



Changes to the Retirement and Savings Plan in 2011

Cummins Newsletter — December 2010

In 2011, you'll see changes to the Cummins Inc. and Affiliates Retirement and Savings Plan (RSP), including added flexibility in how you invest your retirement savings. These changes come out of Cummins' ongoing review of the RSP, a review of market practices and trends in 401(k) plans, compliance with legally required changes, and our desire to provide you with a strong benefit to help you save for your future.

This newsletter provides you with an overview of the changes you'll see in early 2011. Understanding these changes and how they may impact you is important, so please read this newsletter carefully.



What's Inside:

- **New RSP Investment Flexibility**
 - New Investment Options
 - Investing in the Cummins Stock Fund
- **Making Smart Choices When Investing in the RSP**
- **Taking Action**
- **New Approach to Charging Administrative Fees for Your Cummins RSP Account**

New RSP Investment Flexibility

Coming in 2011, you will have new flexibility when you invest in the RSP.

The RSP will:

- Add two new funds to the investment options so you have more choice when you decide to create your own investment mix; and
- Give you the opportunity to invest your savings in the Cummins Stock Fund.

You do not need to do anything because of these changes. But, this is a great opportunity to review your investment approach and decide if you should make changes for the future now or when the new funds and investment flexibility goes into effect.

New Fund Options When You Mix Your Own Investments

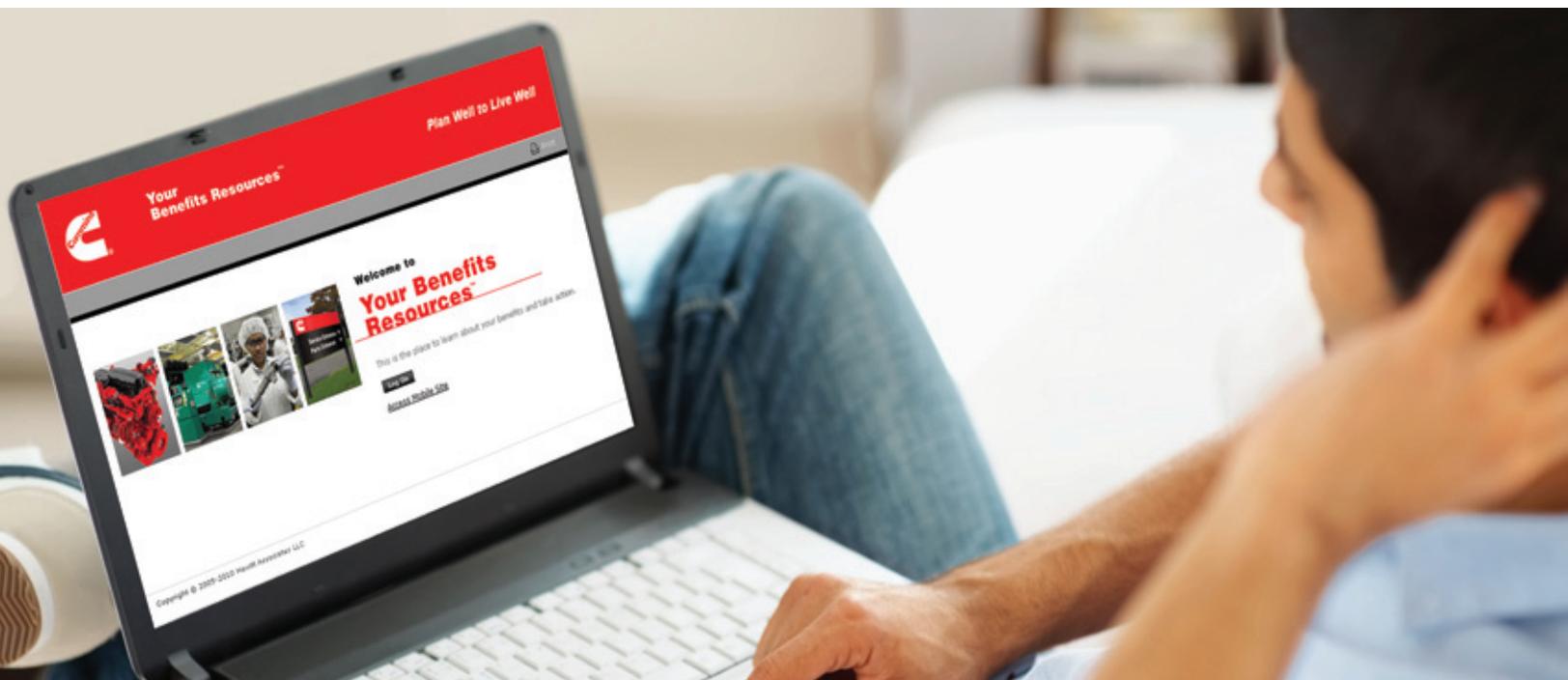
You'll soon see two new diversified fund options when you create your own investment mix in the RSP. These funds are being added to enhance the Cummins RSP and provide you with even more flexibility to develop a mix that is specific to your needs.

Beginning February 1, 2011, you can invest in these new funds:

Fund Name	Type of Asset	What This Provides That's New
The Northern Trust US Aggregate Bond Index Fund	Bond	A bond fund option that is passively managed with low fees. This fund invests primarily in investment-grade rated U.S. bonds.
Northern Trust ACWI ex-US Index Fund	International	An international fund option that is passively managed with low fees. This fund invests primarily in non-U.S. stocks.

Go to **Your Benefits Resources™** at www.yourbenefitsresources.com/cummins to see the complete fund lineup. The new funds will be available beginning February 1, 2011.

Your Benefits Resources is a trademark of Hewitt Associates LLC.



Changes to the Cummins Stock Fund

Beginning January 1, 2011, the Cummins Stock Fund will be an investment option in the RSP, and you will have the flexibility to invest your contributions, as well as Cummins' matching contributions, into this fund. We are making this change due to federal regulations that were issued in 2010.

While this required change provides you more opportunity to invest in Cummins stock through the RSP, please do so with caution. In the past, we had eliminated the option to invest your own contributions in Cummins stock. That's because the RSP is a long-term investment and diversification of those savings is an important component of long-term financial planning. A fund that primarily invests in a single company stock, like Cummins stock, is not a diversified investment.

With this added flexibility comes greater responsibility. Cummins will continue to provide you with tools and education to help you learn about and make investing decisions. You can start by reading the article "Making Smart Choices When Investing in the RSP" on page 4.

How Does the Cummins ESOP Fund Compare to the Cummins Stock Fund?

The RSP currently has a fund called the Cummins ESOP Fund that primarily holds Cummins stock. On January 1, 2011, any balances in the Cummins ESOP Fund will be divided between the new Cummins Stock Fund and another fund that will continue to be called the Cummins ESOP Fund. Any new contributions (your own and any Cummins match) will only go into the Cummins Stock Fund. No new contributions can be made to the Cummins ESOP Fund.

We are dividing the Cummins ESOP Fund into two funds to help preserve a tax advantage that may be available to you. If you invest in a company stock fund, like the Cummins ESOP Fund or the new Cummins Stock Fund, you can elect to receive your distribution as shares of stock rather than cash. When you do this, you are taxed in the year of distribution on the **cost basis** of that stock. The cost basis is the cost of the stock at the time it was contributed. When you eventually sell your stock, you will pay capital gains tax on any increase in value above the cost basis.

The current Cummins ESOP Fund actually has two components:

- The first component is made up of shares purchased in 1989 under special favorable tax provisions available at the time. These shares were distributed to participants over time as a part of the Cummins matching contributions that were made in stock. The last shares from this purchase were allocated in the spring of 2010. Because these shares were purchased in 1989, they have an exceptionally low-cost basis. This component will continue as the Cummins ESOP Fund.
- The second component is due to all other Cummins contributions that were invested in the Cummins ESOP Fund. Those contributions have a cost basis equal to the market price when it was contributed to the fund. This portion of the Cummins ESOP will transfer to the new Cummins Stock Fund.

Please note: If you transfer money out of the Cummins Stock Fund or the Cummins ESOP Fund, you'll no longer have a separate cost basis. **You should consult with a tax advisor before you change your current allocation to the Cummins Stock Fund or the Cummins ESOP Fund.** For more information about this change and what it means to you, go to the **Your Benefits Resources** Web site at www.yourbenefitsresources.com/cummins or call the Cummins Retirement Benefits Service Center at **1-800-682-8788**.

Making Smart Choices When Investing in the RSP

The Cummins RSP is a great place to save for your future. To make the most of your savings, you need to make smart decisions about how you invest. With the added investment flexibility you'll soon have, we wanted to remind you of things you should consider when investing your RSP account.

Key Points to Long-Term Investing

When it comes to investing for your future, *diversification* is key. "Diversification" is a fancy word for "Don't put all your eggs in one basket." Just as the old saying goes, if you have all your eggs (your savings) in one basket (a single investment), then you are putting yourself at greater risk if something unexpected happens to that basket. You are almost certainly better off if you spread your account across *several* different investments. That way, if something happens to one, the effect on your total account may be less.

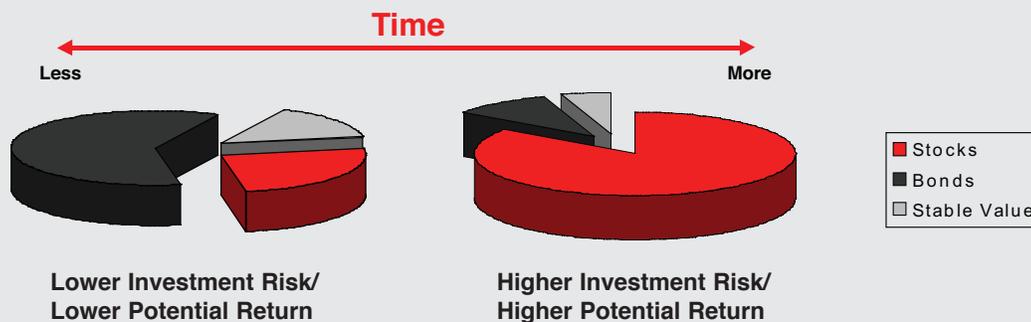
All of the RSP investment options, with the exception of the new Cummins Stock Fund and Cummins ESOP Fund, have some built-in diversification. That's because they invest in many investments *within* the fund. The fund might focus on a specific *type* of investment, such as common stock of large companies for example, but the fund will own shares in many different companies. The Cummins Stock Fund and Cummins ESOP Fund primarily invest in shares of Cummins common stock. That means they are considered to have more investment risk. In general, you may not be diversified if more than 20% of your total savings (in and outside of the RSP) is invested in a single company.

You also need to think about how you diversify across different types of investments. That's called your *asset allocation*. Effective asset allocation is typically based on how long you have until you'll need your money (your time horizon) and your comfort with investment risk. While every investment has some risk—the amount that investments are expected to go up and down over time—they vary in their *level* of risk. (For instance, stock funds have more investment risk than bond funds.) And, in most cases, greater investment risk brings a greater expected long-term return.

The longer your time horizon, the more investment risk you may want to consider. You'll have a greater potential return **and** you have time to ride out short-term drops in the value of an investment within your portfolio (see the chart below). But it is always your choice!

Create the Right Balance

The time you have until you need your money will help you determine how to mix your investments.



Choosing Your RSP Investments

The RSP offers a broad array of funds you may choose among. These funds are structured in two ways to meet your preference on how you want to invest:

- 1) **If you want simplicity or don't have much time to spend choosing your investments**, the Target Retirement Funds may be the best choice. These funds provide you with a mix of investment (asset allocation) that's designed by investment professionals based on a target year of retirement. You can simply choose the fund that best matches the year you expect to retire. Over time, the investment mix will automatically change to match the appropriate asset allocation with the time horizon.
- 2) **If you understand what's required to be a long-term investor and have the time to select and manage your portfolio**, you can create your own investment mix from 12 diversified funds plus the new Cummins Stock Fund (see page 3). People who choose to create their own mix are generally better off if they decide first what their asset allocation should be. In other words, what is the right proportion of stock funds, bonds, and stable value investments. *Then*, they select the appropriate RSP investments. In addition, you should monitor your portfolio periodically (at least once a year) and adjust your target asset allocation over time.

Don't forget that you have tools to help you understand how your investment choices impact your long-term savings strategy. On the Your Benefits Resources Web site at www.yourbenefitsresources.com/cummins, go to "Model Investment Mix" to model a new investment mix and see how it compares to your current strategy.

Taking Action

If you want to learn more, model your retirement income, or make changes to your contributions or investments, you can do this online at the **Your Benefits Resources** Web site, www.yourbenefitsresources.com/cummins.

Here are just a few things you can do:

- **See if you are on track for retirement** by going to "Project Retirement Income."
- **Change how you invest your current account or future contributions** by going to "Manage Investments."
- **Find online educational resources** under "Financial Solutions and Education."

If you don't have access to a computer, you can also call the Cummins Retirement Benefits Service Center for assistance at **1-800-682-8788** (or **1-847-883-2076** if outside the United States, Puerto Rico, or Canada). Representatives are available to assist you Monday through Friday between 7:00 a.m. and 6:00 p.m. Central time.



Remember These Key Dates:

- **The Cummins Stock Fund will be available for your investments beginning January 1, 2011.**
- **The two new diversified funds will be available beginning February 1, 2011.**

New Approach to Charging Administrative Fees for Your Cummins RSP Account

In 2011, we will begin charging a portion of the administrative fees to your account in the RSP to better allocate the costs of the plan among those who benefit from the program. We are making this change because it is consistent with marketplace practices and our desire for sharing the responsibility between you and Cummins when it comes to providing a long-term retirement savings plan. Even after this changes, Cummins will continue to pay a significant portion of the total cost of the RSP administration and work with our providers to ensure that any fees that participants pay are competitive and reasonable, especially for a company the size of Cummins.

The RSP **continues** to offer you a great opportunity to save for your future. You have the convenience of automatic savings, a tax advantage, and a generous Cummins match on a portion of your savings. You also have the oversight of our Benefits Policy Committee that, with the help of outside experts, periodically reviews the investments offered in the plan to make sure the investments meet established criteria and are available at a competitive cost to RSP participants.

If you are no longer an active employee at Cummins and currently pay an administrative fee, your fee will change to this new fee schedule.

How It Will Work

Your account will be charged a monthly fee of 0.05% of your balance, up to a maximum of \$5.00. You will see this fee as a reduction in your account balance on the first business day of each month beginning February 1, 2011.

The maximum administrative fee of \$5.00 reflects a *portion* of the cost per participant to administer the plan and is subject to change each year. For lower account balances, we will subsidize a greater portion of the cost. We do not want the cost of administration to deter employees from participating in the RSP, so we limit the overall monthly charge to 0.05% (five hundredths of a percent) of your account balance at the end of the month.

As an example, if your account balance is \$10,000 or more, you will be charged the full \$5.00. But if your account balance is \$7,000 at the end of January 2011, the monthly fee charged to your account on February 1 will be limited to \$3.50.

In addition to the regular monthly charge, participants who take loans from the plan or who split their plan balance during a divorce based on a Qualified Domestic Relations Order (QDRO) will be charged fees associated with those activities. Fees will be assessed at the time of the transaction.

Loan fee: A fee of \$100 will be deducted from any new loan you request on or after January 1, 2011. In other words, if you request a loan for \$1,500, you will receive \$1,400 (the loan amount of \$1,500 minus the loan fee of \$100).

QDRO fee: A fee of \$400 will be charged when a QDRO is applied to your RSP account. This will apply to new QDRO requests starting January 1, 2011. This cost will be taken from the account before it is divided into separate accounts for the participant and the former spouse.

About This Material

Although this document contains information about Cummins benefit plans, it is not intended to provide every detail. Details are included in the Plan documents and the related contracts under which benefits are provided. If there is any difference between the information provided in this document and the Plan documents and/or related contracts, the Plan documents and/or related contracts will govern. The Company reserves the right to adjust, amend, modify, suspend, or terminate benefit plans and/or programs, at any time and for any reason. This document is not a contract of employment and is not intended to affect the employment-at-will status of any employee in any way whatsoever.