Pension & Retirement Fund UPDATE

For NY State Teamster Retirees

Trustees Continue Working To Restore Fund's Strength; "Critical" Status Continues

This newsletter is anticipated to be the first of many you will receive regarding the status of the New York State Teamsters Pension & Retirement Fund.

Although the Trustees have been doing everything possible to restore the Pension Fund to financial health, the Fund continues to be severely underfunded and shows few signs of immediate improvement. The Pension Fund remains in critical status due to several challenges, including the residual effects of the economic recession.

This is not just a problem with our Pension Fund. Many other multiemployer pension funds face the same or worse problems. In addition to the severe market losses from the big downturns during 2000 and 2008, multiemployer plans face a **declining active union population**, **an exodus of contributing employers**, and **difficulty increasing contribution rates** without driving out more employers.

The Pension Fund has been certified since 2010, as in "Critical Status" under the Pension Protection Act of 2006 ("PPA"). On January 7, 2016 for the 2016 Plan Year the actuaries certified the Pension Fund as in "Critical and Declining" Status" under the new Multiemployer Pension Reform Act of 2014 (MEPRA) with a "funded percentage" of 45.80%. The funded percentage is one of the ways to measure a pension fund's health, and it is simply a comparison of the fund's assets against benefit obligations.

The following chart shows the status of the Fund based the funded percentage, as certified by the Fund's actuaries, using the Department of Labor's required calculation method since 2010.

YEAR	FUNDED PERCENTAGE	STATUS
2010	62.88%	Critical
2011	61.97%	Critical
2012	52.25%	Critical
2013	45.60%	Critical
2014	46.50%	Critical
2015	45.60%	Critical
2016	45.80%	Critical/Declining

What the Trustees Have Been Doing to Improve the Financial Condition of the Pension Fund

Since the first financial crisis in 2000, the Trustees have been working to improve the financial deterioration of the Pension Fund. Some of the actions taken by the Trustees were difficult for both participants and contributing employers, but nevertheless were the right steps in improving the long-term health of the Fund. It's important that you know what these actions were:

- **2004 Benefit Changes** – Following negative investment returns for three consecutive years from 2000-2002, the Trustees took the difficult action of reducing future service accrual from 2.6% to 1.3% of contributions, and incentives were introduced to encourage deferred retirements.

- **Funding Improvement Plan**: Following the enactment of the PPA, the actuaries certified the Fund as being in "Endangered" Status for the 2008 Plan Year. As required under the new law, the Trustees adopted a Funding Improvement Plan that required mandatory increases in employer contributions rates in order to maintain current levels of benefits.

- **Rehabilitation Plan** – Following the market crash in 2008, the actuaries certified the Fund as in "Critical" status for the 2010 Plan Year. The Trustees adopted a Rehabilitation Plan under the PPA at the earliest opportunity in June, 2010, effective January 1, 2011. In connection with the Rehabilitation Plan, the Trustees worked with the Fund's professionals to develop a Plan that provided for further reductions in accruals under certain schedules, and imposed significant annual employer contribution increases.

- **Alternative Investments** – Recognizing that additional investment income is needed every year to cover Fund benefits, the Trustees realized that it was necessary to find investments that were not as tied to the ups and downs of the stock and bond markets. With the advice and oversight of the Fund's professional investment consultants, the Trustee implemented an alternative investment strategy in private placement portfolios. Not a strategy generally available to smaller pension funds, this approach provides for direct, long-term investment that is expected to result in greater returns over time. The investment strategy allows the Fund to appropriately maintain an aggressive investment return.

- **Strengthening Return to Work Rules** – Participants hurt the Fund when they retire and then work for non-union employers that compete with Contributing Employers. It encourages actives to retire early rather than continuing to work and have contributions made on their behalf to the Fund. The Trustees have been strengthening the enforcement of the Fund's benefit suspension rules.

- **Fund Restructuring** – The Trustees have implemented Fund changes that provide incentives for employers to remain in the Fund in a way that is a positive for the Fund's overall financial condition. The Fund offers interested employers the opportunity to pay down their withdrawal liability in return for a reduced contribution rate for a number of years.

- **Employer Withdrawals** – With more and more companies exiting the Fund, the Trustees are taking a harder line on employer withdrawals. The Trustees are requiring withdrawing employers to pay more by changing the withdrawal liability calculation assumptions to better reflect the Fund's severely unfunded status. In addition, participants employed by withdrawing companies are subject to penalties, and in some cases reductions in benefits.

Continuing Challenges the Pension Fund Faces

The Pension Fund continues facing major challenges in its ongoing effort to return to financial soundness. And, what's worse, the headwinds continue to be as strong as ever, with little relief in sight.

Despite an overall improvement in the nationwide unemployment rate, the Pension Fund continues to experience a decline in the ratio of those actively working in covered employment to those retired and receiving benefits. Simply put, the industry is not replacing those who retire with new hires at a sufficient rate, as shown in the chart below.

YEAR	2008	2009	2010	2011	2012	2013	2014
Retiree & Beneficiaries	15,896	15,925	16,119	16,627	16,516	16,327	16,197
Inactive Vested Participants	5,609	5,812	5,893	5,818	6,143	6,352	6,546
Active Participants	15,242	14,794	13,883	12,813	12,334	12,217	11,896
Total Participants	36,747	36,531	35,895	35,258	34,993	34,896	34,639
Ratio of Active to Inactives	0.71	0.68	0.63	0.57	0.54	0.54	0.52

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Fund Faces "Critical" Status

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The net result of this trend is that each month, the Pension Fund is faced with benefit payment amounts to retirees and beneficiaries that far exceed the amount of contributions being received on behalf of those actively working. The burden of replacing this shortfall falls on the investment return, which does not even cover the shortfall even if the Fund meets its assumed rate of return of 8.5%.

The following chart shows the shortfall each year between contributions received and benefits paid out by the Fund.

Year End	Contributions	Benefits Paid	Difference
12/31/2009	$ 85,925,231	$254,499,556	($168,574,325)
12/31/2010	$84,188,914	$265,972,421	($181,783,507)
12/31/2011	$92,564,876	$279,617,619	($187,052,743)
12/31/2012	$101,196,818	$278,996,627	($177,799,809)
12/31/2013	$108,206,048	$278,945,463	($170,739,415)
12/31/2014	$108,584,878	$279,823,846	($171,238,968)

Even with the Fund's weighted average investment return over the last three years being 10.17% and over the last five years it has been 8.97% – exceeding the Fund's assumed rate of return of 8.5% – it still is not enough to make up for the amount the Fund must pay every year for benefits over contributions received.

Employer Contributions

Simply increasing employer contributions every year is no longer the answer. Although the Fund's current Rehabilitation Plan calls for a 6% annual increase in contributions (8.25% for Schedule E), contribution rates can be raised only so high before more employers exit the Fund. We are seeing more and more employers leaving the Fund. Additionally, a number of participants are now bearing some of the burden of these increases with pay increases being reallocated to pension contributions, with some now over $1.95 per hour.

During the Fall of 2015, the Union and Employer Trustees had a disagreement about increasing the contribution rates further. The Employer Trustees said contributing employers could not continue to pay 6% annual increases, and the Union Trustees argued that these contribution increases were necessary. A trustee deadlock arbitrator ruled that annual contribution rate increases at 6% or higher are not sustainable. This puts even greater pressure on the finances of the Fund.

Multiemployer Pension Reform Act of 2014 (MPRA)

MPRA is the new law that provides for benefit suspensions – including for those already receiving pensions – if there are no other options to save a pension plan from running out of money. (See related article) Pension plans that are certified as "Critical and Declining" must consider benefit suspensions. It is an option of last resort because reductions in benefits, especially for those already in pay status, cause such hardship. Unfortunately, it is something that all trustees must consider when the alternative is even greater reductions in benefits or no benefits at all.

The Central States Pension Fund filed an application with the Department of Treasury for benefit reductions to start July 2016 in order to save that plan. While difficult for everyone, Central States' participants faced greater benefit uncertainty if those reductions were not made.

The Trustees will continue to take every possible action to improve the Fund's financial condition. The Trustees, however, also must be realistic about the long-term financial stability of the Plan. The Trustees are currently in the process of reviewing all options available to ensure the financial soundness of the Plan. Participants will be kept informed of the Trustees' actions.

FACTS ABOUT THE MPRA

The Multiemployer Pension Reform Act of 2014 ("MPRA") became law on December 16, 2014. It is an attempt to address the growing financial crisis among multiemployer pension plans, and the law makes a number of changes to the rules governing those plans. The most significant change is the new benefit suspension rules, which require trustees of severely underfunded pension plans to consider benefit reductions – including those of retirees already receiving their pensions – if necessary to save the plan.

HERE ARE SOME BASIC FACTS ABOUT THE MPRA:

What Pension Plans Must Consider Benefit Suspensions?

MPRA applies only to the most-troubled multiemployer pension plans. Generally, to be eligible for MPRA's relief, a pension plan must be running out of money (becoming insolvent) within roughly 14 years or within roughly 19 years if the plan's retiree-to-active ratio exceeds 2 to 1 or the funded percentage is less than 80 percent.

Are there Limitations on the Suspensions?

Yes. Benefits cannot be reduced below 110% of the government (PBGC)-guaranteed amount, and no pension plan can cut more than is necessary to avoid insolvency. Additionally:

- Participants age 80 or older are exempt from any reductions.
- Participants who are at least 75, but less than 80 years old, must receive less of a reduction.
- Participants who are receiving a disability benefit are exempt from reductions.

What is the Process for Benefit Suspensions?

In order to implement benefit suspensions, a pension plan must apply to the Department of Treasury (Treasury), which must review and approve or deny an application. A pension plan must provide written individualized notices of the application and the specific suspension amounts to all participants, beneficiaries, contributing employers, and the union. Currently, no benefit suspensions can be implemented sooner than nine months after the application is filed.

Do Participants Get to Vote on the Benefit Suspensions?

If Treasury approves the application, all plan participants – active, vested and retired – will receive a ballot via U. S. mail and have the opportunity to vote on the benefit suspensions. In certain circumstances, Treasury may override the vote and impose the suspensions regardless of whether participants voted against them.