Central States, Southeast and Southwest Areas Pension Plan
Item #13

Does the application include a demonstration that the proposed suspension is equitably distributed, including

- a list of the factors taken into account,
- an explanation of why none of the factors listed in § 432(e)(9)(D)(vi) were taken into account (if applicable), and
- how any difference in treatment among categories or groups of individuals results from a reasonable application of the relevant factors.

See section 4.04.

The demonstration is attached as document number 13.1. Document number 13.2 contains tables that demonstrate the impact of the benefit suspensions on the participant population of the Plan, broken into groups.

## 4.04 Demonstration that the proposed benefit suspension is distributed equitably.

### List of Factors Taken into Account

In designing the benefit suspensions and determining that they represent an equitable distribution across the participant population, the Board of Trustees took into account the following factors from Internal Revenue Code ("Code") section 432(e)(9)(D)(vi):

**432(e)(9)(D)(vi)(I):** Age and life expectancy.

**432(e)(9)(D)(vi)(II):** Length of time in pay status.

**432(e)(9)(D)(vi)(III):** Amount of benefit.

**432(e)(9)(D)(vi)(IV):** Type of benefit: survivor, normal retirement, early retirement.

**432(e)(9)(D)(vi)(V):** Extent to which participant or beneficiary is receiving a subsidized benefit.

**432(e)(9)(D)(vi)(VII):** History of benefit increases and reductions.

**432(e)(9)(D)(vi)(VIII):** Years to retirement for active employees. In addition, the Board of Trustees took into account years to retirement for terminated participants.

**432(e)(9)(D)(vi)(IX):** Any discrepancies between active and retiree benefits.

**432(e)(9)(D)(vi)(X):** Extent to which active participants are reasonably likely to withdraw support for the plan, accelerating employer withdrawals from the plan and increasing the risk of additional benefit reductions for participants in and out of pay status.

**432(e)(9)(D)(vi)(XI):** Extent to which benefits are attributed to service with an employer that failed to pay its full withdrawal liability.

The above list of factors taken into account by the Board of Trustees includes all but one of the statutory factors listed in Code section 432(e)(9)(D)(vi). The Board of Trustees did not take into account the extent to which participants or beneficiaries have received post-retirement benefit increases (see § 432(e)(9)(D)(vi)(VI)) because there are no Plan participants or beneficiaries who are receiving benefits that were increased by a Plan amendment subsequent to their retirement.

The Plan is a plan described in Code section 432(e)(9)(D)(vii). The benefit suspension plan reflects this fact by applying different formulas and suspension caps to calculate the suspension for each of the categories of benefits or "tiers" described in subparts (I)-(III) of that statutory provision.

### Explanation of How Benefit Suspension Formula Results from a Reasonable Application of the Relevant Factors

*Percentage of Contribution Formula*

The Board of Trustees decided to base the benefit suspensions on a 'percentage of contributions' formula. Subject to certain exceptions, the benefit suspension amount is equal to the excess of the current Plan benefit over a benefit based on 1.0% of the contributions that have been made on behalf of a participant. The Board of Trustees determined that this formula is appropriate and fundamentally fair because it allows each participant to benefit from the Plan in proportion to the contribution revenue that was brought into the Plan as a result of his or her employment. In addition, since 2004, all benefits earned by active participants have been equal to 1.0% of contributions made on their behalf. In view of this fact, the Board of Trustees determined that using this formula will cause the least disruption or frustration of participants' expectations.

Basing the benefit suspension on the percentage of contribution formula inherently takes into account many of the factors listed in the statute and in the proposed regulation, including the amount of benefits, type of benefits, extent to which a participant is receiving a subsidized benefit, history of benefit improvements, and substantial differences that exist between active and retiree benefits (see § 432(e)(9)(D)(vi)(III), (IV), (V), (VII), and (IX)).

Significantly, using this formula results in greater benefit preservation for participants whose benefits do not include large early retirement "subsidies," and greater suspensions for participants who have retired with highly subsidized early retirement benefits. The subsidized benefits available to participants who retired with early retirement pensions are typically much larger than the benefits paid to other similarly-situated participants. In applying the percentage of contribution formula, the Board of Trustees determined it is equitable to protect participants with smaller, unsubsidized benefits, as they started with smaller benefits and are likely to experience greater financial hardship from the benefit suspensions than participants with larger, heavily subsidized benefits (see § 432(e)(9)(D)(vi)(III), (IV) and (V)).

The impact of the percentage of contribution formula on heavily subsidized early retirement benefits is appropriate for several other reasons. The retirees with these benefits are receiving pensions that have much greater actuarial value than the contributions that the Plan received on their behalf. Many of the highly subsidized early retirement benefits that the Plan is paying were the result of benefit improvements that immediately increased the value of active participant benefits for all years of service, including years of service earned prior to the adoption of the improvements. By applying a larger suspension to these benefits, the percentage of contribution formula also takes into account the history of benefit improvements (see § 432(e)(9)(D)(vi)(VII)).

Moreover, while there are many retirees receiving subsidized early retirement benefits, these subsidized benefits have been largely phased out for active participants. In light of this differential treatment, the percentage of contributions suspension formula takes into account a substantial difference that exists between active and retiree benefits (see § 432(e)(9)(D)(vi)(IX)).

In designing the benefit suspensions, the Board of Trustees also focused on two competing needs. First, it focused on the need to ensure that older participants and beneficiaries who are already in payment status are protected to the greatest extent possible, as they are least able to adapt to the benefit changes (see § 432(e)(9)(D)(vi)(I) and (II)). These participants typically have given up their jobs and been out of the workforce for many years and, therefore, are likely to be dependent on their Plan pension and unable to replace the income lost through benefit reductions.

Second, the Board of Trustees focused on the need to ensure that the active participants maintain support for the Plan, as this support is vital to the continued participation of the contributing employers, which minimizes the risk of additional benefit reductions (see § 432(e)(9)(D)(vi)(X)). In doing so, the Board of Trustees determined that *all* of the Plan's participants (actives, retired and terminated) and beneficiaries must rely upon the *active* participants to continue to support the Plan and negotiate collective bargaining agreements requiring contributions to the Plan. Further, the Board of Trustees considered the fact that roughly $0.50 of every dollar of contributions to the Plan currently generated by work performed by active participants pays for the pensions of retirees and terminated participants.

In addition to the benefit suspensions applied to active participants' accrued benefits, in order to protect the solvency of the Plan, the Board of Trustees approved a reduction in the rate of future benefit accrual for active participants from 1.0% of contributions to 0.75% of contributions. The Board of Trustees determined that this future benefit accrual reduction was necessary to avoid a projected insolvency while lessening the benefit suspensions applied to all participant groups. In doing so, the Board of Trustees considered the fact that the reduction in the accrual rate from 1.0% to 0.75% is somewhat offset by the contribution rate increases, including rate increases for employers whose rates are presently frozen, that are anticipated under the proposed suspension plan. The Trustees determined, with specific input from the Employee Trustees, that these accrual rates should be sufficient to continue the support of active participants for the Fund; however, the Trustees also determined that if the future accrual rate were to be lowered to any significant extent below 0.75% of contributions (*e.g.*, to 0.5%), there would be a serious risk of erosion of support for the Plan by the active participants and employer withdrawals (see § 432(e)(9)(D)(vi)(X)).

Consistent with the need to protect retired participants and beneficiaries in payment status and maintain the support of active participants, the benefit suspension plan uses a 1.0% of contribution formula for active participants, retirees, and beneficiaries. In order to maintain this benefit level for these populations while ensuring that the Plan is projected to avoid insolvency, it was necessary to establish a lower, 0.5% of contributions formula for certain terminated participants. During the process of developing the benefit suspensions, the Board of Trustees considered applying the same percentage of contributions formula to all participants. The Plan actuary determined that any such percentage would have to be lower than 1.0% for the Plan to avoid insolvency, even if no caps were placed on the maximum suspension that could apply to any participant. Further, the Plan actuary determined that if the 0.5% of contribution formula that applies to certain terminated participants were any higher, other participant groups would need to have their percentage of contributions formula reduced below 1.0% of contributions or their suspension cap raised, which would undermine the goal of protecting retired participants in pay status and maintaining the support of the active participants.

That said, the Board of Trustees determined that participants who have earned many years of service in the Plan depend on it for retirement income more heavily than participants with fewer years of service. In recognition of this fact, the Plan has historically provided enhanced benefits to participants who earn 20 or more years of contributory service[1]. The Board of Trustees has maintained this approach in the benefit suspension provisions by providing for lesser suspensions

[1] For example, the twenty-year service pension and the contributory pension both require a minimum of 20 years of service, and the contribution-based pension includes enhanced early retirement provisions for participants with 20 or more years of service.

for terminated participants with 20 or more years of service. Specifically, terminated participants with 20 or more years of service will have their suspensions based on a 1.0% of contributions formula, instead of the 0.5% formula that applies to terminated participants with fewer than 20 years of service. This difference recognizes that these participants depend more heavily on the Plan than do other terminated participants, as they tend to be older with fewer years before they reach retirement (see § 432(e)(9)(D)(vi)(I) and (VIII)) [2,3]. In contrast, terminated participants with fewer than 20 years of service tend to be younger, and are more likely to be currently employed and less dependent on benefits from the Plan.

*Maximum Suspension Caps*

In addition to determining which percentage of contributions formula applies to a terminated participant, whether a participant has earned 20 or more years of service affects the benefit suspensions in another way. In reviewing how the benefit suspensions impact different participant groups, the Board of Trustees decided that it was appropriate to mitigate the exceptionally large burden that would otherwise be felt by certain participants by placing caps on the amounts of suspensions that can apply to participants with 20 or more years of service.

For a participant with 20 or more years of service with a benefit attributable to Tier 2 contributions, the benefit suspension amount cannot exceed 50% of the pre-suspension benefit amount. In the case of Tier 3 benefits, the benefit suspension amount cannot exceed 40% of the pre-suspension benefit amount for a participant with 20 or more years of service. Note that no cap applies to benefits attributable to Tier 1, as the statute requires that these benefits be suspended to the maximum extent permissible.

The most significant impact of these suspension caps is on participants with highly subsidized early retirement benefits, some of whom would otherwise have lost a larger portion of their benefits under the percentage of contributions formula (see § 432(e)(9)(D)(vi)(IV) and (V)). While the Board of Trustees concluded that it is appropriate for participants with large early retirement subsidies to have larger suspensions, they also determined that it is appropriate to partially mitigate this effect in view of the fact that these participants have developed an expectation that they would be able to rely on these benefits for the remainder of their lives.

Another issue that the Board of Trustees considered when deciding to adopt these caps is that in their absence, the suspensions would have impacted a portion of the retiree population far more dramatically than any comparable segment of the active participant population (see § 432(e)(9)(D)(vi)(IX)).

Finally, the Board of Trustees determined that suspension caps should only apply to participants with 20 or more years of service. Among retired participants, those with 20 or more years of service generally have relatively large benefits from the Plan that are likely to represent a

[2] The average terminated participant with 20 or more years of service is currently 57.5 years old, having last earned service in the Plan at age 49.6. In comparison, the average terminated participant with less than 20 years of service is 51.4 years old, having last earned service in the Plan at age 39.2.

[3] While the statute specifies ‘years to retirement for active employees’, this concept also applies to terminated participants in exactly the same manner as it applies to active employees.

substantial portion of their total retirement income (see § 432(e)(9)(D)(vi)(III)). Among participants who have not yet retired, those with 20 or more years of service tend to be older with fewer years before they reach retirement, whereas participants with fewer than 20 years of service tend to be younger, and are more likely to be currently employed and less dependent on benefits from the Plan (see § 432(e)(9)(D)(vi)(I) and (VIII)).

*Contribution Tiers*

Tier 1 contributions include amounts contributed by employers that withdrew from the Plan on or before July 1, 2016, but failed to pay (or are delinquent with respect to paying) the full amount of their withdrawal liability under law or an agreement with the Plan. In accordance with Code section 432(e)(9)(D)(vii)(I), the Board of Trustees has approved benefit suspensions that will reduce the benefits attributable to these contributions to the maximum extent permissible. This takes into account the extent to which benefits are attributed to service with an employer that failed to pay its full withdrawal liability (see § 432(e)(9)(D)(vi)(XI)).

Pursuant to Code section 432(e)(9)(D)(vii)(III), participants are in Tier 3 to the extent their benefits are attributable to contributions made by an employer that (a) has withdrawn from the Plan in a complete withdrawal in which the employer paid the full amount of the employer's withdrawal liability under law or an agreement with the Plan, and also (b) pursuant to a collective bargaining agreement, has agreed to provide benefits to participants and beneficiaries of the Plan under a separate, single-employer-sponsored plan, in an amount equal to any reduction in the amount of benefits for such participants and beneficiaries as a result of the financial status of the Plan. The only benefits assigned to Tier 3 are those attributable to contributions made by UPS for participants that are part of the Transfer Group under an agreement between UPS and the Plan dated September 29, 2007 (generally those participants who were active participants with UPS or whose last employer prior to becoming terminated vested was UPS as of that date).

Benefits that are allocated to Tier 3 under the Board of Trustees' proposed suspension plan are guaranteed by UPS against reduction "as a result of the financial status of the plan." Because benefits in Tier 2 that are suspended are not protected by an employer, and because, unlike Tier 1, Tier 2 benefits are not required to be reduced "to the maximum extent permissible," the Board of Trustees has determined that it would not be appropriate to reduce Tier 2 benefits to the maximum extent permitted (see § 432(e)(9)(D)(vii)). However, in light of the 3-Tiered sequential method of applying suspensions laid out in Code section 432(e)(9)(D)(vii), the Board of Trustees has determined that it would be appropriate to apply suspension rules to Tier 3 benefits that are in one significant respect more favorable than those applied to Tier 2 benefits. In particular, for participants with 20 or more years of service, the maximum suspension that can apply to a benefit attributable to Tier 2 contributions is 50%, while the maximum suspension that can apply to a benefit attributable to Tier 3 contributions is 40%. There are 7,499 participants with Tier 3 benefits who would receive lesser benefit suspensions on account of the lower suspension cap that is applied to those benefits. This difference recognizes the fact that different statutory requirements apply to Tier 2 and Tier 3 benefits.

*Summary*

In developing the benefit suspension plan, the Board of Trustees took great care to ensure that retired participants and beneficiaries are treated at least as well as any other participant group. The benefit suspension formulas applicable to active participants and retired participants are identical. For participants in both groups, the post-suspension benefit is based on 1.0% of the contributions that have been made on their behalf. In addition, the caps on the maximum suspension amount have a larger, positive effect on retirees compared to other groups. Of the participants and beneficiaries who benefit from these caps, approximately 82.4% are retirees or beneficiaries in payment status, 17.5% are terminated, and 0.1% are active. These caps serve to partially preserve the generous early retirement subsidies that many retirees are currently receiving. The caps do not have nearly as large of an impact on active and terminated participants, largely due to the fact that those subsidies were frozen for many participants in those groups effective in 2004.

The benefit suspension formula that applies to terminated participants with 20 or more years of service is identical to the formula applicable to retired participants and active participants. However, terminated participants with less than 20 years of service have a less generous benefit suspension formula that is based on 0.5% of contributions received on their behalf. These participants earned an average of only 10.0 years of service in the Plan, indicating that the majority of their careers were spent with employers who did not provide retirement benefits through the Plan. It is likely, therefore, that in addition to being currently in the workforce, these terminated participants have access to retirement income outside of the Plan from sources provided by these employers. This is especially true for terminated participants with Tier 3 benefits, as the definition of Tier 3 makes it clear that they participate in a single-employer retirement plan that will provide them with retirement benefits that offset any benefits they lose as part of the benefit suspensions in the Plan. There are approximately 34,000 terminated participants with less than 20 years of service who will be fully protected from the benefit suspensions by such a plan.

**Data Tables Demonstrating the Impact of Benefit Suspensions on Different Groups of Participants**

The formulas used to determine amounts of benefit suspensions apply differently to different participant groups based on the following criteria:

- Whether the participant is (a) an active employee, retiree or beneficiary in payment status, or (b) a terminated participant.

- Whether the participant's benefit is attributable to contributions from Tier 1, Tier 2, or Tier 3, as defined in Code section 432(e)(9)(D)(vii).

- Whether the participant's years of Contributory Service Credit is at least 20, or is less than 20.

Document number 13.2 contains tables that demonstrate the impact of the benefit suspensions on the participant population of the Plan, broken into groups according to the preceding criteria.

The first table contains the number of participants in each group, the average monthly benefit before suspension, the average monthly benefit after suspension, and the aggregate present value of the reduction in benefits. The second table illustrates the average increase in monthly benefits that Tier 3 participants will receive from the UPS single employer retirement plan to offset the reduction in benefits from the Plan. The third table shows for each group, the number of participants in that group broken into bands according to the percentage reduction in their pre-suspension benefits.

## Discussion of How the Benefit Suspension Formula Impacts Different Groups of Individuals and How These Differences Result from a Reasonable Application of the Relevant Factors

*Participants with Tier 1 Contributions*

The Board of Trustees does not have flexibility in designing the suspensions for benefits attributable to Tier 1 contributions, since Code section 432(e)(9)(D)(vii) requires suspensions "to the maximum extent permissible" for these benefits. While mandatory, these suspensions are also consistent with Code section 432(e)(9)(D)(vi)(XI), which provides that service with an employer that withdrew and did not pay its full withdrawal liability is a factor that may be considered in determining whether the distribution of suspensions is equitable.

*Active Participants, Retired Participants and Beneficiaries with Tier 2 Contributions and Less Than 20 Years of Service*

The benefit suspension formula reduces benefits attributable to Tier 2 contributions made on behalf of active participants with less than 20 years of service to 1.0% of contributions. The Board of Trustees determined that a larger suspension for these participants would lessen their support for the Plan to a level where further employer withdrawals would be likely, placing plan benefits of all participants and beneficiaries in greater jeopardy. The Board of Trustees also decided that it was inappropriate to adopt a cap on the maximum suspension that can apply to active participants with less than 20 years of service, since, compared to other groups, these participants are typically younger with more years until they reach retirement age[4]. Because active participants have been earning benefits at a rate of 1.0% of contributions since 2004, these individuals effectively already had their benefit accruals reduced to the same level that the benefit suspension plan is now applying to all active participants, retirees, beneficiaries, and terminated participants with 20 or more years of service. In addition, under the suspension plan active participants will earn future monthly benefit accruals at a reduced rate of 0.75% of contributions.

The benefit suspension formula also reduces benefits attributable to Tier 2 contributions made on behalf of retired participants and beneficiaries with less than 20 years of service to 1.0% of contributions. Since participants in payment status are relatively older than other participants and likely to no longer be in the workforce, the Board of Trustees determined that their suspension formula should not result in post-suspension benefits that are any lower than those applicable to similarly situated active participants.

Because participants in this group generally did not have enough years of service in the Plan to qualify for subsidized early retirement benefits, basing post-suspension benefits on the 1.0% of contribution formula typically results in relatively smaller suspensions when compared to retirees who earned at least 20 years of service in the Plan. Retired participants in this group have an average of 11.9 years of service, with an average pre-suspension benefit of $595 per month, indicating that they are likely to have retirement income available from other sources.

[4] Tier 2 active participants with less than 20 years of service have an average of 8.1 years of service, and an average age of 44.9. In comparison, Tier 2 active participants with 20 or more years of service have an average of 27.2 years of service, and an average age of 55.7.

For this reason, the Board of Trustees also decided that it was inappropriate to adopt a cap on the maximum suspensions that can apply to retired participants and beneficiaries with Tier 2 contributions and less than 20 years of service.

*Active Participants, Retired Participants and Beneficiaries with Tier 2 Contributions and 20 or More Years of Service*

The benefit suspensions and rate of future benefit accrual for active participants, retired participants and beneficiaries with Tier 2 contributions and 20 or more years of service are identical to those that apply to active participants, retired participants and beneficiaries with less than 20 years of service, except that the maximum amount of suspension that can apply to any such participant is 50% of the pre-suspension benefit. This means that if application of the 1.0% of contribution formula to those participants would result in a suspension of more than 50% of their pre-suspension benefits, the suspension amount is decreased so that it does not exceed 50% of the benefit payable prior to suspension.

The Plan has historically provided subsidized early retirement benefits to participants who have 20 or more years of service. The Board of Trustees concluded that it was equitable for the suspensions to emphasize protecting unsubsidized normal retirement benefits, which is reflected in the percentage of contribution formulas. Accordingly, participants and beneficiaries with Tier 2 contributions and 20 or more years of service (who tend to have greater subsidized early retirement benefits) typically have larger suspension amounts than similar participants with less than 20 years of service.

The Board of Trustees determined that basing the suspensions on a formula that does not include protection for early retirement subsidies is equitable for additional reasons. These subsidized benefits were added to the Plan over many years through benefit increases, and in many cases participants received the full value of these benefit increases despite only working for a short time after they were adopted. Further, these subsidized benefits have largely been phased out for active participants, but they remain a major component of retiree benefits, which creates a significant discrepancy between active and retiree benefits.

The Board of Trustees also considered the fact that the exclusion of protection for early retirement subsidies from the benefit suspension formula results in some participants who have earned early retirement subsidies having exceptionally large suspension amounts. While the Board of Trustees concluded that it is appropriate for participants with large early retirement subsidies to have larger suspensions, they also determined that it is appropriate to partially mitigate this effect in view of the fact that these participants have developed an expectation that they would be able to rely on these benefits for the remainder of their lives. The Board of Trustees therefore determined that it was appropriate to place a 50% cap on the maximum suspension amount that can apply to any participant or beneficiary with 20 or more years of service. Among retired participants and beneficiaries who are not exempted from the benefit suspensions as a result of the statutory age and disability protections, approximately half benefit from this maximum suspension cap.

In evaluating the suspension cap provision, the Board of Trustees also considered the fact that compared to Tier 2 active participants with less than 20 years of service, active participants with 20 or more years of service are an average of 10.8 years closer to their normal retirement age, and have an average of 19.1 more years of service in the Plan. They are therefore likely to be more dependent on the Plan for retirement income, and less able to adjust to the reduced benefit payments. The Board of Trustees determined that the cap should only be applied to active participants with 20 or more years of service because these individuals tend to be older with fewer years before they reach retirement, whereas participants with fewer than 20 years of service tend to be significantly younger, and are more likely to be currently employed and less dependent on benefits from the Plan.

*Terminated Participants with Tier 2 Contributions and Less Than 20 Years of Service*

To prevent Plan insolvency while protecting the benefits payable to retired participants and beneficiaries in payment status, and also to maintain support for the Plan among active participants, the Board of Trustees decided that it was necessary to base the suspension formula for terminated participants with Tier 2 contributions and less than 20 years of service on 0.5% of contributions received on their behalf. In doing so, the Board of Trustees considered the fact that terminated participants in this group have an average age of 52.2 years and therefore are more likely to still be in the workforce earning wages and accruing retirement benefits in other plans. Further, participants in this group have, on average, relatively few (10.0) years of service in the Plan, resulting in relatively smaller benefits and lesser dependence on the Plan for retirement income due to the fact that the majorities of their careers were likely spent in employment outside of the Plan.

During the process of developing the benefit suspensions, the Board of Trustees considered applying the same percentage of contributions formula to all participants. The Plan actuary determined that any such percentage would have to be lower than 1.0% for the Plan to avoid insolvency, even if no caps were placed on the maximum suspension that could apply to any participant. Further, the Plan actuary determined that if the 0.5% of contribution formula that applies to certain terminated participants were any higher, other participant groups would need to have their percentage of contributions formula reduced below 1.0% of contributions or their suspension cap raised, which would undermine the goal of protecting retired participants in pay status and maintaining the support of the active participants. The Board of Trustees determined that applying a formula below 1.0% of contributions or adopting higher suspension caps would be unreasonably harmful to retired participants and would create a substantial risk that active participants would withdraw their support for the Plan. Based on these conclusions, the Board of Trustees concluded that the 0.5% formula for terminated participants with less than 20 years of service is equitable.

*Terminated Participants with Tier 2 Contributions and 20 or More Years of Service*

For terminated participants with Tier 2 contributions and 20 or more years of service, the benefit suspension formula reduces benefits attributable to Tier 2 contributions to 1.0% of the contributions received on their behalf, and the maximum amount of suspension that can apply to any such participant is 50% of the pre-suspension benefit. On average, these participants have 14.4 more years of service in the Plan, and are 4.8 years closer to normal retirement, as compared to terminated participants with less than 20 years of service. In developing the benefit suspensions plan, the Board of Trustees determined that participants with 20 or more years of service tend to have comparatively large benefits from the Plan, as compared to participants with fewer years of service.

In designing the percentage of contribution formula and cap for this group, the Board of Trustees determined that compared to terminated participants with less than 20 years of service, participants in this group are likely to be more dependent on the Plan for their retirement income as they tend to be older with fewer years before they reach retirement. For these reasons, the Board of Trustees also determined that it was equitable to protect terminated participants with 20 or more years of service by basing their suspensions on a formula that is identical to the one that applies to both active participants and retirees and beneficiaries in payment status.

*Participants with Tier 3 Contributions*

For the reasons discussed above, the benefit suspension provisions that apply to benefits attributable to Tier 3 contributions are identical to those that apply to benefits attributable to Tier 2 contributions, with one exception. For participants with 20 or more years of service, the maximum suspension that can apply to a benefit attributable to Tier 2 contributions is 50% of the pre-suspension benefit, while the maximum suspension that can apply to a benefit attributable to Tier 3 contributions is 40%. This difference between the maximum suspension cap for Tier 2 and Tier 3 benefits reflects the different statutory requirements applicable to these benefit tiers.

Demonstration that Proposed Benefit Suspension is Distributed Equitably
Effects of Proposed Benefit Suspension By Category

| | **Status as of December 31, 2014:** | **Active, Retired, or Beneficiary** | | **Terminated Vested** | |
|---|---|---|---|---|---|
| | **Contributory Service Credits:** | **<20 Years** | **>= 20 Years** | **<20 Years** | **>= 20 Years** |
| **Tier 1** | Number of Participants | 27,077 | 52,635 | 18,094 | 2,571 |
| | Average Monthly Benefit | | | | |
| | Before Suspension | $304 | $851 | $553 | $1,046 |
| | After Suspension | $220 | $556 | $276 | $568 |
| | Aggregate Present Value of Reduction in Benefits | $168,949,834 | $1,446,803,439 | $204,002,068 | $52,507,176 |
| **Tier 2** | Number of Participants | 111,734 | 136,410 | 66,567 | 7,849 |
| | Average Monthly Benefit | | | | |
| | Before Suspension | $568 | $1,494 | $558 | $1,206 |
| | After Suspension | $483 | $1,047 | $317 | $852 |
| | Aggregate Present Value of Reduction in Benefits | $515,007,616 | $5,868,819,842 | $558,236,949 | $125,981,192 |
| **Tier 3** | Number of Participants | 864 | 1,448 | 34,414 | 11,523 |
| | Average Monthly Benefit | | | | |
| | Before Suspension | $610 | $2,406 | $1,185 | $2,456 |
| | After Suspension | $422 | $1,471 | $418 | $1,482 |
| | Aggregate Present Value of Reduction in Benefits | $17,054,533 | $140,448,189 | $1,044,054,287 | $789,900,767 |

*Notes:*

*The exhibit shows the number of participants in each category. Since participants can have benefits in more than one tier, the numbers in this exhibit add up to 471,186 instead of the 397,492 total participants as of December 31, 2014.*

*Status, benefits (except projected to July 1, 2016 for actives), and actuarial assumptions and methods are based on the January 1, 2015 actuarial valuation.*

Central States, Southeast and Southwest Areas Pension Plan

# Total Effects of Proposed Benefit Suspension on Tier 3 Participants

| **Status as of December 31, 2014:** | **Actives, Retired or Beneficiary** | | **Terminated Vested** | |
|---|---|---|---|---|
| **Contributory Service Credits:** | **< 20 Years** | **>= 20 Years** | **< 20 Years** | **>= 20 Years** |
| Number of Participants | 864 | 1,448 | 34.414 | 11,523 |
| Average Monthly Benefit | | | | |
| Before Suspension | $610 | $2,406 | $1.185 | $2,456 |
| After Suspension | $422 | $1,471 | $418 | $1,482 |
| Increase in UPS Plan Benefit to Offset Suspension | $188 | $935 | $767 | $974 |
| Total From Both Plans After Suspension | $610 | $2,406 | $1,185 | $2,456 |

## Central States, Southeast and Southwest Areas Pension Plan

Revenue Procedure 2015-34 Section 4.04(4)

Demonstration that Proposed Benefit Suspension is Distributed Equitably
Distribution of Benefit Suspension Within Each Different Category

| **Status as of December 31, 2014:** | | **Active, Retired, or Beneficiary** | | **Terminated Vested** | |
|---|---|---|---|---|---|
| **Contributory Service Credits:** | | **<20 Years** | **>= 20 Years** | **<20 Years** | **>= 20 Years** |
| | **Reduction Percentage** | | | | |
| **Tier 1** | 0% | 14,051 | 16,369 | 815 | 17 |
| | >0% but <= 10% | 6,081 | 7,080 | 3,105 | 216 |
| | >10% but <= 20% | 1,014 | 2,663 | 1,263 | 220 |
| | >20% but <= 30% | 678 | 1,923 | 1,026 | 218 |
| | >30% but <= 40% | 720 | 2,330 | 1,559 | 233 |
| | >40% but <= 50% | 876 | 3,918 | 1,898 | 467 |
| | >50% but <= 60% | 1,408 | 12,146 | 3,075 | 741 |
| | >60% but <= 70% | 1,213 | 5,963 | 4,886 | 453 |
| | >70% | 1,036 | 243 | 467 | 6 |
| **Tier 2** | 0% | 72,204 | 40,486 | 6,827 | 309 |
| | >0% but <= 10% | 18,164 | 19,496 | 15,169 | 1,594 |
| | >10% but <= 20% | 9,073 | 7,504 | 5,353 | 1,006 |
| | >20% but <= 30% | 6,967 | 15,106 | 4,139 | 963 |
| | >30% but <= 40% | 3,351 | 17,706 | 6,057 | 2,983 |
| | >40% but <= 50% | 1,739 | 36,112 | 9,220 | 994 |
| | >50% but <= 60% | 225 | - | 8,561 | - |
| | >60% but <= 70% | 5 | - | 10,565 | - |
| | >70% | 6 | - | 676 | - |
| **Tier 3** | 0% | 237 | 5 | 1,801 | 3 |
| | >0% but <= 10% | 265 | 29 | 1,458 | 30 |
| | >10% but <= 20% | 80 | 11 | 369 | 12 |
| | >20% but <= 30% | 48 | 30 | 369 | 28 |
| | >30% but <= 40% | 84 | 1,373 | 801 | 11,450 |
| | >40% but <= 50% | 126 | - | 1,935 | - |
| | >50% but <= 60% | 23 | - | 8,729 | - |
| | >60% but <= 70% | 1 | - | 18,942 | - |
| | >70% | - | - | 10 | - |

*Notes:*

*The exhibit shows the number of participants in each category. Since participants can have benefits in more than one tier, the numbers in this exhibit add up to 471,186 instead of the 397,492 total participants as of December 31, 2014.*

*Status, benefits (except projected to July 1, 2016 for actives), and actuarial assumptions and methods are based on the January 1, 2015 actuarial valuation.*