2015 Annual Funding Notice for NRECA Retirement Security Plan

Introduction

This notice includes important information about the funding status of your pension plan, the NRECA Retirement Security Plan (the RS Plan). It also includes general information about the benefit payments guaranteed by the Pension Benefit Guaranty Corp. (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 RS 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 and 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 actuarial value of plan assets by the plan liabilities to get this percentage. In general, the higher the percentage, the better funded the plan. The RS Plan's funded percentages for the plan year and each of the two preceding plan years are shown in the two tables below. The tables also show you how the percentages were calculated.

The first table shows liabilities and assets calculated under regulations that apply to the RS Plan.

The second table reflects liabilities and assets that are calculated using the funding methods required for single-employer plans.

Table 1	2015	2014	2013
1. Valuation Date	1/1/2015	1/1/2014	1/1/2013
2. Plan Assets			
a. Market Value of RS Plan Assets[1]	$8,503,716,436	$8,481,247,539	$7,674,320,460
b. Actuarial (Smoothed) RS Plan Assets[1]	$8,223,585,436	$7,952,007,640	$7,583,572,388
3. Plan Liabilities	$8,058,786,769	$7,316,657,498	$6,816,630,385
4. Funding Target Attainment Percentage: (2b)/(3) [2]	102.0%	108.7%	111.3%
5. Funded Ratio Using Market Value of Assets: (2a)/(3)	105.5%	115.9%	112.6%

Table 2	2015	2014	2013
1. Valuation Date	1/1/2015	1/1/2014	1/1/2013
2. Plan Assets			
a. Market Value of RS Plan Assets [1]	$8,503,716,436	$8,481,247,539	$7,674,320,460
b. Actuarial (Smoothed) RS Plan Assets[3]	$8,264,510,802	$7,846,982,457	$7,554,142,607
3. Plan Liabilities	$8,014,713,398	$7,607,106,771[4]	$7,620,101,910[4]
4. Funding Target Attainment Percentage: (2b)/(3)	103.1%	103.2%[4]	99.1%[4]
5. Funded Ratio Using Market Value of Assets: (2a)/(3)	106.1%	111.5%[4]	100.7%[4]

[1] Includes contributions received after the valuation date with no discounting.
[2] For the 2013 plan year, the funded current liability percentage (as defined in Section 302(d)(8) of ERISA) is shown. For the 2014 and 2015 plan years, the funded status shown reflects methodologies defined under the Cooperative and Small Employer Charity Pension Flexibility Act (CSEC Act), which was first applicable for the 2014 plan year.
[3] Contributions included in the asset value and received after the valuation date are discounted with interest to the valuation date.
[4] Plan liabilities on 01/01/2013 and 01/01/2014 as shown in Table 2 have been adjusted for this 2015 notice. As a result, items 3,4, and 5 in Table 2 for 2013 and 2014 don't match corresponding amounts shown on the 2014 annual funding notice.

Starting in 2014, the RS Plan follows funding rules under the Cooperative and Small Employer Charity Pension Flexibility Act (CSEC Act). These funding rules are different from those that apply to single-employer plans. As a result of following the rules under the CSEC Act, a pension plan's contributions could have changed. However, since the rules starting in 2014 essentially matched those followed by the RS Plan prior to that time, contributions to the RS Plan did not change as a result of the CSEC Act.

Plan Liabilities

Plan liabilities in line 3 of Table 2 above is an estimate of the amount of assets the RS Plan needs on the valuation date to pay for promised benefits under the plan.

Year-End Assets and Liabilities

The asset values in line 2(b) of each table 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 RS Plan’s assets (without receivable contributions) was $7,158,954,000. On this same date, the RS Plan’s liabilities (calculated under methods mandated by the Pension Protection Act, which is not applicable to the RS Plan) were estimated to be $10,204,747,965. This estimate is consistent with item 3 in Table 2 above, although it uses unsmoothed interest rates as of the end of 2015. The estimated liabilities as of December 31, 2015, consistent with those shown in item 3 of Table 1 above (which use methods applicable to the RS Plan for 2014 and 2015), result in an estimate of $8,083,796,961. This amount is based on the 2015 funding interest rate assumption under the CSEC Act.

Participant Information

The total number of participants and beneficiaries covered by the RS Plan on the valuation date was 64,611. Of this number, 55,261 were current employees of a participating employer, 4,249 were retired and receiving benefits, and 5,101 were retired or no longer working for a participating employer and have a right to future benefits.

Funding and 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. Under the RS Plan’s funding policy, participating employers contribute amounts that are determined actuarially to be sufficient to fund the benefits of the RS Plan as a level percentage of covered payroll over the average expected remaining working lifetime of the participants.

Pension plans also have investment policies. These generally are written guidelines or general instructions for making investment management decisions. The RS Plan’s investment policy is to maintain a diversified portfolio consisting of (1) domestic equity securities, (2) domestic fixed income securities, (3) international or global equity and fixed income securities, (4) alternative assets, and (5) low duration/liquidity assets.

Under the investment policy, the RS 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
1. Cash (interest bearing and non-interest bearing)	5.5%
2. U.S. government securities	8.8%
3. Corporate debt instruments (other than employer securities):	
Preferred	3.9%
All other	9.9%
4. Corporate stocks (other than employer securities):	
Preferred	0.0%
All other	47.4%
5. Partnership/joint venture interests	0.5%
6. Loans (other than to participants)	0.6%
7. Value of interest in common/collective trusts	19.9%
8. Value of funds held in insurance co. general account (unallocated contracts)	0.1%
9. Buildings and other property used in plan operation	0.4%
10. Other	3.0%

For information about the RS Plan’s investment in common/collective trusts, contact the plan’s administrator: Peter Baxter, Senior Vice President, Insurance and Financial Services, National Rural Electric Cooperative Association, 4301 Wilson Boulevard, Arlington, VA 22203.

Right to Request a Copy of the Annual Report

Pension plans must file annual reports with the U.S. 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 U.S. 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 RS 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 Plan Termination

The National Rural Electric Cooperative Association (NRECA) is the plan sponsor for the RS Plan. The NRECA Board of Directors is the only body that is authorized to terminate the RS Plan. Participating employers may cease participation in the RS Plan with appropriate advance notice to the plan administrator and affected employees.

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 a pension plan sponsor can terminate its pension plan. First, the sponsor 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 payments 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 plan sponsor may apply for a distress termination. To do so, however, the participating employers must be in financial distress and prove to a bankruptcy court or to the PBGC that the employers 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. (A bankruptcy situation leading to RS Plan termination would be an extremely unlikely event because, as a multiple employer plan, all the cooperative employers participating in the Plan would need to experience bankruptcy in order for the sponsor to be considered in 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 also is 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, such as the following:

- Benefits for which you do not have a vested right, usually because you have not worked enough years for the company;
- 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—those that have been in place for less than five years are only partly guaranteed;
- Benefits other than pension benefits, such as death benefits; and
- 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.pgbc.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" below.

Where to Get More Information

For more information about this notice, contact the NRECA Member Contact Center at 866.673.2299, or write to the plan administrator, Peter Baxter, Senior Vice President, Insurance and Financial Services, National Rural Electric Cooperative Association, 4301 Wilson Boulevard, Arlington, VA 22203. For identification purposes, the official plan number is 333 and the plan sponsor's employer identification number (EIN) is 53-0116145.