401(k) Savings Plan Changes - Effective March 1, 2008

Frequently Asked Questions

Table of Contents

The 401(k) Savings Plan Is Changing! **Page 1**

No Action Is Needed **Page 2**

Some Savings Balances Will Map (move) to New Investments on Feb. 29 **Page 2**

Defaulted Balances Will Map (move) from the Interest Income Fund **Page 2**

You Have Easy Online Access to Your 401(k) Savings Plan Account **Page 3**

- **Enroll**
- **See your investments**
- **Change your elections or transfer balances**

A Self-Directed Brokerage Window Will Be Offered **Page 3**

Review Fees & Historical Performance of 401(k) Savings Plan Investments **Page 5**

Vanguard Fiduciary Trust Company (VTFC) Target Retirement Trusts **Page 6**

The 401(k) Savings Plan Is Changing!

Q: Why is the 401(k) Savings Plan* Changing?

A: The 401(k) Savings Plan will soon offer more types of investments. Associates with different levels of time and investment knowledge may prefer different styles of investing for retirement. The updated Plan will offer a wider range of investment choices for all Associates.

*J. C. Penney Corporation, Inc., Savings, Profit-Sharing and Stock Ownership Plan, referred to as the 401(k) Savings Plan.

Q: What's changing?

A: In the past, your 401(k) Savings Plan offered mutual funds only. Now, you'll be able to choose a Target Retirement Trust from Vanguard, mutual funds, or even a brokerage account to work toward your retirement savings goals! (See page 4 if you need the definition of a mutual fund.)

Q: How can I learn more about the changes?

A: Watch the Savings Plan Changes Brown Bag Broadcast on January 16, 2008, at 11:30 AM CT. Details about how to view for Field or Home Office Associates are below. You'll also receive a 401(k) Savings Plan Changes guide at your home address in mid- to late-January.

- Field Associates can view the January 16 broadcast live on jLearn. The edited broadcast will be posted to jLearn by Friday, January 25.
- Home Office Associates can view the January 16 broadcast live from jWeb or any television linked to JCPenney satellite (channels 3 or 6). Audio of the broadcast will be posted to jWeb by Friday, January 25.

Q: When will the changes happen?

A: New investments will be available on March 1, 2008. Balances in some investments will map (move) to other investments on February 29, 2008. See your 401(k) Savings Plan Changes guide or the following questions for more information.

No Action Is Needed

Q: Will I need to take any action?

A: No. You don't need to take any action unless you want to change your investments before February 29, 2008. See your 401(k) Savings Plan Changes guide or the following questions for more information.

Some Savings Balances Will Map (move) to New Investments on Feb. 29

Q: What is a Tier in the 401(k) Savings Plan?

A: "Tiers" were used to organize types of funds in the old 401(k) Savings Plan design.

Q: What will happen to my investments in Tier 1 Funds?

A: Tier 1 Funds are being replaced by Target Retirement Trusts managed by Vanguard. If you currently have savings in any of the Tier 1 Funds, your investment will map (move) to one of the new Target Retirement Trusts, according to your age. You don't need to take any action – unless you want your savings to go into the Tier 2 funds. **If you want your savings moved into Tier 2 funds before they're mapped into a Target Retirement Trust, you must transfer your investment by 3:00 p.m. Central time on February 29, 2008**. Go to *Your Benefits Homepage* from the Associate Kiosk (or log in to PowerLine at www.jcpenneypowerline.com). PowerLine specialists are also available at **1-888-890-8900** to accept your request. You can make changes in your investments at any time after March 1, 2008, even if they've been mapped. See page 3 of your 401(k) Savings Plan Changes guide for more information.

Q: Are Tier 2 funds changing?

A: No. If you have savings in Tier 2 funds, your investments will not change. Of course you may always change your investment elections or transfer your savings to other investments in the 401(k) Savings Plan whenever you wish.

Q: What will happen to my investments in Tier 3 funds?

A: Tier 3 Funds are being eliminated and a new Self-Directed Brokerage Window will be offered in the 401(k) Savings Plan. If you currently have investments in any of the Tier 3 funds, your balances will map (move) into Tier 2 funds, effective February 29, 2008. **You don't need to take any action – unless you don't want your savings to go into Tier 2 funds.** For example, if you currently own Fidelity Dividend Growth Fund, and you don't want your savings moved to the Tier 2 S&P 500 Fund, you must transfer your investment into a different Tier 2 or Tier 3 fund by 3:00 p.m. Central time on **February 29, 2008.** Go to *Your Benefits Homepage* from the Associate Kiosk (or log in to PowerLine at www.jcpenneypowerline.com). PowerLine specialists are also available at **1-888-890-8900** to accept your request. You can make changes in your investments at any time after March 1, 2008, even if they've been mapped. See page 4 of your 401(k) Savings Plan Changes guide for more information.

Defaulted Balances Will Map (move) from the Interest Income Fund

Q: Do I have a "default" balance in the Interest Income Fund?

A: Associates who were enrolled automatically into the 401(k) Savings Plan, but who never made an investment election. This is the current "default fund."

Q: If I have a default balance, what will happen to my investment?

A: On February 29, 2008 investments in the Interest Income Fund will map (move) into one of the new Target Retirement Trusts, which will be offered by the 401(K) Savings Plan, based on an Associate's estimated retirement age. See the table on page 3 of the 401(k) Savings Plan Changes guide you'll receive at home. For example: if the Associate was born in 1974, defaulted savings would move from the Interest Income Fund into the VFTC Target Retirement 2040 Trust II.

Q: If I have a defaulted balance in the Interest Income Fund, do I need to take any action?

A: No - unless you do not want your money to move from the Interest Income Fund. If you now have savings in the Interest Income Fund because you were automatically enrolled, and you did not choose an investment option for your 401(k) Savings Plan contributions, your balance and future elections will be mapped (moved) to one of the Target Retirement Trusts based on your expected retirement age. See the chart on page 3 of your 401(k) Savings Plan Changes guide, which you will receive at your home address in mid- to late-January. If you want your defaulted savings to STAY in the Interest Income Fund, detach the coupon from the bottom of your address page (received with your 401(k) Savings Plan Changes guide) and return it in the enclosed pre-paid Business Reply Envelope. **Your response must be received by PowerLine no later than February 22, 2008.**

You Have Easy Online Access to Your 401(k) Savings Plan Account

Q: What if I don't know how my 401(k) Savings Plan account is invested?

A: You can easily find your account online. See the following question for directions.

Q: How can I enroll in the 401(k) Savings Plan, see my investments or change/transfer my savings?

A: You can go online to enroll in the 401(k) Savings Plan, view your investments, transfer your savings from one investment to another or change your future contribution investment election(s):

1) Go to *Your Benefits Homepage* from the Associate Kiosk (or www.jcpenneypowerline.com)
2) Click the **All Other Benefits** icon
3) Click **Savings and Pension** on the left side of the screen
4) Click on the **Get Plan Details, Investment Advice and Review your Account** link, and
5) Use the drop down under **Find It Fast** on the right side of the screen to select the correct action item.
    a. Account Statement
    b. Change Contributions
    c. Change Future Investments
    d. Transfer Money
6) To enroll in the 401(k) Savings Plan, simply change your contribution election to a percent greater than "zero."

A Self-Directed Brokerage Window Will Be Offered

Q: How would I transfer savings into a brokerage account?

A: You can move $1,000 or more at a time from your other 401(k) Savings Plan Investments into the "money market" core of your brokerage account. You can then use these dollars to buy mutual funds or other securities in the brokerage account. The brokerage money market earns a rate of interest when you have cash that is not invested in funds or securities. More information will be included in your Welcome Kit if you open a brokerage account.

Q: What is the minimum to buy a mutual fund in the brokerage account?

A: The minimum is $1,000 unless a specific fund requires a higher investment. Read the fund's prospectus before you buy to see the charges and expenses as well as other important information regarding investment objectives and risks. See the next page.

When considering investing in a mutual fund, investors should refer to the fund prospectus for more complete information about charges, risks, limitations and expenses. Investors should consider the investment objectives, risks and charges and expenses of the fund before investing. The prospectus contains this and other information about the company. To obtain a prospectus, please order online via the Mutual Fund Center on www.hewittfs.com or contact the mutual fund company.

Q: What investment would I need to open a brokerage account?

A: You need to start with a minimum of $1,000. Then you must add at least $1,000 each time you make another transfer of savings to your brokerage account.

Q: How long before I could begin to buy securities?

A: After your application is approved (which takes 1-2 business days), you will first transfer money from your other 401(k) Savings Plan investments to the brokerage account. Then on the following business day, you may begin trading. So you should be able to begin trading in 2-3 business days after you complete an account application.

Q: If I opened a brokerage account in my 401(k) Savings Plan, what would it cost me to buy stocks or non-401(k) Savings Plan mutual funds?

A: You may buy stocks, mutual funds or other approved securities within the Self-Directed Brokerage Window. See page 4 and the back cover of your 401(k) Savings Plan Changes guide for more information. You'll also receive a Welcome Kit with more details if you enroll online for a brokerage account in your 401(k) Savings Plan.

- **Stocks** (trade under a Tiered pricing schedule, based on your balance and/or number of trades)
    - $9.95 per trade (brokerage account balance greater than $500K or 30+ trades per quarter)
    - $12.95 per trade (brokerage account balance greater than $50K)
    - $19.95 per trade (brokerage account balance less than $50K)
    - Broker-assisted trades will incur an additional $40 charge

- **Mutual Funds** - you may buy mutual funds in your brokerage account in one of three ways:
    - Load funds at Net Asset Value (NAV), when NAV is allowed by the fund prospectus. This means that you may buy shares of a mutual fund that normally has a sales "load," but you would not pay the sales load if the fund's prospectus allows this sales load to be waived.
    - No Transaction Fee (NTF) Funds - these funds have no sales charge or transaction fee
    - $19.95 for any purchase of No Load Funds which are not NTF eligible (see above)

Q: How would I find more information?

A: Your Welcome Kit will include details about trading, online access, etc.

See the following page for Fees & Historical Performance.

Review Fees & Historical Performance of 401(k) Savings Plan Investments

Q: What's the historical performance of the 401(k) Savings Plan investments?

A: See the chart below.

Investments	1 Year	3 Years	5 Years	10 Years
Tier 1 Investments These will be offered as of March 1, 2008+				
VFTC Target Income Trust II	8.17%	5.94%	-	-
VFTC Target Retirement 2005 Trust II	8.12%	6.62%	-	-
VFTC Target Retirement 2010 Trust II	7.70%	-	-	-
VFTC Target Retirement 2015 Trust II	7.55%	7.94%	-	-
VFTC Target Retirement 2020 Trust II	7.52%	-	-	-
VFTC Target Retirement 2025 Trust II	7.59%	8.71%	-	-
VFTC Target Retirement 2030 Trust II	7.49%	-	-	-
VFTC Target Retirement 2035 Trust II	7.49%	9.61%	-	-
VFTC Target Retirement 2040 Trust II	7.48%	-	-	-
VFTC Target Retirement 2045 Trust II	7.47%	10.06%	-	-
VFTC Target Retirement 2050 Trust II	7.49%	-	-	-
Tier 2 Funds				
S&P 500 Index Fund	5.40%	8.40%	12.60%	5.90%
Russell 1000 Growth Fund	11.60%	8.40%	11.80%	3.80%
Russell 1000 Value Fund	-0.20%	9.20%	14.40%	7.70%
Russell 2000 Fund	-1.80%	6.50%	15.80%	6.80%
EAFE Fund	11.10%	16.60%	21.20%	8.30%
Intermediate Bond Fund	7.20%	4.10%	3.80%	5.60%
Interest Income Fund	4.70%	4.50%	4.50%	5.30%
JCPenney Common Stock Fund	-42.40%	2.80%	14.80%	-0.80%

Performance is shown as of December 31, 2007. Past investment results are not a guarantee of future performance. The value of investments will fluctuate and is not guaranteed. All investments are subject to certain risks. Returns are net of investment fees.

+Historical performance is given for Vanguard Target Retirement Funds retail investment product. The Vanguard Fiduciary Trust Company (VFTC) Target Retirement Trusts are made up of the same investments as the retail products, but are offered for investment solely to qualified plans and institutional investors at a lower investment fee expense (VFTC fee of .14% as opposed to the retail product fee of .20%).

Q: What's a mutual fund?

A: A mutual fund is an investment fund that's managed by professional money managers at a legally-regulated financial provider. Funds raise money for investing by selling shares, then buy investments such as stocks, bonds and money market instruments. For most mutual funds, shareholders are free to sell their shares at any time, although the price of a share may go up or down daily, depending upon the performance of the securities held by the fund.

Q: Why own a mutual fund instead of a single stock?

A: Benefits of mutual funds include diversification and professional money management. Mutual funds offer choice, liquidity and convenience, but charge fees and often require a minimum investment. There are many types of mutual funds, including aggressive growth fund, asset allocation fund, balanced fund, blend fund, bond fund, capital appreciation fund, etc.

Q: How are the Target Retirement Trusts different from a mutual fund?

A: Each of the Target Retirement Trusts consists of up to seven Vanguard mutual funds. One Target Retirement Trust is a portfolio of investments.

Q: How are the fees and expenses different for each type of investment in the 401(k) Savings Plan?

A: See the chart below for estimated 2008 fees and expenses.

Administrative Expenses and Investment Fees 2008 Total Estimated Participant Cost				
Investment Type	**Total Administrative Expenses**	**Investment Management Fees**	**Total Fees**	**Annual Participant Cost per $1,000 Balance**
Tier I Trusts – as of March 1, 2008				
VFTC Target Retirement Trusts	0.185%	0.140%	0.325%	$3.25
Tier 2 Funds				
S&P 500 Fund	0.185%	0.010%	0.195%	$1.95
Russell 1000 Growth Fund	0.185%	0.040%	0.225%	$2.25
Russell 1000 Value Fund	0.185%	0.040%	0.225%	$2.25
Russell 2000 Fund	0.185%	0.040%	0.225%	$2.25
EAFE Fund	0.185%	0.060%	0.245%	$2.45
Intermediate Bond Fund	0.185%	0.040%	0.225%	$2.25
Interest Income Fund	0.185%	0.052%	0.237%	$2.37
JCPenney Common Stock Fund	0.185%	0.010%	0.195%	$1.95
Tier 3 – as of March 1, 2008				
Self-Directed Brokerage Window	0.185%	**	**	**

**Depends on the type of investments purchased and/or the frequency of trading within the brokerage account as stated in the schedule below.

Vanguard Fiduciary Trust Company (VTFC) Target Retirement Trusts

Q: What are Vanguard® Fiduciary Trust Company (VFTC) Target Retirement Trusts?

A: Target Retirement Trusts are a new option in the JCPenney 401(k) Savings Plan. They represent a new, easier way to invest your plan savings. Just one investment option could keep your investments aligned with your goals.

- VFTC Target Retirement 2050 Trust II
- VFTC Target Retirement 2045 Trust II
- VFTC Target Retirement 2040 Trust II
- VFTC Target Retirement 2035 Trust II
- VFTC Target Retirement 2030 Trust II
- VFTC Target Retirement 2025 Trust II
- VFTC Target Retirement 2020 Trust II
- VFTC Target Retirement 2015 Trust II
- VFTC Target Retirement 2010 Trust II
- VFTC Target Retirement 2005 Trust II
- VFTC Target Retirement Income Trust II

Q: Why choose a Target Retirement Trust?

A: Target Retirement Trusts are one-decision trusts designed for the retirement investor who may not have the time, the interest or specialized knowledge to create and maintain a retirement portfolio. Each Target Retirement Trust invests in up to seven broadly diversified Vanguard mutual funds—most of which are index-based—and is a complete portfolio in itself. (An "Index fund" holds the same stocks or bonds as a widely known market index, and investments are traded in and out only to match the index's holdings.)

Q: How do I pick the right Target Retirement Trust?

A: If you know when you're going to retire, you can pick the right trust. You can consider the date-specific Target Retirement Trust that most closely matches the year you expect to retire. For example, if you decide that you're going to retire in 2050, you'd select VFTC Target Retirement 2050 Trust II.

Q: What if I don't know when I'm going to retire?

A: If you're unsure when you're going to retire, use your full retirement age. This is the age at which you'll be eligible for full Social Security retirement benefits (currently between ages 65 and 67). You can find your full retirement age at **www.ssa.gov/pubs/ageincrease.htm,** the Social Security Administration's Web site.

Q: What if I plan to retire in a year that falls between two Target Retirement Trust years?

A: Generally, Vanguard suggests that you consider the Target Retirement Trust nearest your expected retirement date. For example, if you expect to retire in 2038, you'd choose VFTC Target Retirement 2040 Trust II rather than VFTC Target Retirement 2035 Trust II.

Vanguard also suggests that you invest in only one Target Retirement Trust.

Q: In what do Target Retirement Trusts invest?

A: Target Retirement Trusts invest in a mix of up to seven well-balanced and broadly diversified Vanguard mutual funds. These underlying funds invest in U.S. stocks; international stocks; U.S. bonds, including Treasury inflation-protected securities; and short-term reserves.

Although Target Retirement Trusts can make your investment selection easier, all investing is subject to risk. Each Target Retirement Trust is subject to the risks associated with its underlying funds. Diversification does not ensure a profit or protect against a loss in a declining market. U.S. government backing of Treasury or agency securities applies only to the underlying securities and does not prevent share-price fluctuations. Investments in bond funds are subject to interest rate, credit, and inflation risk. Foreign investing involves additional risks including currency fluctuations and political uncertainty.

Q: What are the allocations for the 11 trusts?

A: Here's a snapshot of how each Target Retirement Trust is invested in terms of its mix of broad asset classes (stocks, bonds and short-term reserves).

Potential Trust Choice	Investment Mix*
VFTC Target Retirement Trust 2050 II **	90% stocks, 10% bonds
VFTC Target Retirement Trust 2045 II **	90% stocks, 10% bonds
VFTC Target Retirement Trust 2040 II **	90% stocks, 10% bonds
VFTC Target Retirement Trust 2035 II **	90% stocks, 10% bonds
VFTC Target Retirement Trust 2030 II	87% stocks, 13% bonds
VFTC Target Retirement Trust 2025 II	79% stocks, 21% bonds
VFTC Target Retirement Trust 2020 II	71% stocks, 29% bonds
VFTC Target Retirement Trust 2015 II	64% stocks, 36% bonds
VFTC Target Retirement Trust 2010 II	55% stocks, 45% bonds
VFTC Target Retirement Trust 2005 II	44% stocks, 55% bonds, 1% short-term reserves
VFTC Target Retirement Income Trust II	30% stocks, 65% bonds, 5% short-term reserves

*Approximate allocation targets for each trust as of December 31, 2006. Allocations for the date-specific trusts will shift (from stocks to bonds and short-term reserves) over time, based on an assumed retirement age of 65.

**The target allocations of the trusts dated 2035 through 2050 are currently identical; however, as time passes, each trust will gradually shift toward a more conservative allocation, depending on the maturity date of the trust.

Risk level takes into account the different types of risk applicable to each trust's asset class and investment style. If you think you'll retire much earlier or later, you may want to consider a trust with an asset allocation more appropriate to your situation.

Q: How do Target Retirement Trusts change over time?

A: Each date-specific trust gradually and automatically shifts its weighting from stocks to bonds and short-term reserves as the target date approaches. (Only VFTC Target Retirement Income Trust II retains its initial allocation.) In effect, the trusts are on a "glide path" that eases investors into a more conservative allocation as you get closer to drawing income in retirement.

Approximately five to ten years after the target retirement date, each trust will be invested similarly to the VFTC Target Retirement Income Trust II—30% stocks, 65% bonds and 5% short-term reserves.

Q: Can I lose money in a Target Retirement Trust?

A: Target Retirement Trusts can go up and down in value based on market fluctuations. The trusts are managed with the long-term goal of retirement in mind, which means they will take certain risks to help your money grow over time.

Q: Are Target Retirement Trusts right for me?

A: If you are unsure about what to do, or just don't have the time, Target Retirement Trusts offer an easy and effective solution. One trust may be all you need.

Q: How do I begin investing in a Target Retirement Trust?

A: There are basically two ways to start investing. You can move all or part of your current savings into the Target Retirement Trust of your choice. Or you can elect to have future contributions invested in that trust. Of course, the quickest way would be to do both at the same time.

The commingled trust mandates are managed by the Vanguard Fiduciary Trust Company, a subsidiary of The Vanguard Group, Inc.

This investment is not a mutual fund. It is a separately managed investment trust available only to tax-qualified plans and their eligible participants.

Investment objectives, risks, charges, expenses, and other important information should be considered carefully before investing.