Los Alamos
NATIONAL LABORATORY
EST. 1943

April 2016

For Participants in the LANS Defined Benefit Pension Plan:

Each year, LANS is required to send the enclosed Annual Funding Notice (Notice) to all LANS Defined Benefit Pension Plan ('Pension Plan' or 'Plan') participants. The Notice summarizes important information about the Pension Plan that you should know about. **This is for your information only. No action is required.**

A Look at the Annual Funding Notice
The Notice includes important information about the 2015 plan year, including:

- **The number of participants.**
- **The Plan's funding level, assets and liabilities.** LANS is committed to funding the Pension Plan to ensure the Plan can pay benefits to all participants. The funding level is affected by the value of the Plan's investments and by the interest rates used to determine the value of plan benefits in today's dollars. The Plan's actuaries measure the funded status by comparing the Plan's assets to its liabilities. As of January 1, 2015, the Plan's funding target attainment percentage was over 100%. This means that the Plan's liabilities were completely offset by the Plan's assets.
- **Funding and investment policies**. LANS takes the responsibility of investing the Plan's assets very seriously. The notice includes details on how the Plan's assets were prudently diversified as of the end of the plan year.
- **Information regarding the Pension Benefit Guaranty Corporation (PBGC) insurance.** The PBGC is a federal insurance agency that helps protect pension benefits. LANS is committed to the long-term solvency of the Plan. However, if LANS experiences severe financial hardship and the Plan ends without enough resources to pay the benefits, the PBGC will step in to pay some or all of the pension benefits that participants would have received from the Plan. PBGC insurance coverage is mandatory. LANS pays annual premiums to the PBGC to insure your accrued Plan benefits, subject to the PBGC guaranty limits.

Please see the Notice for more details about these topics and other important information.

How the Pension Plan is Funded
LANS and active plan participants make contributions to the Plan trust. The trust can only pay participant benefits and reasonable administrative expenses. The LANS Benefits and Investments Committee is responsible for monitoring the funding of the Plan and managing the investment of the trust's assets.

The Plan's actuaries use assumptions to determine how much money is needed to pay for future benefit payments. That amount is compared to the assets in the trust. In general, if the assets in the trust are less than the current value of pension benefits, LANS will contribute to the trust.

Questions?

The enclosed FAQs provide answers to many common questions. If your questions are not answered in the FAQs, see the "Where to Get More Information" section of the Notice for contact information.

Sincerely,

Rosalind D. Torrence

Rosalind D. Torrence, SPHR
Plan Administrator

2015 ANNUAL FUNDING NOTICE
For
LANS Defined Benefit Pension 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	$3,404,672,173	$2,922,081,391	$2,534,130,272
b. Funding Standard Carryover Balance	$0	$0	$0
c. Prefunding Balance	$395,077,343	$223,885,547	$105,859,043
d. Net Plan Assets (a) – (b) – (c) = (d)	$3,009,594,830	$2,698,195,844	$2,428,271,229
3. Plan Liabilities	$2,531,776,624	$2,219,058,124	$2,077,247,521
4. Funding Target Attainment Percentage (2d)/(3)	118.87%	121.59%	116.89%

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 $3,458,123,945. On this same date, the Plan's liabilities, determined using market rates, were $3,684,150,867.

The fair market value of the Plan's assets as of December 31, 2015 is required to include only 2015 plan year contributions made before this Funding Notice is provided. LANS anticipates an additional contribution, if approved, of $134,000,000 to the plan before September 15, 2016.

Participant Information

The total number of participants and beneficiaries covered by the Plan on the Valuation Date was 6,200. Of this number, 4,462 were current employees, 1,144 were retired and receiving benefits, and 594 were 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 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. Los Alamos National Security, LLC 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 current investment policy of the Plan is to ensure, over the long-term life of the Plan, an adequate pool of assets to support the benefit obligations to participants, retirees, and beneficiaries. In meeting this objective, the Plan seeks the opportunity to achieve an adequate return to fund the obligations in a manner consistent with the fiduciary standards of ERISA and with a prudent level of diversification, and liquidity needs to pay current benefits when due.

Under the 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:

Asset Allocations	Percentage
Stocks	56.6%
Investment grade debt instruments	43.4%
High-yield debt instruments	0.0%
Real estate	0.0%
Other	0.0%

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 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, if you elect, for a set period of time when you retire) or, if the plan allows and you elect, 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 the 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. 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. 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 LANS Benefits and Investment Committee or Louis Polito, at Post Office Box 1663, MS P280, Los Alamos, NM 87545; 505-667-1806; or lpolito@lanl.gov. For identification purposes, the official plan number is 003 and the plan sponsor's name and employer identification number or "EIN" are Los Alamos National Security, LLC and 20-3104541.

Additional Information

We wanted to remind you of your ability to request an estimate of your plan benefit. You can request an estimate of your current accrued benefit, or you can request an estimate of your benefit projected to a future date.

To request a benefit estimate electronically, access Your Pension Resources™ at http://pension.hewitt.com/LosAlamos.

SUPPLEMENT TO ANNUAL FUNDING NOTICE

OF LANS Defined Benefit Pension 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. It 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 of a plan 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	118.87%	89.69%	121.59%	87.38%	116.89%	91.45%
Funding Shortfall	$ 0	$345,645,704	$ 0	$389,380,833	$ 0	$226,850,205
Minimum Required Contribution	$ 0	$191,457,442	$ 0	$200,652,996	$ 0	$153,211,520

1. Why am I receiving this notice?

The Pension Protection Act of 2006 (the "PPA") requires employers who sponsor defined benefit pension plans to distribute an Annual Funding Notice (the "Notice"). This requirement became effective in 2009 for the 2008 plan year. The enclosed notice is for the 2015 plan year.

2. Who is required to receive this Notice?

Employers must provide an Annual Funding Notice to all plan participants and beneficiaries annually. The Pension Benefit Guaranty Corporation (the "PBGC") is also generally required to receive the Annual Funding Notice.

3. What is the purpose of the Annual Funding Notice?

To give LANS Defined Benefit Pension Plan (the "Plan") participants information about the Plan's funded status. The Notice also includes a summary of the rules that apply if a pension plan ends.

4. Does receipt of this Notice mean that the Plan does not have enough funds to pay benefits?

No. The Notice must be provided regardless of the Plan's actual level of funding. The funded status, the level of guaranteed payment, and plan termination information contained in the Notice are provided to comply with the PPA. This information is not intended to suggest that these conditions apply to the Plan.

5. Who determines whether the Plan has enough funds to pay benefits?

LANS hires independent actuaries to perform a "valuation" and certify the Plan's minimum pension funding requirements each year. These actuaries are professionals certified by the government to perform work pertaining to pension plans. LANS makes contributions to the Plan's trust fund based on the outcome of these annual valuations.

6. If the Plan's funded status (funding target attainment percentage) is below 100%, will I still receive my full benefit when I retire?

Yes. As long as the Plan continues to be in operation, you will receive the full benefit to which you are entitled. The funded status and the financial health of the Plan have no bearing on your benefit amount.

7. Why did the Funding Target Attainment Percentage decrease from 2014 to 2015?

The Plan's funded status has decreased due to increasing plan liabilities driven by lower interest rates. This is partially offset by an increase in the assets due to better than expected investment returns.

See question 8 below for a description of how the level of interst rates affects the value of the Plan's liabilities.

8. How are the liabilities determined? What causes the Plan's liabilities to grow?

A pension plan's liability is the value of retirement benefits due to current and future retirees. Since most of the benefits will be paid out in future years, the liability is calculated as a present value in today's dollars.

The liabilities will decrease over time as benefits are paid out. However, until benefits are paid, the Plan's liabilities will grow with interest. In addition, the liabilities will increase over time as plan

participants earn additional benefits through pay and service increases. Since the Plan is closed to new participants (effective June 1, 2006), recently hired LANS employees earn no benefits under the Plan and have no impact on the Plan's liabilities.

The Plan's liabilities are also sensitive to the interest rates used in calculating a present value in today's dollars. Lower interest rates mean that more money is needed today to satisfy the future benefit payments since that money is expected to grow more slowly. Therefore, the Plan's liabilities increase when these rates fall and decrease when these rates rise.

9. How are the interest rates used to calculate the Plan's liabilities determined?

The interest rates are mandated by the government through the PPA. PPA interest rates are based on the interest rates of high-grade corporate bonds of varying maturities. Yields on high-grade corporate bonds have decreased over the past several years, resulting in lower PPA interest rates. These lower interest rates are the biggest reason why the Plan's liabilities have grown in recent years.

10. What happens if the Plan is underfunded?

If a pension plan becomes significantly underfunded, restrictions may apply to increases in benefits, plan amendments, and the forms of payment available. None of these restrictions currently apply to the Plan. In addition, employers with funding shortfalls must pay higher PBGC premiums to protect pension benefits.

11. Will LANS be making contributions to the Plan?

LANS is committed to the long-term financial health of the Plan and will continue to contribute at least the minimum required by law to the Plan.

12. Why does the Plan have a prefunding balance for 2015?

The Plan has a prefunding balance because LANS contributed more than the minimum contribution required by law in the past. The prefunding balance may be used by LANS to offset future minimum contribution requirements.

13. Why are the values for the Plan assets and liabilities shown in the "Funding Target Attainment Percentage" section of the Notice different from the values in the "Year-End Assets and Liabilities" section?

The assets and liabilities shown on the first page of the Notice are calculated under PPA rules. Since pension plans operate over a very long time horizon, pension funding laws were designed to ensure the long-term financial health of plans while protecting plan sponsors from short-term market fluctuations.

In determining assets, the PPA allows plan sponsors to "smooth" asset values by averaging the market value of assets over two years. In a rising market where assets perform well, the true market value of assets will be higher than the smoothed value. Over time, the smoothed asset value is expected to be equal to the market value.

In determining liabilities, the PPA allows plan sponsors to "smooth" interest rates by averaging the market interest rates of high-grade corporate bonds over two years. This smoothing has been further enhanced under the Moving Ahead for Progress in the 21st Century Act (MAP-21), the Highway and Transportation Funding Act of 2014 (HATFA), and the Bipartisan Budget Act of 2015. Since interest rates have fallen in recent years, the Plan's smoothed interest rate is higher than current market interest rates. Over time, the smoothed interest rates are expected be equal to the market interest rates.

The "Year-End Assets and Liabilities" ("Year-End") are measured on a true market value basis with no averaging.

In addition, the assets and liabilities are measured at different points in time. In the Funding Target Attainment Percentage section, the values are measured as of January 1, 2015. In the Year-End section, the values are measured as of December 31, 2015.

14. What are the considerations in investing pension plan assets?

Pension plan assets are invested to ensure, over the long-term life of the plan, an adequate pool of assets to support the benefit payments to current and future retirees. Pension plan assets are invested to generate a desired rate of return consistent with minimizing the risk to current assets.

15. Will employees' current mandatory contributions increase?

There are no plans to change the level of employee contributions at this time.

16. Does this Notice apply to my 401(k) Savings Program account?

No. The Annual Funding Notice applies only to the LANS Defined Benefit Pension Plan.

17. How is my benefit determined under the Plan?

You can find the pension formula, with examples that show how the formula is applied and other important plan provisions in your LANS Defined Benefit Pension Plan Summary Plan Description, or online at http://int.lanl.gov/employees/benefits/_assets/docs/spd/retirement/tcp1-pension-spd.pdf

18. How can I find out the amount of my own Plan benefit?

To request a benefit estimate electronically, access *Your Pension Resources*™ at http://pension.hewitt.com/LosAlamos. To request a free paper copy of a benefit estimate, call the LANS Pension Center toll free at 1-866-370-7301. Representatives are available 8am-4pm (Mountain).

19. Do I need to take action?

No. This Notice is for your information only. You do not need to take any action.