



SHEET METAL WORKERS' NATIONAL PENSION FUND

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NOTICE TO EMPLOYEE ORGANIZATIONS (UNIONS), CONTRIBUTING EMPLOYERS, PARTICIPANTS, BENEFICIARIES, ALTERNATE PAYEES AND THE PBGC OF ELECTION TO APPLY CHANGES IN THE FUNDING STANDARD ACCOUNT FOR 2009 PLAN YEAR PURSUANT TO THE 2010 MEDICARE AND PENSION RELIEF ACT §§211(a)(1) AND (a)(2)

Purpose of this Notice

This Notice is to inform you that the Board of Trustees of the Sheet Metal Workers' National Pension Fund (NPF or Fund) has elected to make changes in the NPF's funding standard account (FSA) and funded percentage by (i) amortizing certain net investment losses over 30 years, instead of 15 years (prior to an extension of amortization charges), and (ii) changing the NPF's asset valuation method so that the difference between expected and actual investment returns for certain years is spread out (smoothed) over a period of 10 years (instead of 5 years), and (iii) expanding the permissible ratio between the actuarial (smoothed) value and the market value of the Fund's assets (from 120% of the current fair market value to 130% of the current fair market value). The election applies to the 2009 Plan Year and is authorized by amendments made to ERISA and the Internal Revenue Code under the Preservation of Access to Care for Medicare Beneficiaries and Pension Relief Act of 2010.

The Fund's actuarial consultant, The Segal Company, has certified that the NPF is projected to have sufficient assets to pay expected benefits and anticipated expenditures timely over the extended amortization period. The Trustees elected to make the changes for the 2009 Plan Year.

For a more detailed explanation of these changes to the FSA, go to page 3 of this Notice.

How to Obtain More Information

Information about the NPF's funding (its measurement, components and other information) is contained in the Fund's Form 5500 (annual report). In accordance with Section 104 of ERISA, you may inspect the Fund's annual financial reports, which include employer contributions made to the NPF for any plan year, at the U.S. Department of Labor (DOL) in Washington, D.C. Copies of such reports (including the Form 5500) may be obtained upon request and upon payment of copying costs from the following address:

Public Disclosure Room
Room N-1513
Employee Benefits Security Administration
U.S. Department of Labor
200 Constitution Avenue, NW
Washington, D.C. 20210

In addition, the Fund's actuarial information filed for 2009 with the DOL may be obtained in the future at <http://dol.gov/ebsa/actuarialsearch.html>. Of course, you should bear in mind that there

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may be a delay between the time such information was actually received by the DOL and the time that it gets posted on the DOL's website.

As required by §104(b)(2) of ERISA, copies of the latest annual report are available for inspection at the principal office of the Fund, which is located at 601 N. Fairfax Street, Suite 500, Alexandria, VA 22314. As required under Section 101(k)(1) of ERISA, copies of periodic actuarial reports, quarterly, semi-annual, or annual financial reports, and copies of any application for extension under Section 304 of ERISA or Section 431(d) of the Code may be obtained upon written request and payment of a copying charge of \$0.25 per page. The written request must be submitted to the Fund Administrator at the above address. PLEASE NOTE that some or all of this information also can be viewed and downloaded FREE OF CHARGE by visiting the Fund's website: www.smwnpf.org.

Again, if you wish to read more about the changes summarized in this Notice, please read the explanation starting on page 3 of this Notice.

Sheet Metal Workers' National Pension Fund

cc: NPF Trustees
SMWIA
SMACNA

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Reason for the Changes to the Fund's FSA and Funded Percentage

Like all institutional investors, the Fund was profoundly affected by the historic decline in the financial markets in 2008 and the unprecedented economic recession. Perhaps the most significant aspect was the large reduction in the Fund's assets as a result of its 2008 investment losses. These investment losses ultimately get reflected as actuarial losses in the Fund's actuarial report, which gets filed with the IRS and Department of Labor as part of the Fund's annual report (Form 5500).

The actuarial report is designed to show whether the Fund is in compliance with the minimum funding requirements of ERISA and the Internal Revenue Code. To do so, the Fund must maintain a positive balance in a bookkeeping account, which is called the FSA (the funding standard account). It is not unlike a checking account, or a budget, in that adequate funds must be maintained in the account to cover all expected expenditures.

In very basic terms, the FSA indicates how much money is required by ERISA to be contributed to the Fund for a Plan Year. This minimum required contribution is comprised of "normal cost" (cost of the benefits that are expected to be earned during that Plan Year); expected administrative expenses for that year and an amortization of the excess of the Fund's accrued liability over its assets.

The actuary uses an actuarial cost method approved by the IRS to calculate the normal cost and accrued liability for benefits for each plan year. In doing this calculation, the actuary must make certain assumptions about asset growth, benefit liability growth, contributions, etc. If the Fund's *actual* experience is better or worse than one or more of the actuary's assumptions, the Fund will have an actuarial gain or loss. For example, if the actuary assumes that the Fund will have a 7.5% rate of return on investments during the Plan Year, but the Fund only had a 5% rate of return, the Fund will have an actuarial loss for that year relating to that assumption. Likewise, if the Fund actually had a 10% rate of return for the Plan Year, the Fund would have an actuarial gain for that year versus that assumption.

The actuarial losses and gains for the year are not accounted for all at once. Instead, these amounts are amortized (divided into installments) over a period of 15 years. Spreading out actuarial losses over a longer term lessens the impact of those losses on the Fund's actuarial valuation. It is similar to a mortgage. The monthly payment on a 30-year mortgage is less than the monthly payment on a 15-year mortgage.

In order to lessen the impact on pension funds of the very large actuarial losses generated by the market meltdown of 2008, Congress amended ERISA to allow Trustees of multiemployer plans to amortize those losses over a longer period. Instead of 15 years, those actuarial losses can be spread out over 30 years, which improves the balance in the FSA because a smaller amount is deducted from the FSA balance each year. The Trustees elected to do that because it makes it more likely that the Fund will stay on track with its Rehabilitation Plan.

In addition to requiring the actuary to make certain assumptions, the actuarial cost method used by the Fund's actuary requires it to "smooth" the value of the Fund's assets, since market returns can go up and down dramatically from one year to the next. This "smoothing" technique is designed to lessen the size of a plan's actuarial gain or loss resulting from the difference between the actuary's assumed rate of return and the actual market rate of return. That way, when the actuary assumes a 7.5% rate of return but the actual rate is 3%, the Fund does not recognize an

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immediate loss of 4.5%. Rather, the idea is that, over time, the Fund's average actual rate of return will be 7.5%, taking into account the normal fluctuations in the market. Therefore, the actuary derives a "smoothed" actuarial value of assets. This actuarial value of assets is arrived at by dividing a loss over a five-year period. So in the example above, the 4.5% loss would be recognized gradually starting with 1/5 of the 4.5% loss (that is 0.9%) in the first year. Likewise, suppose that in the next year, the actual rate of return is 10%. This would mean that there was a 2.5% actual market gain over the assumed rate of 7.5%. This 2.5% gain is spread out over 5 years and only 1/5 of that amount (0.5%) is taken into account for that year as a gain. In reality, smoothing means that the 0.9% loss from the prior year gets offset by the 0.5% gain. We realize that this is confusing, but the important point is that, as the name implies, market gains and losses are "smoothed" in order to eliminate volatile fluctuations from one year to the next.

Because the market losses were so great between 2007 and 2008, the 5-year smoothing did not make it possible to reasonably smooth out the corresponding drop in asset value. For example, many plans' investments lost between 20% and 30% between 2007 and 2008, instead of gaining 7.5% as many plans expected. Thus, with an actuarial loss of between 27.5% and 37.5%, the 5-year smoothing still means that after the first year, plans had to recognize the remaining 4/5 of the loss (of 5.5% or more) in each of the following four years. To lessen this impact, Congress amended ERISA to allow trustees of multiemployer plans to smooth out the losses resulting from the 2008 market meltdown over a 10-year period, instead of 5 years. Thus, a plan with a 27.5% loss would take into account 2.75% of that loss each year over 10 years, instead of 5.5% over 5 years. As with the 30-year amortization option, the Trustees elected to smooth the 2008 market losses over a 10-year period because it will make it more likely that the Fund will stay on track with its Rehabilitation Plan.

Finally, Congress made one other change that allows the 10-year smoothing of 2008 losses to work more effectively. Specifically, ERISA was amended to expand the allowable gap between the market value of assets and the actuarial (smoothed) value of assets for up to two plan years. Under the prior law, not only was the Fund limited to spreading out the actuarial losses over five years, the Fund had to place a cap on the actuarial value of the assets, so that the actuarial value could not be more than 120% of the market value. In other words, the actuarial value could not be more than 20% greater than the market value, which limited the impact of the smoothing (more of the loss had to be recognized immediately) considering how unusually large the market losses were in 2008. Congress addressed this by amending ERISA to raise the limit to 30% for 2009 and 2010 (if applicable) for purposes of smoothing the 2008 market losses. Therefore, the actuarial value of assets as of January 1, 2009 may be as much as 30% greater than the fair market value of assets as of January 1, 2009. The Trustees elected to apply this option in order to make it more likely that that the Fund will stay on track with its Rehabilitation Plan.

The changes to the asset smoothing method and excess of actuarial value over market value affect the calculation of the "funded percentage" that is used for various purposes. The funded percentage is the ratio of actuarial (smoothed) value of assets over accrued liabilities. Any increase in the actuarial value of assets for a plan year will increase the funded percentage for that year.