

TO: Active participants (and alternate payees) in the Sandia Corporation Pension Security Plan (“PSP”) and certain recent transfers out of the PSP (as described below)

FROM: Pension Fund & Savings Plan Management Department 10520

RE: Important Plan Changes

DATE: November 15, 2012

Sandia is pleased to announce the merger (“Merger”) of the Sandia Corporation Pension Security Plan (“PSP”) and the Sandia Corporation Retirement Income Plan (“RIP”). The latest union contract negotiations resulted in an agreement to merge the PSP into the RIP. The following disclosures are required by federal law and are meant to help you understand the effect of the merger. The benefit formula change discussed in this Notice applies only to those active participants in the PSP who are on roll as of January 1, 2013 (“Merger Date”), and does not apply to those already terminated or retired prior to the Merger Date. No action is required on your part.

As a result of the Merger, benefits earned under the PSP will be frozen, to the extent provided in paragraph “A” below, as of December 31, 2012 (“Frozen PSP Benefit”) and, effective on the Merger Date, an active PSP participant will be eligible to earn pension benefits under the RIP’s “Greater of Formula,” discussed below.

In this regard, RIP specifically provides that *in no event will a PSP participant’s benefit under RIP after the Merger Date be less than the benefit that participant was entitled to from the PSP on the day before the Merger Date.*

Most of the information contained in this Notice relates to the impact of the Merger on individuals who will become participants in the RIP solely as a result of the Merger (each a “PSP participant”). One change, discussed in Exhibit A, which is attached to this Notice, will impact a few former participants in the PSP who became participants in the RIP during the 365-Day Period before the Merger Date and a few former participants in the RIP who became participants in the PSP during the 365-Day Period before the Merger.

For your convenience in reviewing the Frozen PSP Benefit formula discussed below, we have attached to this Notice Exhibit B, which describes the PSP benefit formula¹, and Exhibit C, which documents pension band values for Metal Trades Council (MTC), Office and Professional Employees International Union (OPEIU) and Security Police Association (SPA) members who retire after December 31, 2012.

¹ Exhibit B is an excerpt from the Summary Plan Description for the PSP. If you need another copy of the entire Summary Plan Description for the PSP, please contact HBE at (505) 844-4237. You can also view a copy of the SPD on line at http://www.sandia.gov/health/update/spd/PSP_SPD2009.pdf.

Greater of Formula. On and after the Merger Date, a PSP participant's RIP benefit will be the greater of A or B below:

A. Frozen PSP Benefit. A PSP participant's Frozen PSP Benefit is calculated based on the PSP benefit formula, but taking into account only the PSP participant's assigned pension band, credited service and supplemental payments determined as of (and defined as of) December 31, 2012 under the PSP. As discussed in (i) and (ii) below, there may be a reduction to a PSP participant's Frozen PSP Benefit due to early commencement based on the PSP participant's age and Plan Service. In this regard, please note that *PSP participants continue to earn Plan Service after the Merger Date, as long as they remain employed by Sandia.*

(i) Service Pension. If, while you are *still employed by Sandia*, you attain age 50 with at least 25 years of Plan 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, you are eligible for a Service Pension. If you are eligible for a Service Pension, your Frozen PSP Benefit will be reduced for early commencement if you are less than 55 years of age or have fewer than 30 years of Plan Service on the date your Frozen PSP Benefit begins. The reduction is 0.5% of the Frozen PSP Benefit for every full or partial month that you are under age 55 if you have fewer than 30 years of Plan Service. If you are Service Pension eligible and you have attained age 55 when your Frozen PSP Benefit begins or you have at least 30 years of Plan Service, there will be no early commencement reduction to your Frozen PSP Benefit.

(ii) Deferred Vested Pension. If you terminate employment with Sandia and are not eligible for a Service Pension, but you qualify for a Deferred Vested Pension (e.g., you have at least 5 years of vesting service) and you are eligible for and elect to begin receiving your Deferred Vested benefit before attaining age 65, your Frozen PSP Benefit will be reduced for early commencement by the same percentage that would apply under the RIP and the "All Service RIP Benefit" formula discussed below. This is the same reduction that applies in the PSP currently. For example, if you elect to receive your Deferred Vested Pension as a single life annuity, you have 25 years of Plan Service, and you begin receiving your benefit at age 50, your Frozen PSP Benefit will be reduced by 68% for early commencement (i.e. commencement before attaining age 65).

B. All Service RIP Benefit. A PSP participant's "All Service RIP Benefit" is calculated based on the RIP benefit formula as though that PSP participant's Credited Service (if applicable) and Plan Service with Sandia on and after the Merger Date as well as such service prior to the Merger Date (to the extent used to calculate the participant's Frozen PSP Benefit) had been performed under the RIP. For your convenience, we are including with this Notice a copy of the current Summary Plan Description for RIP ("RIP SPD"). Section 6 of the RIP SPD describes how this "All Service RIP Benefit" will be calculated. As provided under the terms of the RIP, in order to receive an unreduced "All Service RIP Benefit" before attaining age 65, a PSP participant must qualify for a Service

Pension (see page 5-1 of the RIP SPD) and begin his/her pension after attaining age 62 (see Retirement Age Factors Tables on pages 6-2 and 6-4 of RIP SPD).

In order to help you understand the “Greater of Formula” discussed above, we have attached four Examples of “Greater of Formula” calculations to this Notice.

If you have any questions about the Merger and these changes, please contact HBE at 844-4237.

cc: MTC, OPEIU, SPA

Enclosure: Summary Plan Description for Retirement Income Plan (“RIP SPD”)

EXAMPLE 1

This example illustrates a calculation of a participant's benefit where the individual has over 30 years of Credited Service and over 30 years of Plan Service. Note that the All Service RIP Benefit does not include Supplemental Payments in the benefit calculation. The Greater of Formula results in the All Service RIP Benefit being better than the Frozen PSP Benefit.

- A PSP participant with the following characteristics retires with a Service Pension on January 1, 2014:

Date of birth:	March 20, 1952
Retirement age	61 years, 9 months
Credited Service through 12/31/11	30.33 years
Credited Service through 12/31/12	31.33 years
Plan Service through 12/31/13	32.33 years
Job Classification/Pension Band at 12/31/12	Grade 7/109
36-month Supplemental Payments through 12/31/12	\$4,500
High-3 final average pay through 12/31/11	\$43,000
Cumulative career earnings after 12/31/11 (2 years)	\$89,000

A) FROZEN PSP BENEFIT: Calculate the monthly pension using the PSP formula protected as of December 31, 2012

Pension Band Amount at 12/31/12	\$58.50
Multiplied by Credited Service through 12/31/12	x 31.33
	\$ 1,832.81
Plus	
36-month Supplemental Payments through 12/31/12	\$ 4,500.00
Divided by 3 years	/ 3
	\$ 1,500.00
Multiplied by .001	x .001
Multiplied by Credited Service through 12/31/12	x 31.33
	\$ 47.00
Monthly pension (\$1,832.81 + \$47.00)	\$ 1,879.81

B) ALL SERVICE RIP BENEFIT: Calculate the monthly pension using the RIP formula for all years.

High-3 final average pay through 12/31/11	\$ 43,000
Multiplied by Credited Service through 12/31/11	x 30.33
Multiplied by Final Average Pay Retirement Age Factor	x .0198
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	\$ 25,822.96
Plus	
Cumulative career earnings after 12/31/11	\$ 89,000
Multiplied by Career Average Retirement Age Factor	x .0223
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	\$ 1,984.70
Annual pension (\$25,822.96 + \$1,984.70)	\$ 27,807.66
Monthly pension	\$ 2,317.31

C) GREATER OF FORMULA: Compare monthly pension using the “All Service RIP Benefit” formula with the protected “Frozen PSP Benefit”

Monthly pension from A) above	\$ 1,879.81
Monthly pension from B) above	\$ 2,317.31
Monthly pension payable, greater of A) or B)	\$ 2,317.31

EXAMPLE 2

This example illustrates a calculation where the PSP participant has fewer years of service and is younger than the person in Example 1. Note that the All Service RIP Benefit does not include Supplemental Payments in the calculation. The Greater of Benefit Formula results in the Frozen PSP Benefit being greater than the All Service RIP Benefit. This is due to the more favorable subsidy for the age-related reduction under the PSP plan benefit.

- A PSP participant with the following characteristics retires with a Service Pension on January 1, 2014:

Date of birth:	December 31, 1963
Retirement age	50 years, 0 months
Credited Service through 12/31/11	24 years
Credited Service through 12/31/12	25 years
Plan Service through 12/31/13	26 years
Job Classification/Pension Band at 12/31/12	Grade 6/107
36-month Supplemental Payments through 12/31/12	\$1,000
High-3 final average pay through 12/31/11	\$38,000
Cumulative career earnings after 12/31/11 (2 years)	\$78,000

A) FROZEN PSP BENEFIT: Calculate the monthly pension using the PSP formula protected as of December 31, 2012

Pension Band Amount at 12/31/12	\$ 54.80
Multiplied by Credited Service through 12/31/12	x 25
	\$ 1,370.00
Plus	
36-month Supplemental Payments through 12/31/12	\$ 1,000.00
Divided by 3 years	/ 3
	\$ 333.33
Multiplied by .001	x .001
Multiplied by Credited Service through 12/31/12	x 25
	\$ 8.33
Monthly pension before reduction due to age and service (\$1,370.00 + \$8.33)	\$ 1,378.33
Age-related reduction (60 mos. x 0.5% per mo.)	(\$413.50)
	\$ 964.83

B) ALL SERVICE RIP BENEFIT: Calculate the monthly pension using the RIP formula for all years.

High-3 final average pay through 12/31/11	\$ 38,000
Multiplied by Credited Service through 12/31/11	x 24
Multiplied by Final Average Pay Retirement Age Factor	x .0104
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	\$ 9,484.80

Plus

Cumulative career earnings after 12/31/11	\$ 78,000
Multiplied by Career Average Retirement Age Factor	x .0117
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	\$ 912.60

Annual pension (\$9,484.80 + \$912.60)	\$10,397.40
Monthly pension	\$ 866.45

C) GREATER OF FORMULA: Compare monthly pension using the “All Service RIP Benefit” formula with the protected “Frozen PSP Benefit”

Monthly pension from A) above	\$ 964.83
Monthly pension from B) above	\$ 866.45
Monthly pension payable, greater of A) or B)	\$ 964.83

EXAMPLE 3

This example illustrates a younger person retiring with fewer years of Credited Service and Plan Service, but the same salary as shown in Example 1. This person does not have any Supplemental Payments to consider. There is no age-related reduction for the Frozen PSP Benefit, but there is an age-related reduction for the All Service RIP Benefit. Even so, in this example, the All Service RIP Benefit is better.

- A PSP participant with the following characteristics retires with a Service Pension on January 1, 2015.

Date of birth:	March 20, 1958
Retirement age	56 years, 9 months
Credited Service through 12/31/11	20.33 years
Credited Service through 12/31/12	21.33 years
Plan Service through 12/31/14	23.33 years
Job Classification/Pension Band at 12/31/12	Grade 7/109
36-month Supplemental Payments through 12/31/12	\$0
High-3 final average pay through 12/31/11	\$43,000
Cumulative career earnings after 12/31/11 (3 years)	\$134,000

A) FROZEN PSP BENEFIT: Calculate the monthly pension using the PSP formula protected as of December 31, 2012

Pension Band Amount at 12/31/12	\$ 58.50
Multiplied by Credited Service through 12/31/12	x 21.33
	<hr/>
	\$ 1,247.81
Plus	
36-month Supplemental Payments through 12/31/12	\$ 0
Divided by 3 years	/ 3
	<hr/>
	\$ 0
Multiplied by .001	x .001
Multiplied by Credited Service through 12/31/12	x 21.33
	<hr/>
	\$ 0
Monthly Pension (\$1,247.81 + \$0.00)	\$ 1,247.81

B) ALL SERVICE RIP BENEFIT: Calculate the monthly pension using the RIP formula for all years.

High-3 final average pay through 12/31/11	\$ 43,000
Multiplied by Credited Service through 12/31/11	x 20.33
Multiplied by Final Average Pay Retirement Age Factor	x .0158
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	\$ 13,812.20
Plus	
Cumulative career earnings after 12/31/11	\$ 134,000
Multiplied by Career Average Retirement Age Factor	x .0178
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	\$ 2,385.20
Annual pension (\$13,812.20 + \$2,385.20)	\$ 16,197.40
Monthly pension	\$ 1,349.78

C) GREATER OF FORMULA: Compare monthly pension using the “All Service RIP Benefit” formula with the protected “Frozen PSP Benefit”

Monthly pension from A) above	\$ 1,247.81
Monthly pension from B) above	\$ 1,349.78
Monthly pension payable, greater of A) or B)	\$ 1,349.78

EXAMPLE 4

A PSP participant who is 53 on January 1, 2014 works an additional 2 years and retires with a Service Pension on January 1, 2016. Note that the All Service RIP Benefit does not include Supplemental Payments in the calculation. There is no age-related reduction for the Frozen PSP Benefit because he/she has attained the age of 55 at retirement, but there is still an age-related reduction for the All Service RIP Benefit. Given the more favorable subsidy for age-related reductions under the Frozen PSP benefit, the Frozen PSP benefit is the better benefit in this example. Note, however, that while the Frozen PSP Benefit will not grow any further for age or service reasons after the PSP participant attains age 55, the All Service RIP Benefit will continue to grow while the person continues working at Sandia due to the growth in the retirement age factors (until he/she attains age 62) as well as the cumulative career earnings growth.

- A PSP participant with the following characteristics retires with a Service Pension on January 1, 2016.

Date of birth:	December 31, 1960
Retirement age	55 years, 0 months
Credited Service through 12/31/11	21 years
Credited Service through 12/31/12	22 years
Plan Service through 12/31/15	25 years
Job Classification/Pension Band at 12/31/12	CAS/116
36-month Supplemental Payments through 12/31/12	\$3,000
High-3 final average pay through 12/31/11	\$50,000
Cumulative career earnings after 12/31/11 (4 years)	\$210,000

A) FROZEN PSP BENEFIT: Calculate the monthly pension using the PSP formula protected as of December 31, 2012

Pension Band Amount at 12/31/12	\$ 73.12
Multiplied by Credited Service through 12/31/12	x 22
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	\$ 1,608.64

Plus

36-month Supplemental Payments through 12/31/12	\$ 3,000.00
Divided by 3 years	/ 3

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	\$ 1,000.00
Multiplied by .001	x .001
Multiplied by Credited Service through 12/31/12	x 22
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	\$ 22.00

Monthly pension (\$1,608.64 + \$22.00)	\$ 1,630.64
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B) ALL SERVICE RIP BENEFIT: Calculate the monthly pension using the RIP formula for all years.

High-3 final average pay through 12/31/11	\$ 50,000
Multiplied by Credited Service through 12/31/11	x 21
Multiplied by Final Average Pay Retirement Age Factor	x .0144
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	\$ 15,120.00
Plus	
Cumulative career earnings after 12/31/11	\$ 210,000
Multiplied by Career Average Retirement Age Factor	x .0162
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	\$ 3,402.00
Annual pension (\$15,120.00 + \$3,402.00)	\$ 18,522.00
Monthly pension	\$ 1,543.50

C) GREATER OF FORMULA: Compare monthly pension using the “All Service RIP Benefit” formula with the protected “Frozen PSP Benefit”

Monthly pension from A) above	\$ 1,630.64
Monthly pension from B) above	\$ 1,543.50
Monthly pension payable, greater of A) or B)	\$ 1,630.64

EXHIBIT A: TRANSFERS

1. **Former Participants in the PSP Who Transferred to the RIP Before the Merger.** The Sandia Corporation Retirement Income Plan (“RIP”) previously provided a transition formula (“RIP Transition Formula”), which applied to a participant who transferred directly from the Sandia Corporation Pension Security Plan (“PSP”) to the RIP. Pursuant to this RIP Transition Formula, such a transferred participant’s benefit under the RIP would be calculated pursuant to the terms of the PSP as though the Participant were still covered under the PSP until the Participant had completed 365 days of participation in the RIP. At the end of this 365-Day Period, the transferred participant’s pension would be determined under the RIP benefit formula.

Due to the Merger, any such transferred employee who has not reached the end of his/her 365-Day Period, as described above, on December 31, 2012 will have his pension benefit calculated under the Greater Of Formula discussed above, as though he had been a participant in the PSP until December 31, 2012. In addition, effective January 1, 2013, this RIP Transition Formula will cease to exist.

2. **Former Participants in the RIP Who Transferred to the PSP Before the Merger.** The PSP previously provided a transition formula (“PSP Transition Formula”), which applied to a participant who transferred directly from the RIP to the PSP. Pursuant to this PSP Transition Formula, such a transferred participant’s benefit under the PSP would be calculated pursuant to the terms of the RIP as though the Participant were still covered under the RIP until the Participant had completed 365 days of participation in the PSP. At the end of this 365-Day Period, the transferred participant’s pension would be determined under the PSP benefit formula.

Due to the Merger, any such transferred participant who has not reached the end of his/her 365-Day Period, as described above, will have his/her pension benefit calculated under the RIP formula. His/her pension benefit will not be calculated under the Greater of Formula because the 365-Day Period requirement will not have been met. In addition, effective January 1, 2013, this PSP Transition Formula will cease to exist.

EXHIBIT B: PSP BENEFIT FORMULA

Section 6. How is My Pension Calculated

Pension Benefit Formula

Your pension benefit is equal to the sum of your basic monthly pension benefit plus your supplemental monthly pension benefit, if any.

Basic Monthly Pension Benefit

Each job title or classification is assigned to a pension band.

A monthly benefit is specified for each pension band. Your basic monthly pension benefit is computed by multiplying the monthly benefit for your assigned pension band by your Credited Service (see Appendices B-1 and B-2 for a listing of pension band assignments and monthly benefit amounts).

Supplemental Monthly Pension Benefit

You may also be entitled to a supplemental monthly pension benefit based on certain supplemental earnings beyond your base pay that you received before you retire. To compute your supplemental monthly pension benefit, add up all the supplemental payments listed below that you received during the 36 months before you retire. Divide that total by 3 to get an annual average. Multiply the annual average by .001. Then multiply the result by your Credited Service.

Supplemental payments include:

- Shift premiums,
- Weekend premiums,
- Increases above the job rate,
- Extra payments for temporary promotions of less than one year to higher level of supervisory positions,
- Special project allowances for assignments begun before December 1, 1983,
- Temporary assignment allowances,
- Flight allowances, and

- Supplementary allowances.

Example:

If you are a Tier 3 employee assigned to pension band 109 and retire with a service pension on December 1, 2009 at age 65 with 30 years of Credited Service, your basic monthly pension benefit is computed as follows:

Amount from Appendix B-1 for pension band 109	\$ 54.06
Multiplied by Credited Service	<u> x 30</u>
Basic monthly pension benefit	\$1,621.80

If the total supplemental payments you receive for the 36 months before your retirement are \$4,500, your supplemental pension benefit is computed as follows:

Total supplemental payments	\$4,500.00
Divided by 3 years	<u> ÷ 3</u>
Annual average supplemental payments	\$1,500.00
Multiplied by .001	x .001
Multiplied by Credited Service	<u> x 30</u>
Supplemental monthly pension benefit	\$ 45.00
Total monthly pension benefit (\$1621.80 + \$45.00)	\$1,666.80

Part-Time Employment

If you have a period of part-time employment, your pension will be less than if you had always worked full-time. This is because your Credited Service for a period of part-time employment is prorated based on your scheduled part-time hours compared to the scheduled hours of a full-time employee. For example, if you are scheduled to work 20 hours per week for one year, you will be credited with one-half year of Credited Service for that period.

Promotions

If you are promoted or transferred to a job in a higher pension band within 12 months of the date you retire with a Service or Disability Pension, or terminate from Sandia after becoming eligible for a deferred vested pension, your pension benefit is based on the pension band for the job you

EXHIBIT C: PENSION BAND VALUES AS OF DECEMBER 31, 2012

**PENSION BAND ASSIGNMENTS AND VALUES BY JOB CLASSIFICATION
FOR EMPLOYEES REPRESENTED BY THE OPEIU**

Band	Job Classification	Value for Participants Retiring On or After 10/1/11
103	Tier 1	\$46.46
105	Tier 2	\$50.03
109	Tier 3/OAA	\$57.35
112	Tier 4	\$62.72
116	Tier 5	\$69.96

**PENSION BAND ASSIGNMENTS AND VALUES BY JOB CLASSIFICATION
FOR EMPLOYEES REPRESENTED BY THE MTC**

Band	Job Classification	Value for Participants Retiring On or After 10/1/12
101	Grade 1, Grade 2	\$43.67
103	Grade 3	\$47.39
105	Grade 4	\$51.03
106	Grade 5	\$52.92
107	Grade 6	\$54.80
109	Grade 7	\$58.50
110	Grade 8	\$60.30
115	AMTTP	\$69.52
119	Trades 2	\$76.90
122	Trades 1	\$82.43

**PENSION BAND ASSIGNMENTS AND VALUES BY JOB CLASSIFICATION
FOR EMPLOYEES REPRESENTED BY THE SPA**

Band	Job Classification	Value for Participants Retiring On or After 12/1/12
107	SO	\$56.15
113	SPO	\$67.48
116	CAS	\$73.12