Southwest Ohio Regional Council of Carpenters Pension Plan
Item #18

Does the application include information on past and current measures taken to avoid insolvency? See Section 5.01.

Attached as Document 18.1 is a narrative description of the past and current measures taken by the Board of Trustees to avoid insolvency of the Southwest Ohio Regional Council of Carpenters Pension Plan.

Southwest Ohio Regional Council of Carpenters Pension Plan
Document 18.1

The following sets forth a detailed description of measures taken by the Board of Trustees of the Southwest Ohio Regional Council of Carpenters Pension Plan ("Plan") in order to avoid insolvency over the past ten (10) Plan Years (2007 through 2016) immediately preceding the Plan Year (2017) in which this application is submitted. In addition, to provide additional context and information, some information has been provided for Plan Years prior to 2007 demonstrating the Board of Trustees and the bargaining parties attempt to address the declining funded status of the Plan.

At the beginning of the of the 2000 Plan Year, the Plan was funded 101% on a market basis ($363,189,521 - Market Value of Assets / $359,511,504 - Accrued Liability) with 4,590,926 hours worked for which contributions were due. The hourly contribution rate was $2.40. The Plan had 3,778 active members, which was 52% of the 7,228 total participants and beneficiaries (including vested terminated participants, service retirees, disability retirees and beneficiaries).

Despite the funding health of the Plan, the Plan had a negative 3.5% cash flow percentage for the 2000 Plan Year and asset investment returns were 3.7%. The negative cash flow percentage would continue to worsen over the next 15 years despite the remedial actions taken by the Board of Trustees to attempt to address the funded status of the Plan. Similarly, significant decreases over that period of time in active contributing participants and hours worked for which contributions were due and adverse investment experience led to the current substantial underfunding despite significant reductions in adjustable benefits and other actions detailed in this summary.

The Plan commenced the 2001 Plan Year with a funded percentage of 88% on a market basis of $338,284,530 – Market Value of Assets / $383,943,182 – Accrued Liability). With asset returns of -6.8% in 2001 hours worked declining by 26%, the Board of Trustees amended the Plan, effective January 1, 2002, to reduce the benefit accrual rate of $99 per Year of Credited Service to $80 per Year of Credited Service for any Years of Credited Service on or after January 1, 2002.

At the start of the 2002 Plan Year, the Plan's funded percentage was 78% on a market basis ($300,207,040 market value of assets and $383,228,868 in accrued liabilities). The Plan had a -11.3% asset return for the Plan Year and an additional 4.8% drop of hours worked. In addition, the Plan had a negative cash flow of -6.5% for the 2002 Plan Year. In two years, the Plans' active participants decreased from 3,778 at the beginning of 2000 to 2,809 at the beginning of 2002.

The Plan began the 2003 Plan Year with a funded percentage of 66% with a market basis ($250,916,369 – Market Value of Assets / $377,813,484 – Accrued Liability). In response to the previous decline of funded percentage, the Board of Trustees further reduced the benefit accrual rate to $50 per Year of Credited of Service for all Years of Credited Service on or after June 1, 2003 (effectively 50% of the rate of benefit accrual rate just two years prior). Further, the bargaining parties raised the hourly contribution rate to the Plan by $0.50 to $2.90 per hour for the 2003 Plan Year.

The Plan continued to lose active participants with only 2,325 at the beginning of the 2004 Plan Year, a 62% reduction of active participants from the 2000 Plan Year. The Board of Trustees and the bargaining parties attempted to address the declining health of the Plan with increases in the hourly contribution rate, approving a $0.50 increase in 2004 to $3.40 per hour and, again in 2005 to $3.90. The decline in the funded percentage arrested after the low of 2003 and began to recover with 71% funded ratio at the beginning of 2004 on a market basis ($277,707,958 – Market Value of Assets / $388,643,038 – Accrued Liability).

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An additional $0.25 per hour was added to the hourly contribution rate for the 2006 Plan Year. The Pension Protection Act of 2006 was adopted effective August 17, 2006 providing additional tools and a framework for addressing the underfunding of the Plan.

Plan Year 2007 – The Plan Year commenced the Plan Year with a funded percentage of 74% on a market basis ($297,201,817 - Market Value of Assets / $400,227,408 – Accrued Liability), continuing an upward trend since 2003. However, the number of active participants was only 2,089.

The Board of Trustees and bargaining parties took the following actions:

(1) An increase of hourly contribution rate to the Plan by $0.35; and

(2) Provided for a temporary additional contribution of $2.00 per hour from July 1, 2007 through August 31, 2008, accomplished by the diversion of a portion of the hourly contributions the bargaining parties allocated to the Ohio and Vicinity Regional Council of Carpenters Health and Welfare Plan; thus, effectively raising the hourly contribution rate to the pension Plan to $6.50 per hour for that period of time.

Plan Year 2008 – At the start of the 2008 Plan Year, the Plan had a funded percentage of 74% on a market basis ($303,177,606 – Market Value of Assets / $408,275,549 – Accrued Liability).

The Board of Trustees adopted the initial Funding Improvement Plan under the Pension Protection Act of 2006, on November 25, 2008. Based on assumptions set forth in the Funding Improvement Plan, including an estimated assumed investment return rate of 7.5% per year, the Plan's funding ratio was projected to be 83% in 2014. During the analysis and adoption of the Plan's Funding Improvement Plan, the Board of Trustees considered modifications to the Plan and compared the benefits offered through the larger statewide Ohio Carpenters Pension Plan.

Under the Funding Improvement Plan, the Board of Trustees adopted an increase for the hourly contribution rate to the Plan for four years, including the previous increase for the 2007 Plan Year (to $4.50), and continuing through the 2008 Plan Year ($4.85), the 2009 Plan Year ($5.20) and the 2010 Plan Year ($5.55)

In addition, the Trustees resolved to amend the Plan to:

(1) Increase the early retirement reduction for benefits accrued after January 1, 2009 to 3/10 of 1% for each month by which the commencement of the Participant's Early Retirement Benefit precedes the Normal Retirement Date (from the previous ¼ of 1%);

(2) Further, only years of continuous membership in the United Brotherhood of Carpenters and Joiners of America through December 31, 2008 would be considered for eligibility of the "Rule of 80." The Rule of 80 exempted a Participant's benefits from the application of the early retirement reduction, provided the Participant had attained age 50 and whose age and years of continuous membership in the United Brotherhood of Carpenters and Joiners of America equal at least 80.

(3) Additionally, benefits accrued on or after January 1, 2009 would not be exempted from the early retirement reduction as a result of a Participant's continuous membership in the United Brotherhood of Carpenters and Joiners of America.

The temporary additional contribution of $2.00 per hour from July 1, 2007 through August 31, 2008, accomplished by the diversion of a portion of the hourly contributions the bargaining parties allocated to the Ohio and Vicinity Regional Council of Carpenters Health and Welfare Plan was extended through June 30, 2010.

Unfortunately, the Plan suffered a negative 25.9% percent asset return (- $76,931,110) for the year, from which the Plan has never recovered.

Plan Year 2009 – Following the financial crisis and significant investment loss the year before, the 2009 Plan Year began with the Plan at a 52% funded ratio on a market basis ($214,567,422 - Market Value of Assets / $412,568,583 - Accrued Liability). The previous year's hours worked (2,928,547) remained generally consistent with prior years (an average of 3,157,873 over the four (4) previous plan years).

At the beginning of the year, the Board of Trustees reviewed the availability of funding relief under the Worker, Retiree, and Employer Recovery Act of 2008 ("WRERA"). In consultation with the Plan's actuary, and thoroughly discussed during a special meeting called for such purpose, the Board of Trustees elected to avail the Plan of the relief and extend the Plan's 2008 Pension Protection Act funded status to 2009. Further, the Trustees extended the existing Funding Improvement Plan from 10 years to 13 years.

During this time, the Plan briefly considered the possibility of a merger with the Ohio Carpenters Pension Plan; however, the requirements and limitations imposed by the Pension Protection Act of 2006 and the then current funded status of both plans created significant barriers that could not be overcome at that time.

As the year proceeded, it became apparent that the Plan would be certified as "critical" for the next Plan Year and need to adopt a Rehabilitation Plan. Hours worked were substantially down, and the Plan Year resulted in over a 500,000 hours worked deficiency from the previous year, 2008 – 2,928,547 compared to 2009 – 2,423,298. Although the Plan had an investment return of 14.9% for the Plan Year, it did not significantly reverse the funded status of the Plan following the devastating impact of the previous year's investment loss. Significantly, the Plan's negative cash flow percentage increased to 8.4% (compared to an average negative cash flow percentage of 5.3% per year over the previous four years).

The Board of Trustees began reviewing the variety of different adjustable benefits and the impact that the elimination or reduction of different adjustable benefits would have on the Plan's funded status.

Plan Year 2010 – The Plan Year commenced with a funded ratio of 56% on a market basis ($226,040,736 - Market Value of Assets / $404,027,509 – Accrued Liability). The number of active participants continued to fall with 1,831 active participants at the beginning of the Plan Year.

Unfortunately, hours worked remained in a substantial slide in 2010 (1,966,833), which was drastically lower, almost 500,000, than the previous Plan Year (2,423,298), and almost 1,000,000 less than the 2008 Plan Year (2,928,547).

On March 31, 2010, the Plan's actuary certified the Plan as "critical" for the Plan Year beginning on January 1, 2010. On April 9, 2010, the Trustees adopted the initial Rehabilitation Plan and preferred schedule. The changes to the Plan by the initial Rehabilitation Plan and amendment to the Plan incorporating the preferred schedule were as follows:

- For retirements commencing on or after April 30, 2010, the Plan's suspension rules for Disqualifying Employment before Normal Retirement Age were expanded by applying

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the rules in effect for benefits accrued on or after July 1, 2005 to benefits accrued before July 1, 2005 as well.

- For retirements commencing on or after September 1, 2010, the accrued benefits of terminated vested participants who commenced receipt of pension benefits before their Normal Retirement Date would be subject to a full actuarial reduction to reflect the early commencement of their benefits.

- For retirements commencing on or after September 1, 2010, the accrued benefits of vested participants who retired from active service and commence receipt of pension benefits before their Normal Retirement Date would be subject to a reduction of 0.003 for each month that the early commencement of their benefits precedes their Normal Retirement Date. The prior Funding Improvement Plan had included a similar provision, but that reduction had been applicable only to benefits accrued on or after January 1, 2009.

- For disabilities incurred on or after July 1, 2010, the Plan's Total and Permanent Disability benefit was modified to provide that vested participants who were eligible for an Early Retirement Benefit would receive a monthly pension equal to their Early Retirement Benefit. In addition, for vested participants who had not yet attained age 55 and incurred a total and permanent disability, the participant would receive a monthly pension equal to their accrued benefit subject to a full actuarial reduction. Effective April 30, 2010, the Plan's lump sum return of contributions Total and Permanent Disability benefit was eliminated. The Rehabilitation Plan noted that the Plan would continue to maintain its Trade Disability benefit.

- For deaths occurring on or after April 30, 2010, the return of contributions death benefit was eliminated for non-vested and vested unmarried participants.

- For deaths occurring on or after July 1, 2010, the Plan would continue to provide a Qualified Pre-Retirement Survivor Annuity to the surviving spouses of vested participants; however, the amount payable to the surviving spouse would be determined as if the participant retired on the date before his date of death or age 55 if later, elected the Joint & 50% Survivor Annuity form of payment, and died. Payments would not commence before the first month the deceased participant would have attained age 55.

- For retirements on or after September 1, 2010, the Plan's Rule of 80 Early Retirement benefit was replaced with a Rule of 85 Early Retirement benefit. Eligibility for the Rule of 85 Early Retirement benefit would require a minimum age of 55, and the sum of the participant's age plus years of vesting service must equal or exceed 85. In addition, a participant would be required to have at least 1,000 hours of contributions to the Plan for work in Covered Employment during the 24-month period immediately preceding their Early Retirement Date. Only vesting service earned under the Plan would be counted in calculating the vesting service required for Rule of 85 Early Retirement eligibility. For the participant to receive an unreduced Early Retirement benefit, they would be required to satisfy these requirements.

In addition the Rehabilitation Plan adopted addition contribution requirements as follows:

- The base journeyman hourly contribution rate was raised to $5.70 per hour for all hours of work on or after June 1, 2010.

- Beginning June 1, 2011 and ending June 1, 2020, an annual increase of $0.25 per hour was imposed on the Plan's hourly contribution rate.

Following the adoption of the Rehabilitation Plan, the Board of Trustees amended the Plan to remove ancillary benefits that did not require the same advance notice as the reduction of adjustable benefits. On and effective as of April 29, 2010, the Board of Trustees amended the Plan to eliminate certain ancillary benefits, including a lump sum return of contributions benefit for (1) those participants who died with less than five (5) years of vesting service, (2) deceased unmarried participants who were receiving a single life annuity and did not receive benefits in excess of the amount of employer contributions made on their behalf, and (3) married participants who died before they or their spouse received benefits in aggregate less than the employer contributions made on behalf of the participant.

The Plan finished the year with an investment return of 10.6% for the year; however, the Plan's negative flow continued to increase with a 9.3% negative cash flow for the year.

Plan Year 2011 – As of January 1, 2011, the number of active participants in the Plan was 1,583, a reduction of about 250 from the year before. Active participants made up about 29% of total participants and beneficiaries.

On March 3, 2011, the Board of Trustees elected to use the longer amortization period and asset smoothing options under Internal Revenue Code Section 431(b)(8) as allowed under the Pension Relief Act of 2010, for the Plan Year beginning on January 1, 2011.

As the year progressed, the Trustees noted that hours worked through the first several months was tracking significantly down from the average hours, 3,185,584, over the past seven years excluding 2010. The Board of Trustees considered variations of different projections from the actuary, including no additional pension accrual, increased pension contributions, lower hour assumptions, and lower investment return. As the Trustees continued to discuss the impact of lower hours, the Board began to discuss and consider the advantages of hybrid pension plan designs.

The Board of Trustees conducted a request for proposals for a possible replacement of the Plan's investment consultant.

The Plan ended the year with 2,092,816 hours worked and an investment asset return of 0.8%. The Plan also had another negative cash flow in excess of nine percent, 9.1%, for the year.

Plan Year 2012 – The first action of the Plan in 2012 was to select Marquette Associates as the Investment Consultant.

The Plan was funded at a 53% funded ratio on a market basis ($210,235,006 - Market Value of Assets / $399,455,599 - Accrued Liabilities). The hourly contribution rate for the Plan Year, after a $0.25 increase under the rehabilitation plan, was $6.20. The number of active participants reached a historic low of the past 22 years with 1,575 at the beginning of the Plan Year, only 41% of the number of active participants in 2000.

In June, the Board of Trustees met with Chris Heinz, who served as a legislative consultant to the United Brotherhood of Carpenters. Mr. Heinz was then seeking legislative relief from the United States Congress to permit pension plans to reduce accrued benefits of participants and retirees in pay status to save severely underfunded plans. Due to the nature of the Plan's difficulties, including the continued negative cash flow percentage arising in part because of the Plan's significant unreduced early retiree benefit

payment obligations, the Plan recognized the possibility that such a tool would prevent the eventual insolvency of the Plan. The Plan authorized Mr. Heinz to use the Plan's funding situation and identity in to demonstrate the utility of a legislative fix.

The Plan's new Investment Consultant began working and advising the Board of Trustees on the ways to reduce the Plan's investment volatility due to the Plan's fragile funding status and negative cash flow. The Board of Trustees adopted modifications to the investment portfolio on the advice and guidance of the new Investment Consultant.

In consultation with the Plan's actuary, the Board of Trustees updated the Plan's Rehabilitation Plan to further modify the Plan's early retirement benefit as follows:

- For a Participant who commenced receipt of an Early Retirement Benefit on or after January 1, 2013, the Early Retirement Benefit would equal the Participant's actuarially reduced accrued benefit.

- The Rule of 85 was completely eliminated for Early Retirement Benefits commencing on or after January 1, 2013.

The Board of Trustees continued to actively consider the impact of different variables.

The Plan ended the year with 2,305,944 hours worked and an investment asset return of 10.1%. The Plan's negative cash flow was 8.2% for the year.

Plan Year 2013 – At the beginning of the Plan Year, the Plan was funded at a 53% funded ratio on market basis ($212,968,506 - Market Value of Assets/ $404,284,154 - Accrued Liabilities). The hourly contribution rate for the Plan Year, after another $0.25 increase under the rehabilitation plan, was $6.45. The number of active participants had risen slightly from the year before to 1,645 as of January 1, 2013.

As of the first Board of Trustees meeting, despite the continued difficulties, the Plan was making scheduled progress in meeting the requirements of the Rehabilitation Plan; however, altering the assumption so that future hours worked continued at approximately 2,300,000 per year, the Plan would require additional measures to rehabilitate.

The Plan again met with Chris Heinz of Grossman Heinz to receive updates about possible relief pursuant to the report prepared by the National Coordinating Committee for Multiemployer Plans ("NCCMP"). There was some hope that the recommendations could be introduced during the fall of 2013.

Towards the end of the year, the Board of Trustees again followed the advice and guidance of its Investment Consultant modifying investments to reduce volatility and protect the Plan going forward.

Further, as the hours worked for the year continued to trend lower, the Plan's actuary presented additional various projections for the Plan, notably informing the Trustees that if the future annual hours worked continued at 2,100,000 per year combined with the remaining seven (7) years of $0.25 per hour per year contribution increases, the Plan would still be projected to incur a funding deficiency.

The Plan ended the year with 2,091,252 hours worked and an investment asset return of 14.2%. The Plan's negative cash flow was 8.5% for the year.

Plan Year 2014 – The Plan began the 2014 Plan Year with a 54% funded ratio on a market basis ($223,046,067 - Market Value of Assets / $409,939,373 - Accrued Liabilities). The hourly contribution

rate for the Plan Year, incorporating the scheduled $0.25 increase under the rehabilitation plan, was $6.70. The number of active participants was 1,573 as of January 1, 2014.

The Board of Trustees, in consultation with the Plan actuary, elected to extend the Plan's amortization period for an additional five (5) years. By correspondence to the Internal Revenue Service dated July 3, 2014, the Plan formally requested the approval of an automatic extension of the amortization periods in accordance with § 431(d)(1) of the Internal Revenue Code of 1986.

During the regular Trustee meetings, the Board continued to review and consider the impact of different assumptions on the funding status of the Plan. Based on hours worked through the first half of 2014, the Board of Trustees recognized there would not be material improvement during 2014 as well.

The Board of Trustees reviewed various options, and considered the possibility that continued increases in the per hour contribution rate would likely have an undesired negative affect on generating additional hours worked for which contributions were due. Further, the Plan had already eliminated all ancillary benefits and cut all adjustable benefits. Previously, the Plan had considered the impact of reducing the benefit accrual to zero; however, the reduction of future benefit accruals would not sufficiently counteract the Plan's negative cash flow percentage and legacy obligations connected with the unreduced early retirement benefits incurred prior to the availability of the tools of the Pension Protection Act of 2006. The Plan's actuary reviewed the possibility of declaring that the Plan had "exhausted all reasonable measures." The Board of Trustees directed the Plan's actuary to prepare an updated Rehabilitation Plan invoking the exhaustion of all reasonable measures for consideration and discussion at the final meeting of 2014.

At the final Board of Trustees' meeting, the actuary led a discussion and analysis of declaring the "exhaustion of all reasonable measures." The consideration and decision to declare that all reasonable measures to be exhausted is detailed in the Response to Checklist Items #20, 21 and 22. The Board of Trustees adopted an updated Rehabilitation Plan recognizing that the Plan would not emerge from critical status within the scheduled Rehabilitation Period. The updated Plan continued the $0.25 per year increases to the hourly contribution rate through 2020.

At the end of the year, the Multiemployer Pension Reform Act of 2014 was passed and signed into law.

For the 2014 Plan Year, the Plan had 2,239,505 hours worked, an investment asset return of 7.2%, and a negative cash flow of 7.8%.

Plan Year 2015 – The 2015 Plan Year began with the Plan at a 54% funded ratio on a market basis ($221,295,712 - Market Value of Assets / $408,066,808 - Accrued Liabilities). The hourly contribution rate for the Plan Year was $6.95, incorporating the scheduled $0.25 increase under the rehabilitation plan. The number of active participants was 1,576 as of January 1, 2015.

The Board of Trustees continued to review and consider the impact of future hours and asset return variables. Despite an asset return of 6.8% for the year ending December 31, 2014 and 7.0% thereafter, continued employer contribution increases of $.25 per hour in each of the next six years and future annual hours totaling 2,300,000 per year, the Plan was still scheduled to incur a funding deficiency. Following significant discussions on the assumptions, the Plan's actuary stated that based on the assumptions of 2,300,000 hours worked, an annual investment return of 6.5% and the hourly contribution rate of $6.95, the Plan would be certified as "critical and declining" status for 2015.

The Board of Trustees continued to consider the potential impact of the tools provided by MPRA and waited for additional guidance on benefit suspensions and application procedures. At each Board of

Trustee meeting, the Trustees dedicated significant time towards consideration of benefit suspensions, as well as alternative plan designs such as variable defined benefit plans and an "Evergreen Plan" design created by the Plan's actuary. The Evergreen Plan establishes a Section 414(k) account inside a pension plan, and utilizes the Plan's Evergreen account to receive a transfer of defined contribution account balance, which is then annuitized and paid to the Participant in the form of a monthly benefit for the Participant's life (and the Participant's spouse, if a joint and survivor benefit is elected). Each participant would have an Evergreen account equal to contributions made on the member's behalf plus returns and less expenses.

The Board of Trustees scheduled and held a special meeting dedicated solely to the issues to the consideration of alternative plan designs and possible benefit suspensions.

The Board of Trustees also directed the Investment Consultant to undertake an asset allocation study to determine an assumed rate of return for purposes of consideration of benefit suspensions under MPRA and funding projections.

With the guidance available at that time, the Board of Trustees considered various possible benefit suspensions that would result in the necessary avoidance of insolvency. As of October 2015, the actuary demonstrated to the Board of Trustees that the Plan would become insolvent in 2033 if no changes were made. The Plan's actuary reviewed several alternative projections which considered different percentages of benefit suspensions. It was also noted that active members had already been subject to reductions in benefits and contribution rate increases, whereas other members had retired under the Rule of 80 with unreduced benefits. The Board of Trustees continued to work towards avoiding Plan insolvency.

On September 10, 2015, the Board of Trustees adopted an updated Rehabilitation Plan. It was determined that the continued increase of the hourly contribution rate would not forestall insolvency. In addition, hours worked continued to be significantly lower than pre-financial crisis levels. As detailed in the response to Checklist Items 20, 21 and 22, the updated Rehabilitation Plan ceased the increase of the hourly contribution rate at $6.95.

The Plan had a slightly better year in 2015 with 2,544,244 hours worked. The Plan finished the year with an investment asset return of 2.8%, and a negative cash flow of 6.6%.

Plan Year 2016 – The 2016 Plan Year commenced with the Plan at a 45% funded ratio on a market basis ($213,252,642 - Market Value of Assets / $470,229,784 - Accrued Liabilities), as adjusted with the new assumptions of the Rehabilitation Plan. The hourly contribution rate for the Plan Year was $6.95, incorporating the scheduled $0.25 increase under the rehabilitation plan. The number of active participants was 1,576 as of January 1, 2015.

The Board of Trustees continued to review possible benefit suspensions that would satisfy the criteria to avoid insolvency. In addition, the Plan's actuary provided information and guidance on the possibility of an alternative plan design such as the "Evergreen" plan or the "Composite Plan" rumored to be a possible newly available option.

The Plan's Board of Trustees concentrated the remaining portion of the Plan Year towards working to submit an application for benefit suspensions under MPRA as it was considered the only viable option towards avoiding eventual insolvency.