Checklist Item #8	Application for Approval of a Suspension of Benefits Under MPRA
Iron Workers Local 17 Pension Fund	EIN: 51-0161467 Plan No.: 001
Does the application include the plan sponsor's determination of projected insolvency that includes the documentation set forth in section 5 of the revenue procedure. See section 3.03.	The Board of Trustees for the Iron Workers Local 17 Pension Fund determined after review of all of the available information and possible reasonable plan changes that the Pension Fund would become insolvent unless benefits are suspended as required under Internal Revenue Code Section 432(e)(9)(C)(ii). The Segal Company, the Pension Fund's Actuary, determined that the Pension Fund was in critical status as of May 1, 2008 when the Pension Fund first became subject to compliance with the Pension Protection Act of 2006. In August 2008, the Board of Trustees adopted its initial Rehabilitation Plan which was designed to eliminate adjustable benefits in order to bring the Pension Fund's liabilities into line with the contribution rate being paid on an hourly basis. Thereafter, the Pension Fund suffered a decline of over 30% of its assets due to the losses from the Recession for the Plan Years 2008-2009. In early 2011, the Plan Actuary advised the Board of Trustees that the Pension Fund was facing insolvency in 2025. The Board of Trustees adopted a new Rehabilitation Plan effective May 1, 2011 that provided for an increase in the contribution rate to forestall the insolvency of the Pension Fund for one additional year, to 2026. Since this time, the contributions and work hours exceeded projections for several years; however, these gains are being offset by the losses sustained due to the withdrawal of employers and actuarial changes necessary to account for changes in the long term mortality and investment assumptions. In July, 2015, the Fund's Actuary certified to the Board of Trustees that the Pension Fund was in

	critical and declining status for the Plan Year beginning May 1, 2015. The Plan's Actuary initially determined that the Pension Fund would be insolvent in the Plan Year 2032; however, after adjustment for the loss of a withdrawal liability assessment and actuarial changes to the assumptions for mortality and investment returns, the Actuary determined that the Pension Fund would again be insolvent in 2025. The Pension Fund's Actuary reached this conclusion even though the Board of Trustees has taken all reasonable measure to avoid the insolvency of the Pension Fund. The series of plan changes, contribution increases and studies which the Trustees undertook since initially determining that the funding levels for the Pension Fund were declining in 2004 are included in support of this Application on behalf of the Pension Fund. Specifically, the following studies and information relating to the determination by the Board of Trustees that the benefit suspension was the only viable alternative to termination of the Pension Fund are being presented: • Summary of Trustees' determination and Special Studies Undertaken in making the decision to file this application on behalf of the Iron Workers Local 17 Pension Fund (pages IW17PF_062-067); • Segal Report dated February 17, 2015 Board of Trustees Meeting Initially Evaluating the provisions under MPRA (pages IW17PF_068-105); • Segal Report dated March 12, 2015 to the Board of Trustee with initial plan design changes for suspension of benefits(pages IW17PF_106-113); • Segal Report dated April 20, 2015 to the Board of Trustees with updated plan design changes for suspension of benefits(pages IW17PF_114-120) • Segal Report dated May 15, 2015 to the Board of Trustees with updated plan design changes for suspension of benefits(pages

	IW17PF_121-133); • Segal Report dated June 9, 2015 for the Board of Trustees Meeting with updated plan design changes for suspension of benefits(pages IW17PF_134-151); • Segal Report dated August 7, 2015 to the Board of Trustees with updated plan design changes for suspension of benefits (pages IW17PF_152-170); • Segal Report dated October 1, 2015 to the Board of Trustees with updated plan design changes for suspension of benefits (pages IW17PF_171-184); • Segal Memo dated October 14, 2015 to the Board of Trustees with the revised plan design changes for suspension of benefits (pages IW17PF_185-186); and • Segal Report dated October 20, 2015 with the final plan design changes adopted by the Board of Trustees at the October 16, 2015 Special Called Board of Trustees meeting (pages IW17PF_187-198). The application filed on behalf of the Pension Fund also provides detailed information on the reasonable measures taken into account in making this determination that the proposed Suspension Plan is necessary to avoid insolvency. These are detailed in the following sections of the application as outlined below: • A detailed description of the measures taken in order to avoid insolvency over the 10 year period beginning May 1, 2004 is provided in response to Checklist Item #18 (pages IW17PF_234-239). • Information concerning the contribution levels, benefit reductions, measures taken to retain and attract new contributing employers, compensation levels and competitiveness and other economic factors is provided in response to Checklist Item #19 (pages IW17PF_240-244). • Description of how the various Plan Factors were taken into account during the determination by the Board of Trustees that

	all reasonable measures had already been taken to avoid insolvency is provided in response to Checklist Item #20 (page IW17PF_ 245-247). • A Description of all other factors taken into account during the Board of Trustees' determination that all reasonable measures were taken to avoid insolvency prior to filing this application for approval of a benefit suspension is provided in response to Checklist Item #21 (page IW17PF_248-249).

Summary of Board of Trustees' Determination and Special Studies

The Board of Trustees for the Iron Workers Local 17 Pension Fund had been working since 2002 to adopt plan changes and contribution increases with the intent to improve the funding levels of the Pension Fund. The specific changes and projects undertaken since 2004 are detailed in the response to Checklist Item #18. However, in early-2013 the Trustees were in the middle of working through the terms of a possible termination of the Pension Fund under a managed mass withdrawal with the Pension Benefit Guaranty Corporation. The Trustees reviewed the proposed legislation from the National Coordinating Committee for Multiemployer Plans (NCCMP) entitled at the time "Solutions not Bailouts". At that time, the Trustees authorized the Plan Actuary to prepare a study to determine the level of benefit suspensions which would be needed to avoid insolvency under the proposed legislation. In April 2014, the Trustees were provided with a general study which determined that an approximate 9.8% reduction in benefits for all participants and beneficiaries in the Pension Fund would be enough to permanently avoid insolvency. Portions of this study were provided to the NCCMP to assist in its lobbying efforts relating to the Multiemployer Pension Relief Act of 2014 (MPRA) which eventually was passed in December 2014.

February 17, 2015 Board of Trustees Meeting

- February 17, 2015 was the first Board of Trustees meeting scheduled after the passage of MPRA. Segal Company and Legal Counsel presented detailed information on the provisions which were adopted as part of this new statute during the regular Board meeting.
- Since MPRA adopted limitations which do not allow benefit suspensions to apply to any participants or beneficiaries who receive a benefit based upon disability and limits the suspensions for participants between ages 75-80, Segal now determined that the Pension Fund would need and approximate 20-25% reduction in the benefits for all affected participants and beneficiaries.
- Trustees reviewed the current plan design, prior plan changes, the impact of the elimination of adjustable benefits on retirees since May 1, 2009 and issues regarding the early retirement subsidies and $100.00 Benefit Credit in effect prior to 2004.
- After lengthy discussion on the possible plan changes which could be adopted to bring parity between the retirees prior to 2009 and those after, the Trustees approved moving forward with modeling and discussed preliminary designs of suspension with Segal. These were as follows:
    - Determine a new average accrual rate that if applied to all affected participants and beneficiaries would allow the Pension Fund to avoid insolvency;
    - Determine all early retirement benefits based upon the post-2009 plan rules which provide a full benefit for 30 years of Vesting Service at age 62, but full actuarial adjustment for all early retirees without the 30 years of Vesting Service;
    - Eliminate excess Benefit Credits over one year for all affected participants because these will be eliminated upon insolvency of the Pension Fund under the PBGC rules;
    - Adjust Benefit Credits to afford some parity between the participants that earned credits under the 1,200 schedule prior to May 1, 2005 and those earning under the 1,900 schedule since that time.

    - Review possible changes to reflect the fact that prior to August 2008 participants had the ability to take 10% of the accrued benefit in the form of a lump sum payment.

March 12, 2015

- Segal was provided with sample retiree information needed to provide basic modeling on benefit suspensions after the February 2015 Board meeting.
- Segal produced a preliminary report showing benefit suspension scenarios A-D for 29 sample retirees along with the average terminated vested and active participants.
- The data on the 1,078 participants in pay status was updated to show that 304 would be younger than age 75 as of May 1, 2016, 83 would be between ages 75 and 79 and 138 would be over age 80. Additionally, there were 351 disabled participants in the population as well. This showed that approximately 53% of the in pay status participants were subject to limited or no benefit suspensions under MPRA.
- During this conference call meeting of the Trustees, they requested further benefit suspension models as follows:
    - (Scenario C) Reduce average accrual level to $81 with full actuarial changes for early retirees under age 62 without 30 Year Service Pension;
    - (Scenario D) Reduce average accrual level to $78 with elimination of excess Benefit Credits over one per year;
    - (Scenario E) Reduce average accrual level to $83 with a 3% per year reduction for early retirees under age 62 with 30 Year Service Pension and elimination of excess Benefit Credits over one per year; and
    - (Scenario F) Reduce average accrual level to $81 with a 2% per year reduction for early retirees under age 62 with 30 Year Service Pension and elimination of excess Benefit Credits over one per year.

Mid-April 2015

- Segal worked with the Fund Office and prepared the additional benefit models requested as Scenarios C-F in a report published to the Trustees April 20, 2015.
- The new benefit suspension scenarios included deterministic projections showing that the Pension Fund would start making a slow recovery and move away from the projected insolvency during the Plan Years 2040 – 2044.
- This Report was reviewed with the Board of Trustees during a conference call meeting held May 5, 2015.
- The Trustees requested that Segal use the actual pensioner data to prepare their projections on the overall probability that the various scenarios would avoid insolvency. Additionally, the following two additional scenarios were requested:
    - (Scenario G) Reduce average accrual level to $75 with a 1% per year reduction for early retirees under age 62 with 30 years of Vesting Service and elimination of excess Benefit Credits over one per year; and;
    - (Scenario H) Reduce average accrual level to $75 with a 1% per year reduction for early retirees under age 62 on the 30 Year Service Pension with NO elimination of excess Benefit Credits over one per year.
- Fund Office began working on data collection for all retirees for Segal to use for more accurate models.

May 15, 2015

- Segal worked with the Fund Office and prepared the additional benefit models requested as Scenarios D-H in a report published to the Trustees May 15, 2015.
- The new benefit suspension scenarios which were based upon actual pension data instead of a sample, included deterministic projections showing that the Pension Fund would start making its recovery earlier in 2036-2037. Additionally, the lowest market value of assets increased from $38 million under the old projections to $59 million with the live data.
- This Report was reviewed with the Board of Trustees during a conference call meeting held May 15, 2015.
- The initial investment and contribution income was just being received for the Plan Year end April 30, 2015, so the Trustees requested that Segal provide updated scenarios and sensitivity testing based upon the investment return assumption over time before moving forward with further discussions over the possible benefit suspension plan.
- Fund Office began collection of data on inactive vested participants.

July 7, 2015 Board of Trustees Meeting

- At this Board of Trustees meeting, the Trustee reviewed the Segal Report dated June 9, 2015 with its updated benefit suspension scenarios G-I.
  - (Scenario I) Reduce average accrual level to $75 with no change for early retirees under 30 Year Service Pension and elimination of excess Benefit Credits over one per year
- The Trustees discussed concerns regarding the changes to early retirees that retired under the Service Pension. It was of great concern that these participants were receiving the highest amount of subsidy from the Pension Fund; however, the Trustees acknowledged that they were only following the rules of the Pension Fund at the time. Additional benefit scenarios that were requested that showed the reduction to the average accrual rate of $75 with no additional reduction for the Early Retirees on the 30 Year Service Pension and with the elimination of the excess Benefit Credits.
- Segal provided deterministic and stochastic models on these new scenarios. While both models G and I met the deterministic tests, neither were determined to have a 50% or greater chance to avoid insolvency under the stochastic modelling. Additionally, the Segal Report showed that the Pension Fund no longer has a 50% or greater probability to achieve a 7.5% investment return on an annual basis.
- After review of these results, the Trustees requested information on the new average benefit accrual rate which would be needed to avoid insolvency under both deterministic and stochastic modeling with the additional change for the 6.5% interest assumption.
- Legal Counsel reviewed the IRS Proposed and Temporary Regulations including:
  - Clarification that the Board can appoint a Retiree Representative but is not required to because of the size of the Plan
  - The requirement that participant notices must be sent within days of the filing of the application – the model notice is extensive and will require additional information to be prepared for the Fund Office to meet this requirement
  - Issues with the 5% test to determine if the level of benefit suspensions are reasonable

- After review of the best case scenario outlined below, the Trustees determined that it was highly improbable that the Treasury will conduct the member vote and provide final authorization prior to May 1, 2016. The Trustees suggested using November 1, 2016 as the benefit suspension date and authorized Segal to perform the 5% test to determine if the current benefit suspension scenarios under consideration would meet this test.

July 29, 2015

- Segal prepared the 2015 Actuarial Status (Zone) Certification which found that the Plan is in critical and declining status. The certification included a year-by-year cash flow projection showing the projected insolvency date.
- Notice to the Participants was mailed to the participants 30 days later.

August 7, 2015

- Segal prepared the updated Scenarios G-I and added J-L based upon the results of the 5% testing required under the Proposed Regulations. These updated scenarios included new proposed average benefit accrual rates and early retirement reductions for Early Retirees on a 30 Year Service Pension as follows:
    - (Scenario J) Reduce average accrual level to $77 with no change for early retirees under 30 Year Service Pension and elimination of excess Benefit Credits over one per year
    - (Scenario K) Reduce average accrual level to $80 with a 1.5% per year reduction for early retirees under age 62 with 30 Year Service Pension and elimination of excess Benefit Credits over one per year; and;
    - (Scenario L) Reduce average accrual level to $75 with a 0.5% per year reduction for early retirees under age 62 with 30 Year Service Pension and elimination of excess Benefit Credits over one per year.
- This Report was reviewed with the Board of Trustees during a conference call meeting held August 7, 2015.
- The Report contained the updated investment and contributions for April 30, 2015 along with the change to the interest assumption to 6.5%.
- Additionally, the Trustees requested that Segal provide sensitivity testing regarding the future payment of disputed withdrawal liability in light of the imminent decision by the Arbitrator.
- The proposed scenarios passed the 5% test for the design under the deterministic projections. However, in reviewing the results of this testing, Segal advised the Trustees that due to the small margin afforded under the Proposed Regulations, a loss of only 1-2% in the markets could result in the Pension Fund no longer avoiding insolvency.
- The Trustees were concerned over the possibility that this 5% test could require them to make too few benefit reductions and have to repeat this process and make continuous suspensions in the future. The Trustees authorized Legal Counsel to work with Segal to prepare a comment on the Proposed Regulations with a suggested modification for the 5% rule that would lessen the harmful impact on Pension Funds like, Iron Workers Local 17, which are not making large reductions to accrued benefits under their proposed Suspension Plan.

August 18, 2015

- Pension Fund issued a comment requesting modification of the 5% test to allow for some flexibility on behalf of plans that are seeking modest reductions to the benefit accruals.

October 1, 2015 Board of Trustees Meeting

- At this Board of Trustees meeting, the Trustee reviewed the Segal Report dated October 1, 2015. The prior scenarios A-L were determined to no longer be viable due to the changes to the investment assumption and loss of the withdrawal liability payments from Stevens Engineers & Constructors Inc. These updated scenarios included new proposed average benefit accrual rates and early retirement reductions for Early Retirees on a 30 Year Service Pension as follows:
  - (Scenario M) Reduce average accrual level to $75 with a 2.0% per year reduction for early retirees under age 62 with 30 Year Service Pension and elimination of excess Benefit Credits over one per year; and;
  - (Scenario N) Reduce average accrual level to $72 with no change for early retirees under 30 Year Service Pension and elimination of excess Benefit Credits over one per year
- The Trustees reviewed the information on the September public hearing and Temporary Regulations on the voting procedure.
- Trustees tabled the decision to consider whether to move forward with the filing of the application. A special called meeting was set for October 16, 2015 to make this decision.

October 16, 2015

- Segal worked with Fund Office and Investment Consultant to update the investment return for the Third Quarter 2015. A Memorandum was provided to the Board of Trustees dated October 14, 2015 which included further revisions to the scenarios to account for the market losses.
  - (Revised Scenario M) Reduce average accrual level to $73 with a 2.0% per year reduction for early retirees under age 62 with 30 Year Service Pension and elimination of excess Benefit Credits over one per year; and;
  - (Revised Scenario N) Reduce average accrual level to $70 with no change for early retirees under 30 Year Service Pension and elimination of excess Benefit Credits over one per year
- This Report was reviewed with the Board of Trustees during a conference call meeting held October 16, 2015. The Trustees discussed the overall equity issues between the two final scenarios. The Scenario M provides an overall benefit reduction to all affected participants but also allows for some additional reduction to the affected participants that received the most in early retirement subsidies. After review of the prior October 1, 2015 Report along with the updates for the market losses, the Trustees approved filing an application for approval of the following Suspension Plan:
  - Reduction of Benefit Credit Rate - the accrued benefit and benefit in pay status for any affected participant, beneficiary or Alternate Payee will be recalculated as of April 30, 2016 (the fiscal plan year-end immediately prior to the Suspension Date) to be reduced so the highest average accrual rate is no more than $72.00 per year of Benefit Service.
  - Elimination of Excess Benefit Credits - the accrued benefit and benefits in pay status will be adjusted so any additional Benefit Credits over one (1) will be eliminated as of

December 1, 2016.

- o <u>Modification of Unreduced Early Retirement Benefit</u> - the benefits in pay status for any affected participant, beneficiary or Alternate Payee that received an unreduced early retirement benefit will be recalculated as of December 1, 2016 to apply a 1.5% reduction for each month that the person's pension commenced prior to age 62.

These changes will only apply to Affected participants, beneficiaries and Alternate Payees. The Proposed Suspension Plan recognizes that certain groups are exempted from the application of these benefit reductions. These groups which the Suspension Plan refers to as Exempted Participants are as follows:

- o All participants that were awarded with a disability pension and beneficiaries of such participants;
- o All participants and beneficiaries who are at least age 80 as of December 1, 2016; and
- o Any participant or beneficiary that would receive a benefit that is less than 110% of the PBGC guaranteed level.

Additionally, the Proposed Suspension Plan will limit the application of these proposed reductions for any participant, beneficiary or Alternate Payee that is between age 75 and 80 as of December 1, 2016. This group, which the Suspension Plan refers to as Limited Suspension Participants, will have their accrued benefit or benefit in pay status recalculated under the changes that apply to the Affected Participants above called the recalculated benefit. However, the Pension Fund will then determine 1/60th of the difference between the current benefit and suspended benefit. This factor will be multiplied by the number of months the Limited Suspension Participant is over age 75 as of December 1, 2016 to determine the increase factor. The new benefit under the Proposed Suspension Plan for this Limited Suspension Participant group is the sum of the reduced benefit plus the increase factor.

- The Trustees discussed the issues that may be faced by retirees who are now faced with reduced monthly pensions. Replacement income was a concern based upon the current Suspension of Benefit Rules that do not allow Early Retirees younger than age 65 to return to work in any position related to the iron workers industry. After additional discussion, the Trustees agreed to change the Suspension of Benefit rules under the Pension Fund to allow any participant in pay status as of December 1, 2016 when the proposed Suspension Plan will go into effect to return to work for up to 39.5 hours (on a paid basis) per month without having to forfeit their monthly benefit.
- The October 20, 2015 Segal Report was provided to the Trustees based upon the final Proposed Suspension Plan design with the required demonstrations on a deterministic and stochastic basis and showing the adoption of the Plan would avoid insolvency of the Pension Fund.

Multiemployer Pension Reform Act of 2014

Iron Workers Local 17 Pension Fund

February 17, 2015

Presented by: Megan K. Kelly, CEBS, Vice President and Benefits Consultant
Harold S. Cooper, FSA, MAAA, EA, Vice President and Actuary

This document has been prepared by Segal Consulting and is not complete without the presentation provided at the February 17, 2015 meeting of the Board of Trustees of the Iron Workers Local 17 Pension Fund. This document should not be shared, copied, or quoted, in whole or in part, without the consent of Segal Consulting, except to the extent otherwise required by law. As with all issues involving the interpretation or application of new laws, Trustees should rely on the advice of Fund Counsel in interpreting and applying the Multiemployer Pension Reform Act of 2014. The actuarial calculations were completed under the supervision of Henry Wong, ASA, MAAA, FCA, EA.

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Overview

- Multiemployer Pension Reform Act of 2014 (MEPRA)
  - Enacted December 16, 2014
  - Part of the Consolidated and Further Continuing Appropriations Act, 2015, the “omnibus” government funding bill
- Eliminates Pension Protection Act of 2006 (PPA) “sunset” provisions
- Includes many proposals from NCCMP Retirement Security Review Commission Report “Solutions not Bailouts” including:
  - Benefit suspension provisions for plans in “critical and declining” status,
  - Zone certification modifications,
  - PBGC facilitated mergers, and
  - Certain withdrawal liability calculation changes

Overview *continued*

- Other notable items:
  - PBGC premiums doubled for 2015
  - Revised partition rules
  - Several other changes and technical corrections
- Provisions generally effective for the 2015 plan year
  - Some effective as of date of enactment (December 16, 2014)
- NOT included in the law:
  - New "composite" (target) flexible benefit plan design

PPA Sunset Repealed

- Existing PPA “zone rules” continue indefinitely
- Status certifications of endangered (yellow zone) or critical (red zone) continue
- Information collection early in 2015 plan year still necessary
  - Trustee input for industry activity levels
  - Financial information
- Scope of needed information expanded
  - Zone certification requirements may require longer term industry activity levels
  - Additional information also needed for new “critical and declining status” determination
- Automatic approval for certain amortization extensions also continues

Eliminates all uncertainty surrounding the scheduled sunset

PBGC Premiums

- PBGC premium increased to $26 per participant in 2015
  - Doubles announced pre-MEPRA 2015 rate of $13 per participant
  - **For this Plan, the expected increase is approximately $27,000**
  - Rate indexed for years after 2015, based on US national average wage index
- PBGC report to Congress by June 1, 2016
  - Whether premium level is sufficient to meet "projected mean stochastic basic benefit obligations"
  - If not, propose premium levels sufficient to meet such obligations

Expect higher administrative expenses in light of new PBGC premiums

Withdrawal Liability Calculation Changes

- Critical status surcharges disregarded in:
  - Allocation of unfunded vested benefits, and
  - Highest contribution rate used for withdrawal liability annual payment
  - Applicable to surcharges payable in 2015 (and beyond)
- Contribution rate increases pursuant to a funding improvement or rehabilitation plan disregarded in:
  - Allocation of unfunded vested benefits, and
  - Highest contribution rate used for withdrawal liability annual payment.
  - Applicable to increases going into effect during 2015 and later plan years
  - Exceptions for rate increases tied to increased work levels or higher benefit levels
  - Exclusion ceases when plan emerges from critical or endangered status
  - PBGC to provide simplified methods
- Intended to encourage employers to remain in yellow and red plans
- **These changes do not currently affect the Iron Workers Local 17 Pension Fund since there are no employers paying surcharges and there are no future contribution rate increases required by the Rehabilitation Plan**

Critical and Declining Status

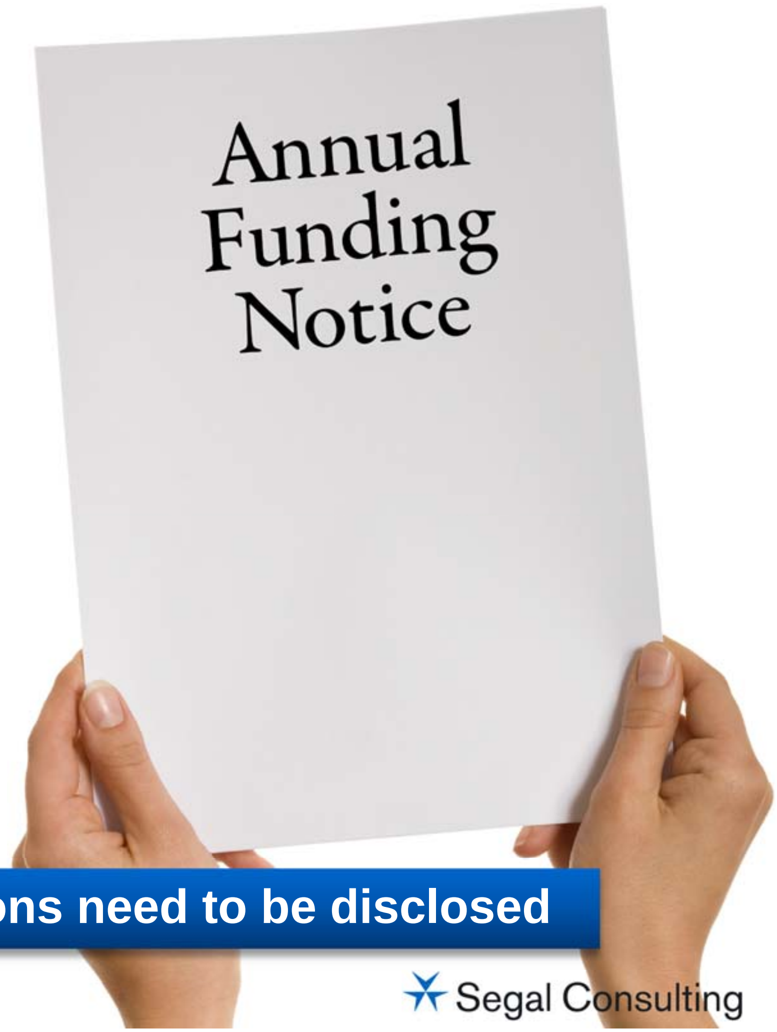
- Status certification requirements are expanded to identify **"critical and declining status" (red C&D)** plans
  - Plans that meet one or more of the red zone tests, plus
  - Insolvency projected within:
    - 15 years
    - 20 years, if inactive/active ratio is at least 2 to 1, or less than 80% funded
  - For insolvency projections:
    - Assume, if reasonable, that each employer's rehabilitation plan schedule continues after CBA expiration
    - Reflect any prior suspensions that are still in effect

- **Based on the May 1, 2014 actuarial valuation, we estimate the Iron Workers Local 17 Pension Fund will be in Critical and Declining Status for the 2015 Plan year.**

Employer information will require Trustee input

Critical and Declining Status
Annual Funding Notices

- Red C&D status must be disclosed in annual funding notice
  - Notice provided to participants, bargaining parties and PBGC
- Information required
  - Statement that the plan is in red C&D status
  - Projected date of insolvency
  - Clear statement that projected insolvency may result in benefit reductions
  - Statement whether Trustees have taken legally permitted actions to prevent insolvency



Status, implications and Trustee actions need to be disclosed

Benefit Suspensions

- Trustees of critical and declining status (red C&D) plans **may suspend** benefits, subject to certain criteria and restraints
- Suspension means "temporary or permanent reduction" of:
  - Current or future payment obligation to
  - Any participant or beneficiary, including those in pay status
- Conditions for suspension include:
  - Trustees determine that plan is projected to be insolvent although **all reasonable measures** have been taken (and continue to be taken) **to avoid insolvency**
  - The actuary certifies that plan is projected to avoid insolvency under proposed suspension

Benefit suspension is not mandatory

Benefit Suspensions
Reasonable Measures

In its **all reasonable measures and benefit suspension** determinations, the trustees may consider the following:

- Current and past contribution levels
- Levels of benefit accruals
- Prior benefit reductions
- Prior suspensions
- The impact on plan insolvency of plan subsidies and ancillary benefits
- Compensation levels of active participants relative to the industry
- Competitive and other economic factors
- The impact of benefit and contribution levels on retaining active participants and bargaining groups
- The impact of past and anticipated contribution levels on employer attrition and retention
- Measures taken to retain and attract employers

Trustee determinations must be in writing, maintained throughout suspension, and subject to agency review

Benefit Suspensions
Limitations

- Limitations on suspensions include:
  - Monthly benefit cannot be reduced below 110% of **each** participant's PBGC guarantee
  - No reductions for participants over age 80 at time of suspension
  - Gradual phase-in of protection for those between 75 and 80
  - No reductions for disability benefits
- Any reduction must be "reasonably estimated to achieve, but not materially exceed, the level that is necessary to avoid insolvency"
- When suspension is done in conjunction with partition, suspension may not take effect prior to effective date of partition

Assumptions for solvency determination must be carefully considered

Benefit Suspensions
Equitable Distribution

Suspension must be **equitably distributed** across participant and beneficiary population, taking into account factors that may include the following:

- Age
- Life expectancy
- Length of time in payment status
- Amount of benefit
- Type of benefit – survivor, normal retirement, early retirement
- Extent of benefit subsidy
- Extent of post-retirement benefit increases
- History of benefit increases and reductions
- Years to retirement for active participants
- Discrepancies between active and retiree benefits
- Extent to which suspension will result in withdrawal of participant support of the plan
- Extent to which benefits attributable to service with an employer that failed to pay its full withdrawal liability

Trustees decide on equitable terms of suspension distribution that they deem appropriate

Benefit Suspensions
Approval Process

Suspension can be implemented only after approval process

- Concurrent application to Treasury and notice to participants
- Approval by Treasury in consultation with DOL and PBGC
- Participant ratification

Application Process

Trustees

- Submit application for proposed suspensions to Treasury
- Provide required notice to interested parties at time of submission, including individualized estimates to participants and beneficiaries

Treasury

- Publishes request for comments in Federal Register
- Publishes application on Treasury website
- Has 225 days to review/ approve submission
  - Submission considered approved if no response within 225 days

Benefit Suspensions
Ratification and Review

- Approved application is subject to ratification by plan participants and beneficiaries
  - Vote is administered by Treasury
  - Must be conducted no later than 30 days after agency approval
  - Suspension goes into effect, unless a majority of <u>all</u> participants and beneficiaries vote to reject suspension
  - Agency can override participant rejection vote for "systemically important plans"
    - Plans where projected PBGC financial assistance exceeds $1 billion (indexed)
- Rules for judicial review of approved or denied suspensions are provided
  - Suits must be brought within one year of approval or denial
  - Affected participants and beneficiaries may <u>not</u> bring suit

Benefit Suspensions
Other Rules

- Plans with over 10,000 participants must select a "retiree representative"
  - Must be a participant in pay status
  - Advocate for interests of non-active participants
  - Must be selected at least 60 days before suspension application submitted
- Special rules apply to benefit improvements after suspension
- Suspended benefits disregarded in withdrawal liability determinations
  - For withdrawals within 10 years of effective date of suspension

Process to implement suspension can be lengthy

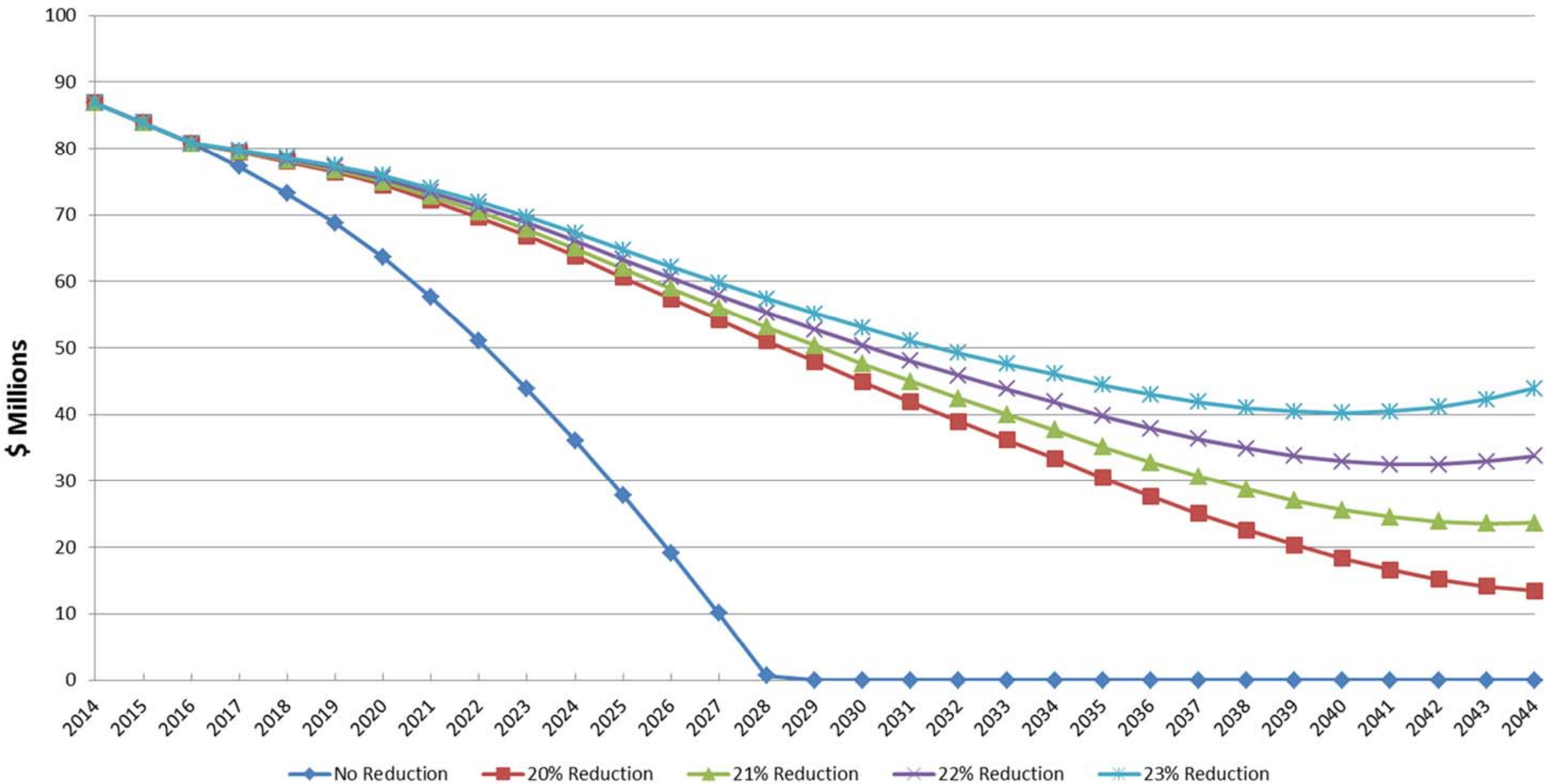
Benefit Suspensions
Projection Scenarios

- The following slides contain solvency projections based on benefit reductions effective May 1, 2016
- Benefits are assumed to be reduced across the board to not less than 110% of each participant's PBGC guaranteed benefit
- No reduction for disabled pensioners and participants age 80 and over as of May 1, 2016
  - Smaller reduction for participants between age 75 – 80
- Projected contribution income is based 607 active participants, with each active working an average of 1,700 hours each year, and includes withdrawal liability income from Stevens Painton
- 7.5%, 7.0%, and 6.5% market return scenarios
- Mortality assumptions updated to RP-2014 Blue Collar Mortality Tables with generational projection using Scale MP-2014
- Full description of assumptions in Appendix B

Benefit Suspensions

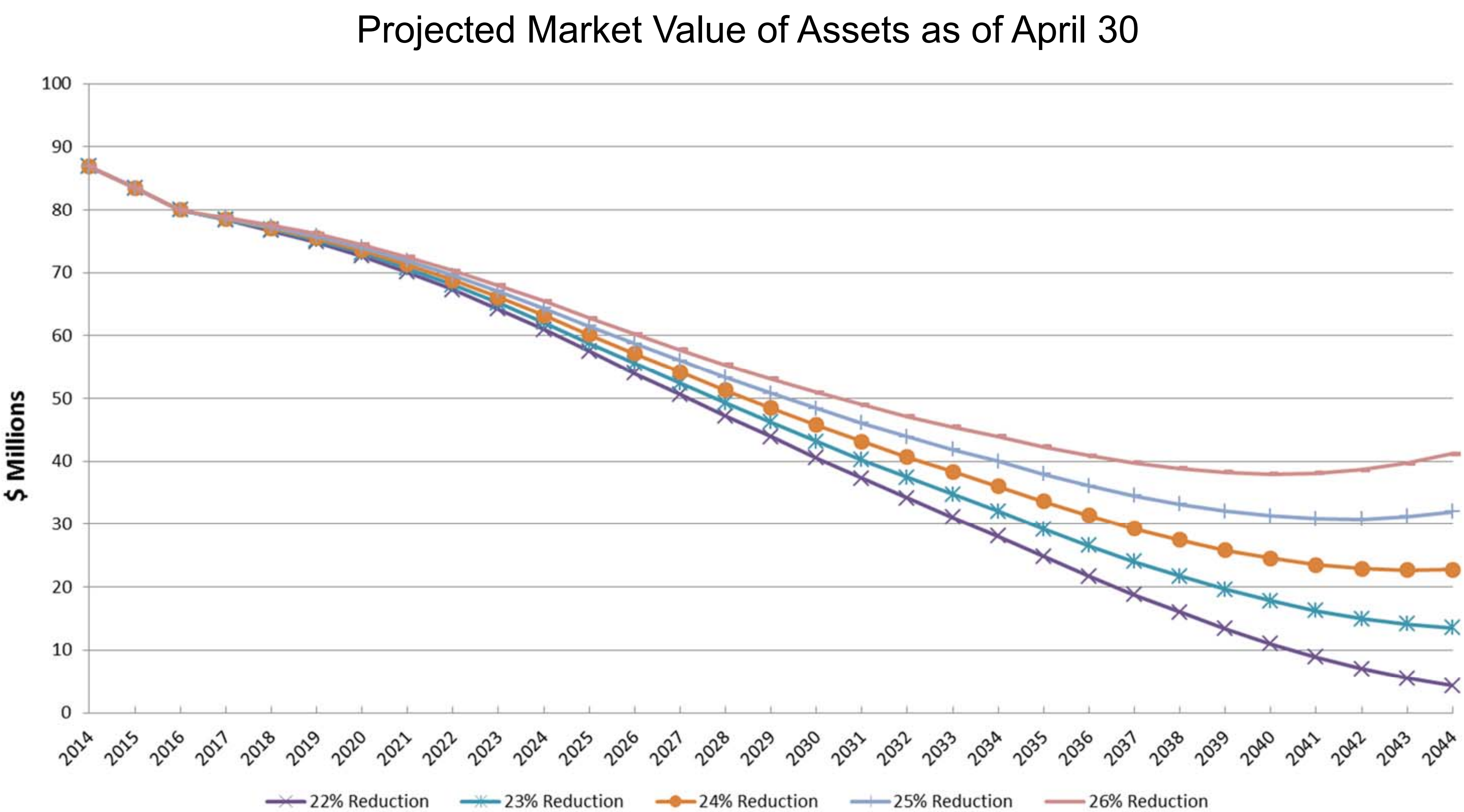
Projections Based on 7.5% Market Returns

Projected Market Value of Assets as of April 30



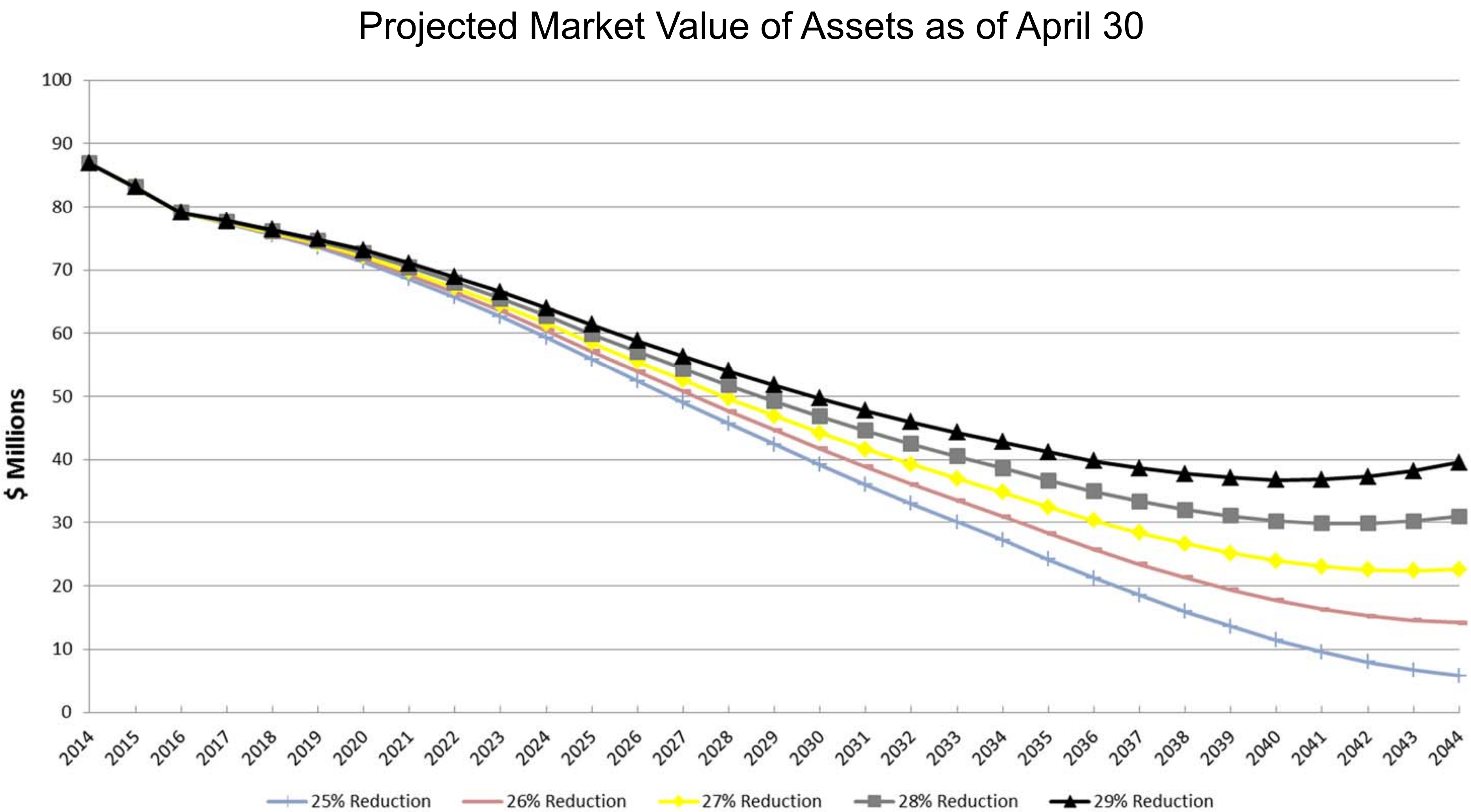
The Plan is projected to become insolvent in the Plan year beginning May 1, 2028 under the current benefit levels. We recommend stochastic analysis to determine the probability of remaining solvent under ranges of reductions.

Benefit Suspensions
Projections Based on 7.0% Market Returns



Future changes in asset allocations may result in lower investment returns. A reduction in the investment return assumption by 50 basis points is equivalent to an additional 3% benefit reduction.

Benefit Suspensions
Projections Based on 6.5% Market Returns



Benefit Suspensions
Additional Data on Pay Status Participants

Participants in Pay Status as of April 30, 2014	Counts	Total Monthly Benefit	Average Monthly Benefit	Able to Reduce Benefit?
Non-Disabled Pensioners				
Under age 75[1]	304	$687,317	$2,261	Yes
Age 75 – 79[1]	83	157,313	1,895	Yes[2]
Age 80 and over[1]	138	198,139	1,436	No
Total	525	$1,042,769	$1,986	
Disabled Pensioners[3]	351	$446,390	$1,272	No
Beneficiaries	202	$118,848	$588	Yes[4]
Total Pay Status	1,078	$1,608,007	$1,492	

[1]*As of May 1, 2016*
[2]*Benefit reduction must be prorated based on number of months between the month following the effective date of benefit suspension and participant's 80th birthday*
[3]*223 will be over Normal Retirement Age (65) as of May 1, 2016*
[4]*Amount of benefit reduction will most likely be small since the benefit amount for majority of beneficiaries is less than 110% of the PBGC guaranteed amount*

Benefit Suspensions
Potential Designs

- Trustees must decide on equitable terms of suspension distribution that they deem appropriate
- Some factors that the Trustees should contemplate
  - Current and past benefit rates ($50 versus $100 per benefit credit)
  - Current and past early retirement provisions (e.g., Service Pension, Unreduced Early Pension, etc.)
  - Current status (active, inactive vested, payment status)
  - Age
  - Length of time in payment status
- Trustees may also want to consider changes to current Plan provisions before suspension
- Viability of participant support should also be considered
- The following slides are illustrations of potential designs based on a 20% benefit suspension

Benefit Suspensions
Potential Designs – Example 1

- 20% reduction for every participant
  - Benefit is greater of:
    - 80% of benefit calculated under current provisions, and
    - 110% of PBGC guaranteed benefit
    - Benefit cannot be greater than current benefit
  - Pre-2009 retiree with 18 years of service at $100 accrual rate and 2 years of service at $50 accrual rate retiring at age 60 will have following amounts:
    - Current benefit after early retirement reduction = $1,780.00
    - Current benefit after early retirement reduction with 20% benefit suspension = **$1,424.00**
    - 110% of PBGC guaranteed benefit = $786.50
  - Post-2009 retiree with 8 years of service at $100 accrual rate and 12 years of service at $50 accrual rate retiring at age 58 will have the following amounts:
    - Current benefit after early retirement reduction = $789.60
    - Current benefit after early retirement reduction with 20% benefit suspension = $631.68
    - 110% of PBGC guaranteed benefit = **$711.92**

Benefit Suspensions
Potential Designs – Example 2

$100 accrual rate for all years of service

- Benefit is greater of:
  - 80% of $100 multiplied by years of service, and
  - 110% of PBGC guaranteed benefit
  - Benefit cannot be greater than current benefit
- Pre-2009 retiree with 18 years of service at $100 accrual rate and 2 years of service at $50 accrual rate retiring at age 60 will have following amounts:
  - Current benefit after early retirement reduction = $1,780.00
  - $100 accrual rate after early retirement reduction with 20% benefit suspension = **$1,494.40**
  - 110% of PBGC guaranteed benefit = $786.50
- Post-2009 retiree with 8 years of service at $100 accrual rate and 12 years of service at $50 accrual rate retiring at age 58 will have the following amounts:
  - Current benefit after early retirement reduction = **$789.60**
  - $100 accrual rate after early retirement reduction with 20% benefit suspension = $902.40
  - 110% of PBGC guaranteed benefit = $711.92
- Although the illustration is shown with a 20% reduction, the same as for Example 1, the reduction will need to be greater than under Example 1.

Benefit Suspensions
Potential Designs – Example 3

- Current early retirement factors applied to all participants
  - Benefit is greater of:
    - 80% of benefit calculated under current ERFs
    - 110% of PBGC guaranteed benefit
    - Benefit cannot be greater than current benefit
  - Pre-2009 retiree with 18 years of service at $100 accrual rate and 2 years of service at $50 accrual rate retiring at age 60 will have following amounts:
    - Current benefit after early retirement reduction = $1,780.00
    - Current ERFs with 20% benefit suspension = **$1,086.80**
    - 110% of PBGC guaranteed benefit = $786.50
  - Post-2009 retiree with 8 years of service at $100 accrual rate and 12 years of service at $50 accrual rate retiring at age 58 will have the following amounts:
    - Current benefit after early retirement reduction = $789.60
    - Current ERFs with 20% benefit suspension = $631.68
    - 110% of PBGC guaranteed benefit = **$711.92**
  - Although the illustration is shown with a 20% reduction, the same as for Example 1, the reduction could be less than under Example 1.
  - This design could be combined with the features in Example 2.

Note: New ERFs would be developed using current basis for pre-2009 retirees who retired before age 58.

Benefit Suspensions
Sample Timeline for May 1, 2016 Effective Date

February 2015	
-Approval to proceed; discuss preliminary designs of suspension	Trustees
Mid-March 2015	
-Collect necessary data to calculate PBGC guaranteed benefit	Fund Administrator
Mid-April 2015	
-Review and refine actuarial assumptions; run stochastic projections and stress testing; update design	Segal
End of April 2015	
-Review all reasonable measures to avoid insolvency (see following slide); review updated design for viability and reasonableness	Trustees
End of May 2015	
-Review 2014/2015 experience and fine-tune design	Segal
Mid-June 2015	
-Approve final design	Trustees

Benefit Suspensions
Sample Timeline for May 1, 2016 Effective Date continued

End of June 2015	
-Complete 2015 Actuarial Status (Zone) Certification -Prepare Individual benefit impact estimates -Provide notice to participants and interested parties (including benefit impact estimates) -Submit application to Treasury	Segal Fund Administrator and Segal Fund Counsel and Fund Administrator Fund Counsel
Mid-February 2016	
-Approval by Treasury -Develop participant ballots for suspension vote and submit to Treasury	IRS Fund Counsel and Fund Administrator
Mid-March 2016	
-Conduct member vote	IRS
Mid-April 2016	
-Vote count -Prepare for implementation	IRS Fund Administrator
May 1, 2016	
-Effective date of suspension	Fund Administrator

Benefit Suspensions
Review All Reasonable Measures to Avoid Insolvency

- Consider appropriate statutory factors
- Formulate potential rehabilitation plan changes for all reasonable measures
- Project implications of measures on preliminary deterministic suspension projections
- Make and document all reasonable measure decisions

Discussion and Questions

Appendix A: Other Provisions of MEPRA
Early Election of Red Zone

- Plans projected to be in red zone soon **may** elect to enter red zone now
- Critical status certification expanded
  - Actuary required to determine whether plan will be in red zone in current or "succeeding 5 plan years"
- If certified red in succeeding 5 plan years
  - Plan may elect to enter red zone—election due within 30 days of certification
    - If red zone elected, notice to Treasury required
    - If red zone <u>not</u> elected, notice to PBGC required
- Special projection rules may apply for determining critical status beyond current year
  - But only to <u>avoid</u> eligibility for early election of red zone
- **Some plans will be able to choose critical status as a means to avoid or leave endangered status**

Provides potentially distressed plans earlier access to critical status tools

Appendix A: Other Provisions of MEPRA

No Yellow Zone if "No Additional Action" is Required

- Plan may avoid *entry* into yellow zone, if no action required to emerge
  - Allows affected plans to skip Funding Improvement process and related restrictions
  - Determination done in conjunction with annual status certification process
    - Actuary for potentially new yellow plan does 10-year endangered status projection
- Yellow zone may be avoided if:
  - Plan green (not yellow or red) in the prior year, and
  - Actuary certifies plan projected to no longer be yellow at the end of 11 years
    - Assuming no change in future CBAs, plan provisions
- Notice requirement
  - If yellow zone entry avoided, notice must be provided to bargaining parties and PBGC

Plans that need to "do nothing" to exit yellow may continue to be "green"

Appendix A: Other Provisions of MEPRA
Clarification for Emergence from Red Zone

- Rules for red zone emergence clarified and revised to include ALL the following criteria (including new long-term solvency test):
  - Plan does not meet any PPA tests for entering critical status,
  - Plan is not projected to have an accumulated funding deficiency in ten (10) plan years, (without regard to use of shortfall method, but taking into account amortization extensions), and
  - Plan is not projected to be insolvent within 31 years
- Special rule for plans with "automatic" amortization extensions for emergence from and reentry to critical status
  - Those plans may encounter emergence earlier than anticipated

Emergence from red zone may be more difficult or less difficult depending upon plan's circumstances

Appendix A: Other Provisions of MEPRA
Other Changes and Technical Corrections

- Yellow zone plan restrictions revised to parallel red zone during funding adoption and funding improvement periods including:
  - Benefit increases
  - Contribution reductions or suspensions
  - Exclusion of certain participants
- Applicable schedule to be imposed specified when initial CBA expires but parties fail to agree on renewed schedule
- Adjusts yellow zone funding improvement plan target (funded percentage)
  - Might require funding improvement plan change for 2015 update
- Reorganization rules eliminated
  - But insolvency rules amended to incorporate certain aspects for red zone plans
- PBGC to guarantee pre-retirement survivor annuities for spouses alive on or after 12/16/14, retroactive for participant deaths on or after 1/1/85
- Required disclosures expanded

MEPRA changes generally apply to 2015 plan years

Appendix A: Other Provisions of MEPRA

Partitions

- PBGC **may** approve a partition if:
  - Plan is in critical and declining (red C&D) status
  - Plan has taken, and is continuing to take, "**all reasonable measures**" to avoid insolvency
    - Measures include the maximum benefit suspensions, if applicable
  - PBGC reasonably expects that partition:
    - Will reduce its expected long-term loss; and
    - Is necessary for plan to remain solvent
  - PBGC certifies to Congress that its ability to meet obligations will not be impaired by such partition
  - The cost of partition is paid out of PBGC multiemployer guarantee fund
- PBGC must notify Congressional Committees and affected participants after partition approved

PBGC must certify non-impairment to approve a partition

Appendix A: Other Provisions of MEPRA
Partitions continued

- Partition separates plan into two plans:

Ongoing Plan	Plan remaining after partition
Partition Plan	Insolvent plan created by transfer of liabilities for partitioned participants or beneficiaries

- Partition plan pays only guaranteed benefits
- Ongoing plan pays:
  - partitioned plan participants to “make them whole” to post-suspension benefit level and
  - post-suspension benefit level to all other participants
- Special withdrawal liability rules
  - Apply to employers who withdraw within 10 years of partition

Appendix A: Other Provisions of MEPRA
PBGC Facilitated Mergers

PBGC will facilitate mergers upon request if merger is:

- Determined to be in best interest of at least one plan's participants, and
- Not adverse to overall interests of participants in any of the affected plans
- PBGC assistance may include training, technical assistance, mediation, communications and support with other agencies

PBGC financial assistance available to merged plan if:

- At least one plan is red C&D,
- Such assistance will reduce PBGC expected long-term losses from involved plans, and
- Necessary for "merged plan to become or remain solvent"

Appendix A: Other Provisions of MEPRA
PBGC Facilitated Mergers continued

- In addition:
  - PBGC must certify ability to meet existing obligations to other plans will not be impaired by the financial assistance
  - Financial assistance is paid out of PBGC's multiemployer guarantee fund
- PBGC must notify Congressional Committees when financial assistance is provided

PBGC must certify non-impairment to provide financial assistance for mergers

Appendix B: Assumptions Used in Projections

- The projections shown were based on the May 1, 2014 actuarial valuation and the following additional assumptions:
  - 7.5%, 7.0% or 6.5% future market returns.
  - 607 actives for all future years, with each active working an average of 1,700 hours per year (1.03 million hours).
  - Any reduction in benefit occurs on May 1, 2016.
  - Benefits will be reduced to the level described in the chart or 110% of the PBGC guaranteed amount, whichever is greater, taking into consideration the following:
    - No reduction for pensioners over age 80 and pensioners receiving a disability pension.
    - Pensioners between ages 75 and 80 get a pro-rated reduction.
    - No reduction for current beneficiaries.
    - Participants with unknown service (except current beneficiaries) were reduced without consideration of their PBGC guaranteed amount as it cannot be determined.
  - Service pension is eliminated effective May 1, 2016. As such, the retirement rates for service pension is eliminated on and after that date.
  - Future benefit accrual rate remains at $50 per benefit credit.
  - Stevens Painton pays its withdrawal liability as assessed.
  - Effective May 1, 2015, mortality assumptions change to RP-2014 Blue Collar Mortality Tables with generational projection using Scale MP-2014 for non-disabled participants, RP-2014 Disabled Retire Mortality Tables with generational projection using Scale MP-2014 for participants disabled on and after May 1, 1997, and a 50/50 blend of the two preceding mortality assumptions for participants disabled prior to May 1, 1997.

Appendix B: Assumptions Used in Projections *continued*

- Contribution rate remains at $10.00 per hour.
- Administrative expenses increases by 10% for the May 1, 2015 Plan year and by 3% per year for all future years. The additional increase in 2015 is due to the doubling of PBGC premiums under MEPRA.

Caveat regarding projections: *Projections, by their nature, are not a guarantee of future results. The modeling projections are intended to serve as estimates of future financial outcomes that are based on the information available to us at the time the modeling is undertaken and completed, and the agreed-upon assumptions and methodologies described herein. Emerging results may differ significantly if the actual experience proves to be different from these assumptions or if alternative methodologies are used. Actual experience may differ due to such variables as demographic experience, the economy, stock market performance and the regulatory environment.*

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