Bricklayers & Allied Craftsmen Local No. 7 Pension Plan
Checklist Item #19

Does the application include plan information required by section 5.02?

Document 19.1 provides information concerning the following factors for the past ten (10) years immediately preceding the plan year in which the application is submitted:

- Contribution levels;
- Benefit accruals;
- Prior reductions of adjustable benefits;
- Prior suspension of benefits;
- Measures undertaken to retain or attract contributing employers;
- The impact of plan solvency on the subsidies and ancillary benefits of active participants;
- Compensation levels of active participants as compared to other employees in the bricklaying industry; and
- Competitive and other economic factors facing contributing employers.

5.02 Plan Factors

<u>Document 19.1</u>

Plan Factors Taken into Consideration to Avoid Insolvency

To avoid insolvency over the past ten (10) years, the Board of Trustees has considered the following specific factors, as listed in Revenue Procedure 2016-27, section 5.02.

1. Contribution Levels

The Board of Trustees considered contribution levels and the fact that contribution increases beyond those required by the Pension Plan's rehabilitation plan would drive an increasing number of contributing employers from the Pension Plan, either through business failures or withdrawals. The Pension Plan could not withstand an increase in the number of contributing employers withdrawing from the Fund, given the tech bubble bursting in 2000, the economic downturn in March 2001, and the stock market collapses in 2008-2009 and 2015-2016.

The history of recent hourly contribution rates is shown in the following table:

Effective Date	Hourly Contribution Rate*
June 1, 2006	3.55
June 1, 2007	4.01
Sept. 1, 2008	4.41
June 1, 2009	4.81
June 1, 2010	5.21
June 1, 2011	5.61
June 1, 2012	6.01
June 1, 2013	6.41
June 1, 2014	6.46
June 1, 2015	6.66
June 1, 2016	6.80

* Effective May 1, 2006, only $2.00 of the hourly rate was used to calculate benefits. Effective May 1, 2016, the future benefit formula was changed to 0.30% of the first $6.66 and 1.0% of contributions over $6.66 and the entire hourly rate is credited.

The increase from $3.30 to $6.80 over an 11-year period represents an average compound increase of about 6.8% over the same time inflation (as measure by the CPI) increased about 1.9% per year.

2. Levels of Benefit Accruals, Including any Prior Reductions in the Rate of Benefit Accruals

The Board of Trustees significantly cut benefit accrual levels over the past ten (10) years. As demonstrated in the Pension Plan's rehabilitation plan, any additional reductions in benefit accruals would have had a detrimental effect on the Pension Plan by undermining the contributing employers' ability to attract and retain qualified employees.

Effective May 2015, the contribution rate made by employers is $6.66 per hour worked. Of that $6.66, $2.00 is "credited" and $4.66 is "non-credited," which means the participant does not accrue any benefit on that latter portion, which is used solely in an attempt to improve the Pension Plan's funding. The participant receives a credit of 1% of the remaining $2.00 toward his or her benefit accrual. This was an effective accrual rate of 0.3% of all contributions. Under the default rehabilitation plan, the accrual rate is not required to be less than 1% of contributions. The actuary calculated that approximately 11% of contributions were being used to provide new benefit accrual, with the rest providing for administration (about 13%) and funding of past liabilities (about 76%).

Under the current accrual rate, even if a participant works in a jurisdiction with a contribution rate lower than $6.66, he or she would be accruing the same amount of benefit as someone who is working in a jurisdiction paying $6.66. This is because the accrual is based on $2.00. The only time he or she would accrue less would be if the participant were working in a jurisdiction with a contribution rate lower than $2.00 per hour.

For contributions made on or after May 1, 2016, the accrual rate will be 0.3% of the first $6.66 in contributions, plus 1.0% of any amount above $6.66. So long as the contribution rate stays at $6.66, the participant will continue to accrue benefits at the same rate as he or she was accruing prior to May 1, 2016. Any amounts allocated above $6.66 will accrue at 1.0%. This change was made to retain active members' support of the Pension Plan. Even at the 1.0% multiplier rate on new money, over 50% of new money will be available to improve the funding of the Pension Plan. The Board of Trustees chose this accrual rate because it recognized that Congress and the IRS have established a 1.0% multiplier as a reasonable minimum that non-critical and declining pension plans may use for their rehabilitation plans in order to retain active members' support of their pension plans.

3. Prior Reductions of Adjustable Benefits

The Pension Plan eliminated essentially all subsidies and adjustable benefits in 2008 following the passage of the PPA and the WRERA. The only remaining subsidy is a very small subsidy in early retirement at some ages due to adoption of a simplified set of reductions in place of exact actuarial equivalent reductions.

4. Prior Benefit Suspensions (If Any)

The Pension Plan has not implemented any other benefit suspensions under Code § 432(e)(9) prior to this application.

5. Measures Undertaken by the Plan Sponsor to Retain or Attract Contributing Employers

Retention of contributing employers in the Pension Plan has been difficult over the past ten (10) years as a result of the economic and financial crises since the late 1990s and early 2000s. Over that time period, the Board of Trustees, with the assistance of the Pension Plan's actuary, has studied and implemented what it determined to be appropriate contribution level increases and benefit reductions in an effort to retain the contributing employers already in the Pension Plan. The local union, the Board of Trustees, and the construction employer associations representing various contributing employers made concerted efforts to attract new employers, and they have succeeded in part in adding new employers to the Pension Plan's rolls. Working together, they also succeeded to a certain extent in encouraging current employers to remain in the Pension Plan. The Board of Trustees also has monitored potential withdrawal liability assessments and pursued any unpaid amounts to the fullest extent of the law.

6. The Impact on Plan Solvency of the Subsidies and Ancillary Benefits Available to Active Participants

The Board of Trustees eliminated most subsidies and ancillary benefits available to active participants. Of the remaining subsidies and ancillary benefits, the Board of Trustees determined that those plan features should not be eliminated in order to retain current members. In addition, given the economic realities of the Pension Plan, the Board of Trustees determined that additional cuts of subsidies and ancillary benefits would not have a material impact on the Pension Plan's solvency.

7. Compensation Levels of Active Participants Relative to Employees in the Participants' Industry

Compensation levels for active participants in their union's jurisdiction were, until recently, greater than compensation levels for non-union employees in the bricklaying industry. However, in the past ten (10) years, that trend has shifted dramatically, such that non-union bricklayers in the jurisdiction are receiving comparable compensation levels to that of active participants under the Pension Plan.

At the present time, the hourly compensation rate for union bricklayers in Portage County and Summit County, Ohio, is $46.50 per hour (including fringes). Of that rate, $30.90 per hour is the base rate, which is applied to the member's check, while the fringe benefit package totals $15.60, based on the union's 2016 wage sheet.

An average non-union bricklayer makes approximately $20-$28 per hour, depending on his or her skill level. A non-union bricklayer foreman earns approximately $30-$35 per hour for comparable work. While some management-level, non-union bricklayers may be provided health benefits and other production-based compensation, usually non-union bricklayers incur considerable expense in obtaining adequate health care coverage. The Affordable Care Act has brought some changes to that situation, and it has forced some employers to offer minimal health care coverage. However, the typical contributing employer will contribute approximately $7 per hour to a union member's health care plan, while there is no equivalent contribution rate for non-union employees. As a result, non-union employees must incur significant expense and use their own wages to receive adequate and comparable health care coverage.

Retirement plans for non-union bricklayers in this area are nearly non-existent. Of the few non-union mason contractors that provide contributions to a retirement plan, they are usually 401(k) plans or other types of defined contribution plan, where the employees contribute their own earnings to the funds. If the non-union contractor matches the employees' contributions, the employer contributions are usually capped at 1% of compensation. Oftentimes, a non-union masonry employee will lose the employer's contribution portion in the 401(k) or other type of defined contribution plan if the employee does not continue his or her employment with that company for a certain period of time. Non-union contractors in this area typically contribute less than 30% of what the union contractors contribute toward retirement.

In summary, compensation levels in this area for union bricklayers are still an average of 35-40% higher than those of non-union bricklayers when base wages and fringe benefits are combined. While base wages are comparable, the fringe benefit packages are the main difference. Outside of project labor agreements (PLAs) and prevailing wage projects, which are constantly under attack from various political groups and organizations, union contractors are forced to close the wage gap through direct competition on private projects. Contractors in this area are able to procure approximately 40-50% of large private commercial projects through superior efficiency and the use of an extremely skilled and well-trained workforce. Unfortunately, the scarcity of prevailing wage projects, disappearing PLAs, and a significant decline in the number of union contractors have resulted in less work hours, making union organizing efforts in this area difficult. While the differences in the total packages are clear, the base rates for union and non-union workers are similar. In addition, non-union workers have no union dues deductions taken from their paychecks. Organizing by economics is based largely on an explanation of the favorable fringe benefit contributions enjoyed by union members, although in some cases that difference does not interest the non-union employees.

8. Competitive and other Economic Factors Facing Contributing Employers

A confluence of competitive, jurisdictional, and economic factors over the past ten (10) years has significantly affected the finances of the Pension Plan and its contributing employers. In particular, the jurisdiction of the members' local union is surrounded by other local unions whose pension funds are not in critical and declining status. Repeated attempts by the Pension Plan to merge with another local bricklayers' pension plan or with the state-wide pension plan has gone unheeded.

In addition, the Pension Plan is subject to extremely unfavorable reciprocity conditions, which have resulted in the Pension Plan paying approximately $2 for every $1 it receives from other pension funds. This is due in part to the ability of members to change their home local, so many people working in the jurisdiction of Local 7 have pension money reciprocated out to a different home local. The Pension Plan was prohibited from keeping a portion of the reciprocated monies for the non-Local 7 workers, since the reciprocity agreements mandated that all of the money "had to follow the man." Attempts to obtain some relief from the burdens of the nationwide reciprocity agreement have been ignored by the district council and the other local unions. In addition, bricklaying work in the union's jurisdiction has been steady, but the hours are down and the number of contributing employers in the area has decreased. Lastly, the number of unionized members in the region covered by the participants' local union has suffered a rapid decline over the past ten (10) years, making it increasingly difficult for contribution employers to remain viable in the area.

For 2016, the future benefit formula was changed to 0.30% of the first $6.66 and 1.0% of contributions over $6.66 and the entire hourly rate is credited. Any amounts allocated above $6.66 will accrue at 1.0%. This change was made to help retain active members' support of the Pension Plan. Even at the 1.0% multiplier rate on new money, over 50% of new money will be available to improve the funding of the Pension Plan. In addition, as noted above, the 1.0% multiplier has been implicitly recognized as a minimum level or reasonable floor to use in order to retain active members' support of their pension plan.