Monthly Annuity or Lump Sum Payment: Which Is Right For You?

As a participant in the United Technologies Corporation Employee Retirement Plan (Pension Plan) with a Final Average Earnings (FAE) benefit earned prior to January 1, 2015, you will be able to elect to receive your FAE benefit as a **one-time lump sum payment** or as a **monthly annuity** payable for your lifetime when you leave UTC.*

The decision to receive your benefit as a monthly annuity or lump sum payment is an important one with many factors to consider, including your age when you leave UTC, when you want to start your benefit after you leave UTC, and your investment knowledge, tolerance for financial risk, health status, and cash flow needs. The table on the following page highlights some key differences between the options.

If you are currently eligible for retirement or an immediate lump sum, refer to your Pension Plan retirement package available on ***Your Gateway*** or from the UTC Pension Center. Your Pension Plan package includes the estimated total value of your monthly annuity referred to as relative value. Relative Value is based on assumptions about life expectancy for you and your spouse/beneficiary and current market interest rates.

If you are currently eligible for early retirement or will become eligible in the near future, the value of your monthly early retirement annuity benefit will likely be greater than the lump sum payment. This is because the early retirement annuity does not have a full actuarial reduction to reflect that the early distribution of your age 65 benefit will be paid over a longer period. The annuity includes an early retirement subsidy that is not included in the lump sum payment.

If the relative value of your monthly annuity benefit is considerably higher than the lump sum benefit, it means that you are effectively giving up the value of the early retirement subsidy by taking a lump sum payment rather than a monthly annuity. In other words, based on average mortality rates and investment returns, it is likely that taking an early retirement monthly benefit will be more valuable over your lifetime than taking a lump sum payment. Please note that when you model estimates of your pension options with a distribution date more than 90 days in the future, estimates will show the lump sum option when available, but will not show Relative Value comparison.

Effective January 1, 2017, a lump sum payment option was added as an additional form of payment available to participants with a FAE benefit in the Pension Plan.* The lump sum payment option provides a single payment instead of a monthly benefit. The amount of the single payment is equal to the actuarial present value of the monthly single life annuity you would receive under the Pension Plan at your Normal Retirement Age of 65. The lump sum payment option is available to Pension Plan participants for one year (12 months) from your severance from service date as long as you have not started to receive a monthly annuity.

Please keep this announcement with your Summary Plan Description for the United Technologies Corporation Employee Retirement Plan (SPD). This announcement serves as a Summary of Material Modifications (SMM) updating the information in your SPD effective January 1, 2017. If you have additional questions, please contact the UTC Pension Center at 1-800-243-8135.

The Plan Document serves as the final authority in all matters relating to plan provisions and controls over any error, omission or ambiguity in this announcement.

The choice between a lump sum or annuity distribution involves the consideration of a number of factors as outlined in this brochure. You should carefully consider your individual circumstances, retirement income needs and other financial objectives before making this decision. Remember, once your annuity begins or you receive your lump sum payment, you cannot change your mind. You may also wish to consult with a financial planner or tax advisor before making your election.

* There are certain groups of participants for whom the FAE lump sum option is not currently available, including, but not limited to, participants with benefits subject to a Qualified Domestic Relations Order (QDRO) if payment of the lump sum would be in conflict of the terms of the QDRO.

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Monthly Annuity	Factors to Consider	Lump Sum Payment
The **monthly annuity** is a fixed amount paid to you each month for the rest of your life. Depending on the type of annuity you select, your spouse or other named beneficiary may continue to receive monthly payments for the duration of his or her life after your death.	**WHAT IS IT?**	The **lump sum payment** is a single payment instead of a monthly lifetime payment. The amount is equal to the actuarial present value of the monthly single life annuity you would receive under the Pension Plan at your Normal Retirement Age of 65. The value of early retirement subsidies are excluded from the calculation. The lump sum is determined using present value factors based on mortality rate and interest rate assumptions specified by the Internal Revenue Service (IRS). These assumptions are updated annually and are in effect for a calendar year.**
If you are eligible for early retirement (generally age 55) when you leave UTC, the monthly annuity is available to you at any time. If you are not eligible for early retirement (generally age 55) when you leave UTC, an immediate monthly annuity is available to you for one year (12 months) from your severance from service date. You may choose to receive your FAE benefit as a monthly annuity at any time after you are eligible for early retirement (generally age 55) if you didn't elect to start your benefit within 12 months after your severance from service date.	**HOW LONG IS THIS OPTION AVAILABLE TO ME?**	Regardless of your age when you leave UTC, the lump sum payment is available to you for up to one year (12 months) from your severance from service date as long as you have not started to receive a monthly annuity. If you do not elect the lump sum payment within one year of your severance from service date, the monthly annuity will be the only option available to you. If you reach age 70½ while still an active employee, you will have the opportunity to choose the optional lump sum when your first Minimum Required Distribution is due. **NOTE:** If your severance from service date was in 2016, the lump sum payment is available to you until December 1, 2017.
If you have not reached retirement eligibility (generally age 55) and elect to receive your FAE benefit as a monthly annuity, you must start your CB benefit at the same time in the same form of annuity. If you are retirement eligible and elect your FAE benefit as a monthly annuity, you must start your CB benefit at the same time, but you still have the option to receive your CB benefit as a monthly annuity or lump sum. If you elect your CB as a monthly annuity, it must be in the same monthly annuity form of payment as your FAE benefit. If you have not reached retirement eligibility, electing to receive your CB benefit as a monthly annuity does not impact the timing of when you can elect to receive your FAE benefit. However, if you are retirement eligible and elect to receive your CB benefit as an annuity, you must elect the monthly annuity for your FAE benefit and you must choose the same monthly annuity form of payment both benefits.	**HOW DOES MY ELECTION AFFECT MY CASH BALANCE (CB) BENEFIT?** ***Applies to participants with both FAE and CB benefits who have not yet started their CB benefit***	If you elect to receive your FAE benefit as a lump sum payment, you must also elect to receive your CB benefit as a lump sum payment at the same time. Electing to receive your CB benefit as a lump sum does not affect the timing or form of payment for your FAE benefit. You may choose to receive your FAE benefit as a monthly annuity at any time after you are eligible for early retirement (generally age 55) if you didn't elect to start your benefit within 12 months after your severance from service date.

Monthly Annuity	Factors to Consider	Lump Sum Payment
The Pension Plan. You do not control how the Pension Plan's assets are managed. The Pension Plan's investment performance will not affect your monthly annuity amount.	**WHO IS RESPONSIBLE FOR MANAGING THE MONEY?**	**You.** If you invest your lump sum payment by rolling it into a qualified retirement account (such as an IRA or the UTC Savings Plan) or taking cash distribution, you are responsible for how those investments perform. Your investment results will impact how much money you have and how long it will last. There is no protection from investment losses. If you do not roll over the amount of your lump sum payment, you may be subject to certain taxes and penalties.***
No impact. The interest rate level does not impact the amount of your monthly annuity benefit.	**HOW DOES THE INTEREST RATE LEVEL (CORPORATE BOND YIELDS) IMPACT MY BENEFIT?**	**Possible impact.** The lump sum benefit is impacted by the interest rate level (corporate bond yields). The IRS specifies the interest rate and life expectancy that the Pension Plan will use in determining the amount of your lump sum payment. Lower interest rates will produce a higher lump sum payment amount. These rates are generally updated each January 1st based on the rates the IRS specifies the prior November.** The IRS also periodically updates life expectancy rates. Longer life expectancies will produce a higher lump sum amount.
No. Your monthly annuity amount is fixed and will not change. If prices rise due to future inflation, your payments will buy less; if prices fall due to future deflation, your payments will buy more.	**IS THERE ANY PROTECTION AGAINST FUTURE INFLATION?**	**Potentially.** You may be able to protect your payment from future inflation if you invest your payment and your investments outperform future inflation. In exchange for taking on additional investment risk, certain investment opportunities may increase in value and provide long-term protection from inflation.
Survivor annuity options. Certain types of annuity distributions if elected provide that your spouse or beneficiary with a monthly survivor annuity for the remainder of his or her life.	**WHAT IS AVAILABLE TO MY FAMILY UPON MY DEATH?**	**Up to you.** Provided you have not spent all of your lump sum, you can choose how much, if any, of the remainder is passed on as part of your estate.
Yes. You will receive the same amount every month for the rest of your life.	**WILL MY BENEFIT BE GUARANTEED FOR LIFE?**	**No.** The present value of your pension benefit is received up front as a one-time lump sum payment. However, you are responsible for managing your lump sum payment and making it last throughout retirement.

Monthly Annuity	Factors to Consider	Lump Sum Payment
Yes. You can elect a monthly annuity once you reach the early retirement age (generally age 55) and you are not employed by UTC. A monthly annuity is also available for one year (12 months) after your severance from service date if you have not yet reached early retirement age. The monthly annuity payable to you prior to your early retirement age would not include the value of any early retirement subsidies that may be available once you do reach early retirement age. That is, the monthly annuity amount is determined as *the actuarially equivalent value* of your age 65 normal retirement benefit.	**IF I DON'T TAKE MY BENEFIT NOW, WILL THIS OPTION BE AVAILABLE TO ME IN THE FUTURE?**	**Probably not.** Currently, you only have the option to take your benefit as a lump sum payment for up to one year (12 months) after your severance from service date.
Log on to the UTC Pension Center website via ***Your Gateway*** and click **I Want To Retire**. You will be guided through the election process.	**HOW DO I MAKE AN ELECTION?**	Log on to the UTC Pension Center website via ***Your Gateway*** and click **I Want To Retire**. You will be guided through the election process.

** A small number of Pension Plan participants have applicable present value factors for determining the lump sum payment that are updated more frequently, typically monthly. Additionally, certain participants may already have a lump sum payment option for a portion of their FAE benefit. This plan change, which extends the lump sum option to all FAE benefits for a period of one year (12 months) following the date of severance from service, does not impact the ability to take that lump sum eligible portion of their FAE benefit as a lump sum.

*** The lump sum payment is considered taxable income and may be subject to a 10% early payment tax penalty if you are younger than age 59½. You can defer taxation and avoid the 10% penalty if you elect to roll over the payment to a qualified retirement account, such as an IRA, another employer plan that accepts rollovers, or the UTC Savings Plan. If you request a lump sum payment to be made directly to you, the payment will be reported to the IRS and subject to 20% federal tax withholding and may also be subject to other taxes and penalties.