

LABORERS NATIONAL PENSION FUND

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NOTICE OF CRITICAL STATUS FOR 2020

To All Participants, Beneficiaries in Pay Status, Participating Unions, and Contributing Employers:

The Pension Protection Act of 2006 ("PPA") amended federal pension laws to set tougher funding standards for multiemployer pension funds like the Laborers National Pension Fund (the "Fund"). The Fund is required by the PPA and U.S. Department of Labor regulations to send you this Notice using as particular format.

On March 30, 2020, the Fund's actuary submitted to the U.S. Department of the Treasury an annual certification of the Fund's PPA funding zone status, as required by law. The certification shows that the Fund remains in "Critical Zone" (also known as "Red Zone") status for 2020. This status was expected and planned for when the Board of Trustees voluntarily put the Fund in the Red Zone in 2017 to better enable the Fund to restore its the long-term funding soundness.

Funding Rehabilitation Plan

As we first informed you in 2017, the Board of Trustees elected Red Zone status as a proactive measure and, as required by the PPA, adopted a Funding Rehabilitation Plan ("FRP") on July 26, 2017. Copies of the FRP, including the Preferred and Default Schedules, were distributed to all bargaining parties in 2017, and are distributed to all new contributing employers. The vast majority of contributing employers and unions have negotiated the Preferred Schedule. No changes were made in the FRP during 2019.

The FRP reflects the Board's care in taking into account all relevant considerations including the effects on collective bargaining, participants and contributing employers, balancing those effects with the need for improving the Fund's funding status and to maintain the Fund's contribution base.

The FRP takes a shared sacrifice approach with changes in the adjustable benefits of inactive, vested participants as well as Schedules that affect benefits and contributions for actives. The Default Schedule provides for increases in the required contribution rate (7% per year for 10 years) as well as reductions in future accrual rates prospectively and elimination of adjustable benefits. The Preferred Schedule provides for increases in contribution rates (8.5% per year for 10 years) and fixed accrual rates.

The Board of Trustees is required by law to annually assess the progress of the FRP in improving the Fund's financial health and whether the Fund is on track to emerge from Red Zone status within the permitted rehabilitation period. At present, the Fund's FRP is on track to be successful.

As time passes and the FRP progresses, adjustments to the FRP may be necessary or appropriate depending on investment performance and other developments including applicable legislation. However, the Board's intention in designing the FRP was to minimize the risk of needing changes in the future.

Changes in "Adjustable Benefits"

The law authorized the Board of Trustees to include in the FRP changes in so-called "adjustable benefits". These changes take the place of the related Rules and Regulations of the Fund. The FRP generally eliminates the following adjustable benefits for inactive, vested participants and for participants covered by the Default Schedule:

- 60-month benefit guarantees
- Disability Pension (if not in pay status)
- Early Retirement Pension and similar retirement-type subsidies
- Early Regular Pension (age 55 with 30 years of service)
- Widow-Widowers Pension (immediate payment subsidy)
- Various pension benefit payment options (except for the 50% Husband and Wife Pension)

No change in adjustable benefits reduces any participant's accrued benefit payable at normal retirement age. Any participant who defers his or her pension until he or she reaches normal retirement age (the later of age 62 or 5th anniversary of participation) will receive his or her full retirement benefit. Further, no reduction in adjustable benefits will be applied to any pensioner or beneficiary whose benefits began before April 30, 2017.

Notices of the elimination of adjustable benefits have been distributed to inactive, vested participants. Similar notices will be sent to participants covered by the Default Schedule whenever the Default Schedule is adopted by their bargaining parties or imposed by the Fund when required by law.

Lump Sum Payment Restrictions

Effective April 30, 2017 and until the Fund emerges from Red Zone status, the Fund is not permitted by the PPA to pay any lump sum benefits or pay any other benefit in excess of the monthly amount that would be payable to the pensioner under a single life annuity. This means that the Fund has suspended its Social Security level income option, and widow/widower lump sum option. Exceptions are made for a lump sum cash-out of a participant or beneficiary whose entire benefit entitlement has an actuarial value that does not exceed \$5,000.

Temporary Contribution Surcharge

The PPA requires a pension fund in Red Zone status to automatically assess a 5% surcharge on employer contributions payments due during the initial year of that status and increase the surcharge amount to 10% thereafter. This PPA surcharge remains in effect with respect to any particular contributing employer until the employer agrees to a Schedule under the FRP. The law's intent is to provide employers with an economic incentive to quickly agree to a rehabilitation plan schedule.

The FRP offered to all bargaining parties the opportunity to avoid the automatic contribution surcharge by adopting a Schedule early. This was explained in notices sent by the Fund to all contributing employers and participating unions in 2017. Most bargaining groups took this opportunity. Employers that have not agreed to a Schedule are being assessed the surcharges as required by law: a 5% on employer contributions due for work performed (or compensation paid) during the period July 1, 2017 through December 31, 2017. Effective January 1, 2018, the surcharge rate was increased to 10%. The PPA surcharge will not be assessed on contributions due for work performed (or compensation paid) after the employer agrees to a Schedule. As of the date of this notice, the vast majority of contributing employers have agreed to a Schedule, and virtually all of them to the Preferred Schedule.

The PPA surcharge is based on the total amount of contributions owed to the Fund for a month and is payable at the same time as the employer's regular monthly contributions. The Fund will not issue a billing to employers for the surcharge. Rather, all employers that have not agreed to a Schedule have been notified of this new legal obligation.

Non-payment of the surcharge by an employer is treated as a violation of federal law and as a delinquent contribution that is subject to interest charges and the Fund's contribution collection rules.

Contribution Rate Reductions Prohibited

The FRP, in accordance with the PPA, prohibits the Fund from accepting collective bargaining agreements or participation agreements that provide for (a) a reduction in the contribution rate in effect under previous agreements, (b) a suspension of contributions for any period, or (c) any new exclusion of younger or newly hired employees from Fund coverage. Congress considered such changes to be detrimental to the Fund's FRP and funding improvement.

More Information Needed?

For more information about this Notice, you may write Fund Administrator Lu Beth Greene at Laborers National Pension Fund, PO Box 803415, Dallas, Texas 75380-3415, or telephone her at (972) 233-4458.

The business hours of the Fund's administrative office are 8:00 A.M. to 4:30 P.M. (Central Time), Monday through Friday. You will have a right to obtain a copy of the Rehabilitation Plan from the Fund's office after it is adopted by the Board of Trustees.

cc U.S. Department of Labor
Pension Benefit Guaranty Corporation