MICHIGAN REGIONAL COUNCIL OF CARPENTERS
FRINGE BENEFIT FUNDS
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SEPTEMBER 21, 2020

CARPENTERS PENSION TRUST FUND, DETROIT & VICINITY

PLAN SPONSOR CERTIFICATION RELATING TO PLAN AMENDMENTS

Pursuant to Section 6.07 of IRS Revenue Procedure 2017-43, the undersigned authorized Trustees, who has been designated by the Board of Trustees as its Authorized Representative Trustees for the purpose of executing all documents necessary for the Plan's application for approval of suspension of benefits, hereby certify that if upon final authorization to implement the proposed suspension as described in Internal Revenue Code Section 432(e)(9)(H)(vi) the Board of Trustees determines to implement the suspension, the following plan amendments will be timely adopted and not modified at any time thereafter before the suspension of benefits expires:

(1) A plan amendment providing that in accordance with Internal Revenue Code Section 432(e)(9)(C)(ii) the benefit suspension will cease as of the first day of the first plan year following the plan year in which the plan sponsor fails to maintain a written record of its determination that both:

a. All reasonable measures to avoid insolvency continue to be taken during the period of benefit suspension; and

b. the plan is projected to become insolvent unless benefits continue to be suspended.

(2) A plan amendment providing that any future benefit improvements must satisfy the requirements of Internal Revenue Code Section 432(e)(9)(E).

[redacted]

Robert Halik, Secretary

Signed: September 29, 2020

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Carpenters Pension Trust Fund – Detroit and Vicinity
MPRA Narrative Statement

- **INTRODUCTION**

The Carpenters Pension Trust Fund – Detroit and Vicinity ("Pension Fund" or "Plan") was established on May 1, 1957, when the predecessor of the current union sponsor – the Michigan Regional Council of Carpenters -- negotiated a collective bargaining agreement with several employer associations representing carpentry industry employers. As was typical of pension plans then, both contribution and benefit levels were modest. As the industry expanded the Pension Plan also expanded to cover segments of related industries, such as millwrighting, floor-laying and others. New employer associations joined the Fund and were added as settlors.

The Union also underwent changes as time passed and the footprint of the carpentry industry grew. The Union began as the Carpenters Detroit Council, which then grew to a statewide council of all Michigan carpenter and millwright locals. The Pension Fund however retained its more limited geographic jurisdiction, primarily covering the Southeast Michigan (Detroit) area with the rest of the State of Michigan being covered by the Michigan Carpenters Pension Fund, which is separate and unrelated to the Pension Fund.

The Pension Fund filed an application for permission to suspend benefits under the Multiemployer Pension Reform Act of 2014 ("MPRA") on September 27, 2019. The application was withdrawn on April 23, 2020, after consultation with the Internal Revenue Service division of the U.S Department of Treasury (IRS), the Pension Benefit Guaranty Corporation (PBGC) and the US Department of Labor, Employee Benefits Services Administration (DOL), collectively the "Agencies". This application is the successor to that prior application and is based on an additional year of plan operation (which resulted in the continued degradation of the Pension Fund's financial strength), updated actuarial assumptions, and responses to specific comments from the agencies. In response to Agencies' input, the application specifically addresses the impact and anticipated future impact of the COVID-19 pandemic, which has been thoroughly incorporated into the proposed suspension methodology.

- **BACKGROUND**

As recently as 2001, the Pension Fund was considered 100% funded, with $1.1. Billion in assets and over 15 million yearly employer contribution work-hours. Unfortunately, though, 2001 was the highwater mark of the Pension Fund's financial position. The bursting of the "tech bubble", the September 11, 2001, terrorist attack and the recession that followed had a profound effect on the economy of Southeast Michigan and, therefore, on the Pension Fund. Southeast Michigan's economy is still substantially tied to the automobile industry and the Detroit metropolitan area was even more auto industry dependent. Adding to the impact of a cyclical recession, the financial market meltdown in 2008 inflicted great and lasting damage on the Pension Fund. The downturn was especially difficult for the auto industry which suffered from the absence of available consumer credit. Two out of three major US automakers eventually were "bailed out" by the federal government through a subsidized bankruptcy discharge. While the Pension Fund itself is not tied directly to the auto industry (no automobile manufacturers are signatory contributors to the Pension Fund), much of the construction work that provides the Fund's contribution base units (workhours) is intertwined with that industry.

To deal with these negative economic forces, the Pension Fund's Trustees took several remedial measures, even before the Pension Protection Act of 2006 (PPA) imposed remediation requirements on multiemployer pension plans throughout the country. These measures are described in the timeline that follows.

The adoption of PPA, just prior to the 2008 financial market meltdown, and the subsequent bankruptcy of a large part of the automobile industry, is the proverbial "straw" that "broke" the Pension Fund's "back". The PPA required ever higher (uncredited) contribution levels at the same time that the economy in Southeast Michigan went into a tailspin, dragging down not only the automobile industry, but the construction industry as well. Work hours went from their 2001 high of 15 million to a low of approximately 6 million in 2011. Even the adoption of WRERA and its ameliorative provisions, such as amortization of investment losses, did not materially help the Pension Fund regain its financial health. Moreover, the ever increasing mandatory PPA contributions made it that much harder for the Pension Fund to recover because it was essentially "taxing itself out of existence" by increasing the required hourly pension contribution ever higher to meet PPA's stringent funding requirements. This process placed signatory employers at a bidding disadvantage against non-contributing contractors, in the very competitive construction industry. It drove work hours even lower, decreasing overall Pension Fund employer contributions rather than increasing them. Compounding this negative trend, increasing employer withdrawal liability levels further discouraged new employers from signing on to union contracts that required defined benefit pension contributions. And, ever-increasing uncredited pension contribution levels discouraged new and younger workers from joining the unionized trades which support the Pension Fund. The impact on the Pension Fund was catastrophic as can readily be seen in the following graphs.

- **HISTORICAL PLAN INFORMATION**

The following year-by-year summary of critical Plan information illustrates the Pension Fund's decline from plan year 2001, the point that the Pension Fund was considered fully funded, to its current 2019 plan year (as of April 30, 2020) condition. The graphs below highlight the workhours, investment returns and funded percentage of the Pension Fund over time. More detailed information on these factors is contained in the actuarial and audit reports supporting this application.

Plan Year Commencing: May 1, 2001

- Assets – Market Value: $1,087,385,292
- Assets – Actuarial Value: $1,179,424,453
- Net Investment Return on Market Value: -2.78%
- Net Investment Return on Actuarial Value: 9.02%
- Current Liabilities: $1,436,273,063 (calculated under the Reform Pension Act of 1994)
- UVB: ($149,639,854)
- Actives: 11,887
- Retirees/Beneficiaries: 5,408
- Work Hours: 15,155,386
- Contribution Rate (Commercial Carpenters) $3.14
- **Funded Percentage: 100%**

Plan Year Commencing: May 1, 2002

- Assets – Market Value: $1,043,761,840
- Assets – Actuarial Value: $1,240,316,809
- Net Investment Return on Market Value: -4.38%
- Net Investment Return on Actuarial Value: 4.97%
- Current Liabilities: $1,886,069,584 (calculated under the Reform Pension Act of 1994)
- UVB: ($92,033,593)
- Actives: 12,148
- Retirees/Beneficiaries: 5,727
- Work Hours: 14,278,260
- Contribution Rate (Commercial Carpenters) $3.36
- **Funded Percentage: 83%**

Plan Year Commencing: May 1, 2003

- Assets – Market Value: $913,457,567
- Assets – Actuarial Value: $1,096,149,080
- Net Investment Return on Market Value: -8.53%
- Net Investment Return on Actuarial Value: -8.29%
- Current Liabilities: $2,148,503,170 (calculated under the Reform Pension Act of 1994)
- UVB: $212,835,632
- Actives: 11,298
- Retirees/Beneficiaries: 5,771
- Work Hours: 13,303,956
- Contribution Rate (Commercial Carpenters) $3.36
- **Funded Percentage: 66%**

Plan Year Commencing: May 1, 2004

- Assets – Market Value: $989,267,988
- Assets – Actuarial Value: $1,135,029,517
- Net Investment Return on Market Value: 14.03%
- Net Investment Return on Actuarial Value: 8.19%
- Current Liabilities: $2,047,258,931
- UVB: $276,061,203
- Actives: 10,439
- Retirees/Beneficiaries: 5,904
- Work Hours: 12,301,023
- Contribution Rate (Commercial Carpenters) $3.45
- **Funded Percentage: 67%**

Plan Year Commencing: May 1, 2005

- Assets – Market Value: $991,130,778
- Assets – Actuarial Value: $1,078,562,590
- Net Investment Return on Market Value: 5.93%
- Net Investment Return on Actuarial Value: -0.12%
- Current Liabilities: $2,096,792,198
- UVB: $284,426,228

- Actives: 9,944
- Retirees/Beneficiaries: 6,077
- Work Hours: 11,988,262
- Contribution Rate (Commercial Carpenters) $3.55
- **Funded Percentage: 63%**

Plan Year Commencing: May 1, 2006

- Assets – Market Value: $1,059,917,320
- Assets – Actuarial Value: $1,050,435,719
- Net Investment Return on Market Value: 13.64%
- Net Investment Return on Actuarial Value: 3.25%
- Current Liabilities: $2,297,212,922
- UVB: $393,523,664
- Actives: 9,096
- Retirees/Beneficiaries: 6,223
- Work Hours: 11,270,968
- Contribution Rate (Commercial Carpenters) $4.54
- **Funded Percentage: 63%**

Plan Year Commencing: May 1, 2007

- Assets – Market Value: $1,084,686,212
- Assets – Actuarial Value: $1,050,682,726
- Net Investment Return on Market Value: 9.04%
- Net Investment Return on Actuarial Value: 6.72%
- Current Liabilities: $2,491,704,430
- UVB: $561,058,731
- Actives: 7,993
- Retirees/Beneficiaries: 6,324
- Work Hours: 10,020,514
- Contribution Rate (Commercial Carpenters) $6.30
- **Funded Percentage: 57%**

Plan Year Commencing: May 1, 2008

- Assets – Market Value: $1,035,625,905
- Assets – Actuarial Value: $1,080,411,426
- Net Investment Return on Market Value: 0.56%
- Net Investment Return on Actuarial Value: 8.28%
- Current Liabilities: $3,226,868,064
- UVB: $614,556,401
- Actives: 7,842
- Retirees/Beneficiaries: 6,459
- Work Hours: 10,664,533
- Contribution Rate (Commercial Carpenters) $8.05
- **Funded Percentage: 58%**

Plan Year Commencing: May 1, 2009

- Assets – Market Value: $771,040,307
- Assets – Actuarial Value: $925,248,368
- Net Investment Return on Market Value: -20.15%
- Net Investment Return on Actuarial Value: -8.87%
- Current Liabilities: $3,469,148,181
- UVB: $852,245,165
- Actives: 6,924
- Retirees/Beneficiaries: 6,713
- Work Hours: 8,454,305
- Contribution Rate (Commercial Carpenters) $9.80
- **Funded Percentage: 46%**

Plan Year Commencing: May 1, 2010

- Assets – Market Value: $791,895,029
- Assets – Actuarial Value: $1,016,672,140
- Net Investment Return on Market Value: 13.43%
- Net Investment Return on Actuarial Value: 9.53%
- Current Liabilities: $3,024,986,192
- UVB: $767,331,195
- Actives: 5,465
- Retirees/Beneficiaries: 6,888
- Work Hours: 5,796,364
- Contribution Rate (Commercial Carpenters) $11.35
- **Funded Percentage: 47%**

Plan Year Commencing: May 1, 2011

- Assets – Market Value: $806,189,577
- Assets – Actuarial Value: $967,427,492
- Net Investment Return on Market Value: 10.62%
- Net Investment Return on Actuarial Value: 1.73%
- Current Liabilities: $3,194,179,131
- UVB: $900,911,120
- Actives: 5,414
- Retirees/Beneficiaries: 7,083
- Work Hours: 6,267,773
- Contribution Rate (Commercial Carpenters) $12.86
- **Funded Percentage: 48%**

Plan Year Commencing: May 1, 2012

- Assets – Market Value: $724,987,065
- Assets – Actuarial Value: $869,984,478
- Net Investment Return on Market Value: -3.63%
- Net Investment Return on Actuarial Value: -4.73%
- Current Liabilities: $3,428,538,836
- UVB: $1,062,971,006

- Actives: 5,531
- Retirees/Beneficiaries: 7,263
- Work Hours: 6,882,663
- Contribution Rate (Commercial Carpenters) $14.36
- **Funded Percentage: 44%**

<u>Plan Year Commencing: May 1, 2013</u>

- Assets – Market Value: $718,005,867
- Assets – Actuarial Value: $861,607,040
- Net Investment Return on Market Value: 6.31%
- Net Investment Return on Actuarial Value: 5.06%
- Current Liabilities: $3,402,659,043
- UVB: $1,220,310,639
- Actives: 5,213
- Retirees/Beneficiaries: 7,339
- Work Hours: 6,452,511
- Contribution Rate (Commercial Carpenters) $15.91
- **Funded Percentage: 42%**

<u>Plan Year Commencing: May 1, 2014</u>

- Assets – Market Value: $747,281,896
- Assets – Actuarial Value: $883,023,972
- Net Investment Return on Market Value: 10.51%
- Net Investment Return on Actuarial Value: 7.78%
- Current Liabilities: $3,285,797,602
- UVB: $1,000,058,333
- Actives: 4,986
- Retirees/Beneficiaries: 7,363
- Work Hours: 6,201,665
- Contribution Rate (Commercial Carpenters) $15.91
- **Funded Percentage: 43.9%**

<u>Plan Year Commencing: May 1, 2015</u>

- Assets – Market Value: $746,438,678
- Assets – Actuarial Value: $859,593,662
- Net Investment Return on Market Value: 4.42%
- Net Investment Return on Actuarial Value: 1.12%
- Current Liabilities: $3,529,225,638
- UVB: $1,127,246,183
- Actives: 5,054
- Retirees/Beneficiaries: 7,276
- Work Hours: 6,771,552
- Contribution Rate (Commercial Carpenters) $15.91
- **Funded Percentage: 42.5%**

Plan Year Commencing: May 1, 2016

- Assets – Market Value: $712,660,227
- Assets – Actuarial Value: $821,813,613
- Net Investment Return on Market Value: -0.22%
- Net Investment Return on Actuarial Value: -0.66%
- Current Liabilities: $3,669,138,929
- UVB: $1,267,451,875
- Actives: 5,246
- Retirees/Beneficiaries: 7,290
- Work Hours: 7,306,229
- Contribution Rate (Commercial Carpenters) $15.91
- **Funded Percentage: 38.9%**

Plan Year Commencing: May 1, 2017

- Assets – Market Value: $734,239,795
- Assets – Actuarial Value: $781,238,944
- Net Investment Return on Market Value: 11.13%
- Net Investment Return on Actuarial Value: 1.78%
- Current Liabilities: $3,775,320,326
- UVB: $1,404,147,804
- Actives: 5,208
- Retirees/Beneficiaries: 7,314
- Work Hours: 7,266,322
- Contribution Rate (Commercial Carpenters) $15.91
- **Funded Percentage: 36.4%**

Plan Year Commencing: May 1, 2018

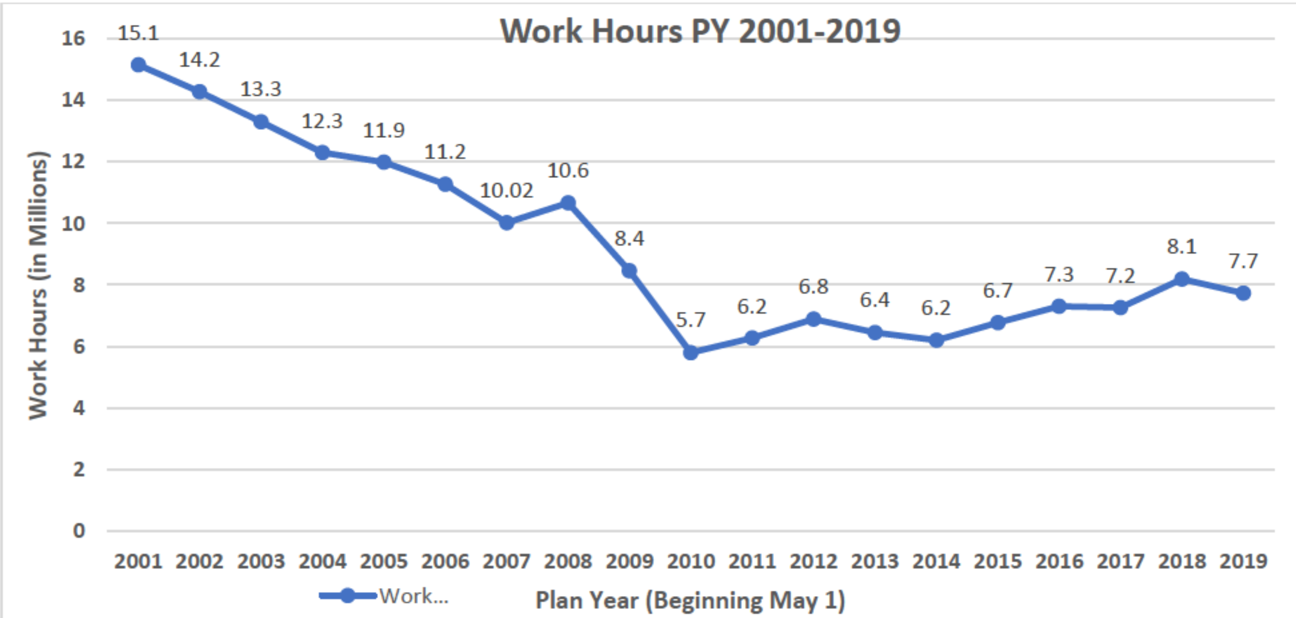
- Assets – Market Value: $761,729,009
- Assets – Actuarial Value: $771,736,789
- Net Investment Return on Market Value: 7.87%
- Net Investment Return on Actuarial Value: 2.56%
- Current Liabilities: $3,977,510,040
- UVB: $1,433,305,500
- Actives: 5,803
- Retirees/Beneficiaries: 7,395
- Work Hours: 8,184,596
- Contribution Rate (Commercial Carpenters) $15.91
- **Funded Percentage: 34.5%**

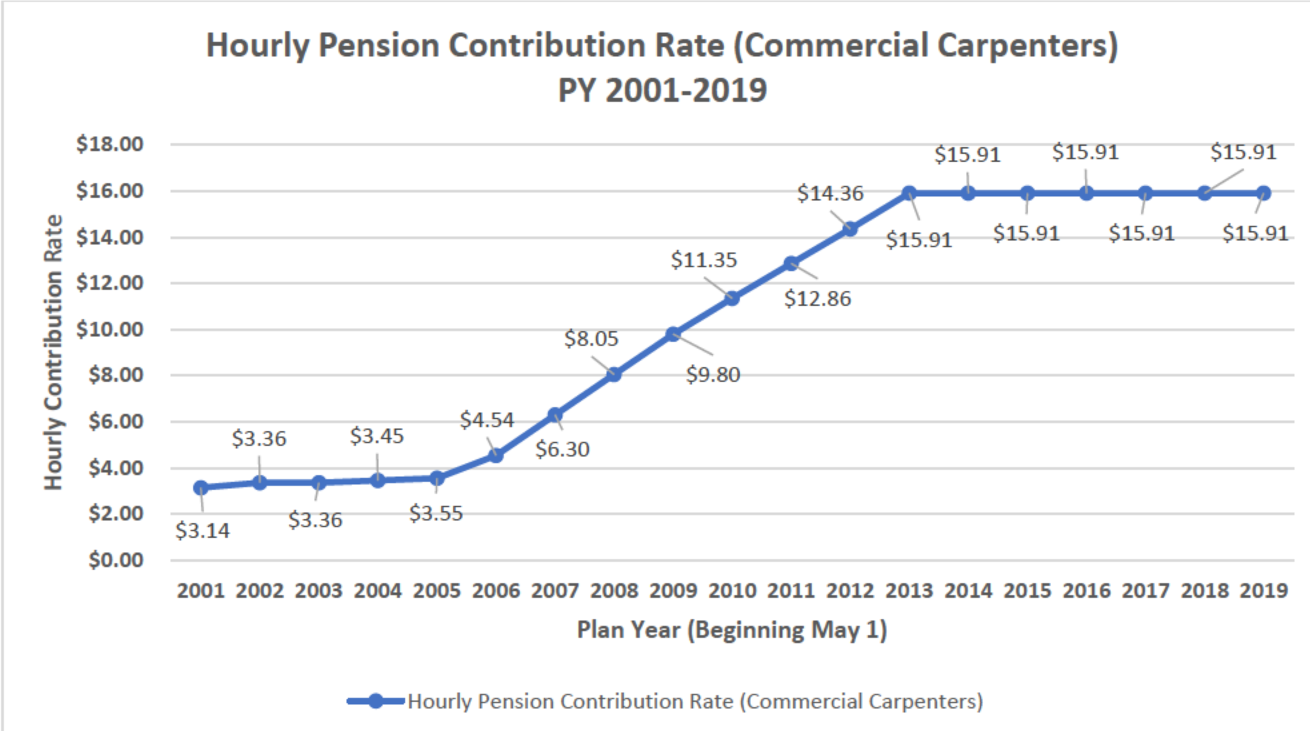
Plan Year Commencing: May 1, 2019

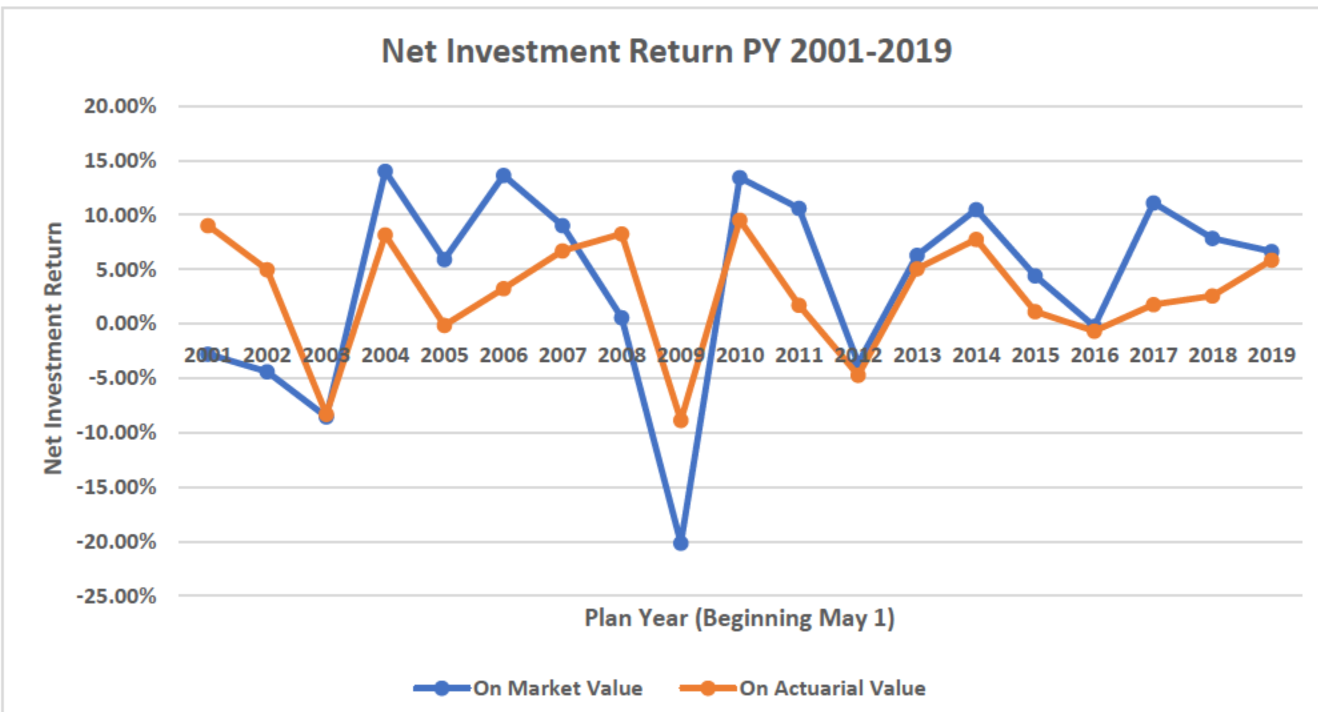
- Assets – Market Value: $772,279,905
- Assets – Actuarial Value: $777,050,724
- Net Investment Return on Market Value: 6.65%
- Net Investment Return on Actuarial Value: 5.87%
- Current Liabilities: $3,922,320,908
- UVB: $1,463,932,978

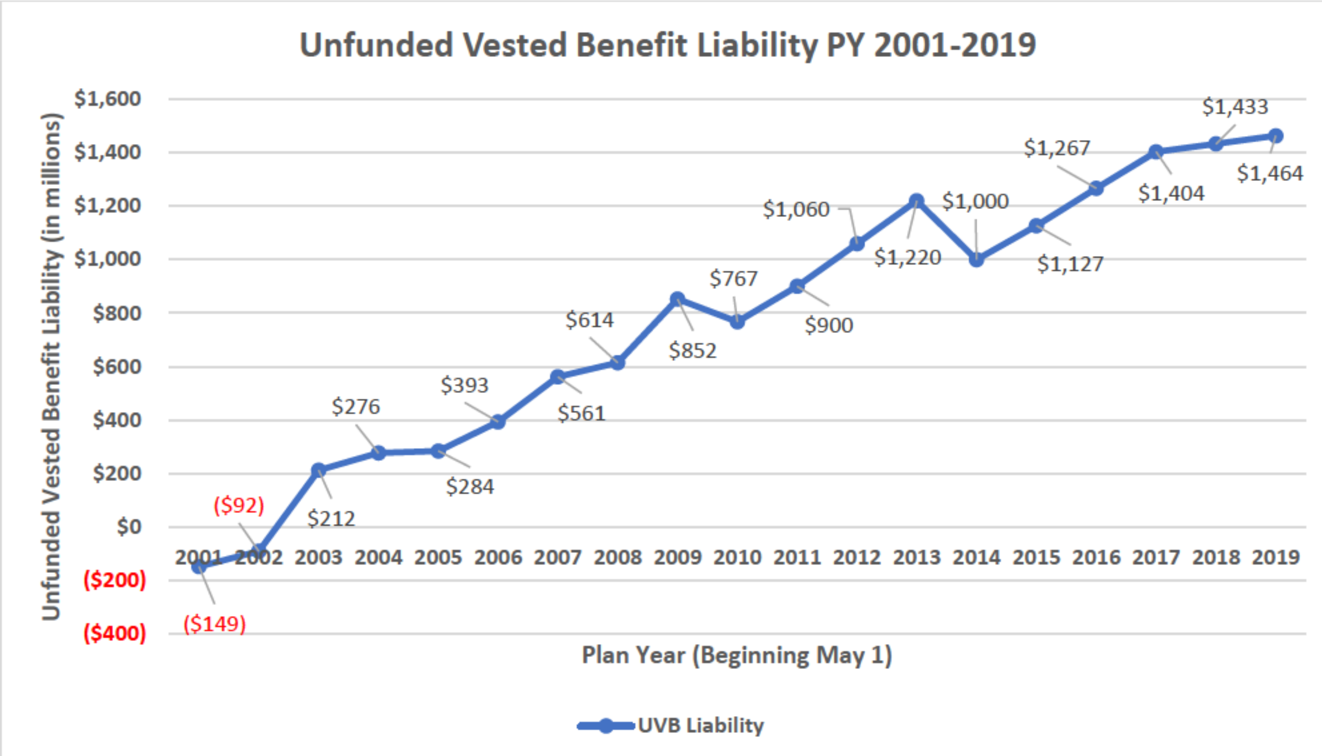
- Actives: 5,823
- Retirees/Beneficiaries: 7,466
- Work Hours: 7,725,209
- Contribution Rate (Commercial Carpenters) $15.91
- **Funded Percentage: 34.5%**

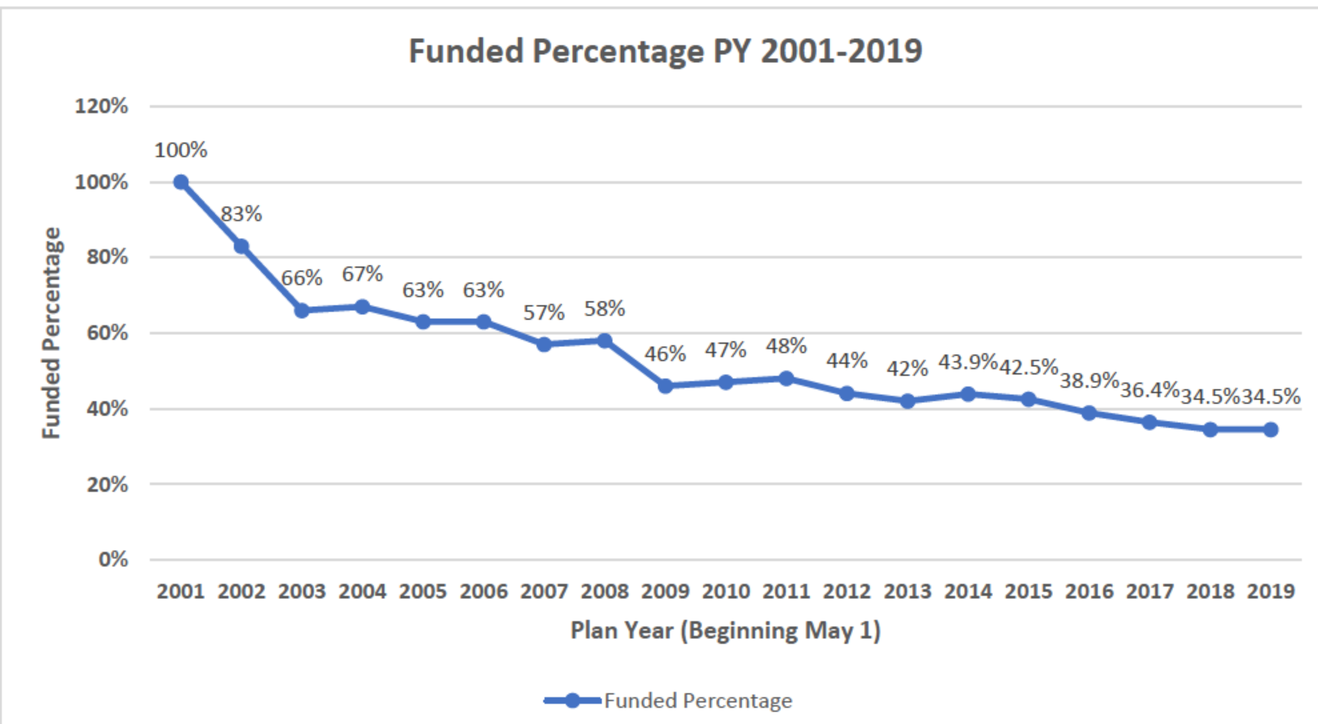
These data are tracked in the following graphs, which present a stark image of rapid and accelerating decline:




Hourly Pension Contribution Rate (Commercial Carpenters)
PY 2001-2019
Hourly Contribution Rate
$18.00
$16.00
$14.00
$12.00
$10.00
$8.00
$6.00
$4.00
$2.00
$0.00
$3.14
$3.36
$3.36
$3.45
$3.55
$4.54
$6.30
$8.05
$9.80
$11.35
$12.86
$14.36
$15.91
$15.91
$15.91
$15.91
$15.91
$15.91
$15.91
2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012 2013 2014 2015 2016 2017 2018 2019
Plan Year (Beginning May 1)
Hourly Pension Contribution Rate (Commercial Carpenters)


Net Investment Return PY 2001-2019
Net Investment Return
20.00%
15.00%
10.00%
5.00%
0.00%
-5.00%
-10.00%
-15.00%
-20.00%
-25.00%
2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012 2013 2014 2015 2016 2017 2018 2019
Plan Year (Beginning May 1)
On Market Value
On Actuarial Value





- **REMEDIAL MEASURES**

The Trustees took aggressive remedial action in an effort to save the Pension Fund even before PPA imposed such requirements. For example, in 2004, the Pension Plan's monthly benefit multiplier was reduced by about 30% - from 4.3% of contributions to 3.0% of contributions. As a result, each $100.00 in new pension contributions generated $3.00 in new monthly benefits for participants, instead of $4.30 under the prior accrual rate. The benefit multiplier was further reduced in 2007 when it was set at 1% of contributions, a reduction of about 75% from the benefit rate that was in effect prior to 2004. Again, these corrective measures were adopted even before the PPA went into effect for the Pension Fund.

Starting in June 1, 2006, not all employer contributions to the Pension Fund are deemed "credited" and used in the Pension Plan's benefit formula. In other words, the 1% benefit multiplier applied only to the "credited" portion of the pension contribution while the "uncredited" portion was used to reduce the plan's unfunded legacy obligations. Initially, the contribution "discount" used to determine the credited/uncredited portion of contributions was set at 22% for most participant groups. For the most recent plan year, the "discount" rate is set at about 61% for most participant groups. As a result, only 39% of the contribution is now considered "credited" and used in the benefit formula. Participants accrue a future benefit at 1% of that 39% of their total pension contribution rate. To illustrate using the same $100.00 in contributions: $39.00 of that contribution is considered "credited" and applying a 1% multiplier, it results in a $0.39 new monthly benefit accrual. Before 2004, that same contribution amount would have generated a $4.30 monthly benefit increase and would have generated a $3.00 monthly benefit increase between 2004 and 2007, based on a 4.3% and 3.0% benefit multiplier respectively.

Additional benefit reductions were adopted in 2010 in an effort to meet PPA requirements, such as eliminating so-called "index 80" retirements (unreduced early retirement benefit, based on a combination of age and service), replacing them with benefits that imposed new and more stringent requirements, such as a minimum retirement age of 55 and index 85 (instead of 80), for unreduced early retirement benefits.

The Pension Plan imposed further benefit cuts as part of its 2013 "PPA all reasonable measures plan", including increasing the minimum age for unreduced early retirement to age 62, imposing higher early retirement reduction factors, imposing disability benefit cuts and eligibility requirements, and reducing pre-retirement death benefits.

Meanwhile, covered employers' Pension Fund contribution rate rose dramatically, including both pre-PPA increases and post-PPA required increases. The current Pension Fund contribution rate for commercial carpenters is $15.91 per hour – increased from $3.13 per hour in 2000 – about a fivefold increase in less than 15 years. One key factor considered by the Trustees in adopting the Pension Fund's "all reasonable measures" plan was that the combination of a high contribution rate with benefit cuts makes it very difficult to recruit new participants or new contributing employers. Essentially, the Trustees concluded that Pension Fund will price itself out of the market if it continues on that path. The all reasonable measures plan adopted in 2013 was a crucial step towards avoiding insolvency, but it has not proven to be enough by itself. A suspension of benefits under MPRA is, under the current facts and circumstances, the only option left the Trustees in their determination to save the Plan.

- **<u>FUTURE OUTLOOK</u>**

At the end of the 2017 Plan Year (April 30, 2018), the actuary determined that the Pension Fund was in a critical and declining status. The Trustees evaluated the root causes of the Pension Fund's condition as well as key indicators that are critical to its future, such as the near-and-long-term prospects for the construction industry in Southeast Michigan and the broader economy, investment market performance, unionized workforce issues and other relevant factors, in deciding to apply to suspend benefits under MPRA. To add objectivity to the prediction of future economic activity, the Pension Fund retained Dr. Malcom Cohen, PhD., a University of Michigan economist, to further analyze economic factors that will likely impact its future, especially the projected workhours. A follow up survey of the associations that represent contributing employers was conducted after the initial waive of impacts from the COVID-19 pandemic were experienced to better gauge the pandemic's impact on the Pension Fund's contribution base units. The Trustees continue to monitor the impact of the pandemic on the workforce and, as part of the process, have determined that there will be long-term consequences associated with the pandemic and its economic dislocations, whether or not there are subsequent outbreaks of COVID-19.

The Trustees observed while preparing the initial suspension application that Michigan unionized construction had been experiencing a short-term upward trend in workhours before the pandemic. The trend, viewed from a post-COVID-19 perspective, is seen as unlikely to continue (the Trustees viewed it as a non-permanent phenomenon even before the pandemic). Its impermanence is in part due to the fact that the construction industry, by its very nature, can best be described as "one-and-done" activity.

There is a limited number of "significant projects" - projects generating substantial work hours - that can be forecast to exist in a given geographic area. Once those projects are completed (the Little Caesar's Arena sports and entertainment complex in downtown Detroit being an obvious example) related construction work ends other than any subsequent maintenance work (which requires far fewer workhours). The proposed Gordie Howe Bridge, an international bridge crossing the Detroit river to Windsor, Ontario, Canada, a proposed downtown high rise, and a new (Wayne) county jail are "significant projects" that offer a likelihood of generating significant future workhours. Beyond these projects, there are no other currently envisioned large-scale developments that can extend the recent building boom past the short term. Therefore, based on the best information available to them, the Trustees anticipate that workhours will decline. (The Trustees have worked with their professionals and, as noted, have canvassed the employer associations (who necessarily have a significant economic stake in preparing for future work needs and have no impetus at all to over or under estimate them) to arrive at reasonable assumptions for future work hours.)

- **<u>PROJECTED FUTURE CONTRIBUTION BASE UNITS (CBU)</u>**

Beyond the pandemic's impact on the economy, recent changes in Michigan's laws have added additional headwinds to unions and their signatory employers on which the Pension Fund depends. Michigan has adopted "right-to-work" laws and eliminated prevailing wage laws on all State jobs. The impact of these and similar anti-union laws is to discourage both union membership by employees, and to put signatory contractors at an even greater disadvantage in the marketplace because they now can be consistently underbid by non-union companies. The right-to-work laws essentially encourage non-union bargaining units, which further depress the sponsoring union's ability to organize new contractors that would otherwise pay into the Pension Fund. The elimination of prevailing wage laws permits non-union contractors to gain market share advantages over unionized contractors when bidding for work in the State, which once had to be performed paying a union scale prevailing wage, further depressing the Pension Fund's workhours outlook. These laws further support the downward trend in unionized carpentry trade workhours in Southeast Michigan, that is reflected in the Pension Fund actuary's projection of slightly fewer workhours on a long-term basis (6.9 million) than that assumed in the Pension Fund's prior application (7.0 million).

In preparing this application and its underlying assumptions, the Pension Fund has carefully followed the Treasury's informal suggestion that the plan actuary should develop assumptions for future contribution base units based not only on the input from the plan sponsor, but that the plan actuary should also independently assess the input provided by the plan sponsor and develop a basis that is therefore "reasonable". Staying faithful to that guidance, the Pension Fund has established both short-term and long-term CBU assumptions that are reasonable across the extended period and which, to the extent possible, were premised on objective evidence, verified in a number of ways.[1]

First, the Pension Fund gathered extensive information from its Trustees, who represent the industries whose employers contribute to the Pension Fund. It is understood that those employers as a matter of course engage in forward-looking business planning and that, as unionized companies, fringe benefit contribution obligations are a significant element of their cost structure. The Pension Fund made a reasonable judgment that the employers' forecasts of future business opportunities and attendant costs (driven by workhours) would be as precise as business experience and business necessity could make them.

Second, the Fund's actuary used its long experience advising the Pension Fund and other pension funds covering other local and regional construction trades to develop yearly workhour assumptions to satisfy the Fund's obligations under PPA. These assumptions and the information on which they are based was further validated thorough consultation with the Fund Trustees, outside sources and historical records.

Third, the Pension Fund retained a University of Michigan economics professor, whose expertise is focused on economic activity in southeast Michigan. Dr. Malcom S. Cohen's findings, based on his independent research, support the CBU assumptions used by the Pension Fund. Even though it was conducted before the pandemic, Dr. Cohen projects that southeast Michigan will experience periodic recessions over his twenty-year period of review. As he explained:

> "To estimate the impact of future declines, I have included a projection that assumes there will be two declines over the next 20 years and that each will average 30%. I assume that employment will decline 15% during the first year, and bottom at 30% in the second year, then return to the 4.2% growth rate experienced by Carpenter hours from 2010 to 2018".

So, the impact of disruptive events, like the pandemic, is already factored into Dr. Cohen's research and projections, although the severity and length of any economic downturn due to the pandemic cannot yet fully known. Nevertheless, the CBU assumptions used in this application have considered the impact of the pandemic and similar disruptive events on both short-term and long-term CBU projections, as reflected in Dr. Cohen's study and the Fund's survey.

[1] *See*, **Exhibit A**, *Statement Regarding CBU Assumptions*, attached.

Fourth, the pre-pandemic approach to the selection of the Pension Fund's CBU assumption was further validated by a recent survey of the entire industry – which was undertaken to better gauge the pandemic's impact on the CBU assumptions. The Pension Fund conducted a recent survey of all eleven contractor Associations which represent about 500 employers that make contributions to the Pension Fund.[2] The Associations' projections cover commercial and residential carpentry, millwriting, floorlaying, display industry, roadbuilders and related crafts. Input was also received from the Michigan Regional Council of Carpenters (MRCC) which provided its own projections of expected manpower demands and workhours, for both the short and long terms. The MRCC's response also addresses current (pre-pandemic) manpower shortages and its long-term plans to deal with same. To meet those demands, three new training facilities have been constructed – two completed and the third under construction.

While this unprecedented pandemic creates many uncertainties for the construction industry, its impact on workhours is projected not to be completely negative, when other relevant factors are taken into account. One of these factors is the MRCC's unique role in providing Infectious Control Risk Assessment ("ICRA") training, which qualifies members to perform construction work in and for the medical facilities, where disease control is a critical factor. The ICRA training, developed by the MRCC's parent body – The United Brotherhood of Carpenters and Joiners of America, has been widely accepted not only in Michigan, but throughout the Country as preparing workers to function effectively in performing construction work for and in medical facilities. IRCA training has been so effective that members of many other building trades unions, such as roofers, painters, sprinkler fitters, etc., receive ICRA training from the MRCC. The Center for Medicare and Medicaid Services (CMS), which is a part of the U.S. Department of Health and Human Services, already requires accredited healthcare facilities (including over 180 hospitals in Michigan) to use ICRA (or equivalent) trained workers for future construction work. Likewise, any pandemic driven stimulus legislation is likely to rely heavily on infrastructure work, which bodes well for pension workhours that historically flow from such work.

Survey responses from the MRCC and the eleven Associations are consistent with the Pension Fund's workhour projections. Generally, they anticipate a short-term uptick in covered work through 2023, which is expected to flatten out thereafter. Survey responses also recognized that manpower shortages existed prior to the pandemic and may persist in the short term.

After distilling all of this workhour information into CBU projections, the Pension Fund projects a slight increase in workhours is expected in the short term, flattening out after that. Specifically, 7.0 million workhours are projected in each of the next two plan years and 6.9 million man hours are projected for each subsequent year – the same workhours that are projected for the current (pandemic) plan year. As noted, these CBU assumptions were established and supported by the results of an exhaustive four-tiered process: 1) Trustee projections; 2) actuarial validation; 3) Dr. Cohen's study; and 4) industry survey.

[2] Architectural Contractors Trade Association; Associated General Contractors of America; Construction Association of Michigan; Carpenter Contractors Association; Washtenaw Contractors Association; Michigan Carpentry Contractors Association; Michigan Conveyor Manufactures Association; Michigan Exhibit Producers Association; Michigan Infrastructure and Transportation Association; Poured Concrete Wall Association; Southeast Michigan Carpentry Contractors Association. *These Associations represent over 500 separate contractors.*

- **PROJECTED INVESTMENT RETURN ASSUMPTIONS**

The Pension Fund's investment returns also play a critical role in its future, and indeed, in this application. The Pension Fund's projections for future investment earnings rely on the Agencies' sanctioned asset class return assumptions – set forth in the most recent Horizon study (published in July 2020) - for projecting Fund investment returns. The investment strategy developed by the Pension Fund, in consultation with its professionals, is set forth in its Investment Policy Statement, which was included with the original application and has been modified, addressing the Agencies' comments, for this filing. It now expressly addresses the impact of liquidity needs on longer term returns, as the Pension Fund's funded ratio decreases over time. As noted by the Agencies, a significant portion of the Pension Fund's assets are invested in a real estate portfolio, comprised of GSA holdings. These assets were managed for the Pension Fund by a Qualified Professional Asset Manager (QPAM), before their transfer into a comingled fund on July 1, 2020. Improving the real estate portfolio's liquidity and diversification, was accomplished by the transfer. Individual real estate holdings were relatively illiquid (i.e., realizing cash proceeds required the Pension Fund to market the property, find a buyer at an appropriate purchase price and sell the property, a process that would take at least several months)[3]. The transfer of the properties to a comingled investment fund provided the Pension Fund with both better diversification and liquidity – allowing for quarterly withdrawals. One element of the Pension Fund's thesis for incorporating real estate into its investment portfolio is that it acts as a counter measure to fluctuations in the equities market and offset low interest rates and returns of debt instruments, like bonds. The structure of the portfolio presents an effective hedge against financial risks like the COVID-19 pandemic, while the comingled nature of the Fund's GSA holdings now offers substantially more liquidity, without sacrificing returns.

And, consistent with the Agencies' comments, the Pension Fund's Investment Policy Statement now incorporates specific trigger points which require the Pension Fund to sell illiquid assets as necessary to meet cashflow requirements caused by benefit outflows or other future events. Illiquid asset sale trigger points are determined based on cashflow-to-asset ratios, also consistent with the Agencies' comments. And, the Pension Fund's projected liquidity needs are reflected in the application's investment return assumptions for those future periods. The investment return assumptions and their impact on the Penson Fund are discussed in more detail elsewhere in this application.

- **THE MPRA FILING**

This application filing addresses issues and comments raised by the Agencies during their review of the original filing. The suspension formula adopted by the Pension Fund in the filing is designed to achieve MPRA's statutory goals, while applying the necessary suspensions in an equitable manner across the entire Pension Plan participant population. That formula was

[3] GSA real estate holdings were subject to mortgage debt, which further complicated selling individual properties (potential requirements of lender consent, restrictions on the use of funds raised by the sale and penalties associated with removal of collateral from encumbrance or pre-payment). The transfer of the GSA properties to a commingled fund eliminates this impediment to liquidating Pension Fund GSA real estate holding as needed to raise cash to pay benefits. The Pension Fund anticipates taking similar actions with respect to its other real estate holdings to improve portfolio liquidity where prudent and feasible.

developed after extensive study and consultation with the Pension Fund's professional advisors, evaluation of the future of unionized carpentry construction work and other relevant factors required by the statute. The Trustees of the Pension Fund have determined that the proposed suspension formula does not unnecessarily affect those participants, and accomplishes the stated statutory goal of preventing the Pension Fund's insolvency. Importantly, the suspension formula falls equally across all participant groups – active, vested deferred, retired participants and surviving spouses. The formula acknowledges the significant prior sacrifices of more recent participants by providing that post-2007 benefit accruals will not be reduced further – below that PPA minimum. The fairness of this exception is supported by the obvious fact that participants subject to the 1% benefit multiplier for the past 13 years have already contributed heavily to the payment of the Pension Fund's underfunded accrued legacy costs. That contribution was made in two ways – by sacrificing benefit accruals based on a substantial portion of their pension contribution (initially 22%, now 61% of the $15.91 hourly pension contribution rate) and by having their benefit multiplier set so low on the credited component of the contribution so that a substantial portion of that amount is also earmarked towards the underfunded legacy costs. In short, these "one percenters" have carried the load of Pension Fund's efforts to improve its financial position over the last 13 years and have already paid a heavy price to improve the Pension Fund's funded level.

The Pension Fund's initial MPRA application imposed no benefit cuts on the "one percenters", and the Agencies raised no objection to this treatment even though they raised concerns about other aspects of the suspension formula proposed in the initial application (e.g., the vested deferred participants' general suspension rate).

- **<u>CONCLUSION</u>**

The Pension Fund is a "mature" fund and the dwindling ratio between active participants and retirees is likely to continue to decrease. Sufficient accrued asset reserves are not available to pay these benefits. The Pension Fund has only a 34.5% current funding level and is projected to become insolvent in 2035 unless the proposed MPRA-permitted benefit adjustments are implemented. The elimination of adjustable benefits permitted under PPA, because of their limited scope, could not correct the Pension Fund's funding insufficiencies. While a few additional "adjustable benefits" could have been reduced or eliminated under the PPA, the Pension Fund was understandably concerned about the clear negative impact that further reductions have on recruiting and, by extension, on the workhours – a concern made more acute by the ever-increasing contribution rate. Directing contractually-negotiated compensation increases to the Pension Fund as un-credited contributions and at the same time decreasing (or cutting) Pension Fund benefits, as was required by the PPA has an insidious impact on recruiting new and younger unionized carpentry industry participants (who, in turn become Pension Fund participants). Following this course, counter-intuitively, eventually causes workhours to suffer which ends up hurting the Pension Fund and its future funding position instead of helping it.

Workhours are a more important funding factor for this Pension Fund in its current condition than asset investment returns. This is because the Pension Fund's funding percentage is so low that even stellar investment returns on Pension Fund assets (well above the actuarial assumption) have continually diminishing impact on its funded percentage. The proposed benefit suspensions called for in this application is not accompanied by increases to the employer contribution rate because, in the judgment of the Trustees and their professional advisors, to do so would hurt, not help, the Pension Fund's funded percentage. The suspension requested in the application alone offers the Pension Fund its only realistic possibility of avoiding insolvency.

The Pension Fund's application meets all of the statutory requirements for approval under MPRA. Based upon a thorough analysis of all current, historical and future factors affecting the Pension Fund, it is the prudent determination of the Trustees that unless benefits are suspended in accordance with Internal Revenue Code Section 432(e)(9)(C)(ii), as proposed in the application, the Pension Fund will become insolvent, even after all reasonable measures have been taken to avoid its insolvency.

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RESPONSE OF CARPENTERS PENSTION TRUST FUND – DETROIT & VICINITY

Exhibit A
Actuary's Statement Regarding CBU Assumptions

During the April 1, 2020 conference call with Treasury, PBGC, and DOL Agency Representatives stated that the 7.0 million long-term hours assumption did not account for any future economic downturns. We disagree with that assessment. We believe that, though the Fund's ultimate hours assumption is flat, such assumption does include appropriate margin to absorb the impact of future economic downturns.

We have chosen to use a flat assumption rather than one that is explicitly cyclic because we feel it is not possible to reliably predict the timing or severity of economic cycles. Just as one would typically use a flat (or at least piecewise flat) return assumption in a deterministic asset projection model, we have set the flat hours assumption as a conservative average that reflects the effects of future volatility in economic activity.

In order to provide objective, independent verification of the reasonableness of the long-term hours assumption, we direct the reader to the Malcom S. Cohen report.

As part of the initial MPRA filing, the Fund included a report prepared by Malcolm S. Cohen, PhD of Employment Research Corporation studying the projected demand for unionized construction-industry carpenters in Michigan. As part of this analysis, Dr. Cohen provided a schedule of projected future work hours (CBUs) for the plan from 2019-2038 (Table 1 of the Cohen report). Furthermore, the Cohen report includes an explicit assumption of two economic declines within the next 20 years, each one averaging 30%.

The answer to question 5 in UAS's January 16 response to Mark Leibowitz' questions of December 20, 2019 discusses the Cohen report. As part of that answer, UAS compares Cohen's hours projections (adjusted to line up with the Fund's plan year) to the Fund's assumption. This comparison is reproduced below:

	Hours Assumption	
Plan Year	**Cohen[1]**	**UAS**
PYE 2020	8,617,898	8,200,000
PYE 2021	8,553,296	8,000,000
PYE 2022	7,220,315	7,800,000
PYE 2023	6,285,895	7,000,000
PYE 2024	6,549,902	7,000,000
PYE 2025	6,824,998	7,000,000
PYE 2026	7,111,648	7,000,000

[1] Adjusted to plan year basis.

	Hours Assumption	
Plan Year	**Cohen[1]**	**UAS**
PYE 2027	7,410,337	7,000,000
PYE 2028	7,721,571	7,000,000
PYE 2029	8,045,878	7,000,000
PYE 2030	8,383,804	7,000,000
PYE 2031	8,320,957	7,000,000
PYE 2032	7,024,184	7,000,000
PYE 2033	6,115,147	7,000,000
PYE 2034	6,371,983	7,000,000
PYE 2035	6,639,607	7,000,000
PYE 2036	6,918,470	7,000,000
PYE 2037	7,209,046	7,000,000
PYE 2038	7,511,826	7,000,000

UAS proceeds to calculate the average hours for all the years of Cohen's projection and the average for the period 2023-2038 (the period where the Fund's assumption is a flat 7 million hours per year) with the following results:

- Average of Cohen's assumed hours, 2023-2038: 7,153,000
- Average of Cohen's assumed hours, 2020-2038: 7,307,000

We note that the Fund's ultimate 7 million hour assumption is more conservative than either of these averages. We believe that this fact bolsters our assertion that the assumption is conservative enough to allow for future economic downturns.

UNITED ACTUARIAL SERVICES, INC.

[redacted]

Andrew T. Smith, FCA, ASA, EA
President
April 10, 2020

MICHIGAN REGIONAL COUNCIL OF CARPENTERS
FRINGE BENEFIT FUNDS
P.O. Box 4540 • Troy, MI. 48099-4540
Telephone: (248) 641-4950 800-572-2525

September 10, 2020

Board of Trustees
Carpenters Pension Trust Fund – Detroit & Vicinity
Joan Janks, Plan Manager
BeneSys, Inc.
P.O Box 4540
Troy, MI 48099-4540

Re: Carpenters Pension Trust Fund – Detroit & Vicinity
Appointment of MPRA Retiree Representative

Dear Trustees:

I hereby appoint Charles Tindall as MPRA Retiree Representative to fill the vacant position previously held by Dave Morris, effective immediately.

Should you have any questions regarding this appointment, please advise.

Very truly yours,

[redacted]

Chairman

TDL/ldm

Cc: Charles Tindall
Andrew Smith, United Actuarial Services
Christopher Scott, Bulytnck & Company
John I. Tesija, Novara, Tesija & Catenacci, PLLC

ADDENDUM to Application Exhibit 22 (Retiree Representative appointment)

As required by the Final Regulation a Retiree Representative must be appointed not later than 60 days prior to the filing of an application.

On September 29, 2020, the Michigan Regional Council of Carpenters – Carpenters Pension Trust Fund ("CPTF" or "the Fund") filed its *Second Application* seeking Treasury's approval of a proposed suspension of benefits. As required under the final regulation, the application identifies the Fund's Retiree Representative, Mr. Charles Tindal, who was appointed and took up his office on September 10, 2020.

As part of the Fund's First Application to Treasury, Mr. David Morris was appointed retiree representative effective December 11, 2018. *See*, Exhibit 18 to the First Application. Mr. Morris's term as retiree representative ended on the day that Mr. Tisdal accepted his appointment, September 10, 2020.

MICHIGAN REGIONAL COUNCIL OF CARPENTERS
FRINGE BENEFIT FUNDS

P.O. Box 4540 • Troy, MI. 48099-4540
Telephone: (248) 641-4950   800-572-2525

POWER OF ATTORNEY AND DECLARATION OF AUTHORIZED REPRESENTATIVE BEFORE THE DEPARTMENT OF TREASURY

Applicant Information: Board of Trustees, Carpenters Pension Trust Fund – Detroit & Vicinity

700 Tower Drive, Ste. 300
Troy, MI 48098
EIN: 38-6242188
Plan Number: 001
Tom Lutz, Chairman
Robert Halik, Secretary
Phone: (248) 813-9800
Fax: (248) 813-9898

The Board of Trustees of the Carpenters Pension Trust Fund – Detroit & Vicinity hereby appoints the following representatives as attorney-in-fact to represent the taxpayer before the Department of Treasury and perform acts related to the attached application dated September 30, 2020 for suspension of benefits under Internal Revenue Code Section 432(e)(9).

Representative Information: John I. Tesija   jit@ntclaw.com
Paul M. Newcomer   pmn@ntclaw.com
Novara Tesija & Catenacci PLLC
888 Big Beaver Road, Suite 600
Troy, MI 48084
EIN: 38-3763096
Phone: (248) 354-0380
Fax: (248) 354-0393

Send copies of notices and communications to representative: Yes

With the exception of the facts described below, I authorize my representative to receive and inspect information, including confidential tax information, and to perform acts that I can perform with respect to the application dated September 30, 2020 for suspension of benefits under Section 432(e)(9) of the Internal Revenue Code. For example, my representative shall have the authority to sign any agreements, consents, or similar documents. Specific acts not authorized: None.

[redacted]

Signed: September 25, 2020