January 28, 2004

To: Lucent Retirees and Alumni

Subject: Important Information – 2003 Tax Season

Lucent Payroll Services is now preparing tax statements for the 2003 tax year. This year, Form W-2 Wage and Tax Statements for 2003 will be mailed to your home address on record no later than Feb. 2, 2004. The federal government allows this distribution date because January 31, 2004 falls on a Saturday. Form 1099R – Distributions from Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs and Insurance Contracts will also be mailed to your home address on record no later than Feb. 2, 2004.

Employees Who Retired in 2003 Will Receive:

A Form W-2 that contains wages earned for the calendar year, as well as:

- Taxable imputed income for the Cost of Group Life Insurance (COGLI) wages over $50,000 for the entire year. This is an estimate based on total annual payments for 2003.
- Any non-cash or cash equivalent awards paid as an active employee
- Any vacation in lieu of payment issued in 2003

A 1099R Form for pension payments received in 2003.

Employees Who Retired Prior to 2003 Will Receive:

A W-2 Form for Cost of Group Life Insurance (COGLI) wages in excess of $50,000 based on the estimated total annual payments at the time of retirement. A worksheet to estimate the Cost of Group Life Insurance imputed income can be found later in this document.

A 1099R Form for pension payments received in 2003.

If you have questions regarding your 1099R, please contact the Pension Service Center at 1-888-736-7700.

In preparation for the upcoming tax season process, Payroll Services offers the following tips and information for employees who left Lucent in 2003:

Copies of Pay Statements - Gather all your 2003 pay statements now to review year-to-date totals for wages and taxes. You may also contact the HR Service Center at 1-888-LucentHR (1-888-582-3684) prompt 2.1.6 for Payroll to request copies of pay statements. The center will e-mail or fax up to two statements, and can answer questions as well as provide assistance if you are missing more than two pay details.

Stock Options – If you exercised stock options, the proceeds will be added to your year-to-date wages, and your taxes will be adjusted on a flat tax basis. For details about your stock option transactions, refer to your statements from UBS Financial Services. Questions or concerns regarding stock options should be directed to UBS Financial Services at 1-888-584-7268, or you can visit their website at http://www.ubs.com/cefs/lu

Non-Qualified Pension Payments – If you received pension payments from company operating expense funds (in addition to payments from the pension trust) you will receive a separate W-2 Form to identify those earnings. If you have questions concerning the pension W2, please call the Pension Service Center at 1-888-736-7700.

During the next several weeks, additional information about the W-2 and 1099R Forms will be posted to this site. Check for updates frequently at http://www.lucent.com/alumni.

COGLI – Cost of Group Life Insurance

Calculating Excess Group-Term Life Insurance

The value of group-term life insurance in excess of $50,000 must be included in income. It is determined by using IRS Section 79 Table I and the uniform premiums it provides, rather than the actual cost to the employer. Table I lists the value of each $1,000 of group-term life insurance coverage per month, broken down in five-year age brackets.

IRS TABLE I – UNIFORM PREMIUMS Fair Market Value of GTL Insurance Per $1,000 of Excess Benefit Per Month	
Under Age 25	$0.05
Age 25-29	0.06
Age 30-34	0.08
Age 35-39	0.09
Age 40-44	0.10
Age 45-49	0.15
Age 50-54	0.23
Age 55-59	0.43
Age 60-64	0.66
Age 65-69	1.27
Age 70 and above	2.06

Here are the steps required in estimating the monthly value of excess group-term life insurance to include in an employee's income.

1. Determine the total amount of the employee's group-term life insurance coverage under the plan. Most plans figure coverage as a multiple of the employee's base salary, which may increase during the year if the employee gets a raise. Estimate total income for the tax year for this model.
2. Calculate the excess benefit over $50,000.
3. Divide the excess insurance amount by $1,000.
4. Determine the employee's age as of December 31 of the calendar year during which the benefit is taxable.
5. Use IRS Table I to calculate the fair market value of one month of excess insurance per $1,000 and multiply it by the answer obtained from Step3.
6. Deduct any after-tax contributions by the employee from the value of the insurance.
7. Add the excess amount to the employee's income, withhold and pay social security and Medicare taxes, and report the amount as required.

Example: Valerie was born April 23, 1945. Her employer's nondiscriminatory group-term life insurance plan provides her with coverage equal to 2 x her annual salary as of January 1, and her salary as of 1-1-01 was $65,000. Her employer's plan has a maximum coverage amount of $125,000. Valerie contributes $25 per month in after-tax dollars toward the insurance premiums.

Step 1: 2 x $65,000 = $130,000
maximum coverage amount = $125,000

Step 2: $125,000 - $50,000 = $75,000

Step 3: $75,000 divided by $1,000 = 75

Step 4: Valerie will be 56 years old on 12-31-01

Step 5: $0.43 x 75 = $32.25

Step 6: $32.25 - $25.00 = $7.25 per month of taxable income in 2001

If Valerie did not pay anything for the group-term life insurance, or paid with only pre-tax dollars, the entire $32.25 would be included in her income each month.

Former Employees

Group-term life insurance provided to former employees is generally subject to federal income, social security and Medicare taxes on the same basis as when provided to current employees (i.e., the excess over $50,000 of coverage). For excess coverage provided to former employees, however, the employer is relieved of the responsibility of collecting and paying the former employee's share of social security and Medicare taxes, so long as the coverage was provided after the employment relationship ended. A "former employee" is an individual with a continuing relationship with the employer (e.g., a retiree) after employment ends. The employer is required to include the uncollected social security and Medicare taxes on the ex-employee's For W-2 in Box 12 with Code "M" and "N" respectively.