Central States, Southeast and Southwest Areas Pension Plan
Item #23

Does the application include a copy of the proposed ballot.
See section 6.01.

A copy of the proposed ballot is attached as document number 23.1. A copy of the Retiree Representative's Statement is attached as document number 23.2. A copy of the Retiree Representative's Actuarial Report is attached as document number 23.3.

Section 6.01. Proposed Ballot.

Ballot for Ratification of Benefit Reductions
Central States, Southeast and Southwest Areas Pension Plan

ATTENTION PARTICIPANTS AND BENEFICIARIES IN PAY STATUS OF THE CENTRAL STATES, SOUTHEAST AND SOUTHWEST AREAS PENSION PLAN:

As described in the Notice of Application for Approval of a Proposed Reduction in Benefits under the Central States, Southeast and Southwest Areas Pension Plan ("Notice"), which was mailed to you on or about **[DATE],** the joint board of trustees ("Board of Trustees") of the Central States, Southeast and Southwest Areas Pension Plan ("Plan") submitted an application to the U.S. Department of the Treasury to reduce benefits pursuant to the Multiemployer Pension Reform Act of 2014 ("MPRA"). The Notice explained that if the Plan's application to reduce benefits is approved by the Secretary of the Treasury, participants and beneficiaries in pay status of the Plan will be given the opportunity to vote on whether the benefit reductions should go into effect. On [**DATE**], the Secretary of the Treasury approved the Plan's proposed plan of benefit reductions.

This ballot is designed to assist you in deciding whether to vote to approve the proposed plan of benefit reductions. Your actual vote must be cast by telephone or electronically using a secure website, as described at the end of this ballot. Do not attempt to cast your vote by mailing this ballot to the Plan. Please carefully read all information and instructions contained below before casting your vote.

* * * * *

The Plan's Statement in Support

The Plan is committed to providing benefits to you and our more than 400,000 other participants, including active workers, terminated participants (those who are not retired and not working for a contributing employer), retirees, and beneficiaries. You've worked hard. You deserve a secure retirement. We want that for you, too.

Economic and regulatory shifts in the trucking industry, coupled with financial market declines that have occurred in recent decades, have caused the Plan to become severely underfunded. For example, trucking industry deregulation has resulted in 10,000 Teamster employers going out of business, including a significant number who failed to meet their obligation to contribute what they owed on behalf of their employees to the Plan. The Board of Trustees responded to this challenge in 2004 and subsequent years by, among other things, significantly reducing benefit accruals earned by active participants, rapidly increasing contribution rates from employers, increasing the minimum retirement age, and freezing subsidized early retirement benefits. These steps represented all reasonable measures that were available to the Board of Trustees at the time, but they have proven insufficient to prevent the financial failure of the Plan.

Without the pension rescue plan presented in this ballot, the Plan will run out of money and be unable to pay benefits in approximately ten years. The consequences of ignoring this problem could be catastrophic. If the Plan runs out of money, a federal agency called the Pension Benefit Guaranty Corporation ("PBGC") would step in to pay a portion of the benefits, but the resulting impact would be more severe than the reductions in this pension rescue plan. Moreover, the PBGC has projected that its own Multiemployer Program will run out of money—potentially before the Plan. This means that **without this pension rescue plan, if the Plan fails, your benefits could be reduced almost to zero.**

The passage of the Multiemployer Pension Reform Act of 2014 (MPRA) provided multiemployer pension funds in "critical and declining status" with the option of submitting an application to the U.S. Department of the Treasury to prevent the failure of their plan by reducing participant benefits, including benefits of retirees. The Board of Trustees submitted such an application on September 25, 2015, and the Secretary of the Treasury approved it on **[DATE]**.

The Board of Trustees, which includes both employee and employer representatives, has developed a fair pension rescue plan that will restore the Plan to sound financial health and allow us to pay pension benefits—although reduced—far into the future. It is designed to ensure that our participants will receive retirement benefits based primarily on the amount of contributions made on their behalf by their employers.

Further, our rescue plan ensures that active employees will be able to continue to participate in the Plan and earn future pension benefits, though at a reduced rate. It is essential that active participants continue to participate in the Plan because roughly $0.50 of every dollar in employer contributions to the Plan generated by their work pays for the pensions of retired and terminated participants. In short, ensuring that active participants remain in the Plan, where they will generate contribution revenue, will help preserve the benefits payable to all participants to the greatest extent possible.

While the underlying formula that determines the amount of benefit reductions is the same for both retired and active participants, our pension rescue plan includes a variety of safeguards to ensure that participants who are especially vulnerable to the effects of benefit reductions will receive additional protection. For an estimate of how your individual pension benefit would be affected by this pension rescue plan, see [*internal cross-reference to individualized benefit estimates*]. Full details about the pension rescue plan are included below. For more information about how to cast your vote, see [*internal cross-reference to voting procedures*]. For more information on what caused the Fund to be designated in "critical and declining status," see [*cite "past reasonable measures" section of application*].

This pension rescue plan is the only option to save the Plan. We simply can't stay afloat if we continue to pay out $3.46 in pension benefits for every $1 paid in from contributing employers. Currently, we are paying out $2 billion more in retirement benefits than we are taking in every year in employer contributions. This can't be ignored. And, even though the economy is recovering and the Plan's investment returns have been comparable with those of other multiemployer pension funds of the same size, there is simply no way to make up for all the lost employer contributions. **That's why your support of this pension rescue plan, though painful, is vital!**

Please know that this pension rescue plan imposes the least amount of reductions necessary to enable our Fund to continue to pay benefits in the future**. For the sake of preserving retirement security for all Central States Pension Fund participants, we urge you to vote to approve this pension rescue plan.**

Retiree Representative's Statement

[Insert copy of Retiree Representative's Statement]

Statement in Opposition

[To be drafted by United States Department of Labor and added later. See Section 6.01 of Rev. Proc. 2015-34.]

Individualized Benefit Estimate

A copy of the individualized estimate of how the proposed reduction applies to you is included below at _____ *[insert copy before voting instructions]*.

What Would Happen if the Proposed Rescue Plan is Rejected?

The Plan Will Become Insolvent Unless Reductions Are Implemented

The Board of Trustees, in consultation with the Plan's actuarial advisors, has determined that if the proposed benefit reductions are not implemented, the Plan is projected to become insolvent by 2026. This means that, beginning in 2026, the Plan will not have enough assets to pay benefits as they become due.

Projecting the year in which the Plan is likely to become insolvent requires the use of certain assumptions, and the determination is therefore subject to some uncertainty. For example, if the Plan's investments were to perform significantly better or significantly worse than expected, such performance could change the projected date of the Plan's insolvency.

Benefits if the Plan Becomes Insolvent

Insolvency of the Plan could result in benefits that are lower than benefits paid under the proposed benefit reduction. In the event that the Plan becomes insolvent, the PBGC will step in to pay some, but not all, benefit payments to participants and beneficiaries in pay status. For example, a participant with 30 years of service and a monthly benefit of $3,000 would receive less than $1,100 per month from the PBGC.

A personalized estimate of the amount of your benefit under the Plan that would be covered by the PBGC guarantee is included below, along with a personalized estimate of the amount of your benefit under the Plan if the proposed benefit reductions are approved.

Benefits if the PBGC Becomes Insolvent –

The ability of the PBGC to provide assistance in the event that the Plan becomes insolvent depends on its own financial resources. PBGC recently projected that its Multiemployer Program would fully exhaust its own assets within ten years.

In the event that the Plan and the PBGC Multiemployer Program both become insolvent, participants and beneficiaries in pay status would be at risk of receiving benefits that would be dramatically lower than benefits otherwise paid in the case of the Plan's insolvency. **If both the Plan and the PBGC multiemployer program become insolvent, your benefits could be reduced almost to zero.**

Plan is Projected to Remain Solvent if Benefit Reductions are Implemented

The Plan's actuary has certified that the Plan is projected to avoid insolvency if the proposed benefit reductions are taken into account. This projection requires the use of certain assumptions, and the determination is therefore subject to some uncertainty. For example, if the Plan's investments were to perform significantly worse than expected, this could change the results of the projection.

Secretary's Approval of Proposed Rescue Plan

This proposed plan of benefit reductions has been reviewed and approved by the Secretary of the Treasury, in consultation with the Pension Benefit Guaranty Corporation ("PBGC") and the Secretary of Labor.

Term of Reductions

If approved, the reductions of benefits described below will commence on July 1, 2016 and will remain in effect indefinitely.

Factors Taken Into Account In Designing Benefit Reductions

In designing the proposed plan of benefit suspensions, the Board of Trustees considered the following factors:

- Age and life expectancy
- Length of time in pay status
- The amount of benefit
- Type of benefit: survivor, normal retirement, early retirement
- Extent to which participant or beneficiary is receiving a subsidized benefit
- History of benefit increases and reductions
- Years to retirement for active employees and terminated participants
- Any discrepancies between active and retiree benefits
- 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
- Extent to which benefits are attributed to service with an employer that failed to pay its full withdrawal liability

Description of Proposed Benefit Reductions

Overview of Benefit Reductions

The Board of Trustees proposes the following reduction of benefits, which will remain in effect indefinitely. Without these reductions, the Plan is projected to become insolvent (run out of funds and be unable to pay benefits) in 2026. If the reductions are adopted, the Plan is projected to remain solvent indefinitely.

Generally, the amount of a participant's reduction is based upon three main factors, subject to certain protections described below. First, the "tier" (or tiers) to which a participant's benefits are attributable. Second, the amount of contributions made to the Plan on a participant's behalf. Third, whether the participant is an active participant, a terminated participant, or a retiree as of July 1, 2016.

Additionally, as described below, participants with at least 20 years of Contributory Service Credit (and their beneficiaries in pay status) as of July 1, 2016 will receive smaller reductions than other participants. Also, the reductions are affected by both the age of the participant upon retirement and whether the participant elected a joint and survivor form of benefit upon retirement.

Contribution Tiers

Federal law establishes three "tiers" of benefits under the Plan, and sets out different conditions for the reductions that are applied to the benefits attributable to each tier. The tiers are defined as follows:

- **Tier 1** consists of benefits attributable to contributions made by an employer that withdrew from the Plan on or before July 1, 2016, but failed to pay (or is delinquent with respect to paying) the full amount of its withdrawal liability under law or an agreement with the Plan.

- **Tier 2** consists of all benefits attributable to contributions not assigned to Tier 1 or Tier 3.

- **Tier 3** consists of benefits 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 United Parcel Service, Inc. and its controlled group ("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 assigned to Tier 3 are guaranteed by UPS against reduction "as a result of the financial status of the plan." Participants with such benefits will receive an offset against any benefits they lose as part of the benefit reductions in the Plan under a separate retirement plan sponsored by UPS. Please note that participants who retired prior to that date are not part of Tier 3, even if they worked for UPS because the pension benefits of those participants are not protected by UPS.

Federal law requires that benefits attributable to Tier 1 be reduced to the maximum extent permissible. In general, the amount of Tier 1 benefits after the reduction will be determined by multiplying the 110% of the PBGC guarantee amount (described below) by the participant's percentage of total contributions in Tier 1. In addition, reductions to Tier 1 benefits will be limited by the disability and age-based protections described below.

Benefits that are attributable to Tier 2 or Tier 3 contributions (determined based on the participant's percentage of total contributions from Tier 2 or Tier 3, respectively) generally will be reduced in accordance with the structure outlined below under General Benefit Reduction Provisions, subject to the Federal Law Limitations on Benefit Reductions below.

For benefits attributable to Tier 2 contributions, the benefit reduction to participants with at least 20 years of Contributory Service Credit as of July 1, 2016 will not be greater than 50% of the amount that would otherwise have been payable with respect to such contributions before the reduction (prior to application of the age-based protections described below).

For benefits attributable to Tier 3 contributions, the benefit reduction to participants with at least 20 years of Contributory Service Credit as of July 1, 2016 will not be greater than 40% of the amount that would otherwise have been payable with respect to such contributions before this reduction (prior to application of the age-based protections described below).

Federal Law Limitations on Benefit Reductions

110% PBGC Guarantee Protection

Under MPRA, a participant's pension cannot be reduced below 110% of the amount that the PBGC would guarantee if the Plan were to become insolvent. The calculation of the PBGC guarantee is complicated, as it considers both the years of service that have been worked and rate of benefit accrual that the Plan has credited.

The maximum monthly benefit that the PBGC will guarantee is $35.75 for each year of service that has been earned. Thus, for a participant with 30 years of service, the maximum PBGC guarantee is $1,072.50 per month. 110% of this amount is $1,179.75.

The PBGC formula generally does not guarantee all benefits that have been earned. For example, in order for a participant with 30 years of service to receive the maximum monthly PBGC benefit of $1,072.50, the benefit payable from the Plan would have to be higher than this amount. Also, participants whose benefits under the Plan are less than the PBGC maximum guarantee would generally receive less than their full benefits under the PBGC guarantee formula.

To calculate the PBGC guarantee amount, it is first necessary to calculate the rate of monthly benefit accrual that the Plan has provided. This is equal to the monthly benefit payable from the Plan, divided by the years of credited service that have been earned. The amount of the guarantee is then equal to 100% of the first $11 of the monthly benefit accrual rate, plus 75% of the next $33 of the monthly benefit accrual rate, times the years of credited service. There is no limit to the total years of service that are credited for calculating the guaranteed benefit.

The guaranteed monthly benefit, therefore, is limited to $35.75 per month (($11 x 100%) + ($33 x 75%) = $35.75) times a participant's year of credited service. For example, if a participant has 30 years of service, the maximum benefit guaranteed by the PBGC is $35.75 x 30 = $1,072.50.

If the application of the General Benefit Reduction Provisions outlined below for benefits attributable to Tier 2 and Tier 3 contributions would result in a benefit that is below 110% of the PBGC guarantee for a particular participant, then that participant's benefit would not be reduced below 110% of the PBGC guarantee. The years of service used in the PBGC guarantee amount (which is the number of years listed in the individualized estimate section of this ballot) may differ from the number of years of Contributory Service Credit and/or Service Credit due to different definitions for those terms under the Plan.

Disability Protection

Disability benefits under the Plan cannot be reduced under MPRA. Additionally, if a participant receiving a disability benefit under the terms of the Plan converts to a retirement pension under the Plan, that participant's benefit cannot be reduced below the amount of the disability benefit received prior to the conversion.

Age Protection

MPRA provides that if a participant is 80 or older as of the end of the month containing the effective date of the benefit reduction (in this case July 2016), the participant will not be subject to any reduction. All benefits payable to participants who meet this condition are fully protected from benefit reductions.

Pension benefit reductions for participants who are at least 75 but less than 80 as of July 31, 2016 are determined by the number of months remaining until the participant reaches 80 divided by 60 months. For example, if a participant is exactly 78 years old as of July 31, 2016, there are still 24 months remaining until the participant reaches 80 years of age. Dividing 24 months by 60 months results in a fraction equal to 0.4.

So if, for example, the maximum amount of benefit reduction that could apply to a 78-year old participant (after taking into account the General Reduction Provisions described below, the 110% PBGC Guarantee Protection and the Disability Protection) is $500 per month, then the age-based protection would limit this maximum reduction to $200 per month (0.4 x $500). If the general reduction provisions described below would otherwise result in a greater benefit reduction, that amount would be overridden so that the actual reduction amount applied to this participant would be $200 per month.

In the case of the surviving spouse of a participant who is deceased as of July 1, 2016, the surviving spouse's age as of July 31, 2016 is used to determine whether the age-based protection applies to the benefit. However, if a participant is not deceased as of July 1, 2016, the participant's age as of July 31, 2016 will be used to determine the age-based protection for a joint and survivor benefit. As has always been the case under the Plan, regardless of the effect of the reduction, neither the participant nor spouse may change a Joint and Survivor Option (JSO) election that has already been made.

If a benefit has been split in a divorce in accordance with a Qualified Domestic Relations Order ("QDRO"), the application of the age-based protections to the alternate payee's benefit depends on the type of QDRO. For a shared interest QDRO in which the alternate payee receives a portion of each benefit payment, but the participant retains the right to choose the time and form of the payments, it is the participant's age as of July 31, 2016 that will determine the age-based protections. However, for a separate interest QDRO where the alternate payee has a right to receive benefits at a different time and in a different form from the participant, the alternate payee's age as of July 31, 2016 will determine the age-based protections.

General Benefit Reduction Provisions (Tier 2 and Tier 3 Contributions Only)

The following general benefit reduction provisions apply only to benefits attributable to Tier 2 or Tier 3 contributions.

- Except as provided below, under the benefit reductions that the Trustees have proposed, a plan amendment will take effect on July 1, 2016 that will reduce participants' monthly pension benefits to 1% of the Tier 2 and Tier 3 contributions that have been made on their behalf as of that date, adjusted for any early retirement and JSO benefit adjustments as described below.
    - For example, if a participant has a plan benefit of $1,000 per month on July 1, 2016, and 1% of the total contributions made on that participant's behalf is $800, then the $1,000 benefit will be reduced by $200 to $800 effective July 1, 2016.
- For terminated participants with less than 20 years of Contributory Service Credit who do not have a Benefit Commencement Date on or before October 1, 2015, benefits as of July 1, 2016 will be 0.5% of the total Tier 2 and Tier 3 contributions made on their behalf and adjusted for any early retirement and JSO as described below.
    - A participant will be in "terminated" status for purposes of the reduction plan if, as of July 1, 2016, and any of the following is true:
        - The participant (a) has a Year of Employment under the Plan during any year ending on or before December 31, 2014, and (b) earned no Contributory Service Credit during 2014;
        - The participant (a) has a Year of Employment under the Plan during any year ending on or before December 31, 2015, and (b) earned no Contributory Service Credit during 2015; or
        - The participant (a) has earned or earns an Hour of Service while employed with a Contributing Employer (or any predecessor or successor entity) that at any time on or after October 1, 2015 incurs a Rehabilitation Plan Withdrawal, and (b) has either (i) earned the last year of Contributory Service Credit on or before October 1, 2015 while a member of a Bargaining Unit (or any predecessor or

successor Bargaining Unit) ultimately incurring such Rehabilitation Plan Withdrawal or (ii) earned the last year of Contributory Service Credit on or before July 1, 2016 while a member of a Bargaining Unit (or any predecessor or successor Bargaining Unit) ultimately incurring such Rehabilitation Plan Withdrawal. This provision shall not apply to Rehabilitation Plan Withdrawals occurring after July 1, 2016 unless the Bargaining Unit, on or before July 1, 2016, ratifies or otherwise agrees to a Collective Bargaining Agreement (or other agreement) which permits the withdrawal of the Bargaining Unit in whole or in part from the Plan (regardless of when the withdrawal in fact occurs).

- As already provided under the Plan, benefits are reduced for each month that the age of retirement precedes age 65. As applied here, in the event that a participant retired with less than 20 years of Service Credit at retirement, the 1% (or 0.5% as the case may be) of total contribution monthly benefit will be reduced by 0.5% for each month that the age of the participant at retirement precedes age 65. This reduction applies down to age 57, with participants who retired prior to age 57 treated as having retired at age 57 for this purpose.
    - For example, a participant who retired at exactly age 57 or earlier would have the 1% of contributions benefit reduced by 48% (0.5% x 96 months). If 1% of the contributions made on that participant’s behalf is $1,000, the monthly benefit will be reduced to $520 (reducing $1,000 by 48%).
- As already provided under the Plan, benefits are reduced for each month that the age of retirement precedes age 62 if the participant had at least 20 years of Service Credit at retirement. As applied here, if a participant had at least 20 years of Service Credit at retirement, the 0.5% per month reduction applies to the 1% of total contribution monthly benefit for each month that the age at retirement precedes age 62 instead of age 65.
    - For example, a participant with 20 or more years of Service Credit who retired at exactly age 57 or earlier would have the 1% of contributions benefit reduced by 30% (0.5% x 60 months). If 1% of the contributions made on that participant’s behalf is $1,000 per month, the monthly benefit will be reduced to $700 (reducing $1,000 by 30%).
- Under the terms of the Plan’s Rehabilitation Plan, a participant subject to an adjustable benefit reduction will have the 1% (or 0.5% as the case may be) of contributions benefit reduced by the percentage listed in the Rehabilitation Plan.
- In addition to any reduction for early retirement, the 1% or 0.5% of contribution monthly benefit will also be adjusted to reflect any adjustment factors for election of a JSO in accordance with the terms of the Plan in effect on October 1, 2015.

Restricted Reemployment Changes

The following changes are effective July 1, 2016, apply only to those participants whose benefits are, in fact, reduced under this application (not including reductions to future benefit accruals), and are contingent upon approval of the application as provided under MPRA. In all other circumstances, the existing (pre-MPRA reduction) restricted reemployment rules in the Plan continue to apply.

For a participant with a Benefit Commencement Date on or before October 1, 2015, the participant shall not be subject to **any** restricted reemployment rules effective July 1, 2016 provided that prior to October 1, 2015 the participant has surrendered and severed any and all aspects of the employment relationship, including any seniority rights, with any Contributing Employers.

For a participant whose Benefit Commencement Date is after October 1, 2015 and who is at least 62 but less than 65 on the Benefit Commencement Date, and is performing Covered Service immediately prior to the Benefit Commencement Date, the participant must avoid reemployment in a Core Teamster Industry (as defined in the Plan), and with any Contributing Employer for whom the participant worked during the one year period immediately prior to his retirement and, prior to retirement, must have surrendered and severed all aspects of the employment relationship, including any seniority rights, with any such Contributing Employer(s). Once such participant turns 65, the rules in the next paragraph apply.

For a participant whose Benefit Commencement Date is after October 1, 2015 who has reached age 65 (regardless of age at time of retirement), the participant shall not be subject to **any** restricted reemployment rules as long as the participant has previously surrendered and severed all aspects of the employment relationship, including any seniority rights, with any Contributing Employers. The only exception is that a participant whose last year of Contributory Service Credit was earned while employed by a labor organization, or other Contributing Employer with whom the participant did not have seniority rights under a collective bargaining agreement, will not be eligible for this “No Restrictions” rule unless the participant has first spent one continuous post-retirement year without any restricted reemployment under the existing (pre-MPRA reduction) restricted reemployment rules.

Reduction of Early Retirement Subsidies for Contribution-Based Pension

Currently, the Contribution-Based Pension (section 4.02 of the Plan) is reduced by 0.5% for each month the age of the participant on his retirement date is less than 62 if the participant has at least 20 years of Service Credit (the reduction occurs from age 65 if the participant has less than 20 years of Service Credit). However, if the participant is subject to the Default Schedule, Rehabilitation Plan Withdrawal, or Distressed Employer Schedule, the Contribution-Based Pension payable at age 65 is reduced to an actuarially equivalent benefit in accordance with the terms of the Plan.

Effective July 1, 2021 (five years from the effective date of the reductions), the Contribution-Based Pension (section 4.02 of the Plan) will be reduced by 0.5% for each month the age of the participant on his retirement date is less than <u>63</u> if the participant has at least 20 years of Service Credit (the reduction occurs from age 65 if the participant has less than 20 years of Service Credit).

Effective July 1, 2023, the Contribution-Based Pension (section 4.02 of the Plan) will be reduced by 0.5% for each month the age of the participant on his retirement date is less than <u>64</u> if the participant has at least 20 years of Service Credit (the reduction occurs from age 65 if the participant has less than 20 years of Service Credit).

Effective July 1, 2025, the Contribution-Based Pension (section 4.02 of the Plan) will be reduced by 0.5% for each month the age of the participant on his retirement date is less than <u>65</u> for all participants regardless of whether the participant has at least 20 years of Service Credit.

Thus, for example, if a participant who has at least 20 years of Service Credit retires on or after July 1, 2021 (and before July 1, 2023) at age 62, the participant's benefit would be reduced by 6% (12 months x 0.5% per month) as compared to currently when there would be no reduction. If a participant retires on or after July 1, 2023 (and before July 1, 2025) at age 62, the participant's benefit would be reduced by 12% (24 months x 0.5% per month) as compared to currently when there would be no reduction. If a participant retires on or after July 1, 2025 at age 62, the participant's benefit would be reduced by 18% (36 months x 0.5% per month) as compared to currently when there would be no reduction.

Regardless of these changes, if a participant is subject to the Default Schedule, Rehabilitation Plan Withdrawal, or Distressed Employer Schedule as defined in the Rehabilitation Plan, the participant's benefit will be reduced based on age using the actuarial equivalence table in the Rehabilitation Plan.

Reduction of Future Benefit Accrual Rate

At present, the Accrued Benefit of a participant who is eligible for a Contribution-Based Pension includes 1% of all contributions made on the participant's behalf on and after January 1, 2004. Effective for contributions attributable to a participant's service on and after July 1, 2016, the Accrued Benefit will be 0.75% of all contributions made on the participant's behalf.

Thus, for example, if a participant had $10,000 in contributions made on his behalf prior to July 1, 2016, the monthly Accrued Benefit increased by $100 ($10,000 x 1%). If $10,000 in contributions are made on the participant's behalf on and after July 1, 2016, the monthly Accrued Benefit would increase by $75 ($10,000 x 0.75%).

Contribution Increases

The reduction plan reflects increases in the maximum contribution rates of $342 or $348 per week currently required under the Rehabilitation Plan. The increases to the maximum required rate begin on August 1, 2018 with a rate increase of 2.5% per year becoming 3.0% per year in 2028 and thereafter. Also, the reduction plan reflects an increase in the contribution rate for YRC beginning on August 1, 2019 of 2.5% per year becoming 3.0% per year in 2028 and thereafter.

Copy of Individualized Benefit Estimate

[To be added. See Section 6.01 of Rev. Proc. 2015-34.]

How to Cast Your Vote

There are two available methods for casting your vote: (1) by telephone; or (2) through the secure website listed below. Only these two methods for casting your vote are permitted. Do not attempt to cast your vote by mailing this ballot to the Plan or to [3rd party]. Paper ballots will not be accepted.

[description of telephone voting system; must provide a toll-free number, must use touch-tone or interactive voice response]

[description of procedures for voting through website]

By law, the period for voting to approve the proposed plan of benefit reductions described above will end on [**DATE]**. This means that **all votes must be received by [DATE] or they will not be counted.** Votes cast through 11:59 p.m. Eastern Standard Time on **[DATE]** will be counted as received by **[DATE]**.

Effect of Failure to Vote

By law, unless a majority of all eligible voters (*i.e.*, participants and beneficiaries in pay status) vote to reject the proposed benefit reductions, the reductions will go into effect. Therefore, an eligible voter's failure to cast a vote has the same effect on the outcome of the vote as a vote in favor of the reductions.

Susan Mauren
Retiree Representative to the Central States Pension Fund
P.O. Box 15670, Minneapolis, MN 55415
Email: centralstatesrtireerep@losgs.com

Statement from the Retiree Representative

September 25, 2015

In December 2014, the Multiemployer Pension Reform Act was passed allowing for failing pension funds to cut benefits to all participants, including current retirees. MPRA allows benefit cuts to prevent failing funds from becoming insolvent – running out of money – and becoming unable to pay *any* benefits. Our pension fund, Central States, is projected to run out of money within 10 years. Accordingly, Central States has been working since MPRA was passed to formulate a pension rescue plan.

With the assistance of my attorney and my actuary, I confirmed that the Central States Trustees have been working to save our Fund for many years. Efforts to improve the Fund's financial position included increased employer contribution requirements and reductions in certain benefits on an on-going basis, such as a reduction in the benefit accrual rate (the amount of benefit you accrue based upon your employer's contributions) from 2% to 1%. All of the Fund's investments have been supervised by a court-appointed representative, and generally have had positive returns. Unfortunately, these efforts have not been enough to reverse historical trends.

There are a number of reasons why Central States is headed toward insolvency. While the tendency is to point a finger and find blame, some facts cannot be ignored. In 1980, there were 4 Teamsters working and making contributions to the Fund for each retiree. That is now reversed. We now have 1 Teamster working to support 5 retirees. Trucking industry deregulation played a huge role in this disastrous trend. While there may be some parts of the country where the Teamsters were not hit as hard by deregulation, our Fund, located primarily in the heartland with interior long hauling, was hit the hardest. It caused over 10,000 Teamster employers to go out of business and withdraw from the Fund, with many of them filing for bankruptcy. These employers left the Fund with millions of dollars in unpaid pension obligations. While the history is frustrating to all of us, we need to look forward now and makes changes for the future.

If Central States continues on its current path, it will run out of money within 10 years. Segal Consulting, the Fund's actuary, and First Actuarial Consulting, my actuary, agree that this is reality. I hired First Actuarial Consulting to help me review and analyze the information Central States provided on its financial condition as well as the impact the proposed rescue plan would have on retirees. First Actuarial Consulting has confirmed the information provided is reasonable and sufficient. My actuary's report is attached to this statement. It is simple. Central States cannot continue to pay out significantly more money than it is taking in. Without intervention, the Fund will run out of money and be unable to pay *any* benefits.

MPRA is not the legislation any of us wanted. I agree with those of you who have contacted me to say that a full congressional bailout of our pension systems is what retirees deserve. However, Central States introduced this type of legislation in 2010 – to a more worker-friendly Congress – without any success. Current legislation sponsored by Senator Bernie Sanders has not yet earned the bipartisan support it needs to become law. And we cannot rely on the federal government insurance program, Pension Benefit Guaranty Corporation, to pay benefits if Central States runs out of money. According to recent reports it has published, the PBGC is likely to become insolvent before Central States.

We are faced with this harsh reality: we cannot rely on the government to fix this problem.

That leaves 2 alternatives. Do nothing, and current retirees will receive the same amount of benefits each month for a few more years. But, their payments will cease completely in a few years, and many who are entitled to a pension but not yet retired will receive nothing. Or cut benefits now so that current and future retirees have a pension they can count on in the years to come, even if it is smaller.

As the Retiree Representative appointed by Central States, I have consistently emphasized to the Trustees and staff that benefit reductions will be painful for retirees and while we recognize the importance of maintaining actives in the Fund, the retirees should not bear the entire burden of the rescue plan. The rescue plan distributes the burden between the retirees and the actives. I urged them to modify the re-employment rules for those retirees who will be experiencing a reduction in their checks under the rescue plan. If the rescue plan is approved, there will be new re-employment rules for those experiencing a reduction in their pension check.

In evaluating the different options for rescue plans, I encouraged them to consider a cap on the maximum reduction to extend protection across all of the participants. The rescue plan includes a maximum percentage reduction. Through your input to me, the Trustees heard about the many struggles retirees are facing. Having attended all MPRA subcommittee meetings held by Central States since I was appointed in January, I can attest that their main concern is to make it possible for the fund to provide future benefits. All Central States union trustees and employees are either current or future retirees. Like you and me, they will all be impacted by this rescue plan.

You will receive by U.S. mail a packet of detailed information about the rescue plan and how it will affect your benefits. I urge you to read through this information carefully. If the rescue plan is approved by the Treasury Department, you will be asked to vote on the rescue plan. You will receive by U.S. Mail another packet of information about the voting procedure. Keep in mind, regardless of the outcome of the vote, the ultimate decision rests with the Treasury Department.

No one wants a benefit cut. We want what we were promised. But the status quo won't work. The question we each need to ask ourselves is: Do I want to keep my current benefit for the next few years, or do I want a reduced benefit for the rest of my life? And, if you have not started your pension yet, is it better to hope the fund will survive, or to seek a remedy to ensure that the fund survives?

Please continue to contact me at the address above.

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Attachment

Report to Central States Pension Fund Retiree Representative Susan Mauren

Prepared by:

Jay K. Egelberg, ASA

First Actuarial Consulting, Inc.

Background

The Multiemployer Pension Reform Act of 2014 ("MPRA") was enacted in December 2014. Generally, MPRA provides that certain multiemployer defined-benefit pension plans may apply to the Treasury Department for permission to suspend benefits. As the Central States, Southeast and Southwest Areas Pension Fund (the "Fund" or "Central States") contemplated an application to suspend benefits under MPRA, Ms. Mauren was appointed in January 2015 to act as the Retiree Representative. I was retained by Susan Mauren in February 2015 to assist her and her legal counsel, Leonard O'Brien Spencer Gale & Sayre, Ltd.

I began employment for a firm of consulting actuaries in 1981 and began to pursue my education towards professional certification, having become an Associate of the Society of Actuaries in 1990 and an enrolled actuary under ERISA in 1992. Since 1993, I have focused on multiemployer pension plans and I have experience with funds of all sizes in a wide variety of industries, including manufacturing, building and construction, entertainment, retail, and transportation. I am a frequent speaker at trustee and professional education conferences for actuaries and attorneys and have authored articles on issues relating to funding under the Pension Protection Act of 2006 and withdrawal liability. I am also a contributing editor of the *Journal of Pension Benefits* for multiemployer issues. In 2014, I completed a three-year term as a member of the International Foundation of Employee Benefits Plans' Professionals Committee. I am also a fellow of the Conference of Consulting Actuaries and a member of the American Academy of Actuaries. I am a now a shareholder with First Actuarial Consulting, Inc. We are a full-service actuarial and benefits consulting firm based in New York. Our firm currently serves as a consulant to approximately 60 multiemployer pension and welfare funds.

Introduction

MPRA provides limited guidance on the retiree representative's duties and its role with respect to the process. Only a plan with 10,000 or more participants is required to appoint a representative. According to MPRA, the retiree representative "shall advocate for the interests of the retired and deferred vested participants and beneficiaries of the plan throughout the suspension approval process." That is all MPRA says except that the retiree representative must be a fund retiree in pay status. Trustees may wait until 60 days before they file an application to appoint a representative. It is this later provision that provides insight into my role as an actuary for the retiree representative. Given the time constraints, it is evident under these circumstances the statute does not contemplate that the retiree representative's actuary scrutinize the Fund's operations or its actuary's projections with the skepticism of a forensic audit. Furthermore, under the statute, the actuary is not tasked with the responsibility of completing a participant-by-participant analysis of a proposed suspension plan of 10,000 or more participants in a 60-day time period. It is unrealistic to require a retiree representative's actuary to replicate a fund actuary's valuation, annual zone-status certification, and proposed benefit-suspension projections from whole cloth in 60 days. Rather, in our view, our mandate is to observe that reasonable actuarial assumptions and methods were utilized, that the actuary appears to have complied with the restrictions imposed by MPRA, and that there appear to be no obvious flaws in the actuary's or trustees' analysis.

Ms. Mauren's legal counsel requested and received from the Fund a comprehensive set of documents relating to the historical information about the Fund, its plan of benefits and reports from the Fund's Independent Special Counsel. In addition, Ms. Mauren and her legal counsel have been provided all of the materials considered by the Trustees throughout their exhaustive deliberations regarding a suspension plan. These materials have all been provided to me. In addition, I requested specific information from the Fund to assist me in my evaluation of the financial and actuarial position of the Fund and the proposed suspension plan options being considered. All of the information I have requested and all of the information I believe necessary for me to complete my analysis have been provided. In addition to the documents, I attended one of the Trustees' MPRA Subcommittee meetings and participated in a number of telephone conferences with Ms. Mauren, Fund Counsel, the Fund's Actuary and members of the Fund's staff.

<u>Report to Retiree Representative</u>

Ms. Mauren requested that I address a series of questions to assist her in her role as an advocate for the retirees and deferred vested participants. My responses are based upon all of the records and information that I have been provided by Central States, information provided by Ms. Mauren's legal counsel, the information obtained through my attendance at the Trustees' Subcommittee meeting, the various telephone conferences, and my background and professional experience in this area.

1. **Discuss the accuracy and sufficiency of the underlying data used by the Fund and its actuary. Is it the type of data you would expect a defined-benefit pension plan to use in this type of process? Did the Fund provide you all data you needed to make this determination?**

   <u>**Response:**</u>

   The data used by the Fund, the Trustees and its actuary appears to be sufficient, given my understanding of the vast complexities of this Fund's benefit-determination operations. The Fund provided me all of the information and data I requested to complete my analysis of the integrity of the data being used. I was provided all information I determined to be necessary.

   The Fund's actuary presented reports to the Trustees at many meetings throughout the past nine or so months. His reports are detailed and his analysis thorough. Based upon my professional experience and expertise, I believe that the data used by the Fund's actuary to prepare these reports to the Trustees is sufficient, appears to be accurate, and is the type of data I would expect an actuary to use and rely upon to perform this analysis. It appears that the data the Fund's actuary used throughout this process was continually updated to reflect any new information Fund staff was able to retrieve from its records. Some of the data the Fund provided to the Fund's actuary is data relating to events that occurred many years ago, as the scope of pension funds of this type normally looks back over 40 or 50 years. For example, in order to categorize benefits into one of the three tiers mandated by the statute, the Fund reviewed details relating to employer withdrawals occurring in some instances more than 20 years ago. This data included details about the extent to which an employer paid its withdrawal liability in full, possibly two or three decades ago. It appears that the Fund staff worked diligently and constantly during this process to locate all relevant and necessary records.

2. **Absent any benefit suspension, is the Fund expected to become insolvent in 2026 as projected by the Fund's actuary? Has the Fund met MPRA's conditions for suspension as it relates to the Fund's solvency?**

   <u>**Response:**</u>

   We actuaries at FACT are not attorneys, nor do we attempt to practice law. However, per our understanding of MPRA, a pension plan that is in critical and declining status may apply to the Treasury Department for approval of a suspension of benefits. A pension plan is in critical and declining status if it is projected to become insolvent during the current year or any of the 14 succeeding years (or 19 succeeding years if the pension plan

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has a ratio of inactive participants to active participants that exceeds 2 to 1 or if the funded percentage of the pension plan is less than 80 percent).

According to the Fund's actuary, the Fund is projected to become insolvent in 2026, therefore satisfying the definition of critical and declining status. Furthermore, the Fund's ratio of inactive to active participants is more than 5 to 1. Based upon the documents and information I have reviewed I agree that the projections for insolvency appear to be reasonable.

Revenue Procedure 2015-34 provides that a MPRA suspension is permissible only if it is reasonably estimated to enable the Fund to avoid insolvency. The Fund must demonstrate that it meets this requirement both deterministically and stochastically.

On a deterministic basis, the Fund must show that throughout the "extended period" beginning on the effective date of a suspension, the Fund is projected to remain solvent. Additionally, if the Fund's projected funded percentage at the end of the extended period is less than or equal to 100 percent, then neither the Fund's solvency ratio nor its available resources can be projected to decrease in any of the last five years of the extended period. Using an extended period beginning in 2016 and ending in 2064, the Fund's actuary projected deterministically that the proposed suspension results in expected solvency throughout the extended period. Furthermore, neither the Fund's solvency ratio nor its available resources were projected to decrease in any of the last five years of the extended period. These projections do not appear to be unreasonable.

A MPRA suspension is only allowed if, according to stochastic projections that reflect variances in investment returns, it results in the fund having at least a 50% probability of solvency throughout the 30-year period beginning on the effective date of the suspension. Per IRS guidance, the stochastic projection need not include, as variables, anticipated demographic experience, or, more importantly, future employer or industry-wide activity. In my experience, ignoring these factors diminishes the utility of the modeling. As well, we find that deterministic projections, such as those required for this process, are rather sensitive to emerging experience different from that contemplated.

According to the Fund's actuary, the proposed suspension results in a minimum 50.4% probability of solvency throughout the extended period following the proposed suspension. Consequently, this requirement appears to be satisfied, and the proposed suspension appears reasonably estimated to enable the Fund to avoid insolvency.

3. **Does the proposed suspension plan meet the limitations under MPRA:**
    a. **No one reduced below 110% of the PBGC guarantee**
    b. **No suspensions for participants over age 80, limitations between 75-79**
    c. **No suspensions of participants receiving disability benefits**

Response:

I reviewed the proposed suspension plan and the sample calculations used by the Fund to calculate each participant's benefits both before and after the suspension. I have not reviewed individualized benefit statements as it would be impossible and impractical for me to review more than 400,000 benefit statements. However, it appears that the Fund's methods are reasonably calculated to ensure that no participant's benefit is reduced below 110% of the PBGC guarantee, that no participant over the age of 80 will have his or her benefits reduced, and the laddered protections for those between ages 75 and 80 will be met. Finally, the suspension plan as proposed appears designed to protect retirees who retired with a disability pension from the Fund. Given the numbers of participants and retirees, it is always possible that errors may occur in the calculation of the benefits, however, the Fund has represented it will establish a process for participants to seek review in the event a calculation error has occurred.

4. **Is the Fund's proposed suspension just sufficient to avoid insolvency and no more (the "Goldilocks" rule)?**

Response:

Under temporary and proposed MPRA regulations, a proposed suspension is not materially in excess of the level necessary to avoid insolvency if the proposed suspension is sufficient to avoid insolvency throughout a period of at least 30 years, but a suspension that is 5% smaller is not sufficient. In its draft solvency certification the Fund's actuary determined that the proposed suspension would enable the Fund to remain solvent through 2064. A suspension smaller by 5% was found to result in insolvency within the 30-year period beginning on the date of the proposed suspension. Accordingly, the proposed suspension, as measured by the Fund's actuary, appears to be not materially in excess of the level necessary to avoid insolvency.

5. **Central States' actuary has concluded that most participants are better off with a suspension and continued solvency of the Fund as opposed to no suspension and Fund insolvency occurring in 10 years or less. Discuss your review of this "winners and losers" analysis.**

Response:

To me, the Fund actuary's projections of insolvency appear to be reasonable. On a macroeconomic basis, we conducted our own projections of likely Fund cash flows and found the following: with no reduction in its annual expenditures and no significant increase in its contribution base, the Fund is likely to run out of money during the next ten years. The Fund actuary's basis for this claim assumes a steady return on investments of 7.50% per year. If insolvency occurred, everyone in the Fund would receive no more than what PBGC will pay, resulting most certainly, based upon the data and analysis we've seen, from major reductions to practically all participants' benefits. The Fund actuary's analysis indicates that benefits for most participants will be significantly higher than PBGC levels after the proposed suspension.

6. **Does a delay in the implementation date of the proposed suspension significantly increase the amounts of suspension required to maintain solvency?**

Response:

Relevant reports from the Fund actuary confirmed our own observations, namely, that any delay in a reduction of Fund expenditures (or a delay in increase in income) would only cause a further reduction to the Fund's asset base requiring further reductions in benefits to be proposed in order to maintain Fund solvency.

7. **Discuss your observations on the number of suspension plan proposals the Trustees considered.**

Response:

MPRA provides no standards for determining whether the number of suspension alternatives considered was appropriate. MPRA instead focuses on whether the Trustees adequately considered the impacts of the proposed suspension. However, materials from Central States MPRA Subcommittee meetings indicate that the Trustees with their actuary considered dozens of alternatives to the proposed suspension over the course of several months of evaluation. In analyzing each alternative, it appeared as if the Trustees reviewed the projected impact on various classifications of Fund participants, as a whole and by demographic groups with respect to age, service and benefit amounts. Additionally, they reviewed the projected impact of each scenario on the Fund's anticipated solvency.

Conclusion

Our review was based upon many summarizing materials and reports, charts and data provided by the Fund and its actuary. To us the analysis of the Fund's current condition, as proffered by the Fund's actuary, does not seem to be unreasonable. It appears the Fund actuary has exercised the due diligence and care required by our profession, complied with its precepts and standards of practice, has employed assumptions and methods within the realm of what we see in the multiemployer community, and has stayed within the guidelines mandated by our understanding of MPRA and its attendant regulations.

Our report has been prepared in accordance with generally accepted actuarial principles and practices consistent with our understanding of the Code of Professional Conduct and applicable Actuarial Standards of Practice promulgated by the Actuarial Standards Board. I am a credentialed actuary who meets the Qualification Standards of the American Academy of Actuaries to render the actuarial opinions contained in this report. This report does not address contractual or legal issues as we are not attorneys nor do we attempt to practice law.

Our report was prepared exclusively for the use of Ms. Mauren and her legal counsel in her role as retiree representative under the Fund for purposes of evaluating the suspension of benefits proposed by the Fund's Trustees. Use by another party or for other purposes may prove to be inappropriate and misleading and we assume no responsibility in that event.

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September 22, 2015

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