

**TO:** Employees represented by the OPEIU participating in the Sandia Corporation Pension Security Plan (“PSP”)

**FROM:** Pension Fund & Savings Plan Management Department 10520

**RE:** Important Plan Changes

**DATE:** May 14, 2009

This Notice summarizes recent changes to the Sandia Corporation Pension Security Plan (“PSP”) and the Sandia Corporation Savings and Security Plan (“SSP”) for employees represented by the Office and Professional Employees International Union (“OPEIU”). These changes are effective July 1, 2009, unless otherwise noted below.

1. **New Hire.** An OPEIU represented employee who first becomes a common-law employee of Sandia on or after July 1, 2009, is not eligible to participate in PSP. PSP does, however, provide that certain transferred employees can participate.
2. **Rehire.** An OPEIU represented individual who, on or after July 1, 2009, again becomes a common law employee of Sandia is not eligible to earn additional Credited Service under PSP. PSP does, however, provide that eligible employees who timely return from certain leaves of absence (for example, qualified military service) and certain transferred employees can earn additional Credited Service.
3. **Service-Based Contribution.** SSP has been amended to provide that OPEIU represented Sandia employees newly hired or rehired as outlined in item 1 or item 2 above may receive (subject to a 3-year vesting schedule) a service-based, company contribution in accordance with the following table:

Employee’s completed years of Plan Service as of the last day of the applicable payroll period	Contribution as a percentage of compensation (as defined in SSP) earned by the employee during the applicable payroll period, and while eligible for a service-based contribution
Less than 15	6%
15 or more	7%

In addition, OPEIU represented employees eligible for a service-based contribution will be eligible for matching contributions upon enrollment in SSP, because SSP will no longer require Participants hired on or after July 1, 2009 to complete a year of service before becoming eligible for matching contributions.

4. **Credited Service.** Effective for service earned on and after July 1, 2009, a Participant's service *only* while working for Sandia as an Eligible Employee will be counted as Credited Service.
5. **Option to Delay Pension.** Effective January 1, 2008, an OPEIU represented Participant generally may delay receipt of his or her PSP pension to a date as late as April 1 of the calendar year following the calendar year in which the Participant attains age 70-1/2. However, if a Participant retires with a Service Pension and is otherwise eligible for continued medical and/or life insurance coverage, that coverage will *not* be in effect during the period of time between the Participant's termination of employment and the start of the Participant's pension.
6. **No Disability Benefits.** An OPEIU represented Participant who has a termination of employment on or after July 1, 2009, will not be eligible to receive a Disability Pension, or any other special treatment under PSP due to his or her Disability.
7. **Grandfathered Disability Benefits.**

**12 Month Grandfather.** If an OPEIU represented PSP Participant was approved for benefits under the Sandia Corporation Sickness Absence Plan during the 12 months preceding July 1, 2009 due to an illness or injury that results in a determination of Disability pursuant to PSP, that Participant will be treated as though item 6 above had not been added to the Plan; provided that (i) the Participant properly applies for a determination of Disability under PSP before January 1, 2010 and (ii) that pre-January 1, 2010 application for Disability actually results in a determination of Disability.

**Current Disability Benefits.** A Participant who receives a determination of Disability pursuant to the "12 month Grandfather" paragraph immediately above, and a Participant who, on June 30, 2009, is receiving a Disability Pension or other special treatment under PSP due to a Disability, will not be impacted by the change described in item 6, above, unless the Participant's Disability Pension or other special treatment under PSP due to a Disability is terminated, for example, because the Participant no longer has a Disability or the Participant refuses to submit to a medical examination.

## EXAMPLES

The examples below illustrate the changes described above. When you review these examples, please keep in mind the following:

- **Plan Service/Credited Service.** The changes described in items 2 and 4 above impact Credited Service, not Plan Service. Credited Service is used to determine the amount of a Participant's benefit. Plan Service is used to determine whether a Participant is eligible for certain PSP benefits. For example, in order to receive a Service Pension, a Participant must attain, while still an Employee (as defined in PSP), age 50 with at least 25 years of service, age 55 with at least 20 years of Plan Service, age 60 with at least 15 years of Plan Service, age 65 with at least 10 years of Plan Service, or any age with at least 30 years of Plan Service. Plan Service also is used to calculate the service-based SSP benefit described in item 3, above.
- **Deferred Vested Pension/Service Pension.** The examples below are based on benefit calculations for a hypothetical PSP Participant who becomes eligible for a Service Pension. Concepts illustrated by these examples apply also to a Participant who receives a Deferred Vested Pension. The examples illustrate pension benefits payable as a single life annuity, and do not reflect reductions for post-retirement survivor benefits.
- **Description of the Hypothetical PSP Participant used in the Examples Below**
  - On January 1, 2010, this Participant terminates employment with Sandia, goes to work for another company, and therefore ceases to be an Eligible Employee within the meaning of PSP.
  - On January 1, 2010, when he terminates employment with Sandia, this Participant is exactly age 48, is credited with exactly 25 years of Plan Service and Credited Service, and is in pension band 116 with no supplemental earnings for purposes of calculating his PSP pension.
  - After working elsewhere for 2 years (2010 and 2011), this Participant is rehired by Sandia on January 1, 2012. He continues to work for Sandia as a rehire until the end of 2014, and has average earnings of \$50,000 per year for those 3 years. As a Sandia rehire, during 2012, 2013 and 2014, this Participant:
    - receives service-based contributions under SSP of approximately \$10,500 (\$50,000 (x) 7% (x) 3)
    - continues to earn Plan Service under PSP and SSP
    - does not earn additional Credited Service under PSP
  - This Participant terminates employment with Sandia at age 53, and immediately starts his PSP pension. His termination of employment is not due to Disability.

**Example 1 (Immediate Service Pension at Age 53):** As indicated above, this Participant was credited with 3 years of Plan Service due to his work for Sandia in 2012, 2013, and 2014. Consequently, upon termination of employment, this Participant qualifies for a Service Pension based on his age (53) and his total years of Plan Service (28). The Credited Service used to calculate this Participant's pension would be "frozen" at 25 years (the Credited Service he had earned as of January 1, 2010, when he first terminated employment with Sandia). Consequently, our hypothetical Participant would receive a monthly Service Pension calculated as follows:

- $\$65.31 \text{ Pension Band } 116^1 (x) 25 \text{ years of Credited Service } (x) 88\%^2 = \$1,436.82$

**Comparison. (Example 1 Pre-Amendment Calculation)** Before the PSP amendments described in this Notice, this Participant would have received Credited Service for the years 2012, 2013, and 2014, during which he worked for Sandia as a rehire, and his monthly Service Pension at age 53 would have been calculated as follows:

- $\$65.31 \text{ Pension Band } 116^1 (x) 28 \text{ years of Credited Service } (x) 88\%^2 = \$1,609.24$

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<sup>1</sup> For this illustration, the pension band value in effect on October 1, 2010 was used.

<sup>2</sup> Reflects reduction of 6% per year for retirement before age 55.

**Example 2 (Pension Delayed Until Age 55).** Assume that, instead of starting his Service Pension at age 53, our hypothetical Participant started his Service Pension at age 55. Service pensions are not reduced for early retirement if payments commence on or after age 55. Consequently, the monthly Service Pension for this hypothetical Participant would be calculated as follows:

- \$65.31 Pension Band 116<sup>3</sup> (x) 25 years of Credited Service = \$1,632.75.
- **Reduced Pension for Married Participants:** If the Participant is married, unless the Participant and his spouse properly elect to the contrary, this \$1,632.75 monthly Service Pension automatically would be reduced to pay for the availability of a “death benefit” for the Participant’s spouse during the period of time between the Participant’s termination of employment (at age 53) and the start of the Participant’s PSP pension (at age 55)<sup>4</sup>.
- **Impact of Delay on Retiree Medical/Life Insurance.** If a Participant retires with a Service Pension<sup>5</sup> and is otherwise eligible for continued medical and /or life insurance coverage, that coverage will *not* be in effect during the period of time between the Participant’s termination of employment and the start of the Participant’s pension. Summary Plan Descriptions for Sandia’s medical and life insurance benefits contain additional information, including important warnings about how your surviving spouse and dependents permanently could lose continued coverage.

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<sup>3</sup>See footnote 1, above.

<sup>4</sup> Deferred Vested Pensions payable to married Participants also are subject to automatic reductions to pay for surviving spouse benefit protection.

<sup>5</sup> To the extent Disability Pensions are discontinued (as described in this Notice), receipt of a Disability Pension no longer can be used to qualify a Participant for continued medical and/or life insurance coverage.

**Example 3 (Pension Delayed Until Age 67).** PSP provides an actuarially increased pension for a Participant whose pension begins after the Participant has attained age 65 (Normal Retirement Age). For example, our hypothetical Participant's monthly Service Pension at age 67 would be calculated as follows:

- \$65.31 Pension Bank 116<sup>6</sup> (x) 25 years of Credited Service = \$1,632.75 actuarially adjusted to \$1,972.69.
- **Reduced Pension for Married Participants:** If the Participant is married, unless the Participant and his spouse properly elect to the contrary, this \$1,972.69 monthly Service Pension automatically would be reduced to pay for the availability of a "death benefit" for the Participant's spouse during the period of time between the Participant's termination of employment (at age 53) and the start of the Participant's RIP pension (at age 67).<sup>7</sup>
- **Impact of Delay on Retiree Medical/Life Insurance.** If a Participant retires with a Service Pension<sup>8</sup> and is otherwise eligible for continued medical and /or life insurance coverage, that coverage will *not* be in effect during the period of time between the Participant's termination of employment and the start of the Participant's pension. Summary Plan Descriptions for Sandia's medical and life insurance benefits contain additional information, including important warnings about how your surviving spouse and dependents permanently could lose continued coverage.

We remain committed to providing our employees with competitive benefits. If you have any questions about these changes, please contact Nancy Muller at (505) 845-6380 or Mark Biggs at (505) 844-1511.

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<sup>6</sup> See footnote 1, above.

<sup>7</sup> See footnote 4, above.

<sup>8</sup> See footnote 5, above.

**ATTACHMENT: Excerpt from Sandia Corporation Pension Security Plan**

Participant's current monthly benefit is the sum of the basic monthly benefit plus the supplemental monthly benefit, if any.

The basic monthly benefit is computed by multiplying the Participant's assigned pension band value by credited service. The supplemental monthly benefits is computed by multiplying average annual supplemental earnings, if any, during the 36 months before the Participant retires by credited service and by .001. If the Participant has less than 30 years of plan service, service pension payments that commence before age 55 are subject to a reduction of .5% for each full or partial month of retirement before age 55.

**Pension Band Assignments and Values by Job Classification for Employees Represented by the OPEIU**

Band	Job Classification	Value for Employees Retiring Before 10/1/08	Value for Employees Retiring On or After 10/1/08 and Before 10/1/09	Value for Employees Retiring On or After 10/1/09 and Before 10/1/10	Value for Employees Retiring On or After 10/1/10
103	Tier 1	\$40.49	\$42.11	\$43.37	\$44.68
105	Tier 2	\$43.60	\$45.34	\$46.71	\$48.11
108	OAA	\$48.37	\$50.31	\$51.82	\$53.37
109	Tier 3	\$49.98	\$51.98	\$53.54	\$55.15
112	Tier 4	\$54.66	\$56.85	\$58.55	\$60.31
116	Tier 5	\$60.97	\$63.41	\$65.31	\$67.27