



# SHEET METAL WORKERS' NATIONAL PENSION FUND

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October 2007

## ***A Message from Chairman Michael J. Sullivan about Upcoming Changes to the National Pension Fund ("NPF")***

I want to bring you up to date on how the NPF is responding to changes in the federal pension law. As you know, the Pension Protection Act of 2006 ("PPA") made sweeping changes to the federal law that governs the NPF and other pension plans. One of these changes requires the NPF Trustees to obtain – in early 2008 – an actuarial certification of the NPF's funded status. I expect that the NPF's actuary will certify that the NPF's funded status for 2008 is "*critical*." The actuary plans to make this certification around February 1, 2008. Of course, we will send you a written *Notice of Critical Status* after this occurs.

Being in critical status does NOT mean that the NPF is unable to pay pensions. Rather, it means the actuary projects that if the NPF did nothing, it would have a funding deficiency within the next few years. To avoid this, NPF will adjust benefits and raise additional contributions. The PPA requires that these changes be put into a "Rehabilitation Plan." Also, the PPA requires the Trustees to update the Rehabilitation Plan annually and obtain an annual certification from the actuary that the NPF's funding is on track under the Rehabilitation Plan. The Trustees have developed a proposed Rehabilitation Plan. In the coming weeks, the Fund Office will publish additional information on the Rehabilitation Plan on the Fund's website – [www.smwnpf.org](http://www.smwnpf.org). If you have limited internet access, please contact the Fund Office to receive updated information by mail.

The PPA limits the Trustees' options in the Rehabilitation Plan. Under the PPA, any person who retires *after* the NPF provides the Notice of Critical Status can have their early retirement pensions and other benefit options reduced. In addition, starting in 2008, COLA increases are rolled back or eliminated, regardless of whether persons are retired or when they retired. COLA's paid in December 2007 will not be changed.

**TO AVOID THE POSSIBILITY OF BENEFIT CHANGES REQUIRED BY THE PPA (OTHER THAN COLA), YOU MUST STOP WORKING AND RETIRE BY FEBRUARY 1, 2008.** This is because the NPF expects to send the Notice of Critical Status for 2008 on March 1, 2008. **IF YOU RETIRE BY FEBRUARY 1, 2008, YOU WILL NOT RECEIVE COLA INCREASES BUT YOUR OTHER BENEFITS WILL BE UNAFFECTED.** Having said this, *don't rush to judgment about retiring!* Retirement is an important decision and I can understand that many of you may feel compelled to react in response to this notice; however please review this entire message. For many of you, these changes may be minor and may actually improve your benefit if you should continue to work after the Fund implements its Rehabilitation Plan. If, after reading this notice, you continue to have questions regarding your benefit, I encourage you to contact the Fund Office so that you can make an informed decision. You can do this by sending an email to [fundadministrator@smwnpf.org](mailto:fundadministrator@smwnpf.org) or calling the Fund Office.

#### **What changes can participants expect?**

First, current retirees will not see any changes in monthly benefits. However, their COLAs will change in 2008 (as described on page 4).

**December 2007 Changes:** Beginning this December, the annual benefit formula for Locals that have made the required 10% contribution rate increases will change to 1.5% of contributions on hours up to 1200 and 0.5% of contributions over 1200 (for December 2007, the 1.5% will apply to all hours for the month). Also, your current contribution rate will be used to determine your benefit under that new formula, instead of your 2002 contribution rate.

In general, the benefits you have earned under the present plan over the last four years have been based on a *portion* of the contribution rate. The contribution rate increases were required to maintain the same level of benefits paid in 2002. Many argued that the current formula was an unfair burden on our active participants and did not provide an adequate incentive to continue making increases. In formulating the Rehabilitation Plan, I felt it was important that we change the way you earn *future* benefits. I and the Trustees believe that an increase in a contribution rate should result in an increase in the pension benefit. I am pleased to report that this change will occur this December. If your Local made the required contribution increases and you work under a 55/30 contract, 70% of your current contribution rate will be used to determine your benefit (so that eligible participants can receive unreduced benefits as early as age 55). For non

55/30 contracts, 100% of the current contribution rate will be used (since persons working under these contracts do not qualify for unreduced benefits at age 55).

**Rehabilitation Plan:** The Trustees have reviewed various scenarios and projections from the NPF's actuary to identify the contribution increases and benefit adjustments that will be needed for the NPF to emerge from critical status within the period specified in the PPA.

Based on these efforts, the expected Rehabilitation Plan will include two schedules for 2008 – one which requires no contribution increases, but makes significant benefit adjustments, and one which has a combination of contribution increases and fewer benefit adjustments. The PPA requires the “bargaining parties” (your Local and Employers) to adopt one of these Schedules.

Both Schedules modify early retirement benefits and roll back COLA increases.

- The 2008 Default Schedule does **not** require contribution increases but makes very significant changes to early retirement benefits.
- The 2008 Alternative Schedule **does** require contribution increases, but it preserves more early retirement benefits.

The 2008 Schedule that will apply to you depends upon which Schedule the bargaining parties select. Both Schedules preserve the pension payable at age 65 (except for COLA increases and certain payment options).

I should stress that the benefit changes and contribution rate increases can both change if the bargaining parties delay adopting one of the 2008 Schedules. The PPA requires the Trustees to review the Schedules annually and make any necessary changes to keep the Fund on track over the term of the Rehabilitation Plan. The provisions of each Schedule, however, will apply during the term of your collective bargaining agreement.

Here is a summary of changes made in the expected 2008 Rehabilitation Plan Schedules. I doubt these schedules will change in any significant way unless there is a serious downturn in the financial markets in the few remaining months of 2007.

### **Early Retirement Changes under the Rehabilitation Plan Schedules for 2008**

Under the **2008 Default Schedule**, the early retirement benefit payable to eligible persons who retire after the NPF's Notice of Critical Status, is significantly reduced:

- **NO** Special Early Retirement and **NO** 55/30 Pension;

- The Standard Early Retirement benefit which would have been payable, will be reduced further for age – 6% per year from age 65, so the benefit at age 55 will be 40% of the benefit payable at 65 (instead of 49% that would have been paid under the current plan);
- Participants will have to work until 65 in order to receive a pension unreduced for age.

The **2008 Alternative Schedule** provides better early retirement options for eligible persons who retire after the Notice of Critical Status:

- The 55/30 Pension for eligible participants in 55/30 Locals will continue to provide an early retirement benefit that is unreduced for age (benefit at age 55 can be equal to the benefit payable at age 65);
- Special Early Retirement will continue to provide an unreduced benefit at age 62, but the Special Early Retirement benefit paid before age 62 will be reduced further for age (6% for each year the participant is under age 62). **At age 55, the benefit will equal 58% of benefit payable at age 65 (instead of 64% that would have been paid under the current plan).**
- Standard Early Retirement is reduced as under the Default Schedule.

***I have enclosed examples which compare benefits payable under the 2008 Default Schedule and the 2008 Alternative Schedule.***

### **COLA Rollback under both Rehabilitation Plan Schedules for 2008**

While most changes under the 2008 Rehabilitation Plan Schedules will not affect participants who retired before the NPF gives its Notice of Critical Status, all participants will see changes in COLA increases. Under the PPA, benefit increases that were made within 60 months before the first day of the plan's initial critical year are subject to adjustment, even if the increases were scheduled to take effect automatically, such as the COLA increases under the current plan for post-1991 retirees.

Starting in 2008, COLA benefits will be rolled back to the 2002 amount, so any increase in COLA benefits after 2002 is eliminated. This means:

- Active participants will receive NO COLA benefit when they retire because any increases scheduled to take effect automatically in the future are eliminated;
- Pensioners will not receive any COLA benefit after 2007 unless they were receiving a COLA in 2002 (meaning they had to be in pay status before December 1, 2001);

- Pensioners who have been receiving a COLA benefit since 2002 will have their COLA benefit reduced to the amount they received in 2002 because the benefit increases after 2002 were made less than 60 months before the first day of NPF's initial critical year (January 1, 2008).

*COLA increases paid in December 2007 will not be changed.*

### **Changes to the Benefit Formula**

The benefit formula under the 2008 Alternative Schedule will be the same as the new formula described above will apply to work in Covered Employment after November 2007 (subject, of course, to any future plan amendments). However, the Alternative Schedule requires contribution rate increases every year. These increases are: 2008 – 10%; 2009 & 2010 – 7%; 2011 & 2012 – 5%; 2013 & 2014 – 4%; 2015 – 2017 – 3%. Each contribution increase raises benefits for work in Covered Employment after the increase.

The benefit formula under the 2008 Default Schedule is expected to be 1% of contributions required to be made for work in Covered Employment. **PLEASE** keep in mind that the benefit formula is used to calculate the benefit **payable at age 65**. Under the Default Schedule, the benefit **payable at age 55 will be 40% of that amount**. As shown in the enclosed examples, it is important to focus both on the benefit payable before age 65 and the benefit payable at age 65. If you fail to do that, you could mistakenly conclude that a participant might do better under the Default Schedule.

While I have not discussed how various forms of payments (e.g., lump-sum, 120-month guarantee, and level income) are affected by the NPF's critical status, I encourage you to check the NPF's website [www.smwnpf.org](http://www.smwnpf.org) for updates. In all likelihood, you and your spouse will not be able to receive a lump-sum benefit or a level income benefit *if you retire after* the NPF enters critical status. The NPF will continue to provide survivor benefits to spouses.

I recognize that the benefit changes in the Rehabilitation Plan will not be easy for many. I assure you that the Trustees have worked hard to formulate a Rehabilitation Plan that weighs many competing interests, including ensuring NPF's funding and providing a dignified retirement for our members and their spouses. Should you have any questions, please contact the Fund Office directly or e-mail the Board of Trustees at [BOT@smwnpf.org](mailto:BOT@smwnpf.org). This letter and other material can be found on the NPF's website [www.smwnpf.org](http://www.smwnpf.org). I have also sent this letter with enclosures to your Local Unions and Employers.

Finally, as you know, the Rehabilitation Plan is the latest chapter in our continuing efforts to improve the NPF's financial soundness. With your patience, understanding and support we can succeed. I and the other Trustees will continue to work tirelessly to ensure that the NPF will always be around to provide you a meaningful pension for your lifetime.

Fraternally yours,

A handwritten signature in cursive script that reads "Michael J. Sullivan".

Michael J. Sullivan  
Chairman, Board of Trustees

Enclosures – retirement examples

cc w/enclosures: Union Officials  
Employers  
SMACNA

## Enclosure to Message from Chairman Sullivan about Upcoming Changes to the National Pension Fund (NPF)

*The examples below illustrate how a Participant's pension would be affected by adoption of either the Default Schedule or the Alternative Schedule. Note: the following are just examples, every participants situation must be evaluated individually.*

Suppose "Joe" earned 30 years of Future Service Credit through the end of 2007 and is eligible for a Normal Retirement Pension of \$2,000 (we use this figure for all the examples that follow). Now let's say Joe works a total of 1,280 hours through August 2008 (160 hours per month) and the hourly contribution rate under the collective bargaining agreement is \$3.82 per hour. Joe decides to retire September 1, 2008.

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### DEFAULT SCHEDULE

If Joe's Local Union and Employers adopted the **Default Schedule**, his benefit would be determined as follows:

$$\begin{aligned} \$3.82 \times 1,280 \text{ hours} &= \$4,889.60 \text{ in contributions} \\ \$4,889.60 \times 1\% &= \$ 48.89 \text{ in monthly benefits} \\ \\ \$2,000 + \$48.89 &= \$2,049 \text{ payable at Normal Retirement (age 65)} \end{aligned}$$

Because Joe's Local and Employers adopted the **Default Schedule**, Joe is **not** eligible for Special Early Retirement or the 55/30 Pension. If Joe retires before age 65 his benefit is reduced as follows for *Standard Early Retirement*,

Age	Amount of Lifetime Benefit
65	\$2,049 per month
62	\$1,681 per month
57	\$1,066 per month
55	\$ 820 per month

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### ALTERNATIVE SCHEDULE (no 55/30)

If Joe's Local Union and Employers adopted the **Alternative Schedule** and this is a non-55/30 Local, his benefit would be determined as follows:

$$\begin{aligned} \$3.82 \times 1,200 \text{ hours} &= \$4,584.00 \text{ in contributions} \\ \$4,584 \times 1.5\% &= \$ 68.76 \text{ in monthly benefits} \\ \\ \$3.82 \times 80 \text{ hours} &= \$305.60 \\ \$305.60 \times .5\% &= \$ 1.53 \\ \\ \$68.76 + \$1.53 &= \$70.29 \text{ in monthly benefits} \\ \\ \$2,000 + \$70.29 &= \$2,071 \text{ payable at Normal Retirement (age 65)} \end{aligned}$$

If Joe retires before age 65 his benefit would be reduced as follows for *Special Early Retirement*:

Age	Amount of Lifetime Benefit
65	\$ 2,071 per month
62	\$ 2,071 per month
57	\$ 1,450 per month
55	\$ 1,201 per month

### ALTERNATIVE SCHEDULE (Including 55/30)

But, let's suppose Joe is retiring from a Local Union that participates in the 55/30 Pension and Joe qualifies for a 55/30 Pension. If Joe's Local and Employers adopted the **Alternative Schedule** and Joe retired on a **55/30 Pension** his benefit would be determined as follows:

$$\begin{aligned} \$3.82 \times 1,200 \text{ hours} &= \$4,584.00 \text{ in contributions} \\ \$4,584 \times 1.5\% &= \$ 68.76 \text{ in monthly benefits} \end{aligned}$$

$$\begin{aligned} \$3.82 \times 80 \text{ hours} &= \$305.60 \\ \$305.60 \times .5\% &= \$1.53 \end{aligned}$$

$$(\$68.76 + 1.53) \times 70\% = \$49.20 \text{ in monthly benefits}$$

$$\$2,000 + \$49.20 = \$2,050 \text{ payable at Normal Retirement (age 65)}$$

*\*As this is a 55/30 local union the Participant earns 70% of the benefit. The benefit is reduced by 30% to eliminate age reductions.*

Joe can retire at any time once he reaches age 55 without a reduction for age as he qualifies for a 55/30 Pension.

Age	Amount of Lifetime Benefit
65	\$ 2,050 per month
62	\$ 2,050 per month
57	\$ 2,050 per month
55	\$ 2,050 per month

It should be noted that if Joe were to postpone his retirement and continue working and earn additional benefits his monthly pension benefit would also increase.

*This chart assumes Joe did not work more than 30 years at age 65 through 55. If he had, his benefit would increase as result of additional service over 30 years.*