Notice of Critical Status for Sheet Metal Workers' Local No. 40 Pension Plan

April 9, 2014

Participants, Beneficiaries, Contributing Employers, and Sheet Metal Workers' Local No. 40:

The Pension Protection Act (the "Act"), signed into law in 2006, is intended to improve the financial condition of pension plans. The Act introduced several formal safeguards and controls and added notification requirements for Trustees to share more information about a plan's financial circumstances with participants, contributing employers and others directly related to the plan. Many of the Act's safeguard provisions relate to funding, which, in simplest terms, is how much a plan has coming in, going out, and what is in reserve (or "in the bank") for the future. The safeguards are intended to create more discipline to prevent future funding problems and correct those that have already developed.

Starting with the 2008 plan year, the Act requires us to test the Pension Plan annually to classify its funding status. Standardized measurements were established for classifying plans based on their funding issues. Plans that are in "endangered" status (yellow zone) or "critical" status (red zone) must notify all plan participants, beneficiaries, unions, and contributing employers of the plan's status, as well as have a plan to restore the plan's financial health. Last year, we notified you that the Pension Plan was in critical status for 2013.

This is to inform you that on March 18, 2014 the plan actuary presented its Actuarial Certification of Plan Status to the Board of Trustees of the Pension Plan. On March 31, 2014 the plan actuary sent that zone certification to the U.S. Department of the Treasury. The zone certification certifies that the Plan is in critical status for the plan year beginning January 1, 2014. Federal law 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 has a projected accumulated funding deficiency as of December 31, 2014 and therefore the following critical status requirements have been met: (1) the Plan is projected to have an accumulated funding deficiency within the next four years, (2) the Plan's funded percentage is less than 65% and it is projected to have an accumulated funding deficiency within the next five years, and (3) the Plan was in critical status for 2013 and it is projected to have an accumulated funding deficiency within the next ten years.

Rehabilitation Plan

Federal law requires pension plans in critical status to adopt a rehabilitation plan aimed at restoring the financial health of the plan. This is the sixth year the plan has been in critical status. The Trustees initially adopted the Plan's Rehabilitation Plan on October 28, 2009, and the Trustees recently adopted a restated Rehabilitation Plan on November 4, 2013. The law permits pension plans to reduce, or even eliminate, benefits called "adjustable benefits" as part of a rehabilitation plan. On November 23, 2009, you were notified that the Plan reduced or eliminated adjustable benefits. If the Trustees of the Plan determine that further benefit reductions are necessary, 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. In addition, the reductions may only apply to participants and beneficiaries whose benefit commencement date is on or after November 23, 2009.

Adjustable Benefits

The Pension Plan offers the following adjustable benefits which may be reduced or eliminated as part of any rehabilitation plan the Pension Plan may adopt

- Disability benefits (if not yet in pay status);
- Early retirement subsidies;
- Lump sum death benefits;
- Benefit payment options other than a qualified joint-and-survivor annuity (QJSA);
- Other similar benefits, rights, or features under the plan, including possibly the Reserve Fund sometimes called Local Pension COLA

If the Trustees of the Plan determine that benefit reductions are necessary, in additional to those already adopted and described in the November 23, 2009 notice to you, you will receive a separate notice in the future identifying and explaining the effect of those additional reductions.

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.

The amount of the surcharge in effect beginning May 30, 2009 was 5% of the amount employers were otherwise required to contribute to the Plan under the applicable collective bargaining agreement. Beginning January 1, 2010, the contribution surcharge increased to 10% of the negotiated contribution rate. These contribution surcharges end on the effective date of a collective bargaining agreement amendment that includes terms consistent with the Rehabilitation Plan. A Rehabilitation Plan was adopted by the Board of Trustees of the Pension Fund on October 28, 2009. **A collective bargaining agreement amendment containing terms consistent with the Plan's initial Rehabilitation Plan was adopted effective November 1, 2009 and the surcharge ended then for all employers bound by that amendment.** Another collective bargaining agreement amendment and extension, effective July 1, 2010 through June 30, 2014, continued those terms consistent with the initial Rehabilitation Plan. The surcharge remains in effect for contributing employers who are not bound by both of those collective bargaining agreement amendments.

Please be aware that we will be re-testing the Plan's funding every year. Depending on what happens with the Plan's investments, the timing of participants' retirements, the amount of covered work and other financial factors, we may need to further revise the restated Rehabilitation Plan.

What's Next

We understand that legally required notices like this one can create concern about the Plan's future. While the critical zone label is required to be used by law, the fact is that we are working with our actuaries and consultants to address these issues and take the actions necessary to improve the Plan's financial condition. However, since the Pension Plan is influenced by economic and financial variables beyond our control (such as market volatility and changes in participation and/or the number of contributing employers), unexpected developments can affect the Plan's status and any future corrective actions needed.

Where to Get More Information

For more information about this Notice or a copy of the restated Rehabilitation Plan, you may contact the Board of Trustees, Sheet Metal Workers' Local No. 40 Pension Fund, (860-529-2616), 100 Old Forge Road, Rocky Hill, CT 06067-3758.

As required by law, this notice is being provided to the Pension Benefit Guaranty Corporation (PBGC) at multiemployerprogram@pbgc.gov and to the Department of Labor at criticalstatusnotice@dol.gov.