SHEET METAL WORKERS' NATIONAL PENSION FUND
8403 ARLINGTON BLVD., SUITE 300
FAIRFAX, VA 22031

November 2016

Dear Plan Participants:

This Notice contains important information regarding your benefit accruals. Please retain this information for your records.

Variable Benefit Accrual Rate (VBAR) for 2017 Contribution Hours

As you are aware, your Normal Retirement Pension benefit under the Sheet Metal Workers' National Pension Fund ("NPF" or "Fund") Plan Document is determined under the "VBAR" (Variable Benefit Accrual Rate) benefit formula for Contribution Hours worked on or after January 1, 2014. Under the VBAR formula, your benefit is based on a percentage of contributions required to be made on your behalf to the Fund, and that percentage, called the "Applicable Percentage" may vary from year to year because it is based on historical investment returns. Specifically, the formula uses an historical 3-year average market value investment return percentage, as reported in the prior year's Actuarial Valuation. This Notice explains how your Normal Retirement Pension benefit will be determined under the Plan Document's VBAR formula for your hours of work in **2017**.

First, let's review how your benefit accrual is determined under the VBAR formula. Each year, the Fund's actuary issues an Actuarial Valuation, which, among other things, reports the average market value investment return for the three preceding years. The average market value investment return will fall between ranges shown in the table. The Applicable Percentage is shown in the table below:

Average Market Value Investment Return	Applicable Percentage for Normal Retirement Pension Benefit
10.0% or higher	1.25%*
8.5% but less than 10%	1.0%*
6.5% but less than 8.5%	0.75%*
more than 0% but less than 6.5%	0.50%*
0% or less	0%*

*If a 55/30 Rate applies, the Applicable Percentage is only applied to 70% of your Contribution Rate (called the "Benefit Rate"). You can find the VBAR Normal Retirement Pension formula under Section 5.03 (g) of the Plan Document, which can be viewed from the NPF's website at www.smwnpf.org (under "About the Plan").

The 2016 Actuarial Valuation is used to determine the Applicable Percentage for 2017. It shows the market value investment return percentages for 2013, 2014, and 2015 (the three preceding years) as follows:

2013: 20.56% 2014: 6.12% 2015: -0.42%

The average of those percentages is **8.75%.** Because that percentage is more than 8.5% but less than 10%, the Applicable Percentage **will be 1.0%** for 2017.

Under the VBAR formula, your accrual for 2017 will be determined by multiplying the Applicable Percentage (1.0%) times your Benefit Rate times your 2017 Contribution Hours (the hours for which contributions are required to be made for your work in Covered Employment). For 55/30 Rates, the Benefit Rate is 70% of the Contribution Rate. In all other cases, the Benefit Rate is equal to the Contribution Rate. Another way to think of the VBAR formula is that your benefit accrual for the year is equal to the Applicable Percentage (1.0% for 2017) times all of the contributions required to be made as a result of your work in Covered Employment during the year, or, if your Contribution Rate is a 55/30 Rate, the Applicable Percentage times 70% of the contributions required to be made as a result of your work in Covered Employment during the year. The important thing to remember is that the Applicable Percentage can vary from year to year, depending on the Fund's investment returns for the three most recent years reported in the prior year's Actuarial Valuation. In other words, the Applicable Percentage in a given year can be anywhere between 1.25% and 0%. For 2017, it is 1.0% because the average of the market value investment return percentages for 2013, 2014, and 2015 (the three most recent years reported in the 2016 Actuarial Valuation) was 8.75%. Below is an example of how your monthly Normal Retirement Pension benefit accrual for 2017 will be determined.

EXAMPLE 1: Suppose Jack has 1650 Contribution Hours in 2017 and his NPF Contribution Rate is $3.70, which is NOT a 55/30 Rate. Because Jack's Contribution Rate is not a 55/30 Rate, his Benefit Rate is equal to his Contribution Rate. In this example, Jack's monthly Normal Retirement Pension benefit accrual for 2017 would be determined as follows:

1650 x $3.70 x 1.0% = $61.05 → Increase in Jack's monthly Normal Retirement Pension for 2017

Contribution Hours

Contribution Rate

Applicable Percentage for 2017

EXAMPLE 2: Suppose Karen has 1650 Contribution Hours in 2017, and her NPF Contribution Rate is $5.50, which IS a 55/30 Contribution Rate. Since the hours Karen worked were under a 55/30 Rate, her Benefit Rate is 70% of her Contribution Rate. Put another way, her benefit will be based on 70% of the total contributions required to be made on Karen's behalf in 2017. In this example, Karen's monthly Normal Retirement Pension accrual would be determined as follows:

Contribution Rate

(1650 x $5.50 x 70.0%) x 1.0% = $63.53 → Increase in Karen's monthly Normal Retirement Pension for 2017

Contribution Hours

Applicable Percentage for 2017

Adjustment for 55/30 Rate

Adjustments Under the FIP Schedule's Default and Second Alternative Options

As you know from previous communications, in 2014, the NPF emerged from "critical status" and entered into "endangered status" (also called "yellow zone"), and it continues to be in endangered status.

The Board of Trustees adopted a Funding Improvement Plan ("FIP") and issued a FIP Schedule with three different contribution schedules ("Options"): (i) the First Alternative Option ("First Alternative"); (ii) the Second

Alternative Option ("Second Alternative"); and (iii) the Default Option. The Contribution Rate requirements are the same as they were under the Rehabilitation Plan's First Alternative Schedule, Second Alternative Schedule, and Default Schedule immediately before the Fund emerged from critical status. The types of Early Retirement Pensions that apply to the benefits earned after 2013 vary, depending on which FIP Schedule Option applies to your CBA.

In most pension funds like the NPF, the Normal Retirement Age ("NRA") is generally 65. If a Participant retires before age 65, his or her pension is actuarially reduced to take into account the fact that benefits will be paid for a longer period. For instance, a person who retires at 55 and lives until age 85 receives 30 years of monthly payments; a person who retires at 65 and lives to age 85 receives 20 years of monthly payments. The NPF provides subsidized early retirement pension benefits, which means that early retirement pensions were not fully reduced to take into account the start of benefits at an earlier age (i.e., monthly payments over a longer period of time). The difference between the full actuarial reduction and the actual reduction is an early retirement "subsidy."

For Contribution Hours under the First Alternative, a Participant earns the following types of subsidized Early Retirement Pension benefits, *depending* on whether the 55/30 Pension is *applicable* under the CBA:

> **Standard Early Retirement Pension**: Under this type of Early Retirement Pension, a Participant's Normal Retirement Pension benefit is reduced by a percentage age reduction factor for each month an eligible Participant retires before age 65. The age reduction factor for the Standard Early Retirement Pension is 6% per year (or fraction thereof), from ages 65 to 55. This means that if a Participant has earned monthly benefits under the First Alternative, he can retire under the Standard Early Retirement Pension at age 55 and receive *40% of the amount payable at age 65.*
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> **Special Early Retirement Pension**: Under this type of Early Retirement Pension, a Participant's Normal Retirement Pension benefit is reduced by a percentage age reduction factor for each month an eligible Participant retires before age 62. If a Participant retires at age 62 under this option, there is no reduction for age. The age reduction factor for the Special Early Retirement Pension is 6% per year (or fraction thereof), from ages 62 to 55. This means that if a Participant has earned monthly benefits under the First Alternative, he can retire under the Special Early Retirement Pension at age 55 and receive *58% of the amount payable at NRA.*
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> *If applicable*, **55/30 Pension**: Under this type of Early Retirement Pension, a Participant's Normal Retirement Pension is unreduced and is payable as early as age 55.

Of course, a Participant must meet certain age and service requirements, as well as other eligibility conditions, in order to qualify for the receipt of the foregoing subsidized Early Retirement Pensions.

The same Normal Retirement Pension accrual formula (the VBAR formula described above) applies to all three Options. If a 55/30 Rate applied to a CBA before the bargaining parties adopt the Default or Second Alternative Option, the 55/30 Rate will continue to apply after the adoption of either the Second Alternative or Default Option. The discussion below reviews the modifications that result from the adoption of the Default Option or Second Alternative Option.

Bargaining Parties who adopted the Default Option in 2016

The bargaining parties to Local 20's Indianapolis - Residential Collective Bargaining Agreement ("CBA") adopted the Default Option, effective July 1, 2016.[1]

Modifications under the Default Option

If you work under the CBA described above, the Early Retirement Pension benefits (and certain option forms of benefits) that you earn under that CBA for Contribution Hours after July 1, 2016 will be different from those earned under the under the First Alternative or the Rehabilitation Plan's First Alternative Schedule (also referred to below as the "First Alternative"). The discussion below describes the modifications that apply to **Contribution Hours under that CBA on and after July 1, 2016**. **Benefits earned prior to July 1, 2016 are unaffected by this change.** *Please note that the earliest retirement age for eligible Participants is age 55. This Notice does not mean you are eligible to retire at age 55. You must still satisfy age, service, and other requirements.*

Because the parties to your Home Local's CBA adopted the Default Option, you will no longer earn Standard Early Retirement, Special Early Retirement, and *if applicable,* 55/30 Pension benefits with respect to Contribution Hours under the CBA after the Default Option was adopted. **However, you will earn Unsubsidized Early Retirement Pension benefits with respect to Contribution Hours under the CBA after the Default Option was adopted.**

> **NOTE: In addition to being at least age 55, you must meet certain service requirements and other eligibility conditions before you may receive an Unsubsidized Early Retirement Pension.**

As the name implies, there is no early retirement subsidy associated with the Default Option. Instead, the Unsubsidized Early Retirement Pension provides you with an Early Retirement Pension benefit that is the actuarial equivalent of your Normal Retirement Pension, based on your age on your Effective Date of Pension. The actuarial equivalent of your Normal Retirement Pension is determined by multiplying the monthly amount of your Normal Retirement Pension by the factor that corresponds to your age under the table contained in Section 5.05(b) of the Plan Document. A copy of the Plan Document is available for your review on the Fund's website at www.smwnpf.org (under "About the Plan"), or you can request a copy of the Plan Document by writing to the Fund Office at the address above.

In addition, the 60 Certain Payment and Reversion (Pop-Up) features will not apply with respect to Contribution Hours after the adoption of the Default Option. Those features only apply under the First and Second Alternatives.

The example below illustrates the Default Option modifications described above:

> **EXAMPLE** – Suppose John is 55 years old and he is covered under the CBA described above. Before the Default Option was adopted, John had earned a Normal Retirement Pension of $900 (payable at age 65)

[1]The bargaining parties to other CBAs also adopted (or were deemed to have adopted) the Default Option of the FIP Schedule in 2014 and 2015. The Default Option modifications described above also were applied to the following CBAs for Contribution Hours on and after the date indicated in the parenthesis: SMART Local 4's Building Trades CBA (1/1/14); SMART Local 12's CBA with TMP (3/1/15); SMART Local 15's CBA with Johnson Controls (4/1/14); Local 16's CBA with R&J Metals (7/1/14;; SMART Local 32's West Palm Building Trades CBA (10/1/14); SMART Local 32's North Miami Building Trades CBA (8/1/15); SMART Local 44's Wilkes Barre Building Trades CBA (5/1/2015); SMART Local 124's Building Trades CBA (7/1/2014); SMART Local 170's CBA with OPEIU Local Union 537 (7/1/2014); SMART Local 256's Railroad – Illinois CBA (1/1/2014); and Local 399's CBA with Spiral Fitting (8/1/2015).

based on his Contribution Hours under the First Alternative. After the date the Default Option was adopted, John earned an additional $100 in monthly Normal Retirement Pension benefits, based on his Contribution Hours under the Default Option – for a combined Normal Retirement Pension benefit of $1000 per month (payable at age 65). If all of John's Contribution Hours were under the First Alternative and he retired at age 55 under a Special Early Retirement Pension (assuming he met all eligibility requirements), he would receive a monthly pension of $580 (i.e., based on a 42% reduction in his Normal Retirement Pension benefit under the Special Early Retirement Pension formula). However, because $100 of John's $1000 per month Normal Retirement Pension is based on Contribution Hours under the Default Option, that portion does not qualify for the Special Early Retirement Pension (or any other subsidized Early Retirement Pension). Therefore, John's Early Retirement Pension must be calculated in two parts – (1) the part that is based on Contribution Hours under the First Alternative and (2) the part that is based on Contribution Hours under the Default Option:

As a result, John's monthly Early Retirement Pension benefit at age 55 is calculated as follows:

Part 1 – Special Early Retirement Pension for Contribution Hours under the First Alternative

$900 x 58% = $522.00

Part 2 – Unsubsidized Early Retirement Pension for Contribution Hours under the Default Option

$100 x 36.59% = $ 36.59

Thus, John's monthly Early Retirement Pension payable at age 55 is $559 ($522 + $36.59 (rounded to $37)). That amount is based on a single-life annuity (i.e., a Lifetime Pension). If that amount were payable under a 50% Joint & Survivor Annuity, and his spouse died before John, there would be no increase (pop-up) to the $36.59 portion of his Early Retirement Pension under the Reversion (Pop-Up) Feature because it does not apply to the portion based on Contribution Hours under the Default Option. Likewise, if John died after receiving only 55 months of pension payments (under a Lifetime Pension), his Beneficiary would receive five (5) remaining monthly payments of $522.00 under the 60 Certain Payment feature, but no further payments would be made with respect to the $36.59 per month portion of his Early Retirement Pension. This is because the 60 Certain Payment feature also does not apply to the portion based on Contribution Hours under the Default Option.

<u>Bargaining Parties who adopted the Second Alternative Option in 2016</u>

The following CBAs adopted the Second Alternative in 2016: Local 20's Lafayette CBA, effective as of June 1, 2016; and Local 399's CBA with McGill Air Flow, effective as of November 1, 2016.[2]

[2]The bargaining parties to other CBAs also adopted (or were deemed to have adopted) the Second Alternative Option of the FIP Schedule in 2014 and 2015. The Second Alternative Option modifications described above also were applied to the following CBAs for Contribution Hours on and after the date indicated in the parenthesis: SMART Local 16's Building Trades CBAs in all areas (except for its CBA with R&J Metals)(7/1/2014); SMART Local 20's Terre Haute Building Trades CBA (7/1/14); SMART Local 110's CBA with Griffith Company (6/1/15); SMART Local 214's Shreveport's Building Trades CBA (7/1/15); SMART Local 399's Charleston Building Trades CBA (8/1/15); Local 480's CBA with McQuay International (10/1/14); and Local 480's CBA with Crown Cork & Seal (11/1/2015).

Modifications under the Second Alternative Option

If you work under one of the CBAs described above, the Early Retirement Pension benefits that you earn under that CBA will be different from those earned under the First Alternative. Those modifications are described below, and **only apply to benefits earned after the date the Second Alternative was adopted by the bargaining parties**. **Benefits earned prior to that date are unaffected by this change.** *Please note that the earliest retirement age for eligible Participants is age 55. This Notice does not mean you are eligible to retire at age 55. You must still satisfy age, service, and other requirements.*

Because the parties to your Home Local's CBA adopted the Second Alternative, you will not earn Standard Early Retirement Pension, Special Early Retirement Pension, and *if applicable*, 55/30 Pension benefits with respect to Contribution Hours under your CBA after the date the Second Alternative was adopted. **You may continue to qualify for an early retirement subsidy with respect to your Contribution Hours under the Second Alternative if you have attained age 62 at retirement and qualify for an Age 62 Pension (under Section 5.08 of the Plan Document), or *if applicable*, you have attained age 60 and qualify for the 60/30 Pension (under Section 5.10 of the Plan Document), but you must meet all applicable age and service requirements, as well as other eligibility conditions. Otherwise, the portion of your Early Retirement Pension that is based on Contribution Hours under the Second Alternative Option will be based on the Unsubsidized Early Retirement Pension (assuming, of course, that you meet the age and service requirements and other eligibility conditions for the Unsubsidized Early Retirement Pension).** Also, please note that in the example below, any reduction in benefits depends on the number of years and months a Participant is younger than the specified age.

The following example illustrates the modifications that result from your Contribution Hours under the Second Alternative Option.

> **EXAMPLE** – Suppose Mike is 55 years old and is a Participant in one of the CBAs described above. Before the Second Alternative was adopted, Mike had earned a Normal Retirement Pension of $900 (payable at age 65) based on his Contribution Hours under the First Alternative. After the date the Second Alternative was adopted, Mike earned an additional $100 in monthly Normal Retirement Pension benefits, based on his Contribution Hours under the Second Alternative – for a combined Normal Retirement Pension benefit of $1000 per month (payable at age 65). If all of Mike's Contribution Hours had been under the First Alternative and he retired at age 55 under a Special Early Retirement Pension (assuming he met all eligibility requirements), he would receive a monthly pension of $580 (i.e., based on a 42% reduction in his Normal Retirement Pension benefit under the Special Early Retirement Pension formula). However, because $100 of Mike's $1000 per month Normal Retirement Pension is based on Contribution Hours under the Second Alternative, that portion does not qualify for the Special Early Retirement Pension (or any other subsidized Early Retirement Pension). Therefore, Mike's Early Retirement Pension must now be calculated in two parts – (1) the part that is based on Contribution Hours under the First Alternative and (2) the part that is based on Contribution Hours under the Second Alternative:
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> As a result, Mike's monthly Early Retirement Pension benefit at age 55 is calculated as follows:
>
> Part 1 – Special Early Retirement Pension for Contribution Hours under the First Alternative
>
> $900 x 58% = $522.00

Part 2 – Unsubsidized Early Retirement Pension for Contribution Hours under the Second Alternative

$100 x 36.59% = $ 36.59

Thus, Mike's monthly Early Retirement Pension payable at age 55 is $559 ($522 + $36.59 (rounded to $37)). That amount is based on a single-life annuity (i.e., a Lifetime Pension).

Let's say instead that Mike waited to retire until he is 62 years old, and assume that Mike met all of the requirements for a Special Early Retirement Pension (with respect to Contribution Hours under the First Alternative) and an Age 62 Pension (with respect to Contribution Hours under the Second Alternative). In that case, Mike's Early Retirement Pension would be equivalent to his Normal Retirement Pension (i.e., $1,000 per month). This is because there is no age reduction under the Special Early Retirement Pension or the Age 62 Pension if an eligible Participant has attained age 62 on his Effective Date of Pension. By waiting until age 62 to retire, Mike's Early Retirement Pension is not affected by his Contribution Hours under the Second Alternative.

Effect of Default Option and Second Alternative on a Full Disability Benefit

For Participants who qualify for a Full Disability Benefit, the portion of that benefit that is based on Contribution Hours under the Default Option or the Second Alternative will be subject to a full actuarial reduction for age (i.e., equivalent to an Unsubsidized Early Retirement Pension), determined as if he or she were age 55 on the Effective Date of his or her Full Disability Benefit.

Owner-Member Modification Starting in 2017

Beginning on January 1, 2017, the Plan Document's rules relating to Owner-Member participation in the Fund will change for hours worked after December 31, 2016. If you are an Owner-Member (generally an owner, officer or director of the Employer) who currently participates in the Fund, you may be affected by this rule change.

What happens if an Owner-Member's Employer is delinquent?

If a delinquent Employer does not pay all contributions for hours worked on or after January 1, 2017, plus applicable interest and liquidated damages (or does not enter into an acceptable settlement with the Fund) within six (6) months after the Employer first became delinquent with respect to any of those hours, all of the Employer's Owner-Members will cease to be Covered Employees and will no longer be working in Covered Employment for the Employer on the first day of the seventh (7th) month following the month in which the Employer first became delinquent. This means that each Owner-Member will cease to earn pension benefits on his or her hours of work for the delinquent Employer.

When will an Owner-Member of a delinquent Employer again start earning pension benefits because of his or her work for that Employer?

This is a two-step process. First, the Owner-Member must once again become a Covered Employee of the Employer. Second, the Owner-Member must once again start working in Covered Employment for the Employer. An Owner-Member who ceased to be a Covered Employee under this rule will not again become a Covered Employee of the Employer until that Employer: (1) has resolved all delinquencies (including applicable interest and liquidated damages, or has entered into an acceptable settlement agreement with the Fund); and (2) has resumed making timely contributions on behalf of each Owner-Member and each of its other Employees. Even after an Owner-Member again becomes a Covered Employee, he or she will not again start working in Covered

Employment (i.e., earning pension benefits) until after the close of the one-year period that begins on the date that his or her Employer resolved all delinquencies (in the manner described above) and also resumed making timely contributions on behalf of all its Employees, including each Owner-Member. Until that time, an Owner-Member will not earn any pension benefits because of his or her work for the Employer.

EXAMPLE:
Gordon is the President and sole owner of Power Up Sheet Metal Corporation. Jason is the Executive Vice President of Power Up. Both individuals perform work covered under Power Up's CBA and are Owner-Members under the Plan Document. Power Up also employs two other journeymen, Steve and Dave. Gordon, Jason, Steve and Dave each worked 160 hours during February 2017. On March 20, 2017, Power Up decided that it would not make any contributions for the Owner-Members' work during February 2017. In spite of the Fund's collection efforts, as of October 1, 2017 (the first day of the 7th month following the month in which the February contributions were due) Power Up still had not paid all of the contributions (plus interest and late fees) that were due for February. As a result of that outstanding delinquency, Gordon and Jason ceased to be Covered Employees and ceased working in Covered Employment on October 1, 2017. Therefore, even though Power Up must still make contributions for Gordon and Jason's work under the CBA, they will earn no pension benefits for that work on and after October 1, 2017, except as follows.

Power Up had no other delinquencies, but it did not have sufficient monies to pay the unpaid contributions for February 2017 (plus all of the interest and liquidated damages). Fortunately, Power Up was able to enter into a settlement agreement with the Fund on November 1, 2017, which resolved Power Up's delinquency to the Fund's satisfaction. For the one-year period starting on November 1, 2017, Power Up continued to make timely contributions for the hours worked by all of Power Up's employees, including Gordon and Jason. As a result, Gordon and Jason resumed working in Covered Employment, and again started earning pension benefits for their hours of work in Covered Employment on and after November 1, 2018.

No change has been made to the Owner-Member rules for hours worked between January 1, 2002 and December 31, 2016.

If you have any questions, please contact the Fund Office at info@smwnpf.org or at the address above.

Your attention is appreciated.

cc: Local Union Leaders
NPF Contributing Employers
SMACNA/Contractors' Associations