

Annual Funding Notice  
For  
Sandia Corporation Retirement Income Plan

**Introduction**

This notice includes important information about the funding status of your single-employer pension plan (the “Plan”). It also includes general information about the benefit payments guaranteed by the Pension Benefit Guaranty Corporation (“PBGC”), a federal insurance agency. All traditional pension plans (called “defined benefit pension plans”) must provide this notice every year regardless of their funding status. This notice does not mean that the Plan is terminating. It is provided for informational purposes and you are not required to respond in any way. This notice is required by federal law. This notice is for the plan year beginning January 1, 2015 and ending December 31, 2015 (“Plan Year”).

**How Well Funded Is Your Plan**

The law requires the administrator of the Plan to tell you how well the Plan is funded, using a measure called the “funding target attainment percentage.” The Plan divides its Net Plan Assets by Plan Liabilities to get this percentage. In general, the higher the percentage, the better funded the plan. The Plan’s funding target attainment percentage for the Plan Year and each of the two preceding plan years is shown in the chart below. The chart also shows you how the percentage was calculated.

**Funding Target Attainment Percentage**

	Plan Year Beginning in 2015	Plan Year Beginning in 2014	Plan Year Beginning in 2013
1. Valuation Date	January 1, 2015	January 1, 2014	January 1, 2013
2. Plan Assets			
a. Total Plan Assets	\$5,230,635,178	\$4,811,529,046	\$4,350,758,692
b. Funding Standard Carryover Balance	\$69,837,208	\$62,404,797	\$57,595,567
c. Prefunding Balance	\$586,540,069	\$392,190,842	\$202,973,564
d. Net Plan Assets (a) – (b) – (c) = (d)	\$4,574,257,901	\$4,356,933,407	\$4,090,189,561
3. Plan Liabilities	\$4,360,241,083	\$4,161,549,077	\$3,958,313,561
4. At-Risk Liabilities	not applicable	not applicable	not applicable
5. Funding Target Attainment Percentage (2d)/(3)	104.90%	104.69%	103.33%

**Plan Assets and Credit Balances**

The chart above shows certain “credit balances” called the Funding Standard Carryover Balance and Prefunding Balance. A plan might have a credit balance, for example, if in a prior year an employer contributed money to the plan above the minimum level required by law. Generally, an employer may credit the excess money toward the minimum level of contributions required by law that it must make in future years. Plans must subtract these credit balances from Total Plan Assets to calculate their Funding Target Attainment Percentage.

### **Plan Liabilities**

Plan Liabilities in line 3 of the chart above is an estimate of the amount of assets the Plan needs on the Valuation Date to pay for promised benefits under the plan.

### **Year-End Assets and Liabilities**

The asset values in the chart above are measured as of the first day of the Plan Year. They also are “actuarial values.” Actuarial values differ from market values in that they do not fluctuate daily based on changes in the stock or other markets. Actuarial values smooth out those fluctuations and can allow for more predictable levels of future contributions. Despite the fluctuations, market values tend to show a clearer picture of a plan’s funded status at a given point in time. As of December 31, 2015, the fair market value of the Plan’s assets was \$5,023,897,234. On this same date, the Plan’s liabilities, determined using market rates, were \$5,565,314,832.

### **Participant Information**

The total number of participants and beneficiaries covered by the Plan on the Valuation Date was 15,861. Of this number, 6,223 were current employees, 7,446 were retired and receiving benefits, and 2,192 were retired or no longer working for the employer and have a right to future benefits.

### **Funding & Investment Policies**

Every pension plan must have a procedure to establish a funding policy for plan objectives. A funding policy relates to how much money is needed to pay promised benefits.

The current funding policy of the Plan is to contribute no less frequently than annually an amount at least equal to the minimum contribution required by law. Sandia Corporation may, at its discretion, contribute amounts in excess of the minimum required contribution.

Pension plans also have investment policies. These generally are written guidelines or general instructions for making investment management decisions.

The Sandia Corporation Investment Committee (“Committee”), a committee appointed by Sandia’s Board of Directors, has the fiduciary responsibility for making investment decisions related to the assets of Sandia’s defined benefit pension plans. The Committee’s investment objective for the assets of the defined benefit pension plans is to ensure the availability of funds to meet the pension plans’ liabilities under a broad range of future economic scenarios.

The nature and duration of expected benefit obligations, along with assumptions concerning expected asset returns and correlations of those returns, are considered by the Committee when determining an appropriate asset allocation to achieve the investment objective. In addition, the Committee considers prudent risk parameters when establishing its investment policy. Risk management practices include the use of external investment managers and the investment of a portfolio that is diversified by asset class, investment approach, and security holdings, and the maintenance of sufficient liquidity to meet benefit payments as they become due.

As of December 31, 2015, the policy for the plans' target asset allocation was a mix of 31% in Return-seeking Assets (equities) and 69% in Hedging Assets (fixed income).

In accordance with the Plan's investment policy, the Plan's assets were allocated among the following categories of investments, as of the end of the Plan Year. These allocations are percentages of total assets:

<b>Asset Allocations</b>	<b>Percentage</b>
Stocks	31%
Investment grade debt instruments	69%
High-yield debt instruments	0%
Real estate	0%
Other	0%

### **Right to Request a Copy of the Annual Report**

Pension plans must file annual reports with the US Department of Labor. The report is called the "Form 5500." These reports contain financial and other information. You may obtain an electronic copy of your Plan's annual report by going to [www.efast.dol.gov](http://www.efast.dol.gov) and using the search tool. Annual reports also are available from the US Department of Labor, Employee Benefits Security Administration's Public Disclosure Room at 200 Constitution Avenue, NW, Room N-1513, Washington, DC 20210, or by calling 202.693.8673. Or you may obtain a copy of the Plan's annual report by making a written request to the plan administrator. Annual reports do not contain personal information, such as the amount of your accrued benefits. You may contact your plan administrator if you want information about your accrued benefits. Your plan administrator is identified below under "Where To Get More Information."

### **Summary of Rules Governing Termination of Single-Employer Plans**

If a plan terminates, there are specific termination rules that must be followed under federal law. A summary of these rules follows.

There are two ways an employer can terminate its pension plan. First, the employer can end a plan in a "standard termination" but only after showing the PBGC that such plan has enough money to pay all benefits owed to participants. Under a standard termination, a plan must either purchase an annuity from an insurance company (which will provide you with periodic retirement benefits, such as monthly, for life or for a set period of time when you retire) or, if the plan allows, issue one lump-sum payment that covers your entire benefit. Your plan administrator must give you advance notice that identifies the insurance company (or companies) selected to provide the annuity. The PBGC's guarantee ends upon the purchase of an annuity or payment of the lump-sum. If the plan purchases an annuity for you from an insurance company and that company becomes unable to pay, the applicable state guaranty association guarantees the annuity to the extent authorized by that state's law.

Second, if the plan is not fully-funded, the employer may apply for a distress termination. To do so, however, the employer must be in financial distress and prove to a bankruptcy court or to the PBGC that the employer cannot remain in business unless the plan is terminated. If the application is granted, the PBGC will take over the plan as trustee and pay plan benefits, up to the legal limits, using plan assets and PBGC guarantee funds.

Under certain circumstances, the PBGC may take action on its own to end a pension plan. Most terminations initiated by the PBGC occur when the PBGC determines that plan termination is needed to protect the interests of plan participants or of the PBGC insurance program. The PBGC can do so if, for example, a plan does not have enough money to pay benefits currently due.

## **Benefit Payments Guaranteed by the PBGC**

When the PBGC takes over a plan, it pays pension benefits through its insurance program. Only benefits that you have earned a right to receive and that cannot be forfeited (called vested benefits) are guaranteed. Most participants and beneficiaries receive all of the pension benefits they would have received under their plan, but some people may lose certain benefits that are not guaranteed.

The amount of benefits that PBGC guarantees is determined as of the plan termination date. However, if a plan terminates during a plan sponsor's bankruptcy, then the amount guaranteed is determined as of the date the sponsor entered bankruptcy.

The PBGC maximum benefit guarantee is set by law and is updated each calendar year. For a plan with a termination date or sponsor bankruptcy date, as applicable in 2016, the maximum guarantee is \$5,011.36 per month, or \$60,136.32 per year, for a benefit paid to a 65-year-old retiree with no survivor benefit. If a plan terminates during a plan sponsor's bankruptcy, the maximum guarantee is fixed as of the calendar year in which the sponsor entered bankruptcy. The maximum guarantee is lower for an individual who begins receiving benefits from PBGC before age 65 reflecting the fact that younger retirees are expected to receive more monthly pension checks over their lifetimes. Similarly, the maximum guarantee is higher for an individual who starts receiving benefits from PBGC after age 65. The maximum guarantee by age can be found on PBGC's website, [www.pbgc.gov](http://www.pbgc.gov). The guaranteed amount is also reduced if a benefit will be provided to a survivor of the plan participant.

The PBGC guarantees "basic benefits" earned before a plan is terminated, which include:

- Pension benefits at normal retirement age;
- Most early retirement benefits;
- Annuity benefits for survivors of plan participants; and
- Disability benefits for a disability that occurred before the date the plan terminated or the date the sponsor entered bankruptcy, as applicable.

The PBGC does not guarantee certain types of benefits:

- The PBGC does not guarantee benefits for which you do not have a vested right, usually because you have not worked enough years for the company.
- The PBGC does not guarantee benefits for which you have not met all age, service, or other requirements.
- Benefit increases and new benefits that have been in place for less than one year are not guaranteed. Those that have been in place for less than five years are only partly guaranteed.
- Early retirement payments that are greater than payments at normal retirement age may not be guaranteed. For example, a supplemental benefit that stops when you become eligible for Social Security may not be guaranteed.
- Benefits other than pension benefits, such as health insurance, life insurance, death benefits, vacation pay, or severance pay, are not guaranteed.
- The PBGC generally does not pay lump sums exceeding \$5,000.

In some circumstances, participants and beneficiaries still may receive some benefits that are not guaranteed. This depends on how much money the terminated plan has and how much the PBGC recovers from employers for plan underfunding.

For additional general information about the PBGC and the pension insurance program guarantees, go to the "General FAQs about PBGC" on PBGC's website at [www.pbgc.gov/generalfaqs](http://www.pbgc.gov/generalfaqs). Please contact your employer or plan administrator for specific information about your pension plan or pension benefit. PBGC does not have that information. See "Where to Get More Information About Your Plan," below.

**Where to Get More Information**

For more information about this notice, you may contact

Retirement Investment Management  
P.O. Box 5800  
Mailstop 1302  
Albuquerque, NM 87185  
(505) 845-0303

For identification purposes, the official plan number is 006 and the plan sponsor's name and employer identification number or "EIN" are Sandia Corporation and 85-0097942.

**Disclosure Statement and Disclaimer**

This notice is intended to comply with the requirements of section 101(f) of the Employee Retirement Income Security Act of 1974, as amended. The disclosures provided in this notice are based on information available and believed to be accurate as of the date this notice is provided. All computations reflected in these disclosures have been performed based on a good faith interpretation of the applicable statutory and regulatory guidance in effect on the date this notice is provided. Such information and computations include, but are not limited to, the measurement of plan liabilities, reported values of plan assets, and allocation of assets. However, actual results for the Plan Year may change and will not be considered final until filed with the Department of Labor as part of the Annual Report (i.e., the Form 5500). Subsequently, such results will change only by amendment of the Annual Report for the Plan Year. See the Right to Request a Copy of the Annual Report section for information about how to obtain a copy of the Annual Report. The plan sponsor does not undertake any obligation to update or publicly release any revisions to this notice, and no such revisions will be issued, to reflect any changes, including but not limited to, changes in the manner in which particular calculations are performed, changes in expectations, the adoption of plan amendments or any other events or circumstances occurring after this notice is provided.

Supplement to Annual Funding Notice  
of Sandia Corporation Retirement Income Plan (Plan) for  
Plan Year Beginning January 1, 2015 and Ending December 31, 2015 (Plan Year)

This is a temporary supplement to your annual funding notice which is required by the Moving Ahead for Progress in the 21st Century Act, the Highway and Transportation Funding Act of 2014, and the Bipartisan Budget Act of 2015. These federal laws changed how pension plans calculate their liabilities. The purpose of this supplement is to show you the effect of these changes. Prior to 2012, pension plans determined their liabilities using a two-year average of interest rates. Now pension plans also must take into account a 25-year average of interest rates. This means that interest rates likely will be higher and plan liabilities lower than they were under prior law. As a result, your employer may contribute less money to the plan at a time when market interest rates are at or near historical lows.

The "Information Table" compares the impact of using interest rates based on the 25-year average (the "adjusted interest rates") and interest rates based on a two-year average on the Plan's: (1) Funding Target Attainment Percentage, (2) Funding Shortfall, and (3) Minimum Required Contribution. The funding target attainment percentage is a measure of how well the plan is funded on a particular date. The funding shortfall is the amount by which liabilities exceed net plan assets. The minimum required contribution is the amount of money an employer is required by law to contribute to a plan in a given year. The following table shows this information determined with and without the adjusted interest rates. The information is provided for the Plan Year and for each of the two preceding plan years, if applicable.

**Information Table**

	Plan Year Beginning 2015		Plan Year Beginning 2014		Plan Year Beginning 2013	
	With Adjusted Interest Rates	Without Adjusted Interest Rates	With Adjusted Interest Rates	Without Adjusted Interest Rates	With Adjusted Interest Rates	Without Adjusted Interest Rates
Funding Target Attainment Percentage	104.90%	83.91%	104.69%	81.41%	103.33%	84.45%
Funding Shortfall	\$0	\$877,068,352	\$0	\$994,632,770	\$0	\$752,865,222
Minimum Required Contribution	\$0	\$266,200,788	\$0	\$284,675,614	\$0	\$248,370,878