

SOUTHERN CALIFORNIA UNITED FOOD AND COMMERCIAL WORKERS

UNIONS AND DRUG EMPLOYERS PENSION FUND

2220 HYPERION AVENUE • LOS ANGELES, CALIFORNIA 90027
TEL (323) 666-8910 • FAX (323) 663-9495 • WWW.UFCWDRUGTRUST.ORG

April 27, 2012

Enclosed are two important notices regarding the Southern California United Food & Commercial Workers Unions and Drug Employers Pension Plan (the "Plan"): (1) the Plan's Annual Funding Notice for 2011; and (2) a Notice of Critical Status regarding the Plan's funded status for 2012. This letter provides a brief explanation of each of these notices.

Annual Funding Notice-2011

The Annual Funding Notice for the 2011 Plan Year is similar to what you have received in previous years. It provides financial information about the Plan.

Much of the information is a snapshot of the Plan's financial status as of January 1, 2011, and therefore does not reflect changes that have occurred since that time. On January 1, 2011, as noted in the section titled "Critical or Endangered Status," the Plan was neither in critical nor endangered status.

Critical Status Notice-2012

The Pension Protection Act of 2006 ("PPA") created new funding classifications for pension plans. Due largely to investment returns in the 2011 calendar year, the actuaries for this Plan have certified the Plan to be in "critical status" for the Plan Year beginning January 1, 2012. Under the PPA, the trustees of a critical status plan must send participants a notice about the plan's status.

The fact that the Plan is in critical status does not mean that it will run out of money or be unable to pay benefits. The Plan has over \$575 million in assets, not including future employer contributions. It is not in danger of insolvency. Benefits will continue to be paid as required by the Plan.

When a Plan enters critical status a "rehabilitation plan" ("RP") designed to improve the plan's financial health and to allow it to emerge from critical status must be adopted. The RP must be adopted within 240 days after the date the plan was certified to be in critical status. Because a RP has not yet been adopted, the Fund Office will not be able to provide further information as to the specifics of any RP at this time.

If you have any questions regarding the attached notices, please contact the Fund Office at (323) 666-8910.

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NOTICE OF CRITICAL STATUS

FOR THE

**SOUTHERN CALIFORNIA UNITED FOOD AND COMMERCIAL WORKERS UNIONS
AND DRUG EMPLOYERS PENSION FUND**

April 27, 2012

To: All Participants, Beneficiaries, Participating Unions and Contributing Employers

This is to inform you that on March 30, 2012, the Plan's actuary certified to the U.S. Department of the Treasury, and to the Board of Trustees, that the Plan is in critical status for the Plan Year beginning January 1, 2012. A federal law known as the Pension Protection Act of 2006 (PPA) requires that you receive this notice.

Critical Status

The Plan is considered to be in critical status because it has funding or liquidity problems, or both. More specifically, the Plan's actuary determined that the Plan is in critical status for the following reasons:

- Over the next three years, the Plan is projected to have an accumulated funding deficiency for the 2013 through 2015 plan years; and
- The sum of the plan's normal cost plus interest on unfunded benefits for the current plan year exceeds the present value of all expected contributions for the year; the present value of vested benefits of inactive participants is greater than the present value of vested benefits of active participants; and over the next four plan years, the plan is projected to have an accumulated funding deficiency for the 2013 - 2016 plan years.

Rehabilitation Plan and Possibility of Reduction in Benefits

Federal law requires pension plans in critical status to adopt a rehabilitation plan aimed at restoring the financial health of the plan. The law permits pension plans to reduce, or even eliminate, benefits called "adjustable benefits" as part of a rehabilitation plan. (Adjustable benefits are described below in the section titled Adjustable Benefits). If the rehabilitation plan requires reductions to adjustable benefits, 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, as described below) will not reduce the level of a participant's basic benefit payable at normal retirement age. In addition, the reductions may only apply to participants and beneficiaries whose benefit commencement date is after April 26, 2012.

You should also know that, effective for retirement benefits that commence after April 26, 2012, the Plan is not permitted, while it is in critical status, to pay benefits under the Level Income Option form of payment or the Level Income Option with a 50% or 75% Joint & Survivor Annuity.

Adjustable Benefits

The Plan offers the following adjustable benefits that may be reduced or eliminated as part of any rehabilitation plan that may be adopted:

- Early Retirement Benefit or retirement-type subsidy
- Rule of 85 Retirement
- Disability Retirement Benefit (if not yet in pay status)
- Joint & Survivor Annuity subsidies (including pop-up feature)
- 75% Joint & Survivor Annuity (also known as the Optional Survivor Annuity)
- Recent benefit increases (i.e., occurring in past 5 years)
- Pre-Retirement Survivor Annuity Benefit subsidy

Employer Surcharge

The law requires that all contributing employers pay to the Plan 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 until the employer agrees to a collective bargaining agreement that implements the rehabilitation plan.

Where to Get More Information

For more information about this notice, you may contact the Trust Fund Administrator at the following address:

Southern California UFCW Unions and
Drug Employers Pension Fund
2220 Hyperion Avenue
Los Angeles, CA 90027
(323) 666-8910