Sandia National Laboratories
Operated for the U.S. Department of Energy by
Sandia Corporation

P.O. Box 5800
Albuquerque, NM 87185

August 2004

Dear Pre-Tax Premium Plan Participant:

The information provided in this letter is a modification to the current Pre-Tax Premium Plan booklet, dated January 1, 2002, and should be kept as a supplement with your Pre-Tax Premium Plan booklet.

IMPORTANT CHANGE: Beginning with Open Enrollment in the fall of 2004 (October 20 – November 9, 2004) employees no longer have until December 31 to enroll in or disenroll from the Pre-Tax Premium Plan for the following benefits year. Final decisions on Pre-Tax Premium Plan participation must be made by the end of the Open Enrollment period (usually October 20 – November 9).

Example **prior to** 2004:

If an employee called the Open Enrollment phone system during Open Enrollment and elected to enroll in the Pre-Tax Premium Plan, he/she had until December 31 to change the election.

Example **beginning** with Open Enrollment in the fall of 2004:

If an employee calls the Open Enrollment phone system on the first day of Open Enrollment and elects to enroll in the Pre-Tax Premium Plan, he/she only has until the end of Open Enrollment (a three-week period) to change the election.

Sincerely,

Benefits Department, 3332

Sandia National Laboratories
A Department of Energy National Laboratory

Sandia Pre-Tax Premium Plan

Effective: January 1, 2002

SAND 2004-2783 W

Pre-Tax Premium Plan

The Pre-Tax Premium Plan (PTPP) was established by Sandia Corporation (Sandia) in 1993 under Internal Revenue Code, Section 125, to allow employees to take advantage of the tax savings generated by having health care premiums taken out of their paychecks before federal, state, and Social Security (FICA) taxes are deducted.

This Plan is administered by Sandia, P. O. Box 5800, Albuquerque, New Mexico, 87185 (Employer Identification Number 85-0097942). This Plan is administered on a calendar year basis from January 1 through December 31.

This booklet summarizes the Plan provisions.

The Pre-Tax Premium Plan is maintained at the discretion of Sandia. It is not intended to create a contract of employment and does not change the at-will employment relationship between you and Sandia. The Sandia Board of Directors (or designated representative) reserves the right to suspend, change, or amend any or all provisions of the Pre-Tax Premium Plan, and to terminate the Pre-Tax Premium Plan at any time without prior notice, subject to applicable collective bargaining agreements. If the Pre-Tax Premium Plan should be terminated or changed, it will not affect your right to any benefits to which you have already become entitled.

Contents

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How the Plan Works for You

Health care contributions/premiums are taken from your paycheck after income taxes are deducted. Under the Pre-Tax Premium Plan (PTPP), the premiums are deducted before any federal, state, or FICA taxes are deducted. Therefore, your taxable income is reduced because your premiums are not included as income. Most Sandia employees have their health care premiums deducted on a pre-tax basis.

IMPORTANT **Contributions/premiums for health care coverage deducted on a pre-tax basis *do not* have any effect on what you can contribute to the Sandia Savings Plans.**

Each employee will have different savings results depending on his or her tax bracket, filing status, and amount of health care premiums that are deducted on a pre-tax basis. A couple of examples are provided below to clarify potential tax savings under the PTPP. Calculations are based on the 2002 tax rate structure for a married couple, filing jointly. Because of variable state income tax calculations, these taxes are not considered in the examples.

NOTE: All examples are based on CY 2002 premium rates.

Example 1: You earn $40,000 per year, are a full-time employee, and are nonrepresented. You have a Class I dependent spouse and have two Class I dependent children. You are enrolled in the CIGNA Network POS Plan and the Sandia Dental Deluxe Plan.

	Without PTPP	With PTPP
Monthly Pay	$ 3333	$ 3333
Monthly Premiums	$ 0	$ 90
Monthly Taxable Income	$ 3333	$ 3243
FICA Tax (7.65%)	$ 255	$ 248
Estimated Federal Tax	$ 202	$ 188
Monthly Income After Taxes	$ 2876	$ 2807
Premium After Taxes	$ 90	$ 0
Monthly Net Income	$ 2786	$ 2807
Savings Per Month	NA	$ 21
Annual Tax Savings		$ 252

Example 2: You earn $80,000 per year, are a full-time employee, and are nonrepresented. You have a Class I dependent spouse and one Class I dependent child. You are enrolled in the Sandia Top PPO Plan.

	Without PTPP	With PTPP
Monthly Pay	$ 6667	$ 6667
Monthly Premiums	$ 0	$ 138
Monthly Taxable Income	$ 6667	$ 6529
FICA Tax (7.65%)	$ 510	$ 499
Estimated Federal Tax	$ 904	$ 867
Monthly Income After Taxes	$ 5253	$ 5163
Premium After Taxes	$ 138	$ 0
Monthly Net Income	$ 5115	$ 5163
Savings Per Month	NA	$ 48
Annual Tax Savings		$ 576

IMPORTANT **If you elect to have your premiums deducted on a pre-tax basis, you CANNOT take your health care premiums as a deduction on your income tax return because you are receiving the tax benefit throughout the year. Your pre-tax deductions are considered employer contributions. If you claim the Earned Income Credit, you should discuss this with your tax advisor to see how the PTPP may affect this.**

NOTE: Due to IRS regulations, premiums for health insurance coverage are not eligible for reimbursement under the Reimbursement Spending Accounts (RSA) Plan, regardless of whether you have these taken pre- or after-tax.

Eligibility

Any **employee** who pays health care premiums for him/herself and for Class I or Class II dependents through a **payroll deduction** is eligible for the PTPP, provided the dependent qualifies as a dependent under Section 152 of the Internal Revenue Code. (Refer to Appendix A: Acronyms and Definitions, for Class I and Class II dependents.) Consult your tax advisor if you have any questions. Sandia does not provide tax advice.

NOTE: Health care premiums are defined as premiums you pay for the Sandia Intermediate PPO Plan, the Sandia Top PPO Plan, the Sandia Two Option Medical Plan, the CIGNA Network Point-of-Service Plan, the Kaiser HMO, the Sandia Dental Expense/Dental Deluxe Plans, and the Sandia Vision Care Plan.*

*Employees working 20 hours a week pay a premium for the Sandia Dental Expense Plan and the Sandia Vision Care Plan.

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Enrollment/ Disenrollment

New Hires/Reclassified Employees

If you are a new hire or reclassified employee who is newly eligible for medical, dental, and/or vision coverage, you will be provided with enrollment form(s) *and* a payroll deduction card to indicate your pre-tax/after-tax preference for the health care plans for which you are required to pay a premium. The Benefits Department must receive your enrollment form(s) within 31 calendar days of your hire or reclassification date to enroll in medical, dental, and/or vision coverage.

If the BCSC receives your payroll deduction card and you did not indicate a pre-tax or after-tax preference, your premium-share deductions will be deducted on a pre-tax basis.

IMPORTANT **You will not be enrolled in your selected health care plans until you have returned both the enrollment form(s) and the payroll deduction card (if applicable).**

For nonrepresented and SPA-represented employees, if you do not enroll yourself and your eligible dependents within 31 calendar days, you will be able to enroll yourself and your eligible dependents in Sandia's Basic PPO Plan (so long as you enroll within six months of your new hire or reclassification date). MTC- or OPEIU-represented employees will have the option of enrolling in either the Sandia Two Option Medical Plan or the CIGNA Network Point of Service Plan. Coverage will be retroactive, and you will be responsible for any applicable premiums on an after-tax basis. You will not be allowed to enroll yourself and your eligible dependents if there has been an intervening Open Enrollment period when you could have enrolled.

You can change your election only during the Open Enrollment period held each fall.

Open Enrollment

You will be given the opportunity once a year to enroll in (or disenroll from) the PTPP during the annual Open Enrollment period held each fall. Changes from pre-tax to after-tax and vice versa will be allowed **only** during the period from the first day of Open Enrollment through midnight, December 31, of each calendar year. The change will be effective for the following calendar year.

IMPORTANT **Your pre- or after-tax election will remain the same each year unless you actively make a change during the Open Enrollment period.**

Refer to your Open Enrollment booklet for more information.

Enrollment at Other Times

If you enroll in the medical, dental, or vision plan due to a mid-year election change event or a qualified HIPAA (Health Insurance Portability and Accountability Act) event (see Changing Your Health Care Coverage Election, page 9), and you are required to pay a premium, you will be given the option at that time to also enroll in the Pre-Tax Premium Plan.

Example: You and your non-Sandian spouse are covered under your non-Sandian spouse's employer's medical insurance. Your spouse loses her job. You and your spouse can enroll in one of Sandia's medical plans within 31 calendar days of the loss of the job. At that time, you will also be given the option to enroll in the Pre-Tax Premium Plan.

The Benefits Department must receive your enrollment form(s) within 31 calendar days of the mid-year election change event or HIPAA event allowing enrollment in order to enroll you in medical, dental, and/or vision coverage. If the BCSC receives your payroll deduction card within 31 calendar days and you did not indicate a pre-tax or after-tax preference, your premium-share deductions will be deducted on a pre-tax basis.

IMPORTANT **You will not be enrolled in your selected health care plans until you have returned both the enrollment form(s) and the payroll deduction card (if applicable).**

If you do not enroll your eligible dependent within 31 calendar days of a marriage, birth, adoption, placement for adoption, or obtaining legal guardianship, you will be able to enroll your eligible dependent in your respective medical plan within six months of the marriage, birth, adoption, placement for adoption, or obtaining legal guardianship, but you will have to pay the applicable premium-share on an after-tax basis. You will not be eligible to enroll your dependent if there has been an intervening Open Enrollment period when the dependents could have enrolled. If the enrollment does not cause any change to your premium-share amount, for example, you are already paying for a family of three or more, you will be able to enroll the dependent at no additional cost to you. Coverage for dependents gained as a result of marriage or legal guardianship will be effective on the date of enrollment, and you will pay premiums from that day forward. Coverage for births, adoptions, or placements for adoption will be retroactive to the event, and premiums will be charged retroactively.

Disenrollment

You can disenroll from the PTPP only

- During the period beginning with the first day of Open Enrollment through midnight, December 31, of each calendar year. The change will be effective the first day of the next calendar year.
- Upon termination/retirement from Sandia,*
- Upon taking a Leave of Absence,* or
- If you terminate health plan coverage due to a mid-year election change event.

IMPORTANT **If you elect to terminate medical, dental, and/or vision coverage due to a mid-year election change event, your coverage will continue until you have sent in both the disenrollment form(s) and the payroll deduction card (if applicable).**

Refer to the Open Enrollment booklet for information on disenrolling from the PTPP during Open Enrollment.

*Disenrollment is automatic. You do not have to take any action.

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Changing Your Health Care Coverage Election

This section outlines the mid-year events that allow you to

- Enroll in, change, or disenroll from your health care plan(s) if your premium is taken on a pre-tax basis;
- Enroll new dependents in your health care plan(s) if you pay your premium on an after-tax basis, or you pay no premium at all; or
- Enroll yourself and dependents in the health care plan(s) if you are currently **not** enrolled.

NOTE: If you pay your premium on an after-tax basis or you pay no premium at all, you can disenroll a dependent at any time or waive/drop coverage altogether. This rule does not apply to the Dental Deluxe Plan.

Refer to your health care plan's Summary Plan Description for the specific rules concerning enrollment/disenrollment procedures.

Your health care coverage election (single, two-person, or family of three or more) remains in effect until the end of the plan year unless you have a mid-year election change event or HIPAA event and you elect to make a change. A mid-year election change event includes a qualified change in status or other event permitted by the IRS regulations that govern this Plan. HIPAA events are discussed on page 12.

Mid-Year Election Change Events

You may change your health care coverage election if the new election is consistent with and on account of the following election change events:

- You, your spouse, or your dependent becomes entitled to (i.e., enrolls in) or loses (i.e., disenrolls from) Medicare or Medicaid (other than for pediatric vaccines).[1]

- You, your spouse, or your dependent enroll in or disenroll from your spouse's or dependent's employer group *medical* plan during the open enrollment period that operates on a plan year other than a calendar year.[1]

  EXAMPLE: A spouse of a Sandia employee enrolled the Sandia employee and herself in her employer group medical plan two years ago. The plan year for this plan is defined as beginning on July 1 and ending on June 30. During the spouse's open enrollment period in June, she elects to disenroll herself and the Sandia employee from her employer group medical plan. The Sandia employee has 31 calendar days from June 30 to enroll himself and his spouse in the Sandia medical plan.

- You and/or your spouse and/or dependent enroll in a *new* medical plan that is offered under your spouse's or dependent's employer.[1]

- Your spouse's or dependent's employer eliminates a medical plan during the year. You and/or your spouse and/or dependent can enroll in one of the medical plans offered through Sandia, provided the employer offers no other medical plan.[1]

- The Plan receives a judgment, decree, or order pertaining to marriage status (divorce, legal separation, or annulment) or a change in legal custody, or a Qualified Medical Child Support Order (QMCSO).

- You, your spouse, or your dependent has a qualified change in status *whereby the status change results in a gain or loss of eligibility and a corresponding gain or loss of health care coverage* and your new election is consistent with and on account of the qualified change in status listed below:

  - Change in your legal marital status:

    – Marriage
    – Death of spouse
    – Divorce
    – Legal separation
    – Annulment

    EXAMPLE: An employee gets divorced and wants to disenroll his ex-wife from his medical plan. This is allowable due to the loss of eligibility; however, the employee cannot disenroll his natural children as the children presumably do not lose eligibility for the medical plan because of the divorce.

[1] Does not apply to the dental or vision plans.

- Change in your number of tax dependents:
  - Birth
  - Death
  - Adoption
  - Placement for adoption
  - Legal guardianship

- Change in your employment status or the employment status of your spouse or your dependent:
  - Termination or commencement of employment[2]
  - Retirement[3, 4]
  - A strike or lockout[5]
  - A commencement of or return from an unpaid leave of absence[6]
  - A change in work site[7] or
  - Other change in your employment status or the employment status of your spouse or dependent that affects eligibility for coverage.[8]

  EXAMPLE: Your spouse is enrolled in a medical plan through his employer and is not enrolled as a dependent under your Sandia medical plan. Your spouse subsequently loses his job. He would be eligible to enroll in your Sandia medical plan due to the involuntary loss of eligibility and corresponding loss of coverage, so long as adequate documentation of the loss of coverage is provided to the Benefits Department and enrollment is completed within 31 calendar days.

- Change in your work hours that causes a change in your premium share[9]

- Your dependent satisfies or ceases to satisfy eligibility under an employer's group health plan (due to age, student status, marriage, or similar circumstance)

  EXAMPLE: An eligible dependent who is 20 years old is enrolled in the Sandia Top PPO Plan under his father. The dependent becomes a full-time student. Full-time-

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[2] New hires and reclassified employees are generally not eligible to enroll in the Dental Deluxe Plan until the next Open Enrollment for the Dental Deluxe Plan. Refer to the dental plan's SPD for more information.

[3] If two Sandia employees are married to each other, (and one is the dependent of the other) and one spouse retires, coverage cannot be changed until the Open Enrollment period for the next calendar year.

[4] Does not apply to Dental Deluxe Plan. If you are enrolled in the Dental Deluxe Plan and you retire, you must remain enrolled for the remainder of the mandatory two-year period.

[5] Must re-enroll in the Dental Deluxe Plan upon return if within the two-year lock-in period and previously enrolled.

[6] An employee commencing or returning from an unpaid Leave of Absence can switch coverage to or from the Sandia spouse. Employees returning from an unpaid leave of absence who were previously enrolled in the Dental Deluxe Plan must re-enroll in the Dental Deluxe Plan if returning within the two-year lock-in period.

[7] Allows a change in medical plans or disenrollment from the medical plan if there is a loss of eligibility for the coverage option currently enrolled in. Does not apply to the dental or vision plans.

[8] Gain of a job by the spouse or dependent does not allow disenrollment from the Dental Deluxe Plan.

[9] Does not apply to Dental Deluxe Plan.

student status is one of the criteria for the dependent's mother's employer group health plan for dependents over age 18. In this case, the dependent would be allowed to disenroll from the Sandia Top PPO Plan and enroll in the mother's non-Sandia employer group health plan.

- A change in your residence or that of your dependent[7]

NOTE: A change in work site or residence may permit you to change **medical** plans or drop coverage if it is consistent with and on account of the qualified change in status.

- An employee who takes a leave under the Family and Medical Leave Act (FMLA) may cancel and re-enroll in the coverage.

Mid-year election change events, with the exception of moving into or out of the service area, do not allow you to change from one medical plan to another. Changes in health plan elections (such as moving from the Top PPO to the CIGNA Network POS Plan) are allowed only during the annual Open Enrollment period held each fall.

Mid-year election change events may permit changes to your health care coverage election at times other than during Open Enrollment, so long as the enrollment/disenrollment form(s) are received by the Benefits Department within **31 calendar days** of the election change event. Generally, your new election will be effective on the later of the election change event or the date of written notification to the Benefits Department. In the case of a birth, adoption, or placement for adoption, the effective date of the change will be retroactive to the event. In the case of disenrolling a dependent, the effective date of the change will be the last day of the month in which the covered dependent became ineligible, or if the dependent is still eligible, the last day of the month in which written notification is received by the Benefits Department, or the election change date, whichever is later.

HIPAA Events

Sandia also complies with the requirements of the Health Insurance Portability and Accountability Act (HIPAA) that was enacted on August 21, 1996. Therefore, if you are currently not covered under Sandia's medical, dental, or vision plans, you can enroll yourself and/or your dependents within 31 calendar days of the event, if you:

- Get married,
- Have a baby,
- Adopt a child,
- Have a child placed with you for adoption, or
- Lose your current coverage* due to:
  - Involuntary loss of eligibility,
  - COBRA under other coverage exhausts, or
  - Employer contributions to other coverage end.

*The employee or dependent must have been covered under another group health plan, or had other health insurance coverage (either group or individual) at the time coverage was previously offered through Sandia. You will be required to provide written documentation of the loss of coverage.

In the case of a birth, adoption, or place for adoption, the effective date of the new election will be retroactive to the event. In the case of marriage or loss of coverage, the effective date of the new election will be the later of the marriage or loss of coverage or the date of written notification to the Benefits Department.

NOTE: The Dental Deluxe Plan is not subject to HIPAA, and, therefore, these events are not applicable.

For enrollment information, refer to Enrollment at Other Times, page 6, and to your health care plan's Summary Plan Description.

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Impact on Your Social Security Benefits

Because the deductions are taken out before Social Security taxes are calculated, there may be a small impact on your Social Security retirement/disability benefit calculation. If your earnings after the pre-tax premium has been deducted are above the Social Security wage base ($84,900 in 2002), there will be little or no effect on your Social Security benefits.

Example: Assumptions: No cost of living adjustment has been assumed. No annual salary escalation has been assumed. The date of the assumed retirement is age 65. Employee earns $60,000 per year, is nonrepresented and works full time, has a Class 1 dependent spouse and one Class I dependent child, is enrolled in the Sandia Top PPO Plan, and contributes $1,000 to the Health Care Reimbursement Spending Account.*

Monthly Social Security Retirement Benefit		
Current Age	**Without PTPP**	**With PTPP**
30	$1472	$1447
45	$1502	$1477
60	$1537	$1516
62	$1560	$1541
64	$1513	$1495

Under legislation passed in 1983, the normal retirement age will slowly rise from 65 for persons born before 1938 to 67 for persons born after 1959. The monthly retirement benefits shown in the example above reflect early retirement reduction factors.

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* The Health Care Reimbursement Spending Account is used to help pay for eligible health care expenses that are incurred for services rendered during the Plan year and that are not reimbursed or are only partially reimbursed by any medical, dental, or vision care plan or other health insurance plan. Refer to the Reimbursement Spending Account Plan Summary Plan Description for more information.

The above example is provided only as an illustration of the potential effect on your Social Security benefits. Consult your tax advisor or contact the Social Security Administration Office for an estimate of what your retirement benefits would be.

Appeal Procedure

If you have been denied the ability to change your health coverage election during the plan year, you may request a review by the Employee Benefits Committee (EBC). You must request this in writing within 180 calendar days of the date of the written notification informing you of the denial. The EBC has the exclusive right to interpret and apply all of the provisions of the Pre-Tax Premium Plan and to construe its terms. The determination of the EBC is conclusive and binding. You will be informed of the EBC's decision in writing within 60 calendar days of the date the appeal was received; however, the EBC can request an additional 60 days if special circumstances apply. You must exhaust the appeals process before you pursue any legal recourse.

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Appendix A

Acronyms and Definitions

Acronyms

BCSC	Benefits Customer Service Center
COBRA	Consolidated Omnibus Budget Reconciliation Act
EBC	Employee Benefits Committee
FICA	Federal Insurance Contributions Act
FMLA	Family and Medical Leave Act
HIPAA	Health Insurance Portability and Accountability Act
PPO	Preferred Provider Organization
PTPP	Pre-Tax Premium Plan
QMCSO	Qualified Medical Child Support Order
RSA	Reimbursement Spending Accounts
SPD	Summary Plan Description

Definitions

alternate payee/recipient — A child or custodial parent who is not a primary covered member and who, because of a qualified medical child support order, is entitled to receive reimbursement directly from the Claims Administrator/insurance

Class I dependent — Class I dependents include your spouse, not legally separated or divorced from you; your unmarried child under age 19; your unmarried child over age 19 but under age 24 who is financially dependent on you; your unmarried child of any age who, because of physical or mental impairment is incapable of self-sustaining employment, lives with you or in an institution or in a home that you provide, and is financially dependent on you; or your unmarried child who is recognized as an alternate recipient in a Qualified Medical Child Support Order.

NOTE: For MTC- and OPEIU-represented employees, under the dental and vision plans, unmarried children age 19 and older, but under age 24, must also be a full-time student attending an institution of learning

Class II dependent — Class II dependents include your unmarried child who is not eligible as a Class I dependent; your unmarried grandchild; your unmarried brother or sister; your parent or grandparent, or your spouse's parent or grandparent. The dependent must be financially dependent on you, have a total income from all sources of less than $15,000/year other than the support you provide, and have lived in your home, or one provided by you, in the United States for the most recent six months. Class II dependents are only eligible for the Sandia Basic PPO, the Sandia Intermediate PPO, the Sandia Top PPO, and the Sandia Two Option Medical Plan.

NOTE: For MTC- and OPEIU-represented employees, the total income from all sources must be less than $10,000 per year.

COBRA (refer to Acronyms) — A law that requires certain employers to offer temporary extension of health care coverage to those who would otherwise lose their group health coverage as a result of certain events

financially dependent — Persons who receive greater than 50% of their financial support from the primary covered member

living with you — A person living in your home at least 50% of the year or living in a home provided by you. Stepchildren visiting for the summer are not considered to be living with you.

Open Enrollment — The period of time every year when you have the option to change your medical coverage for the subsequent calendar year (normally held in the fall of each year)

primary covered member — The person for whom the medical insurance is issued under, that is, the Sandia employee

Qualified Medical Child — A judgment, decree, order, or property settlement agreement

Support Order issued either by a court of competent jurisdiction or through an administrative process established under state law, which has the force and effect of law in that state in connection with state domestic relation law that either (1) creates or extends the rights of an "alternate payee/recipient” to receive the reimbursement from the Plan or (2) enforces certain laws relating to medical child support.

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