

Retiree Health Benefit News

Your Travel Guide to Retirement

November 2008

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Understanding the Changes to Your Future Retiree Health Benefits

As announced last fall, BorgWarner has restructured its retiree health benefits in an effort to better manage the rising costs of health care for both active employees and current retirees. The new benefits will become effective January 1, 2009. Not all employees are currently eligible for retiree medical benefits when they retire. You are receiving this newsletter because our records indicate you will be affected by the changes and qualify for a Cash Balance Plan credit effective January 2009.

Although retirement may be many years away for you, BorgWarner knows that your retiree medical benefits are important to your retirement planning. Last fall, we sent you a personalized packet of information and conducted employee meetings to give you a general overview of the changes. Today, we are enclosing the following information for your review:

- ▶ A Summary Plan Description describing the basic features of the Cash Balance Plan.
- ▶ Information on how to access your Cash Balance Plan.
- ▶ Information on pre-Medicare health plan coverage.
- ▶ Important contact information for your records.

This newsletter summarizes the changes that will become effective in January 2009.

Summary Of Changes	New Program
Eligibility	A credit to a Cash Balance Plan will be made on your behalf in January 2009. This money can be used after you leave BorgWarner to purchase the retiree medical and prescription coverage of your choice, but you also have the flexibility to use it for other purposes.
Cash Balance Plan Benefits	BorgWarner Supplemental Medicare coverage ends. Instead, BorgWarner will make a one-time contribution to a special Cash Balance Plan pension account established for you on January 1, 2009.
Pre-Medicare Benefits	Option to enroll in BorgWarner pre-Medicare medical and prescription drug coverage, except the member contribution amount will be based on your age as of 1/1/09 rather than years of service.
Tax-Smart Savings Option	Retirement Savings Plan, plus the RSP Retiree Health Account, which offers a \$500 match on your pre-tax contributions.



Your Cash Balance Plan Credit

► You will receive a one-time company-funded credit to a new **Cash Balance Plan**, effective January 1, 2009. A statement showing your opening balance will be mailed to you in January.

► The Cash Balance Plan is designed to pay the annual premium for Medicare Supplemental coverage over your lifetime, but you can use the money for any purpose.

► The amount of the credit is based on your age and years of service, up to 15 years, with an additional credit if you have been married for at least two years as of January 1, 2009 and have submitted the requested documentation of marital status. Special rules apply when both spouses are employed by BorgWarner.

► The personalized letter you received last fall shows the estimated amount of your Cash Balance Plan credit.

► Your account balance will be credited with interest annually as of the last day of each plan year. Interest credits will be added based on your account balance at the beginning of the plan year. Interest is determined using the IRS Corporate Composite Bond Index rate for the month of October preceding the plan year for which the interest is credited. A statement will be sent to you each January from the record keeper.

► You are immediately vested in the full value of the account – which means that the money is always yours, even if you leave BorgWarner prior to retirement.

Your Age on January 1, 2009	Credit for Each Year of Service (Up to 15 yrs)	Added Credit for a Spouse (Up to 15 yrs)
40	\$1,110	\$220
41	\$1,185	\$240
42	\$1,260	\$250
43	\$1,335	\$265
44	\$1,410	\$285
45	\$1,480	\$295
46	\$1,555	\$310
47	\$1,630	\$330
48	\$1,705	\$345
49	\$1,780	\$355
50	\$1,850	\$370
51	\$1,925	\$385
52	\$2,000	\$400
53	\$2,075	\$415
54	\$2,150	\$435
55 & up	\$2,220	\$445

January 2009	Opening Balance	\$39,975
October 2008	Index Rate Prior to 2009 Plan Year = 6%	\$2,398.50
December 31, 2009	Closing Balance	\$42,373.50

Cash Balance Contact Information

<i>Annual recordkeeping statements, distribution calculation and processing</i> BorgWarner Benefits 1-877-454-2603 55 East Jackson Blvd. P.O Box 2898 Chicago IL 60690-2898	<i>Plan trustee, payment distribution</i> Northern Trust Company 50 South LaSalle Street Chicago IL 60603.
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When You Are Ready To Take A Cash Balance Plan Distribution

When your employment with BorgWarner ends, you are eligible to receive a distribution of the cash balance benefit. Your distribution options are explained in the attached Summary Plan

Description. Please see your local HR representative for the forms to apply for your benefit. Most claims for benefits will be processed within 30 days after you return the forms to your HR representative, but more complicated claims may take longer. Interest will be calculated on all claims up to the end of the month prior to distribution.

Fuel Your Retirement Savings – Contribute to the RSP Retiree Health Account

Beginning in 2009, you will have the option of saving from 1% to 3% of your pay in a new Retiree Health Account. This account is part of BorgWarner's current Retirement Savings Plan (RSP), and helps you save for and pay for future health care expenses during retirement.



Top 10 “Points of Interest” about the Cash Balance Plan

1. **Account-based pension plan.** An “account” is established on your behalf under the existing BorgWarner Pension Plan. The benefit is expressed as an individual balance so you always know what your benefits are worth.
2. **Protected.** Your account balance is protected and guaranteed by government insurance, under the Pension Benefit Guarantee Corporation (PBGC) after 5 years.
3. **Company-funded.** BorgWarner credits your account with a one-time company-funded credit effective January 1, 2009. The credit amount you receive depends on your age and years of service (up to 15 years). You'll receive an additional credit if you have been married for two years (to a non-BorgWarner employee).
4. **Handled on your behalf.** As with the Pension Plan, you cannot make contributions to the Plan and the investment of the account is handled by investment professionals; you don't control the investments.
5. **Your account grows with interest.** Interest is credited each year, based on a published rate of return. In 2007, the rate was based on the IRS Composite Corporate Bond Rate which averaged 6%. The IRS Corporate Composite Bond Index rate of return can be found at www.IRS.gov.
6. **No investment risk to you.** BorgWarner has the investment risk. Your account balance never decreases nor is it affected by how the stock market performs. Your account grows at a fixed rate.
7. **Tax-deferred.** Your account grows tax-free until you withdraw funds.
8. **Added access.** Unlike with traditional pension plans, the cash balance account is a “portable” benefit—meaning that in addition to the option of receiving your benefit at retirement, you have access to your account anytime after you leave BorgWarner.
9. **Greater choice.** You can choose to receive your cash balance account as a single lump sum payment. You also can choose to roll your account over into an IRA.
10. **Flexibility.** You may use the money in this account to pay for your retiree medical premiums, retiree health care deductibles and copays or other retirement expenses.

Top Reasons to Contribute to the RSP Plan's Retiree Health Account (RHA)

1. **Account-based plan.** The benefit is expressed as an individual retiree health care account balance, so you always know what your benefit is worth.
2. **You're paid to save.** BorgWarner believes so strongly in saving specifically for future retiree health care expenses, the company will match 100% of your contributions, up to \$500 annually.
3. **Tax advantages.** Your contributions, the company matching contributions and any investment income you earn is all tax-free. Typically, you pay no taxes until you withdraw funds to pay for health care deductibles, copays or other health care expenses after you retire. Medical plan premium reimbursements are tax-free.
4. **Investment options already familiar to you.** Since this account is in the current Retirement Savings Plan (RSP), your investment options are the same.
5. **Immediate vesting.** You are immediately vested (have ownership) in your own pretax contributions, and since you already have the required three years of service, you are also vested in the company's matching contribution.
6. **Helps pay for retiree medical expenses.** Use your account balance to help you pay for retiree medical premiums and out-of-pocket expenses.

On November 18th, T. Rowe Price sent you a RHA quick enrollment kit titled "Save today for retirement medical expenses". Simply complete the enrollment card and return it by December 12th to begin your RHA contributions effective January 1, 2009. Beginning January 2, 2009, you can make or change your RHA election by calling T. Rowe Price at 1-800-922-9945 or by accessing your account online at rps.troweprice.com.

Looking Ahead: What to Expect When You Retire

At retirement, you may apply for a distribution of your Cash Balance Plan in the form of a lump sum cash payment, a rollover, or an annuity. If you do not elect a form of distribution, your account will be distributed to you as outlined in the enclosed Cash Balance SPD starting on page 3. You may also qualify for pre-Medicare retiree health care coverage (see below). To ensure a smooth transition into retirement, please contact your local Human Resources representative about 3 months before your anticipated retirement date and request the necessary paperwork to process your retirement.

Your Optional Pre-Medicare Health Plan Coverage

If you retire when you are age 60-65 with at least 15 years of service, you can elect BorgWarner pre-Medicare medical and prescription coverage for each eligible family member until Medicare eligibility.

Two healthcare plan options are available in 2009:

1. PPO Plan
2. Choice Health Fund Plan



PPO Plan

Under the PPO Plan, you can use any doctor or hospital you wish – but if you use in-network providers, you pay less and do not have to file claim forms.

When you visit the doctor, you pay your copay at the time you receive the service – the plan pays the rest of the bill. After you meet your annual deductible, the plan covers 80% for in-network expenses (60% for out-of-network expenses), up to your out-of-pocket maximum. Then the plan pays the rest of your eligible medical expenses for the remainder of the year.

Choice Health Fund

This medical option gives you the flexibility and choice to manage your own health care spending. It works like most medical plans—with one very important difference. The Choice Health Fund features a company-paid Health Reimbursement Account (HRA).

Each year, BorgWarner credits an amount equal to half the cost of your deductible to your HRA account. You determine how your fund dollars are spent – and stretch your fund by seeking the most cost-effective care. This could mean choosing an in-network provider rather than an out-of-network provider, or seeking treatment on an out-patient basis instead of in-patient. The wiser your health care choices are, the more money you may save.

If you don't use all the credit in your HRA during the year, it automatically rolls over to help pay for your expenses next year. It's like a savings account for health care. If you spend all the money in the HRA, you pay the remaining deductible before plan benefits begin.

Your portion of the cost for the pre-Medicare coverage will be based on your age as of 1/1/09. BorgWarner will require you to update your enrollment information annually.

When You Become Eligible for Medicare

As in past years, when a retiree or eligible dependent of a retiree becomes eligible for Medicare, Medicare becomes the primary coverage for that individual. This is coverage that was earned through the FICA contributions you and BorgWarner made every year during your employment.

After 2008, BorgWarner will not provide coverage to supplement Medicare. Instead, the company will provide you with Cash Balance funds to help you pay for supplemental coverage now available from Medicare and private insurance companies.

In addition to funding an account for you, BorgWarner also provides United Healthcare as a Retiree Health Plan Coordinator to help you understand your options and, if you choose, to enroll in Medicare supplement coverage. To contact your coordinator, call **1-800-929-2300** or visit www.AARPMedicaresolutions.com.

Frequently Asked Questions

Why is BorgWarner changing its retiree health benefits program?

BorgWarner has a serious business need to address the steep health care inflation that has been affecting the entire country. The company has streamlined administration while providing a competitive benefit.

Timetable for Medicare	
3 months before you turn 65	<ul style="list-style-type: none">• You will receive a Medicare information packet from BorgWarner's Retiree Health Plan Coordinator (currently United Healthcare).• You need to apply for Medicare Parts A & B – if you delay signing up for Part B, you will pay more for your required Part B premiums, based on the time period you were eligible for Medicare coverage and did not pay Part B premiums.• Call the Retiree Health Plan Coordinator for assistance with determining the type of medical and prescription drug coverage that is best for you.• Enroll in the Medicare supplement medical and prescription drug coverage you choose.
Age 65	<ul style="list-style-type: none">• BorgWarner pre-Medicare retiree medical and prescription drug coverage ends; Medicare coverage begins.

For individuals who are Medicare-eligible, the marketplace is quite different than it was just a few years ago. Medicare has added prescription drug coverage and approved a wide range of alternatives to traditional Medicare coverage.

BorgWarner is providing Medicare-eligible retirees help to pay for coverage through a Cash Balance Plan.

What will happen if BorgWarner goes out of business? After 5 years, your cash balance benefit is insured by the PBGC, a federal insurance agency. If the plan terminates without enough money to pay all benefits, the PBGC will step in to pay benefits. See page 8 of the SPD. The Retiree Health Care Plan, as all other health care plans, is not protected.

Do these retiree benefit changes affect my retiree Life Insurance? No. If you qualified for a life insurance benefit when you retired, your benefit remains unchanged.

I'm not yet retired, but I have some questions about Medicare. Can I call the Retiree Health Plan Coordinator? Yes.

I will be retiring in 2009 and am under age 65. What happens to my unused HRA balance?

If you enroll in the Choice Health Fund as a pre-Medicare retiree, your unused balance will roll with you until you become eligible for Medicare.

What is the cost schedule for future years for pre-Medicare coverage? Your percentage of the annual premium is based on the table on page 5. Your share in dollars will be determined on a year to year basis based on claim costs. If claim costs are high, your cost may increase; if costs are lower, your cost could decrease.

This newsletter provides a brief description of the cash balance and health care benefits offered to certain BorgWarner employees and eligible dependents for 2009. For more details about your benefits, see the Summary Plan Descriptions available at www.borgwarner.com/retirees. This brochure and the materials that accompany it are not intended to include all program details. If there is a discrepancy between this brochure and the Summary Plan Descriptions, the Summary Plan Descriptions and plan documents will govern. We expect this retiree health program will benefit our retirees for a long time into the future, but we reserve the right to change or end the program if it becomes necessary or appropriate for business, legal or other reasons determined by BorgWarner.