



Supplemental Notice of Critical Status for the Sheet Metal Workers' National Pension Fund

April 16, 2008

On March 1, 2008, the Fund sent you a Notice that Sheet Metal Workers' National Pension Fund ("NPF") had been certified by its actuary to be in critical status for the 2008 Plan Year. As indicated in that "Notice of Critical Status," the actuary submitted the certification, dated February 1, 2008 to the U.S. Department of the Treasury, and to the plan sponsor (the "plan sponsor" is the NPF's Board of Trustees). Federal law requires that you receive the Notice of Critical Status, copy attached.

After the NPF issued its Notice, the U.S. Department of Labor issued proposed regulations and a proposed model notice. This material indicates that the Notice of Critical Status should provide information about restrictions on lump sum payments and employer surcharges. Although these regulations are only proposed, and NPF has already communicated information on limits about lump sums and employer surcharges, the NPF now sends this Supplemental Notice based on the Labor Department's suggested model form.

Rehabilitation Plan, Reductions in Adjustable Benefits and Limits on Lump Sum Payments

Federal law requires pension plans in critical status to adopt a rehabilitation plan aimed at restoring the financial health of the plan. This is the *first* year the NPF has been in critical status. The law permits pension plans to reduce, or even eliminate, benefits called "adjustable benefits" as part of a rehabilitation plan. In its March 1, 2008 Notice of Critical Status and Additional Explanation, and other communications, NPF notified you that it will reduce or eliminate some adjustable benefits in its Rehabilitation Plan. These reductions are also explained in the NPF's Rehabilitation Plan and its Schedules. All of these documents, and more, are available on the Fund's website at www.smwnpf.org. In addition, you will receive a separate notice in the future identifying and explaining the effect of those reductions. Any reduction of adjustable benefits (other than a repeal of a recent benefit increase, such as NPF COLA Benefits) will not reduce the level of a participant's basic benefit payable at normal retirement. In addition, except for the repeal of a recent benefit increase, the reductions may only apply to participants and beneficiaries whose benefit commencement date is on or after *March 1, 2008*. **You should also know:** effective March 1, 2008, the NPF is not permitted to pay lump sum benefits (or any other payment in excess of the monthly amount paid under a single life annuity – *including new level income options*) while it is in critical status.

Employer Surcharge

The law requires that all contributing employers pay to pension plans in critical status a surcharge to help correct the plan's financial situation. The amount of the surcharge is equal to a percentage of the amount an employer is otherwise required to contribute to the plan under the applicable collective bargaining agreement. With some exceptions, a 5% surcharge is applicable in the initial critical year and a 10% surcharge is applicable for each succeeding plan year thereafter in which the plan is in critical status.

Note that a surcharge does not apply once the employer and the union have negotiated one of the Schedules issued under the Rehabilitation Plan. Most employers and the union have adopted one of the Schedules (and many are doing it right now) into the Collective Bargaining Agreement so most employers will not be assessed a surcharge.

Where to Get More Information

For more information about this Notice, go to NPF's website at www.smwnpf.org. You may contact the Pension Benefits Department at info@smwnpf.org or 601 North Fairfax Street, Suite 500, Alexandria, VA 22314 or 1.800.231.4622. You have a right to receive a copy of the Rehabilitation Plan and the Schedules. You can download it from the website, or e-mail info@smwnpf.org or write the Fund for a copy.

And for even more information read NPF Chairman & General President Sullivan's article "Tough Choices: NPF's Rehabilitation Plan Protects your Pension" in the next SMWIA Journal and on www.smwnpf.org.

Attachment

Notice of Critical Status for the 2008 Plan Year, March 1, 2008



SHEET METAL WORKERS' NATIONAL PENSION FUND

601 NORTH FAIRFAX STREET, SUITE 500

ALEXANDRIA, VIRGINIA 22314

TELEPHONE: 703-739-7000

Notice of Critical Status for the 2008 Plan Year

March 1, 2008

**This Notice contains important information about benefits under the Sheet Metal Workers' National Pension Fund ("NPF" or "Fund") and Federal Law.
Please read and retain for future reference.**

To: Participants and Beneficiaries, SMWIA, Local Unions, Contributing Employers, Pension Benefit Guaranty Corporation and Secretary of Labor

The Fund's Actuarial Status for 2008

The Pension Protection Act of 2006 ("PPA") amended ERISA and the Internal Revenue Code to, among other things, impose additional funding rules for multiemployer plans, which are based on the actuarial status of the multiemployer plan. The new funding rules take effect in 2008 and apply to the Sheet Metal Workers' National Pension Fund ("NPF" or "Fund") because it is a multiemployer plan. Beginning with the 2008 Plan Year, the Fund's actuary annually must certify to the Secretary of Treasury and the Fund's plan sponsor (the Board of Trustees) whether or not the Fund is in Endangered ("Yellow Zone") or Critical Status ("Red Zone") for that Plan Year. The term "*Critical Status*" is defined in ERISA Section 305 (b)(2) and Internal Revenue Code Section 432 (d)(2), and it relates to the ability of the Fund to meet ERISA's minimum funding requirements.

The purpose of this Notice is to inform you that the Fund is in Critical Status for the 2008 Plan Year (January 1, 2008 - December 31, 2008). This is the first year in which the NPF has been found to be in Critical Status. On February 1, 2008, the Fund's actuary certified under Section 432 of the Internal Revenue Code that the NPF is in Critical Status for the 2008 Plan Year because:

1. The actuary projects a funding deficiency (i.e., failure to satisfy the minimum funding requirements) in less than/within four (4) years; and
2. The actuary has determined that the NPF's funded percentage (actuarial value of assets/accrued liability) is less than 65%.

The changes made by the PPA are designed to avoid the negative consequences of a minimum funding deficiency under prior law, and to enable plans with minimum funding deficiencies to emerge over a period of time with a stronger financial foundation. As explained below, this is done through reductions in adjustable benefits and/or a combination of contribution rate increases and reductions in adjustable benefits.

Explanation of Benefits That May Be Adjusted

ERISA and the Internal Revenue Code, as amended by the PPA, require the Board of Trustees, as the Fund's Plan Sponsor, to adopt a Rehabilitation Plan, which must be designed to reasonably enable the Fund to emerge from Critical Status over a 10-year period. That is, the Fund's actuary must project at

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the end of that period that the Fund will not have a funding deficiency for the year of certification or any of the following nine (9) years. The Rehabilitation Plan must include one or more Schedules that the Local Unions and Employers adopt as part of their collective bargaining agreements. The Schedules describe the benefit adjustments or the combination of benefit adjustments and contribution rate increases that are necessary for the Fund to emerge from Critical Status at the end of the 10-year period. PPA mandates that one Schedule, called the "Default Schedule," must first reduce adjustable benefits to the maximum extent necessary before requiring any contribution rate increase. The other Schedule, the "Alternative Schedule," requires contribution increases but has fewer benefit reductions. The Board of Trustees must review the Rehabilitation Plan and the Schedules annually and make adjustments, as necessary, to take into account the Fund's actual experience. It is important to note, however, that the Schedule of contribution rates stays in effect for the duration of the collective bargaining agreement.

The Board of Trustees has identified the adjustable benefits and contribution rate increases that will go into the Schedules and those are discussed in the Additional Explanation of benefit changes that follows this Notice. The Trustees are finalizing the Rehabilitation Plan and the Schedules. It is important to note that the Schedules to be provided to the bargaining parties do not reduce adjustable benefits to the maximum extent permitted under the new funding rules for plans in Critical Status. However, because the Rehabilitation Plan and the Schedules could change in the future, this Notice is required to discuss the extent to which adjustable benefits **could** be reduced. Again, it is important to remember that the 2008 Schedules do NOT reduce adjustable benefits to the maximum extent described below.

ERISA defines three categories of adjustable benefits, which may be reduced even if they otherwise would be protected under ERISA's anti-cutback rule (ERISA Section 204(g)):

1. **Benefits, rights and features under the Fund's plan document.**

These include post-retirement death benefits, the 60-month and 120-month guarantee options currently in the Fund's plan document, and the Fund's Disability Benefit. Other examples of benefits that may be reduced include the partial reimbursement for Medicare wrap-around coverage from the Fund's 401(h) account, pre-retirement death benefits, other than the qualified pre-retirement survivor annuity required by ERISA, and the pop-up feature in the Husband and Wife Pension for a Participant who survives the spouse's death.

2. **Any early retirement benefit or retirement-type subsidy and any payment option, other than a qualified joint and survivor (e.g., 50% Husband and Wife Pension).**

Examples of early retirement benefits or retirement-type subsidies in the Fund's plan document include the Standard Early Retirement Pension, the Special Early Retirement Pension and the 55/30 Pension. Examples of payment options include the 100% Husband and Wife Pension, the Level Income Option and the Lump-Sum Option.

3. **Benefit increases that would not be eligible for a guarantee under ERISA section 4022A on the first day of the critical year (January 1, 2008) because the increases were adopted (or, if later, took effect) less than 60 months before such first day.**

An example of such increases include scheduled increases, such as NPF COLA Benefit increases, which, in general terms, are annual increases in the form of a 13th check equal to 2% of the annual pension benefit based on Pension Credit earned through June 30, 1995, times the number of years of retirement (up to 15). That increase under the NPF COLA Benefit takes effect on October 31 of the year in which the Participant received at least 12 consecutive

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monthly pension payments. It is important to note that such benefit increases are adjustable benefits even though they are included within the Participant's accrued benefit payable at Normal Retirement Age.¹

Persons Whose Benefits May Be Adjusted

In general, the Trustees may reduce any adjustable benefits of any Participant or Beneficiary (including an Alternate Payee) whose Benefit Commencement Date (the Effective Date of Pension, or if later, the date on which benefit payments begin) is on or after the date this Notice is provided. However, it is important to note that the 2008 Schedules will not apply to all such individuals, but only to those persons whose Effective Date of Pension is on or after March 1, 2008. Of course, future Schedules may provide differently, depending on the Fund's actuarial experience.

Additionally, the Trustees may reduce benefit increases that are not guaranteed under Section 4022A of ERISA because they were adopted (or, if later, took effect) less than 60 months before January 1, 2008. As described above under the description of adjustable benefits, this includes scheduled increases such as the annual increases under the NPF COLA Benefit. In other words, the NPF COLA Benefit payments will be rolled back to the level of the payment received in 2002 (the last NPF COLA Benefit payment made more than 60 months from January 1, 2008), which may be zero in the case of Participant or Beneficiary in pay status whose first increase under the NPF COLA Benefit was after 2002.

Participants for Whom Contributions Are Not Currently Required to Be Made

Finally, if a Participant does not currently have contributions required to be made to the Fund on his behalf (e.g., a retiree or a vested Participant not currently working in Covered Employment), his benefits may be adjusted to the maximum extent permitted by Section 305 of ERISA, even though the Schedules adopted by the bargaining parties do not reduce adjustable benefits to the maximum extent.

NOTE: An Additional Explanation of reductions in adjustable benefits is enclosed. It is also being sent to SMWIA, Local Unions, Contributing Employers and SMACNA.

Enclosure

cc: SMACNA w/encls

¹ With the exception of the benefit increases that were adopted or took effect less than 60 months before the January 1, 2008, adjustable benefits do not include the Participant's accrued benefit payable at Normal Retirement Age.