



SHEET METAL WORKERS' NATIONAL PENSION FUND
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Notice about the 2005 Funding Increase Sticking with the Long-Term Approach

Dear Business Manager:

Recap

As you know, the National Pension Fund Trustees have adopted an approach that is designed to improve NPF's long-term funding, meet and exceed minimum funding standards and preserve and protect pension benefits for retirees, present and future.

This approach requires Employers to make annual Funding Increases in National Pension Fund contributions. In 2004, Local Unions negotiated increases in over 95% of collective bargaining agreements. We know that these Funding Increases are difficult, and we appreciate the overwhelming support shown by you, your Participants and your Employers.

Because of the increase in contribution rates, contribution income to the Fund in 2004 increased by between \$7 and 8 million. As you know, the Trustees' recovery plan also assumes that NPF will earn 7% on investments. Although final numbers will not be ready for a few weeks, we estimate that the Fund's return on investments for 2004 has exceeded 10.5%. With continued increases in contribution income and some help from financial markets, the Trustees' long-term goals will be realized.

For more Fund financial information, go to www.smwnpf.org for quarterly financial statements.

Even though the response to the 2004 Funding Increase was extraordinary and investment returns have improved over the past two years, the need for increased contribution income remains. The Trustees have resolved to stay the course to raise additional contribution income.

The 2005 Funding Increase

Now is the time to begin working on the 2005 Funding Increase. In 2005, every contribution rate must again increase by ten percent. *Ten percent of what, you might ask?* Well, it's like this for most rates:

- ◆ Look at the rate in effect on December 31, 2002
- ◆ If it is a 55/30 rate, leave out the part of the contribution allocated to 55/30
- ◆ In 2004, this rate should have increased by 10%.

- ◆ In 2005, the ten percent Funding Increase is calculated on the December 31, 2002 rate, *plus* the ten percent paid in 2004.

Here are a couple of examples:

IMPORTANT!

No Funding Increase can be less than \$.05, even if this is more than 10%.

Funding Increases are rounded up to the nearest *whole* penny.

Example 1 - Assume the rate in effect as of December 31, 2002 is \$2.00 **and it is not** a 55/30 rate. The 2004 Funding Increase was 20¢ (twenty cents), taking the total rate paid to \$2.20.

The 2005 Funding Increase will be 22¢ (twenty-two cents), that is ten percent of \$2.20. The final rate paid for 2005 will be \$2.42.

Example 2 - Suppose the contribution rate being paid as of December 31, 2002 is \$1.25 and it is a 55/30 rate. For this calculation, the 2004 increase was 10¢, taking the total contribution to \$1.35. This is because the ten percent was figured on the *base rate*, which does not include the 25¢ (twenty-five cents) allocated to 55/30. The 2005 Funding Increase will be 11¢ (eleven cents), which is determined as follows:

$$\begin{aligned} & \$1.00 \text{ (base rate)} + 10¢ \text{ (2004 Funding Increase)} = \$1.10 \\ & 10\% \text{ of } \$1.10 \text{ is } 11¢, \text{ so the 2005 Funding Increase is } 11¢ \end{aligned}$$

After the 2005 Funding Increase, the contribution paid will be \$1.46, which is the sum of all the following:

$$\boxed{\$1.00 \text{ (base rate)} + 25¢ \text{ (55/30)} + 10¢ \text{ (2004 Funding Increase)} + 11¢ \text{ (2005 Funding Increase)} = \$1.46}$$



Yes, it's complex. As in the past, the Fund Office has enclosed **detailed lists** of all 2005 Funding Increases for all classifications within your Local.

Benefit Accrual

Remember that for most Participants whose Local/Employers made the 2004 Funding Increase, benefit accrual rate was the same as the benefit accrual rate in effect before September 1, 2003. The 2005 Funding Increase must be made for this accrual to apply through 2005.

In order for most Participants to determine how pension benefits accrue, first determine the *base rate*, which is the rate on which the dollar value of a benefit is based.

If your Local Employer(s) made additional contributions - *above* what was needed for Funding Increase or 55/30 - special rules apply.

Identify the Total Hourly Contribution Rate paid by an Employer. Subtract:

2004 Funding Increase

55/30 Contribution Rate (*if applicable*)

The balance is your “base rate”

If your Local made the 2004 Funding Increase, benefits accrued as follows:

- a) base rate x Contribution Hours (up to 1400 hours) x 1.7142%
- b) base rate x Contribution Hours (in excess of 1400 hours) x .6%

The product of a + b = *Accrued Benefit*

Using Example 2 listed above – this Local Union negotiated a contribution rate of \$1.35. This contribution rate had a base rate of \$1.00. You arrive at this base rate amount by subtracting the 10¢ allocated for the 2004 Funding Increase and 25¢ for 55/30. A participant working 1,750 hours in 2004 accrued the following benefit:

- a) \$1.00 x 1400 hours x 1.7142% = \$23.99
- b) \$1.00 x 350 hours x .6% = \$ 2.10

Accrued Benefit = \$26.09 for this particular year of service

For the benefit accrual to continue at this level, the 2005 Funding Increase will need to be made.

What if an Employer does not make the 2005 Funding Increase?

Funding Increases are an essential part of the NPF’s recovery. Your overwhelming commitment is appreciated. This commitment must endure to secure benefits now and in the future. The Trustees will continue to monitor the Plan’s funding and make changes in the rate of accrual when appropriate.

THANK YOU FOR YOUR SUPPORT

The Board of Trustees