25 a year or $1,366.52 per month.

Early Retirement Benefit

You qualify for an early retirement benefit if you leave the Company after you:

- Reach age 55 and have completed at least 15 years of service, or
- Reach age 60, if you first participated in the Pension Plan before January 1, 1989 (regardless of your years of service).

If you are a participant in the Pension Plan and are reemployed after December 31, 2006, your service after your reemployment will be counted in determining if you qualify for an early retirement benefit.

If you qualify for an early retirement benefit and you choose to begin receiving benefit payments before you reach age 65, your normal retirement benefit is reduced by a certain percentage for each month before your 65th birthday.

Early Retirement Benefit Reduction Rates

If you retire ...	Your normal retirement benefit will be reduced ...
Between age 60 and age 65	approximately 4% per year (0.3333% for each month between ages 60 and 65)
Between age 55 and age 60	approximately 5% per year (0.4167% for each month between ages 55 and 60), PLUS approximately 4% per year (0.3333% for each month between ages 60 and 65)

Key Terms:

Early Retirement Date – The date on which a participant (1) has reached age 55 and has completed at least 15 years of service or (2) with respect to the benefit accrued under the Pension Plan by a participant who first participated in the Pension Plan before January 1, 1989, has reached age 60 without regard to his years of service.

Example – Retiring at age 62: If you choose to begin pension payments when you reach age 62, you would have 36 months before your 65th birthday. To find how much your payment would be reduced, multiply the reduction factor (0.3333%) by the number of months (36):

(0.3333% per month x 36 months) = 12%

In other words, the benefit amount you receive would be 88% (100% – 12%) of your normal retirement benefit.

Example – Retiring at age 58: If you choose to begin pension payments when you reach age 58, you would have 24 months before your 60th birthday and another 60 months before your 65th birthday. To find how much your payment would be reduced, multiply the reduction factors by the number of months:

(0.4167% per month x 24 months) = 10%

(0.3333% per month x 60 months) = 20%

In other words, the benefit amount you receive would be 70% (100% – 10% – 20%) of your normal retirement benefit.

If You Do Not Qualify for an Early Retirement Benefit

If you do not qualify for an early retirement benefit when you leave the Company, and you choose to begin receiving benefit payments before you reach age 65, your normal retirement benefit is reduced for each month that your Benefit Commencement Date is earlier than your normal retirement date.

If you retire ...	Your normal retirement benefit will be reduced ...
Between age 60 and age 65	approximately 7% per year (0.5833% for each month between ages 60 and 65)
Between age 55 and age 60	approximately 5% per year (0.4167% for each month between ages 55 and 60), PLUS approximately 7% per year (0.5833% for each month between ages 60 and 65)

The table below shows the percentage of your normal retirement benefit that would be payable if you begin monthly payments at ages 55, 58, 60 or 62.

Estimated pension benefit if you retire before age 65		
Your age when monthly payments start	Percentage of normal retirement benefit you receive ...	
	If you qualify for an early retirement benefit	*If you do not qualify for an early retirement benefit*
62	88%	79%
60	80%	65%
58	70%	55%
55	55%	40%

Key Terms:

Vesting – Vesting is earning rights to your benefit. You earn rights or vest in your pension benefit based on your years of vesting service. You become fully vested after five years of service.

Example – If you qualify for an Early Retirement Benefit: If you decide to retire at age 58, according to the table, your monthly benefit would be 70% of your normal retirement amount. If your normal monthly benefit was $1,129.77, your early retirement benefit would be:

$1,129.77	x	70%	=	$790.84
normal monthly benefit		factor based on age and eligibility for early retirement		

Example – If you *do not* qualify for an Early Retirement Benefit: If you decide to retire at age 58, according to the table, your monthly benefit would be 55% of your normal retirement amount. If your normal monthly benefit was $1,129.77, your retirement benefit would be:

$1,129.77	x	55%	=	$621.37
normal monthly benefit		factor based on age and eligibility for early retirement		

Vesting

You earn ownership of your pension benefit based on your years of total service with the Company and any of its subsidiaries. This is called “vesting.”

Your credit toward becoming vested is called “vesting service.” You earn one year of vesting service for each 365 days of service you have with the Company and any of its subsidiaries. Vesting service is measured from your date of hire through the date you leave the Company. After five years of vesting service with the Company or any of its subsidiaries, you earn the right to a pension benefit.

You also become 100 percent vested in the Pension Plan — no matter how many years of service you have — if, while you are an Associate:

- You reach age 65
- You reach age 60, if you were a participant in the Pension Plan before January 1, 1989, or
- You reach age 60, if you were a participant in the JCPenney Financial Services Pension Plan at any time.

Vesting Service If You Are Rehired

If you were a participant in the Pension Plan when you left the Company, you never lose the vesting service you have already earned.

If you left the Company before you became a participant in the Pension Plan, your prior vesting service will be counted if you became a participant upon reemployment. However, if you are reemployed after a period of absence equal to the greater of five consecutive years or the period of service completed before you left the Company, your prior service will be disregarded. A period of absence begins on the first anniversary of your original date of employment that occurs immediately following the date you left the Company and ends on the date on which you are again credited with service.

If you are a participant in the Pension Plan, terminate your employment and are rehired after December 31, 2006, your service after December 31, 2006, will be counted in determining whether or not you are vested in the Pension Plan.

Receiving Your Benefit

How and when your Pension Plan benefit is paid to you depends on a number of factors, such as the amount of your benefit when you leave the Company, your age, your marital status and the form of payment you elect.

Actuarially Equivalent

Your benefit under the plan is calculated as a single life annuity beginning at age 65, with no benefits payable after your death. If you receive your benefit in any other form (such as a joint and survivor annuity or a lump sum) or earlier than your 65th birthday, the benefit is adjusted so that the value of your benefit is actuarially equivalent to the value of the single life annuity beginning at age 65.

Actuarially equivalent factors are based on age at commencement, the expected payout period, number of lives covered, life expectancy(ies) and interest rate assumptions.

When Your Payments Begin Before Age 65

If you leave the Company before age 55, for any reason other than death, your Benefit Commencement Date will be the first of any month elected by you subject to the following rules:

- Your Benefit Commencement Date cannot be later than the first of the month after you reach age 65.
- If the actuarially equivalent present value of your benefit is more than $1,000, but the amount of your monthly retirement benefit payable in the form of a single life annuity (described on page 20) beginning on the first of the month immediately following your 55th birthday is $100 or less, you can elect to begin payments on the first of the month immediately following your separation from service if your separation occurs on or before the 20th of the month. If your separation from service occurs after the 20th of the month, you can elect to begin receiving payment as early as the first of the second month immediately following your separation from service. However, the form of benefit which you can elect before age 55 is limited to a lump sum or immediate annuity in the normal form. See "Election Restriction" on page 21.

Key Terms:

Benefit Commencement Date – The date as of which your benefit is scheduled to begin.

Lump Sum – A single, one-time payment of the total present value of your benefit.

Can I elect another form of payment once benefits start?

No. Once your benefit payments begin, you cannot change your election to another form of payment.

- If your monthly benefit is more than $100 (as described in the preceding bullet), the earliest Benefit Commencement Date you can elect is the first of the month after you reach age 55. If you do not elect that day, you can elect to start your benefit as of the first of any month thereafter, but not later than the first of the month after you turn age 65. However, this election is subject to the rules described under "Starting Your Pension Payments" below.

If you leave the Company after age 55 and before age 65, for any reason other than death, you can elect a Benefit Commencement Date as of the first of any month after you leave the Company. However, you cannot elect a start date later than the first of the month after you turn 65. Also, other limitations may apply. See "Starting Your Pension Payments" below.

When Your Payments Begin At or After Reaching Age 65

If you leave the Company at or after age 65, you cannot elect your Benefit Commencement Date. You must start receiving your pension benefit as of the first of the month after your employment ends.

If you stay employed with the Company after age 70 1/2, the amount of your benefit will be based on credited service and average final pay as of November 30 of each year. Your benefits will start as soon as administratively feasible in December of the calendar year in which you reach age 70 1/2. However, if your initial distribution is in the form of a lump sum, your Benefit Commencement Date will be redetermined each calendar year after that until the earlier of the calendar year in which you leave the Company or receive a monthly benefit. Any new Benefit Commencement Date will be the earliest date that is administratively feasible in December of that calendar year.

When Your Benefit is Small

If your monthly payment, payable in the form of a single life annuity (described on page 20) beginning on the first of the month immediately following the later of your 55th birthday or the date you leave the Company, would be $100 or less and the lump sum amount of your total benefit based on the actuarially equivalent present value is $1,000 or less, your Benefit Commencement Date will be the first of the month after your employment ends. The payment will include interest if paid later.

Starting Your Pension Payments

If you are eligible to elect your Benefit Commencement Date, you may request the start date and information concerning your benefit by contacting PowerLine. If you request this information after the 20th day of the month, your earliest Benefit Commencement Date will be the first of the second month immediately following your request. You cannot request a Benefit Commencement Date that is earlier than the first of the month after you leave the Company or before the date you submit your request.

You must request a new Benefit Commencement Date if PowerLine does not receive your final benefit election and any required spousal consent by the later of:

- The Benefit Commencement Date requested by you, or
- Sixty days after the date that PowerLine mails you information.

If you return your final benefit election and any required spousal consent to PowerLine after your elected Benefit Commencement Date, your benefit will be paid or will start no later than 180 days after the date PowerLine mails you information concerning your form of benefit election rights.

If there is an administrative delay, your initial benefit payment will include all missed payments, without interest, from your Benefit Commencement Date to the date on which your benefits actually begin.

Lost Participants

If you cannot be located in time to begin benefit payments on the first of the month after you become age 65, and later claim your retirement benefit, monthly payments will be made retroactively to the first of the month after you reached age 65. Your initial benefit payment will include all missed payments without interest or actuarial adjustment.

Forms of Payment

Normal Form of Payment

The normal form of payment for you depends on whether you are married on the later of:

- Your Benefit Commencement Date, or
- The date you file your election with PowerLine.

If you are not married – The normal form of payment is a monthly benefit paid to you for your lifetime. After your death, no further payments are made. This is called a single life annuity.

If you leave the Company on or after age 65 and do not elect the normal form of payment or an optional form of payment, your benefit will begin as a single life annuity.

If you are married – The normal form of payment is a monthly benefit paid to you for your lifetime. Following your death, 50 percent, 75 percent or 100 percent of that amount (as you choose) is paid to your spouse, if surviving, for his or her lifetime. This is called a qualified joint and survivor annuity.

The monthly benefit for a joint and survivor annuity is reduced so that 50 percent, 75 percent or 100 percent of your monthly benefit payment continues after your death for your spouse's lifetime. Your spouse's consent is not required if you elect a qualified joint and survivor annuity.

If you leave the Company on or after age 65 and do not elect a joint and survivor annuity percentage or an optional form of payment, your benefit will begin as a 50 percent joint and survivor annuity.

How do I update my address?

To avoid missing important information about your Company benefits, you should notify PowerLine as soon as possible if your address changes. You can reach PowerLine by logging on to Your Benefits Homepage from the Associate Kiosk or www.jcpenneypowerline.com or by calling 1-888-890-8900.

Key Terms:

Normal Form of Payment –

- *If you are not married,* the normal form of payment is a single life annuity — a monthly benefit paid to you for your lifetime. After your death, no further payments are made.
- *If you are married,* the normal form of payment is a qualified joint and survivor annuity — a monthly benefit paid to you for your lifetime. Following your death, 50 percent, 75 percent or 100 percent of that amount (as you choose) is paid to your spouse, if surviving, for his or her lifetime.

Receiving Your Benefit

Key Terms:

Beneficiary – Any person, persons or entity designated by a participant to receive any benefits payable in the event of the participant's death. A married participant's spouse shall be deemed to be the beneficiary unless and until the participant elects another beneficiary with spousal consent.

How do I get a Social Security Statement?

If you are a worker age 25 and older, you receive a Social Security Statement every year. The statement shows your earnings year-by-year and gives you estimates of benefit payments that you and your family may be eligible for now and in the future. For more information, visit www.socialsecurity.gov or call 1-800-772-1213 (TTY: 1-800-325-0778).

Optional Forms of Payment

You may want to receive your benefit in some other form. If you qualify, you can choose an optional form of payment. All optional forms of payment are actuarially equivalent to the single life annuity benefit available when you commence payments.

- **Single Life Annuity –**You receive a monthly payment for your lifetime. No further payments are made after you die. This is the normal form of payment for participants who aren't married.
- **Single Life Annuity with Payments Certain –** You receive a monthly payment for life, with the guarantee that after your death your beneficiary receives any payments you had not received within a guaranteed time period. You can choose a guaranteed time period of 60 months (5 years), 120 months (10 years), 180 months (15 years) or 240 months (20 years). If you survive the guaranteed time period, your beneficiary will not receive any payment. If the monthly benefit that becomes payable to your beneficiary is $100 or less, your beneficiary will receive an immediate lump sum payment that is actuarially equivalent to the remaining payments.

  Payments under this optional form of payment continue to you for life, even if you live longer than the guaranteed time period you elected. The number of payments received by your beneficiary will not exceed the number of payments you elected less the number of monthly payments actually made to you. You may not elect a payment period longer than your life expectancy.
- **Level Income Option –** This option allows you to increase your monthly Pension Plan benefit before you begin receiving Social Security, and decrease your monthly Pension Plan benefit after you begin to receive Social Security, to provide you a more level monthly income throughout your retirement. This option cannot be elected if you are receiving Social Security Disability Benefits. It is possible for your Pension Plan benefit to decrease to zero once you begin receiving Social Security payments.

  If you choose this option, you must contact the Social Security Administration for an estimate of your Social Security benefit and send this estimate to PowerLine. The estimate must be less than one year old. PowerLine will then calculate and provide you with your monthly payment amounts under this option.
- **Joint and Survivor Annuity with Payments Certain –** You receive a monthly payment for your lifetime. If you die within the payment certain period — 120 months (10 years), 180 months (15 years) or 240 months (20 years) — your spouse will receive 100 percent of your monthly payment until the end of the guaranteed period. After that guaranteed period ends, your spouse receives 50 percent, 75 percent or 100 percent (as you choose) of the monthly payment for the rest of his/her life.

If both you and your spouse die before the end of the guaranteed period, the remaining monthly payments in the same amount will be made to your contingent beneficiary(ies) until the end of the guaranteed period. If the last surviving beneficiary dies before the end of the guaranteed period, any remaining payments will be converted into an immediate lump sum and paid to the estate of the last surviving beneficiary.

If you and your spouse die after the end of the guaranteed period, no benefits are payable to your contingent beneficiary(ies).

This form of payment is available only if you:

– Are married

– Name your spouse as your sole primary beneficiary

– Are over age 55 when your employment ends

– Leave the Company after March 31, 1995, and

– Begin receiving payments after March 31, 1995.

- **Lump Sum Option –** You can choose to receive a single lump sum payment if the total present value of your benefit exceeds $1,000 but your monthly payment payable in the form of a single life annuity does not exceed $100 on the latest to occur:

– Your 55th birthday

– The date you leave the Company, or

– Your age 70 1/2 Benefit Commencement Date.

You may delay receiving a lump sum benefit of more than $1,000 until your normal retirement date. But, if your monthly benefit at that time is more than $100, you will not be eligible for the lump sum option. Instead, you must receive a monthly benefit.

Note: If the Financial Services Pension Plan applies to you, also see page 42 for more optional forms of payment.

Election Restriction

If you leave the Company before age 55, for any reason other than death, and the value of your vested benefit exceeds $1,000, but your monthly benefit does not exceed $100, you may elect only an immediate lump sum or an immediate annuity in the normal form to begin before age 55. Beginning at age 55, you can elect any form of payment if your benefit had not already started.

Mandatory Lump Sum Payment

If the value of your retirement benefit is $1,000 or less, and if the amount of your monthly retirement benefit payable in the form of a single life annuity beginning on the first of the month following the later of your 55th birthday or the date you leave the Company does not exceed $100 (and payment of benefits has not started), your benefit is automatically paid as a lump sum. You cannot elect another form of benefit.

What is a Mandatory Lump Sum Payment?

If your total benefit is $1,000 or less and your monthly retirement benefit is $100 or less, your benefit is automatically paid to you in a lump sum as soon as practical after you leave the Company. You cannot elect another form of benefit.

Receiving Your Benefit

What happens if I leave the Company, have a vested benefit and don't make an election?

If you are no longer an active Associate, the Company is required to begin your Pension Plan payments the first day of the month after your 65th birthday. If you do not contact PowerLine and make an election, your normal form of payment based on your marital status shown in the Pension Plan records will begin. See page 19.

These payments will be sent to your last known address. Be sure you advise PowerLine of any changes to your address or marital status before your 65th birthday.

Once your benefit payments start, you cannot change to another form of payment.

When Your Benefit Payments Begin

In most cases, you will need to take action to start receiving your benefit payments. To start the payment process log on to Your Benefits Homepage or www.jcpenneypowerline.com 60 to 180 days before you want your payments to start. Once you have completed this process, you will receive a retirement package from PowerLine that includes:

- A Payments Rights Notice
- A worksheet to assist in making your form of payment election
- An explanation of your available payment options, and
- Your actual benefit amount payable under each form of payment available to you.

Your payments will not start until PowerLine has received the necessary, properly completed forms and your termination status from Payroll.

Retirement Payment Process	
Events	**Timing**
Tell your supervisor that you plan to retire and provide your retirement date	When you feel it is appropriate, but at least two weeks before your intended retirement date
Start the retirement process either by logging on to Your Benefits Homepage from the Associate Kiosk or www.jcpenneypowerline.com or by calling PowerLine at 1-888-890-8900	60 to 180 days before you want your first benefit payment
Receive a retirement package at your home. Pension election forms will be included in the package	Within 5 days after you notify PowerLine
Make your election and return your properly completed paperwork to PowerLine	No later than 60 days from the date your statement in the retirement package is mailed or the date you want your payments to start, whichever is later
Receive your benefit payment	Payments will begin as soon as administratively possible after PowerLine receives your properly completed Pension Election Authorization Form, usually 2 to 3 weeks from your last active paycheck*

*****Note:*** *Payments cannot be made any earlier than 10 days after the statement date printed on the confirmation statement and authorization form or before your payment start date shown on the forms.*

Deadline to Return Your Pension Election Authorization Form

For your benefit to begin, your Pension Election Authorization Form (including any required consent from your spouse) must be properly completed, signed, dated and received by PowerLine **by the later of the Benefit Commencement Date requested by you or 60 days from the date of mailing.** In addition, you must be alive on your payment start date.

If you do not return your completed form by the deadline, you must request a new retirement package. You can get another package by logging on to Your Benefits Homepage or www.jcpenneypowerline.com or by calling PowerLine.

This new package will include a new Pension Election Authorization Form with current benefit amounts payable as of the new Benefit Commencement Date shown on the election form. Your payment amount may change because of the interest rates that are used to calculate your payment.

If you had qualified for an optional lump sum payment and did not return your form by the deadline, it is possible that your benefit amount will have grown by the time you get a new retirement package. If your benefit exceeds $100 a month, you will no longer be eligible for a lump sum payment.

If you are to receive your benefit as a mandatory lump sum, you need to elect whether or not you want to roll over any of your distribution. If you do not return such an election, your Benefit Commencement Date will be the first of the month immediately after you leave the Company.

If you choose a monthly benefit and do not return your form by the deadline, the later Benefit Commencement Date could result in a slightly larger monthly payment.

If You Do Not Want Your Payments to Begin Immediately

If you are less than 65 years of age and eligible to delay receiving your payments and wish to do so, do not start the retirement process. About 60-180 days before you want benefit payments to begin, simply log on to Your Benefits Homepage or www.jcpenneypowerline.com or call PowerLine to request a retirement package. The retirement package will show your new payment start date and the amount payable under each form of payment then available to you. The Level Income option amount will not be included because you must submit certain information before the amounts payable under this option can be determined. See the "Optional Forms of Payment" section for more information.

Age 70 1/2 Payments

As described on page 18, if you continue working for the Company beyond age 70 1/2, your payment start date will be the earliest date that is administratively feasible in the month of December of the calendar year in which you reach age 70 1/2. Unless you receive a mandatory lump sum, you may choose your form of payment. The amount of your benefit will be based on your credited service and average final pay as of November 30th of the calendar year in which you reach age 70 1/2.

Your benefit will be redetermined as of each November 30 following your Benefit Commencement Date (or the date you leave the Company, if earlier) by taking into account your credited service and average final pay as of such date. The redetermined benefit will be reduced by the amount of in-service distributions already received by you. Any increase in your benefit will begin no later than December 31 of the same year.

If you are receiving a monthly benefit and the amount of your monthly benefit as redetermined exceeds the monthly retirement benefit in effect immediately before the redetermination by $100 or less, the additional benefit will be paid in a lump sum, with the consent of your spouse. If the amount exceeds $100 or you and your spouse do not furnish the required consent for a lump sum, you may elect, with spousal consent, a new form of benefit for the additional amount. If you do not elect a form of payment for your additional benefit, it will be paid in the normal payment form applicable to you.

Changing Your Election

You may cancel or change your election no later than the day the first check is produced for your benefit payment.

If you wish to change your election, you must first cancel your current election and then make a new benefit election. To get started, log on to Your Benefits Homepage or www.jcpenneypowerline.com or call PowerLine at 1-888-890-8900. Another retirement package will be sent to you. The payment start date on the new form may be later than your original payment start date. If so, your benefit amounts will be different.

Changing Your Form of Payment

You cannot change your form of payment or the amount of your payment after the first check is produced by PowerLine, even if your spouse or beneficiary dies before you. Also, after your payment start date, the plan will not recognize any provision in a Qualified Domestic Relations Order (QDRO) that would require a change in your form of payment.

Payments if You are Rehired

If you are rehired after your first monthly payment has been issued, your monthly payments will continue while you are again working for the Company.

When you again leave the Company, your pension benefit will be recalculated based on your average final pay and total credited service (up to 35 years) at that time. Your benefit will be adjusted to reflect any payments you have already received. If the recalculated benefit is greater than your original benefit, you will receive an additional benefit. Otherwise, you will continue to receive your original benefit amount. However, you will earn no additional Pension Plan benefit if you are rehired after December 31, 2006.

If your first monthly payment has not been issued, you may not begin payments until the earlier of the date you leave the Company again or reach age 70 1/2.

Beneficiaries

Naming Your Beneficiary

If you are married, your spouse is automatically your sole primary beneficiary. When you elect an optional form of payment, you may name someone else as your primary beneficiary with your spouse's consent.

If your beneficiary is a minor, pension payments can only be sent to the guardian of the minor's estate AND proper guardianship papers must be provided to PowerLine.

If your beneficiary is a person with a legal disability, payment can be made to the court appointed conservator or guardian of that person's estate.

Changing Your Beneficiary

The form of payment you choose determines if you may change your beneficiary. If you choose a:

- **Single Life Annuity with Payments Certain –** You may change your primary and contingent beneficiary(ies) at any time, provided your spouse (if you are married) consents to the change.
- **Joint and Survivor Annuity –** You can never change your beneficiary. Your primary beneficiary is always the spouse to whom you are married on your payment start date. There is no contingent beneficiary for this form of payment.
- **Joint and Survivor Annuity with Payments Certain –** Your primary beneficiary is always the spouse to whom you are married on your payment start date. You can never change your primary beneficiary. You may name or change contingent beneficiaries at any time, provided your spouse (if you are married) consents to the change.

Benefit for Your Surviving Spouse

A benefit is automatically paid to your surviving spouse if you are vested under the Pension Plan and you die before your Benefit Commencement Date. If you die before your payments start, any optional form of payment you elected will be disregarded. If you die on or after your payment start date, the form of payment you chose before your death determines any benefit payable to your spouse.

Normal 50% Benefit

Generally, your spouse will receive lifetime payments equal to 50 percent of the benefit you would have received if you had chosen the 50 percent joint and survivor annuity.

Special 100% Benefit

The surviving spouse benefit is greater under certain circumstances. If you die:

- While you are an active Associate and after you reach at least age 55 with 15 years of service or age 65, or
- On or after you reach age 55 with 15 years of service or age 65 and within 90 days after your separation from service and before payment of your benefit has begun.

In these circumstances, your spouse will receive lifetime monthly payments equal to 100 percent of the benefit you would have received if you had chosen the 100 percent joint and survivor annuity. If you work beyond age 70 1/2, this special 100 percent benefit applies only to any additional benefit that has not already begun.

Who is considered my spouse under the Joint and Survivor Annuity once payments begin?

The person of the opposite gender to whom you are legally married on the date your payments begin, under the laws of the State in which you live or, if you live outside of the United States, under the laws of the state of Texas.

For the purposes of the Pension Plan, once the Joint and Survivor Annuity option payments begin, you cannot change your spouse. If you remarry after your benefit payments start, your new spouse is NOT considered your spouse under the Pension Plan.

When Your Spouse May Receive Benefit Payments

Your surviving spouse may choose to:

- Begin receiving monthly payments on the first of any month after the later of:
  - The date you would have turned 55, or
  - The date of your death.
- Delay the start of monthly payments up to the first of the month after you would have reached age 65.

If your surviving spouse chooses to receive payments before the date you would have turned 65, the benefit is reduced. The benefit won't be reduced as much if you die on or after you have qualified for an early retirement benefit or while you are an Associate (see page 14 for applicable reduction factors). The benefit will be reduced more if you die after you leave the Company but before you qualify for early retirement. (See page 15 for more information about reduction factors if you do not qualify for an early retirement benefit.)

Payment of Small Amounts to Your Surviving Spouse

If your monthly payment as of the later of your 55th birthday or the date of your death would have been:

- More than $100 – Your surviving spouse will receive a monthly benefit payment.
- $100 or less – The lump sum amount payable to your surviving spouse is:
  - $5,000 or less – Your surviving spouse will automatically receive a lump sum.
  - More than $5,000 – Your surviving spouse may elect to receive an immediate lump sum payment as soon as practical.

Obtaining Information for Divorce

As soon as you learn of any court order that may require you to provide retirement benefits for your former spouse, you should call QDRO Consultants (the plan's domestic relations order administrator) at 1-800-527-8481 and advise that you are a JCPenney Associate. QDRO Consultants will provide you with a free copy of the policy and procedures for the submission and approval of a QDRO.

Summary of Tax Considerations

The Pension Plan is intended to qualify for special tax treatment under Section 401(a) of the Internal Revenue Code ("the Code") and the related trust is intended to be exempt from federal income tax under Section 501(a) of the Code. The Company has received a determination letter issued by the Internal Revenue Service that the Pension Plan and the related trust qualify under those sections of the Code. If the Pension Plan continues to be qualified, current tax considerations include, but may not be limited to, those described in this section.

This section describes how some federal tax laws affect you and your Pension Plan benefit. It does not cover every situation that could affect you. These descriptions are based on current law, so changes in the law or its interpretation may affect the tax considerations described. Additional rules may apply if you have participated in the qualified retirement plan of another employer.

Also, state and local tax laws could apply to your situation. You should consult with a tax advisor familiar with your personal situation before you make any decisions that may affect your taxes. PowerLine cannot give tax advice. The Company does not guarantee or promise any specific tax outcome.

In general, you (or your beneficiary) won't be taxed for your pension benefits until you (or your beneficiary) actually receive payments.

Payment Rights Notice

By law, the Company must provide a Payment Rights Notice no later than 180 days before payment is made to you if you are eligible for a lump sum payment. The notice explains your payment options, your rollover rights and important tax information about your Pension Plan payment. When you receive a payment from the Pension Plan, you will also receive information to assist you in filing your federal income tax return. The notice will include information about the part of your payment that is taxable.

Taxation of Payments

Monthly Benefit Payments

You will have to pay state and federal taxes on the monthly payments (as ordinary income) in the year they are paid to you.

If you do not elect a withholding rate (which may be zero), federal income tax will be withheld assuming you are married and claiming three exemptions.

Lump Sum Payment

A lump sum payment is the payment, within one taxable year, of your total account balance under the Pension Plan because you die or your employment ends. Generally, you will have to pay tax on the amount you receive from the Pension Plan.

As an alternative, you may defer tax on a lump sum payment by making a rollover.

Depending on your circumstances, your lump sum distribution may be eligible for special income averaging treatment under current tax laws. For more information, consult your tax advisor.

If you are eligible for a lump sum payment, the taxable portion of your payment is subject to 20 percent income tax withholding.

Rollovers

You may be able to avoid taxes if you elect to roll over your Pension Plan payment into a traditional Individual Retirement Account (IRA), another qualified employer retirement plan, a 403(b) plan or a governmental 457 plan. You cannot roll payments into a Roth IRA, SIMPLE IRA or educational IRA.

Key Terms:

Payment Rights Notice – By law, the Company must provide a Payment Rights Notice no later than 180 days before payment is made to you if you are eligible for a lump sum payment. The notice explains your payment options, your rollover rights and important tax information about your Pension Plan payment.

Key Terms:

Direct Rollover – To avoid taxes, you may move money directly from the Pension Plan to another qualified plan or IRA. For a direct rollover, your check must be made payable to the qualified plan or IRA.

Note: If your total benefit is less than $200, it cannot be a direct rollover.

Any money that you roll over into one of these accounts or plans will not be taxed when you roll it over. However, a mandatory 20 percent income tax will be withheld from any money that you receive from the Pension Plan that you could have rolled over. If you roll over the money within 60 days of receiving it, you can defer the current income taxes. Keep in mind that unless you specify that you will roll over the money into an acceptable account, the taxes will be automatically withheld.

If you roll over only the 80 percent you actually receive, you will be taxed on the 20 percent that was withheld. To roll over the full amount of your eligible rollover, you can replace the 20 percent withheld with cash from other sources. But even if you make up the withheld amount and roll over 100 percent of the money, the 20 percent already withheld cannot be immediately refunded. Instead, it is treated the same as the taxes withheld on your wages.

In general, the taxable portion of any distribution will be eligible for rollover except for:

- Required minimum distributions. When you reach age 70 1/2 or retire, whichever is later, a certain portion of your payment cannot be rolled over because it is a "required" minimum payment that must be paid to you.
- Distributions paid at least annually over (1) your lifetime (or life expectancy) or (2) your lifetime and your beneficiary's lifetime (or the joint life expectancies of you and a beneficiary).

Consult your tax advisor before you make any decisions about rolling over your pension payment.

A surviving spouse or alternate payee may elect to roll over all or a part of a lump sum distribution they receive if you die. Other beneficiaries cannot choose a rollover if the payment is on or before December 31, 2006. However, for distributions after December 31, 2006, a non-spouse beneficiary can roll over a distribution to an IRA.

Note: The Pension Plan does not accept rollovers of funds.

10% Penalty Tax

A 10 percent non-deductible penalty tax applies to certain payments from the Pension Plan. The penalty tax will not apply to:

- A payment caused by your:
  - Separation from service at or after age 55
  - Disability, or
  - Death.
- Payments made under a Qualified Domestic Relations Order (QDRO) within the meaning of Section 414(p)(1) of the Internal Revenue Code
- Amounts distributed to pay an IRS levy

- Periodic payments you receive over your life expectancy or the combined life expectancies of you and your designated beneficiary, if the payments begin after you separate from service, or
- Amounts rolled over to an IRA or qualified plan within 60 days.

You must pay the penalty tax on your income tax return for the year in which the payment is made. This tax is in addition to any other income taxes payable on a payment.

Federal Estate Tax Considerations

When you die, the value of your remaining benefit, if any, is included in your gross estate for federal estate tax purposes. If benefits are payable to your spouse, they are generally eligible for the marital deduction. Also, you are generally entitled to a unified credit equal to a federal estate tax exemption (applicable exclusion amount). The exemption under current law is $2 million and is subject to change in future years. Federal estate tax law is very complex. You are encouraged to consult a qualified tax advisor.

State and Local Tax Considerations

The tax treatment of a distribution under state and local tax laws may differ from federal tax treatment. It is possible that certain tax elections available under federal law may have adverse state and local tax considerations.

Federal, state and local tax laws are complex and may change from time to time. Therefore, you are strongly encouraged to consult with a qualified tax advisor familiar with your personal situation.

Other Information About Your Pension Benefit

If Your Unit Closes

If your employment ends because of a qualified unit closing, you may be credited with additional months of age and service that count solely toward making you eligible for early or normal retirement. Following is the additional age and service that may be granted:

Your years of service on your termination date	Months of additional age and service you receive
Less than 10	0
At least 10 but less than 15	12
At least 15 but less than 20	18
20 or more	24

Note: Additional age and service are only used to help you become eligible for a pension benefit. They do not count as credited service or vesting service and do not affect when your benefits may begin, how much your pension will be or for any other purpose.

Key Terms:

Qualified Unit Closing – When business at a store or other business unit of a participating employer completely or partially ends, and the Associates who work there are eligible for separation pay.

Example: Jane is 54 with 14 years of service when the qualified unit closing occurs. She receives an additional 12 months (1 year) of both age and service. She now qualifies for an early retirement benefit. She can begin receiving an early retirement benefit on the later of the first of the month after:

- Her 55th birthday, or
- Her employment ends.

Legal Limits

IRS regulations limit the amount that may be paid under plans like the Pension Plan and the amount of pay that may be used in determining your plan benefit. Generally, these limits apply only to the highest paid Associates. You will be notified if these limits affect you.

Overpayments

If an error or omission is discovered in the determination of your benefit or in the benefit paid to you, the Benefits Administration Committee (BAC) will make equitable adjustments or take such other action, as it deems necessary or appropriate under the circumstances. Equitable adjustments or other action may include, but are not limited to:

- Requiring you to repay the Pension Plan in part or in full for any overpayment
- Reducing your future payments in an amount and for as long as the BAC determines to be appropriate in order to recover any overpayment in part or in full, or
- Forgiving all or any portion of any benefit overpayment.

Pension Plan Funding and Investment

The Company makes all contributions to the Pension Plan. Plan assets and liabilities are evaluated periodically, and the Company makes contributions to keep the plan on a sound financial basis. Federal law requires that an independent professional called an actuary determine each year how much the Company must contribute to cover future benefits the plan is expected to pay.

Pension Plan assets are invested based on investment policies established by the Benefit Plans Investment Committee.

Important Contacts

Role	Contact	Responsibilities	Address
Benefits Administration Services	PowerLine	• Answers general questions about your pension benefits	PowerLine JCPenney Benefits Resource Center 100 Half Day Road Lincolnshire, IL 60069-1458 1-888-890-8900 Your Benefits Homepage or www.jcpenneypowerline.com
Plan Sponsor	J.C. Penney Corporation, Inc. Employer Identification Number (EIN): 13-5583779	• Maintains funded status of the Pension Plan	J.C. Penney Corporation, Inc. 6501 Legacy Drive Plano, TX 75024-3698 972-431-1000
Plan Administrator	Benefits Administration Committee (BAC)	• Determines eligibility for benefits • Completes reporting and disclosure under ERISA • Interprets Pension Plan terms and provisions • Reviews denied claims	Attn: Secretary, BAC J.C. Penney Corporation, Inc. 6501 Legacy Drive Plano, TX 75024-3698 972-431-1000
Plan Trustee	State Street Bank and Trust Company	• Receives all Company contributions • Invests contributions according to investment directions • Holds contributions and investment earnings in trust for participants • Makes payments and distributions out of those assets	Attn: Master Trust Division – JCPenney One Enterprise Drive North Quincy, MA 02171
Claims	Benefit Determination Review Team (BDRT)	• Acts as designee of BAC • Makes final decision on claims	JCPenney BDRT P.O. Box 1407 Lincolnshire, IL 60069-1407 PowerLine: 1-888-890-8900 8 a.m. – 5 p.m. Monday – Friday, Central time
Appeals	Benefits Administration Committee (BAC)	• Makes final decision on appeals	Attn: Secretary, BAC J.C. Penney Corporation, Inc. 6501 Legacy Drive Plano, TX 75024-3698 972-431-1000

Important Contacts

Role	Contact	Responsibilities	Address
Agent for Service of Legal Process **Note:** Legal process may also be served on the Plan Administrator or Plan Trustee.	CT Corporation System	• Receives all legal process notices	CT Corporation System 350 N. St. Paul Street, Suite 2900 Dallas, TX 75201
Plan Investments	Benefit Plans Investment Committee (BPIC)	• Acts as named fiduciary for control and management of Pension Plan assets • Establishes and implements overall investment objectives, philosophy and policy relating to investment and reinvestment of Pension Plan assets • Appoints investment managers	Attn: Secretary, Benefit Plans Investment Committee J.C. Penney Corporation, Inc. 6501 Legacy Drive Plano, TX 75024-3698 972-431-1000
Oversight of Pension Plan	Human Resources Committee (HRC)	• Responsible for overall administration and operation of the Pension Plan • Oversees the administration and operation of the Pension Plan by the BAC • Oversees the management of assets by the BPIC • Appoints trustees and auditors • Amends the Pension Plan except any amendment that would substantially increase the cost to the Company	Attn: Secretary, Human Resources Committee J.C. Penney Corporation, Inc. 6501 Legacy Drive Plano, TX 75024-3698 972-431-1000
Divorce Decrees	QDRO Consultants	• Determines if a court order is a Qualified Domestic Relations Order (QDRO)	QDRO Consultants 110 South Huntington Street Medina, OH 44256 1-800-527-8481

Administrative Information

Plan Information

Official Name	J.C. Penney Corporation, Inc. Pension Plan
Plan I.D. Number	001
Type of Plan	Tax-qualified defined benefit plan
Plan Tax I.D. Number	13-5583779
Plan Year	January 1 to December 31

Plan Amendments

The Human Resources Committee or the Board of Directors of the Company has the right to amend the Pension Plan whenever it may deem advisable or appropriate. The Board of Directors of the parent Company (J.C. Penney Company, Inc.) must approve any amendment to the Pension Plan that would substantially increase its cost to the Company. Amendments can be made through written resolutions by the Human Resources Committee (HRC), Board of Directors of the Company or Board of Directors of the parent company. Amendments can be made without prior notice to, or approval by, Pension Plan participants. Amendments can become effective before, on or after the date of the action by the Committee or the Board.

No amendment will be effective to the extent that it has the effect of decreasing a participant's accrued benefit or of eliminating or reducing an early retirement benefit, a retirement-type subsidy or an optional form of benefit, except to the extent required by law.

Plan Termination

Although the Company expects to continue the Pension Plan, the Board of Directors of the Company or the Board of Directors of J.C. Penney Company, Inc. has the right to terminate the Pension Plan, in whole or in part, for any reason.

A participating employer also has the right to withdraw from participation in the Pension Plan with the approval of the HRC or Board of Directors of the Company or J.C. Penney Company, Inc. If the Pension Plan is terminated, all affected participants who are Associates of a controlled group member at the time the Pension Plan is terminated will automatically become vested in their accrued pension to the extent it is funded. If plan assets are not enough to pay all vested benefits, the remaining funds will be allocated among participants as required by law. If there is a partial termination of the Pension Plan, as determined by the Company, those participants who cease to participate because of the partial termination will become 100 percent vested in their accrued benefit, to the extent funded, as of such date.

If the Pension Plan Becomes "Top Heavy"

As required by law, different plan provisions go into effect if the Pension Plan becomes top-heavy. The Pension Plan is top-heavy if more than 60 percent of benefits from the Pension Plan are payable to highly paid Associates. You will be notified if the Pension Plan becomes top-heavy.

Severability of Pension Plan Provisions

Each Pension Plan provision is independent and does not affect the validity of any other Pension Plan provision. If any provision is found to be invalid or unenforceable, the remaining Pension Plan provisions remain fully effective.

Mistaken Contributions

If a contribution is made because of a factual mistake, the contribution (reduced by any trust fund losses attributable to the contribution) will be returned by the Trustee to the participating employer within one year after the mistaken contribution was made.

No Right of Employment

Nothing contained in this book or in the provisions of the Pension Plan, creates or should be inferred to create an employment contract.

If You Transfer Between Companies

If you transfer to a company owned by the Company that has not adopted the Pension Plan (a “non-participating employer”), you remain a plan participant and you continue to earn vesting service. However, you may not take a final distribution of your benefits under the Pension Plan at that time. In addition, if you transfer to a non-participating employer after you become a Pension Plan participant, your service with that employer will count toward your credited service under the Pension Plan if:

- The non-participating employer did not have a pension plan for you, and
- You transferred back to a participating employer.

If you transfer from a non-participating employer to a participating employer, your hours of service and service with the non-participating employer count toward your eligibility and vesting under the Pension Plan.

Your Benefit Cannot Be Assigned

Your benefit under the Pension Plan belongs to you (or your beneficiary) and generally may not be sold, assigned, transferred, pledged or garnished, except under a Qualified Domestic Relations Order (QDRO) or an enforceable tax levy by the Internal Revenue Service.

If a QDRO sets aside a portion of your benefit for payment to your ex-spouse or your children, send the order to PowerLine. If the domestic relations order is determined to be qualified by the Plan Administrator, you will be notified in writing and you will have no further right to that portion of your pension. If you would like to receive a free copy of the policy and procedures for the submission and approval of a domestic relations order, contact QDRO Consultants at the address shown on page 32.

Protection of Pension Plan Assets

The assets of the Pension Plan are held in a separate trust set up exclusively to pay Pension Plan benefits and administrative expenses. All benefits are paid from the trust. The assets of the Pension Plan are separate from the Company's assets and cannot be claimed by its creditors. Independent trustees and auditors monitor the trust funds to be sure the funds are properly managed. An actuary also monitors the Pension Plan trust fund.

Participating Employers

For questions, contact the Plan Sponsor at the address on page 31.

J.C. Penney Corporation, Inc. (excluding the Amanda Fielding division with respect to employees of that division whose date of hire is on or after January 1, 1989)	**Eckerd Corporation** (from and after January 1, 1999, and until July 31, 2004)	**EDC Drug Stores, Inc.** (formerly Kerr Drug Stores, Inc.) (from and after February 10, 1995, and until July 31, 2004)	**Fay's Incorporated** (from and after January 1, 1999 until July 31, 2004) (merged into Eckerd Corporation as of 11:59 p.m. on December 31, 1998)
Genovese Drug Stores, Inc. (from and after January 1, 2000, and until July 31, 2004)	**Insurance Consultants, Inc.** (from and after April 1, 1999, and until June 18, 2001)	**J.C. Penney Casualty Insurance Company** (until June 18, 2001)	**J.C. Penney Funding Corporation**
J.C. Penney Life Insurance Company (until June 18, 2001)	**J.C. Penney National Bank** (from and after August 1, 1994, and until December 17, 1997)	**J.C. Penney Private Brands, Inc.** (from and after January 1, 2000)	**JCPenney Business Services, Inc.** (until January 24, 1996)
JCPenney Card Bank, National Association (from and after December 17, 1997 until September 30, 2000)	**JCPenney Portfolio, Inc.** (dissolved July 18, 1995)	**JCPenney Puerto Rico, Inc.**	**JCP ECommerce L.P.** (from and after December 24, 2000)
JCP Internet Commerce Solutions, Inc. (from and after February 1, 1999)	**JCP Logistics L.P.** (from and after February 1, 1999)	**JCP Media L.P.** (from and after February 1, 1999)	**JCP Procurement L.P.** (from and after February 1, 1999)
JCP Publications Corp. (formerly JCP Media Corporation) (from and after April 3, 1996)	**StepInside, Inc.** (from and after January 1, 2000)	**JCP Overseas Services, Inc.** (from and after July 1, 1996)	**JCP Receivables, Inc.**
Quest Membership Services, Inc. (from and after January 1, 1999 and until June 18, 2001)	**TDI Managed Care Services, Inc.** (from and after March 1, 1994, and until July 31, 2004)	**Thrift Drug, Inc.** (until July 31, 2004)	**Thrift Drug Services, Inc.** (until July 31, 2004)

Your Rights Under the Law

The Pension Plan adheres to the requirements under the Employee Retirement Income Security Act of 1974 (ERISA). As a participant in the J.C. Penney Corporation, Inc. Pension Plan you are entitled to certain rights and protections under ERISA. ERISA provides that all Pension Plan participants shall be entitled to:

Receive Information About Your Plan and Benefits

Examine, without charge, at the Plan Administrator's office and other specified locations, such as worksites and union halls, all documents governing the Pension Plan, including insurance contracts and collective bargaining agreements and a copy of the latest annual report (Form 5500 Series) filed by the Pension Plan with the U.S. Department of Labor and available at the Public Disclosure Room of the Employee Benefits Security Administration.

Obtain, upon written request to the Plan Administrator, copies of documents governing the operation of the Pension Plan, including insurance contracts and collective bargaining agreements and copies of the latest annual report (Form 5500 Series) and updated summary plan description. The administrator may make a reasonable charge for the copies.

Receive a summary of the Pension Plan's annual financial report. The Plan Administrator is required by law to furnish each participant with a copy of this summary annual report.

Obtain a statement telling you whether you have a right to receive a pension at normal retirement age (age 65) and if so, what your benefit would be at normal retirement age if you stop working under the plan now. If you do not have a right to a pension, the statement will tell you how many more years you have to work to get a right to a pension. This statement must be requested in writing and is not required to be given more than once every 12 months. The plan must provide the statement free of charge. If you do not have access to Your Benefits Homepage or www.jcpenneypowerline.com, call PowerLine at 1-888-890-8900 and follow the prompts. Using a cordless telephone or cell phone can cause the system to misread the password/PIN.

Note: If you are calling outside the United States, the telephone number is 847-883-0584. This is not a toll free number.

Remember your user ID and password and keep them in a safe place. The next time you call PowerLine you will use your new user ID and current password.

Prudent Actions by Plan Fiduciaries

In addition to creating rights for Pension Plan participants, ERISA imposes duties upon the people who are responsible for the operation of the Pension Plan. The people who operate your Pension Plan, called "fiduciaries" of the plan, have a duty to do so prudently and in the interest of you and other Pension Plan participants and beneficiaries. No one, including your employer, your union or any other person, may fire you or otherwise discriminate against you in any way to prevent you from obtaining a pension benefit or exercising your rights under ERISA.

Enforce Your Rights

If your claim for a pension benefit is denied or ignored, in whole or in part, you have a right to know why this was done, to obtain copies of documents relating to the decision without charge and to appeal any denial, all within certain time schedules.

Under ERISA, there are steps you can take to enforce the above rights. For instance, if you request a copy of plan documents or the latest annual report from the Pension Plan and do not receive them within 30 days, you may file suit in a Federal court. In such a case, the court may require the Plan Administrator to provide materials and pay you up to $110 a day until you receive the materials, unless the materials were not sent because of reasons beyond the control of the Plan Administrator.

If you have a claim for benefits which is denied or ignored, in whole or in part, you may file suit in a state or Federal court after you complete the claims and appeals process. In addition, if you disagree with the Pension Plan's decision or lack thereof concerning the qualified status of a domestic relations order, you may file suit in Federal court. If it should happen that plan fiduciaries misuse the Pension Plan's money or if you are discriminated against for asserting your rights, you may seek assistance from the U.S. Department of Labor or you may file suit in a Federal court. The court will decide who should pay court costs and legal fees. If you are successful, the court may order the person you have sued to pay these costs and fees. If you lose, the court may order you to pay these costs and fees, for example, if it finds your claim is frivolous.

Every right of action by any participant, former participant or beneficiary against the Pension Plan, trust or plan fiduciary must be brought no later than three years from the date of separation from service or receipt of notice of denial of a claim for benefits, if earlier, except as otherwise required by ERISA. If ERISA's limitations on actions do not apply, the laws of the State of Texas with respect to limitations of legal action shall apply. Under Texas law, legal action must be brought no later than four years after the date the action accrues.

Assistance with Your Questions

If you have any questions about your Pension Plan, you should contact the Plan Administrator. If you have any questions about this statement or about your rights under ERISA or if you need assistance in obtaining documents from the Plan Administrator, you should contact the nearest office of the Employee Benefits Security Administration, U.S. Department of Labor, listed in your telephone directory or the Division of Technical Assistance and Inquiries, Employee Benefits Security Administration, U.S. Department of Labor, 200 Constitution Avenue N.W., Washington, D.C. 20210. You may also obtain certain publications about your rights and responsibilities under ERISA by calling the publications hotline of the Employee Benefits Security Administration.

Pension Benefit Guaranty Corporation (PBGC) Insurance

Your benefit under the Pension Plan is insured by the Pension Benefit Guaranty Corporation (PBGC), a federal insurance agency. If the Pension Plan terminates (ends) without enough money to pay all benefits, the PBGC will step in to pay pension benefits. Most people receive all of the pension benefits they would have received under their plan, but some people may lose certain benefits. Even if certain of your benefits are not guaranteed, you still may receive some of those benefits from the PBGC depending on how much money the Pension Plan has and on how much the PBGC collects from employers.

The PBGC guarantee generally covers:

- Normal and early retirement benefits
- Disability benefits if you become disabled before the plan terminates, and
- Certain benefits for your survivors.

The PBGC guarantee generally does *not* cover:

- Benefits greater than the maximum guaranteed amount set by law for the year in which the plan terminates
- Some or all benefit increases and new benefits based on plan provisions that have been in place for fewer than five years at the time the plan ends
- Benefits that are not vested because you have not worked long enough for the Company
- Benefits for which you have not met all of the requirements at the time the plan terminates
- Certain early retirement payments (such as supplemental benefits that stop when you become eligible for Social Security) that result in an early retirement monthly benefit greater than your monthly benefit at the plan's normal retirement age, and
- Non-pension benefits, such as health insurance, life insurance, certain death benefits, vacation pay and severance pay.

For more information about the PBGC and the benefits it guarantees, ask your Plan Administrator or contact the PBGC's Technical Assistance Division, 1200 K Street N.W., Suite 930, Washington, D.C. 20005-4026 or call 202-326-4000 (not a toll-free number). TTY/TDD users may call the federal relay service toll-free at 1-800-877-8339 and ask to be connected to 202-326-4000. Additional information about the PBGC's pension insurance program is available through the PBGC's web site on the Internet at http://www.pbgc.gov.

Claims and Appeals

You must complete all levels of claims and appeals provided here in order to pursue an ERISA claim in court.

Filing a Claim

If you do not receive the benefits you believe you have earned under the Pension Plan, you may file a claim with the Benefit Determination Review Team (BDRT). Your claim for benefits or eligibility to participate in the Pension Plan should be submitted on the PowerLine Claim Initiation Form. You can request this form by calling PowerLine at 1-888-890-8900.

The BDRT will respond to your claim within 60 days of receiving the claim (or within 120 days when special circumstances require more time for a fair decision). The BDRT will notify you before the end of the initial 60-day period if an extension is needed to review your claim. An extension can be up to 60 days.

If your claim is denied, the BDRT will:

- State the specific reason for the denial
- Cite the Pension Plan provisions on which the denial is based
- Advise you of any additional information or material you need to provide and an explanation of why such information or material is necessary
- Advise you of the Pension Plan's claim review procedures, the time limits applicable to such procedures and the appeal rights related to your claim, and
- Advise you of your right to file suit under ERISA if your appeal is denied.

Filing an Appeal

Only you, your representative, your beneficiary or your estate's representative (if you have died) have the right to submit an appeal for you. You may appeal in writing to the BAC or a person designated by the BAC to request a review of your denied claim for benefits or eligibility to participate in the Pension Plan. You must file your appeal within 60 days from the date you receive notice of the denial of your claim. If you do not request an appeal of a denied claim within 60 days after you receive notice of your denied claim, no further action will be taken and you cannot request an appeal at a later date.

You may request, in writing, copies of all documents, records and other information relevant to your claim free of charge. You may also request that your identity be withheld when your appeal is presented.

As part of your right to appeal, you must:

- Send your written request for a review of your denied Pension Plan claim to the BAC at the address for the Plan Administrator shown on page 31
- Give your name, Social Security number, unit number, location and the plan name
- Discuss all of the reasons for your request for review and list any facts that support your request, and
- Provide any additional information you believe will be helpful in reviewing your appeal.

The decision of the BAC is final and binding. A denial will:

- Explain the specific reasons for the denial
- Name the plan provisions on which the decision was based
- Notify you of your right to have reasonable access to, and copies of, all documents, records and other information relevant to your claim, upon your request and free of charge, and
- Notify you of your right to file suit under ERISA.

The BAC must give you its final decision in writing within 60 days after receiving your written appeal or within 120 days when special circumstances require more time for a fair decision. You will be notified if an extension is needed.

Provisions Relating to Financial Services Participants

Effective January 1, 1990, the JCPenney Financial Services Pension Plan (the “Financial Services Plan”) was merged into the JCPenney Pension Plan. The normal retirement benefit for certain former participants in the Financial Services Plan is calculated under a different formula.

Normal Retirement Benefit

Current Plan Formula

If you participated in the Financial Services Plan before January 1, 1990, and have service with a participating employer (including disability service) after December 31, 1988, your normal retirement benefit payable at age 65 is based on the current plan formula:

75% times average final pay

TIMES

credited service earned under the JCPenney Plan

PLUS

0.90% times average final pay

TIMES

credited service earned under the Financial Services Plan

PLUS

0.50% times the portion of average final pay that is greater than your covered compensation

TIMES

total credited service up to a maximum of 35 years

Note: The maximum credited service that can be used in the pension formula is 35 years, even if your actual credited service is greater.

Alternate Formulas

The plan formula for the normal retirement benefit under the Pension Plan and the Financial Services Plan was changed effective January 1, 1989. A benefit was calculated at that time for most participants for credited service through December 31, 1989, under the Pension Plan and the Financial Services Plan formulas in effect immediately prior to the change (the “prior plan formulas”). If you were a participant of the JCPenney Pension Plan and/or the Financial Services Plan on or before December 31, 1989, and were not a super highly compensated Associate as described on page 42, you receive the greater of these two benefit amounts:

Benefit Amount #1
Your benefit that had accrued as of December 31, 1989, under the applicable prior plan formula in effect on December 31, 1988, including its actuarial assumptions but using the early retirement age and factors described on page 14 for credited service through December 31, 1989, **PLUS** your benefit under the current JCPenney Plan formula for credited service after December 31, 1989 (up to a maximum of 35 years of credited service under both formulas combined)

OR

Benefit Amount #2
Your benefit calculated under the current plan formula for all your credited service up to 35 years.

Formula for Super Highly Paid Associates in 1988 and 1989

If your 1988 pay was more than $78,353 OR you were among the 100 highest-paid Associates in 1989 and your 1989 pay was more than $81,720, the prior plan formulas are applied through December 31, 1988, not December 31, 1989. Your benefit is the greater of the two benefits described earlier under the alternate formula, with the following exception for service in 1989:

The current JCPenney Plan formula is applied for credited service after December 31, 1988, unless you have credited service under the Financial Services Plan after that date. In this case, you will be entitled to a benefit equal to 0.90% of average final pay *plus* 0.50% of average final pay in excess of your covered compensation, *times* your credited service for 1989, with current JCPenney Plan formula then being applied for credited service after December 31, 1989.

Note: Credited service is limited to 35 years under both formulas combined.

Additional Retirement Benefit

In addition to the benefit calculated under either the current plan formula or the alternate plan formula, you may be entitled to receive an additional retirement benefit if you have at least 25 years of credited service. See "Additional Retirement Benefit" (page 12) for more information.

Optional Forms of Payment

Joint and Survivor Option

In addition to the forms of payment described on pages 19-21, if you have a benefit under the Financial Services Plan as of December 31, 1989, you can elect (with your spouse's consent) a joint and survivor annuity naming anyone as your beneficiary. This option does not apply to any benefits that you earn after January 31, 1995.

Under this option, a reduced monthly pension is payable for your lifetime, with payments of 100 percent, 75 percent or 50 percent of your monthly payment (as you choose) continuing after your death to your beneficiary. You may name only one beneficiary under this option. Also, if you die, your beneficiary may choose to continue receiving monthly payments or to receive a lump sum payment.

Lump Sum Option

If you were a participant on December 31, 1976, in the prior pension plan of J.C. Penney Life Insurance Company, you may choose (with your spouse's consent) to receive a lump sum payment of your benefit from this prior plan. The rest of your benefit will be paid in the normal form or any optional form of payment you choose under the Pension Plan.

Provisions Relating to Drugstore Participants

The Pension Plan benefit for a former drugstore Associate, who was a participant in the Pension Plan, is determined under the formulas described in the "How the Pension Plan Works" section beginning on page 11.

Participation in the Pension Plan by drugstore employees was frozen as of July 31, 2001. No future benefit will accrue under the Pension Plan for any drugstore participant after July 31, 2001. If you were a drugstore employee and a participant in the Pension Plan on July 31, 2001, you became 100 percent vested in the Pension Plan on July 31, 2001, regardless of your actual years of service. Generally, the benefit of each drugstore employee who is a participant in the Pension Plan as of July 31, 2001, will be determined as if he terminated employment on July 31, 2001, and earned no additional compensation or credited service after that date and without taking into account any increase in the participant's covered compensation after that date. Certain drugstore employees who were Associates on July 31, 2001, will have their Pension Plan benefit adjusted to take into account their average final pay as of the earlier of:

- The date they actually retire or otherwise terminate employment from the Company's drugstore operations, or
- July 31, 2004.

With the July 31, 2004, sale of the Company's drugstore operations, employees of the drugstore operations were no longer employed by the Company and thus had a termination of employment under the Pension Plan. For information on receiving your benefits and beneficiaries, see the material starting on page 17.

Key Terms

Appeal – A request initiated by you, your representative, your beneficiary or your estate's representative, to have a denied claim for benefits or eligibility for benefits, reviewed by the Benefits Administration Committee.

Associate – A person who is employed by the Company or any other member of the Company's controlled group as defined in the Code and paid through the Company's or a controlled group member's payroll system. The term Associate does not include a person who is classified as an independent contractor (whether or not this is consistent with IRS classification or judicial determination) by the Company or a controlled group member for purposes of Federal income tax reporting and withholding. The term Associate does not include a person who performs services for the Company or a controlled group member as a "leased employee" within the meaning of Code section 414(n) or who performs services through an agreement with a leasing organization.

Average Final Pay – Your average pay for the five full consecutive calendar years of service as a plan participant — out of your last 10 full consecutive calendar years of service (all of your last full consecutive calendar years of employment, if less than 10) with the Company or any of its subsidiaries — that produces the highest average.

BAC – See Benefits Administration Committee.

Beneficiary – Any person, persons or entity designated by a participant to receive any benefits payable in the event of the participant's death. A married participant's spouse shall be deemed to be the beneficiary unless and until the participant elects another beneficiary with spousal consent.

Benefit Commencement Date – The date as of which you begin receiving retirement benefits.

Benefits Administration Committee – The committee named to administer and supervise the Pension Plan.

Claim – Your request for benefits or eligibility for benefits submitted to the Benefit Determination Review Team (BDRT).

Code – The Internal Revenue Code of 1986, as amended from time to time and the regulations that apply under the Code.

Company – J.C. Penney Corporation, Inc., a Delaware corporation or its successor(s). Also see Participating Employer.

Consecutive Calendar Years – Consecutive calendar years include calendar years of service or credited service before and after a separation from service or before and after one or more years in which you did not receive compensation for the entire year. Calendar years that include a period of disability service will not be used in determining your average final pay.

Covered Compensation – The average (without adjusting for inflation) of the Social Security taxable wage bases in effect for each calendar year during the 35-year period ending on December 31st of the year you reach your Social Security retirement age. To find out your covered compensation, call the local office of the Social Security Administration or its national information line at 1-800-772-1213.

Credited Service – The amount of service used to determine your Pension Plan benefit. Credited service consists of your years and months of service as an active plan participant. (Also see Participant.) You receive a full month of credited service for any partial month of service. Credited service also includes certain leaves of absence but does not include any period after your employment ends. For Associates who participated in the plan on or before January 1, 1976, credited service is measured from the first of the month following one year of employment.

Direct Rollover – To avoid taxes, you may move money directly from the Pension Plan to another qualified plan or IRA. For a direct rollover, your check must be made payable to the qualified plan or IRA.

Disability Service – The full calendar months during which you are disabled and not working for the Company. Your disability must begin while you are an Associate. You receive disability service so long as you are totally and permanently disabled and you qualify for Social Security disability benefits (or, in the opinion of the Company's disability plans' administrator, you would qualify for Social Security disability benefits, but you have not satisfied the age requirement or do not have enough quarters of Social Security coverage to qualify).

Early Retirement Date – The date on which a participant (1) has reached age 55 and has completed at least 15 years of service or (2) with respect to the benefit accrued under the Pension Plan by a participant who first participated in the Pension Plan before January 1, 1989, has reached age 60 without regard to his years of service.

Entry Date – The first day of each calendar quarter during the plan year.

ERISA – The Employee Retirement Income Security Act of 1974, as amended from time to time and the regulations that apply under that Act.

Full Calendar Year – Generally, a full calendar year is a calendar year in which you receive compensation for the entire year.

Hour of Service – An "hour of service" is each hour for which you are paid or entitled to be paid — including vacation time, Illness Recovery Time, overtime, holidays, jury duty, an approved leave of absence or layoff. If you are not paid on an hourly basis, you are credited with 45 hours of service per week.

IRS – The Internal Revenue Service of the United States.

Leave of Absence – Any approved paid or unpaid period of time during which a participant is not working for the Company, but is still employed by the Company.

Lump Sum – A single, one-time payment of the total present value of your benefit.

Military Leave – A leave of absence for active duty with the uniformed services of the United States, as defined in the Uniformed Service Employment and Reemployment Rights Act of 1994 (Public Law 103-353), as amended, and the regulations that apply under this Act.

Normal Form of Payment –

- *If you are not married,* the normal form of payment is a single life annuity — a monthly benefit paid to you for your lifetime. After your death, no further payments are made.
- *If you are married,* the normal form of payment is a qualified joint and survivor annuity — a monthly benefit paid to you for your lifetime. Following your death, 50 percent, 75 percent or 100 percent of that amount (as you choose) is paid to your spouse, if surviving, for his or her lifetime.

Normal Retirement Age – Age 65.

Normal Retirement Benefit – Your normal retirement benefit is the amount payable beginning on the first of the month following your 65th birthday (your normal retirement date). Your benefit may be calculated under the current plan formula or an alternate plan formula.

Normal Retirement Date – The first of the month after you turn 65.

Participant – An eligible Associate or former Associate who participates in the plan in accordance with the eligibility and participation requirements of the Pension Plan and who has not yet received a distribution of the entire amount of his vested benefits under the plan. An inactive participant is an Associate who has met the eligibility requirements, has not terminated his employment but has ceased to participate pursuant to the terms of the Pension Plan. For example, an inactive participant includes an Associate employed by a non-participating employer.

Participating Employer – The Company and each corporation or unincorporated trade or business that is a member of the Company's controlled group that has been designated as a participating employer and has not discontinued or revoked its participation in the Pension Plan.

Pay – Your regular salary or wages, including commissions, overtime, cash incentive payments, any before-tax dollars you use for coverage under the JCPenney Medical and Dental Plans, contributions to the Dependent Care Spending Account and the Health Care Flexible Spending Account Plan, amounts deferred under the Company's Mirror Savings Plan and deposits to the JCPenney 401(k) Savings Plan. Pay generally does not include items such as non-cash prizes, relocation payments, clothing allowance, income from stock options and awards, separation pay, and expatriate and foreign service allowances.

Payment Rights Notice – By law, the Company must provide a Payment Rights Notice no later than 180 days before payment is made to you if you are eligible for a lump sum payment. The notice explains your payment options, your rollover rights and important tax information about your Pension Plan payment.

Pension Plan – The J.C. Penney Corporation, Inc. Pension Plan as amended from time to time.

Plan Year – The 12-month period beginning on January 1st and ending on December 31st for which the records of the Pension Plan are maintained.

QDRO – See Qualified Domestic Relations Order.

Qualified Domestic Relations Order (QDRO) – A final court judgment, decree or order which creates the existence of an alternate payee's right to receive all or a portion of the benefits payable with respect to a participant under the Pension Plan.

Qualified Unit Closing – When business at a store or other business unit of a participating employer completely or partially ends, and the Associates who work there are eligible for separation pay.

Representative – A person the Associate authorizes in writing to act on his/her behalf. The Pension Plan will also recognize a legally valid power of attorney or a court order giving a person authority to take an act on an Associate's behalf.

Service – Each period of time, calculated in full days, beginning on the date the Associate is first credited with an hour of service (or is again credited with an hour of service following his reemployment) and ending on the date of the Associate's separation from service. For vesting and eligibility service, service shall include periods of employment with an affiliate that is not a participating employer. An Associate's service will include each period of absence of less than 365 consecutive days following a separation from service, or if the Associate is absent from service for any reason other than termination, retirement, discharge or death and before the first anniversary of such absence quits, retires or is discharged, each period of absence of less than 365 consecutive days following the date the Associate is first absent from service. Service shall also include:

- Periods of disability service
- Any periods during which the Associate is in the service of the armed forces of the United States and his reemployment rights are guaranteed by law, provided he returns to employment with a controlled group member within the time such rights are guaranteed, and
- With the consent of the Company, each period of temporary governmental service that does not exceed a period of two years.

A year of service means each period of 365 days in an Associate's period of service, determined by aggregating periods of service that are not consecutive and disregarding any fractional year of service.

Social Security Retirement Age –

If you were born ...	Retirement age is ...
Before January 1, 1938	65
On January 1, 1938 through December 31, 1954	66
After December 31, 1954	67

Spouse – The person of the opposite gender to whom a participant or a former participant is legally married on the later of the Benefit Commencement Date or the date the participant files his/her Pension Election Authorization Form, under the laws of the State in which the participant is domiciled, or if the participant is domiciled outside the United States, under the laws of the State of Texas.

Vesting – Vesting is earning rights to your benefit. You earn rights or vest in your pension benefit based on your years of vesting service. You become fully vested after five years of service or reaching age 65 while an Associate.

Year of Eligibility Service – Generally, a 12-consecutive-month eligibility period in which you complete at least 1,000 hours of service with the Company or any of its subsidiaries.

JCPenney
WINNING TOGETHER Principles

associates .....
We value, develop, and reward the contributions and talents of all associates

integrity .....
We act only with the highest ethical standards

performance .....
We provide coaching and feedback to perform at the highest level

recognition .....
We celebrate the achievements of others

teamwork .....
We win together through leadership, collaboration, open and honest communication, and respect

quality .....
We strive for excellence in our work, products, and services

innovation .....
We encourage creative thinking and intelligent risk taking

community .....
We care about and are involved in our communities

we do this for our .....

customers .....
We build lasting relationships by offering superior service and value

shareholders .....
We aspire to superior financial performance

JCPenney

WINNING TOGETHER

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