Automotive Industries Pension Plan
Checklist Item #19

Does the application include the plan information required by section 5.02?

Yes. The documentation is attached as Document No. 19.1. Document No. 19.2 is the Declaration of Donald Crosatto.

Section 5.02 <u>Plan factors</u>. In accordance with section 432(e)(9)(C)(ii), the following specific information with respect to the plan:

For the past 10 plan years immediately preceding the plan year in which the application is submitted:

Section 5.02(1)(a) Contribution levels.

Employers make contributions to the Plan pursuant to individual Collective Bargaining Agreements or participation agreements. The contribution rates vary among the employers and employee classes. The average monthly participant contribution and the yearly total contributions over the last ten years are as follows:

Plan Year	Average Monthly Credited Participant Contribution Rate (Excluding Employer Supplemental Contributions)	Total Contributions (Excluding Employer Supplemental Contributions)
2006	$393.84	$29,816,663.22
2007	$404.09	$28,734,442.78
2008	$395.33	$25,819,780.58
2009	$381.89	$22,440,904.39
2010	$394.93	$21,095,264.83
2011	$393.62	$19,736,249.95
2012	$399.53	$19,104,136.83
2013	$405.25	$18,875,105.84
2014	$398.95	$19,051,072.70
2015	$398.43	$18,512,446.26

For collective bargaining agreements effective on or after May 8, 2008 the Trustees prohibited any decrease in the contribution rate while the Plan is in Critical Status.

Section 5.02(1)(b) Levels of benefit accruals, including any prior reductions in the rate of benefit accruals.

Due to the Plan's positive funding status in the 1990s, for retirements effective after January 1, 1999, the Trustees had increased the accrual rate to 5% for contributions through January 1, 2005. This accrual rate was set to decrease to 4.24% for contributions after January 1, 2005.

In consultation with the Plan's Actuary, and in response to a worsening of the Plan's funding due mainly to poor investment returns over the three previous years, on December 3, 2002, the Trustees amended the Plan to reduce the accrual rate to 3% effective for contributions on or after July 1, 2003.

As the Plan's funding status continued to decline, the Trustees again amended the Plan to further reduce benefit accruals. Effective January 1, 2005, the Trustee's prospectively reduced the accrual rate to 0.50% for the portion of monthly contributions less than or equal to $250, 1% for the portion of monthly contributions between $250 and $500 and 2% for the portion of monthly contributions exceeding $500.

As a part of the Rehabilitation Plan adopted in 2008, the benefit accrual rate was fixed at 1% of total contributions made on a participant's behalf, effective for contributions after July 1, 2008. The benefit accrual rate has remained at 1% since July 1, 2008.

Section 5.02(1)(c) Prior reductions, if any, of adjustable benefits under section 432(e)(8).

In 2008, the Plan's Actuary certified the Plan to be in Critical Status under the Pension Protection Act. The Plan adopted a Rehabilitation Plan which would enable the Plan to emerge from Critical Status by the end of the 10 year Rehabilitation period beginning January 1, 2011. New Collective Bargaining Agreements negotiated after April 27, 2008 had to include the maximum benefit reductions allowed by law. The Trustees adopted the following benefit reductions in the Rehabilitation Plan:

1) Subsidies for the Early Retirement and Joint and Survivor benefit were eliminated;
2) The Rule of Unreduced Early Retirement Benefit was eliminated;
3) The Disability Benefit was eliminated;
4) The 36 month guarantee Pre-Retirement Death Benefit was eliminated;
5) All benefit options were eliminated except for the Single Life Annuity (with no death benefit) and the unsubsidized QJSA or QPSA.

Effective July 9, 2012, the Trustees adopted an updated Rehabilitation Plan which included an additional benefit reduction:

1) Early Retirement Benefit for Inactive Vested participants was eliminated, effective February 1, 2011.

Section 5.02(1)(d) Any prior suspension of benefits under § 432(e)(9).

The Trustees have not applied for any prior suspension of benefits under Section 432(e)(9).

Section 5.02(1)(e) Measures undertaken by the plan sponsor to retain or attract contributing employers.

The recessions of 2001 and 2008 were particularly harmful to the automotive industry. The impact of the recessions, including the General Motors and Chrysler bankruptcies, resulted in the closing, bankruptcy or sale of many automotive dealerships, automotive parts retail shops and other automotive related businesses in the Bay Area. The Plan declined from 450 individual contributing employers in 2000 to 155 in 2015 (the Union does not have any collective bargaining agreements with employer associations, only individual employers). Against this background of shutdowns and consolidations among the Bay Area automotive dealers, and growing unfunded liability (increased from $406,778,532 at the end of 2005 to $790,263,178 at the end of 2014), the Trustees were challenged to attract and retain contributing employers to the Plan, in addition to taking measures to avoid insolvency.

Measures taken to attract and retain contributing employers include the following:

1) Adoption of the free look rule – In 2005, the Trustees adopted the free look rule in an effort to attract new employers to the Plan. The free look rule allows employers to avoid withdrawal liability if they withdraw from the Plan within five years, before the time when its employees would vest, along with meeting other specified conditions. The free look allows employers to become acclimated to the Plan and hopefully remain contributing employers. If the employers do not stay, however, the Plan retains the employer's contributions without the attendant obligations to vested participants as to many or all of the employees. Virtually no employers have taken advantage of this.

2) Reduced the employer supplemental contribution rate from 12.5% to 5.0% - In 2008, the Trustees adopted the Rehabilitation Plan that imposed cumulative supplemental employer contributions of 12.5% per year for 7 years beginning in 2013. Supplemental employer contributions increase the monthly contribution rate but do not count towards benefit accruals. Therefore, by the final year, 2019, employers would have been paying a supplemental rate of 128.1% of the initial contribution.

   By 2012, the Plan's financial situation had further deteriorated so that the 12.5% cumulative supplemental employer contribution would not have been enough to allow the Plan to emerge from critical status by the end of the rehabilitation period, instead, a 35.8% cumulative increase would have been required. Thus, in the final year, the average employer contribution rate would increase from $394 to $3,356 per month. Taking into account this new information, the Trustees considered the decline in the automotive industry in general, the rapid decline of contributing employers and of active participants in the Plan and information concerning the remaining larger contributing employers to the Plan. The Trustees also considered the risk of future substantial withdrawals, the difficulty collecting withdrawal liability from insolvent entities, and the potential adverse impact of such withdrawals. Withdrawal liability often fails to fully compensate a plan for its unfunded vested benefits. The 20 year cap on withdrawal liability prevents withdrawn employers from paying their entire share of withdrawal liability.

> The Trustees also considered that no contributing employer belongs to an employer association that negotiates with the Union on behalf of all of its members, so any supplemental employer contribution must be negotiated separately for each employer. *See Declaration of Donald Crosatto ("Crosatto Decl."),* Document No. 19.2, ¶ 12. This makes it difficult to impose a rate higher than the amount that the most financially vulnerable companies could bear. Many small employers indicated in bargaining that a 12.5% would cause them to go out of business or file for bankruptcy. *Crosatto Decl.*, Document No. 19.2, ¶ 6. The Trustees were convinced that the 12.5% supplemental contribution rate would cause the 3 largest employers to leave which could lead to a mass withdrawal. *Crosatto Decl.*, Document No. 19.2, ¶ 7. Accordingly, in 2012 the Trustees revised the Rehabilitation Plan supplemental contribution rate downward from 12.5% to 5.0%, concluding that annual contribution rate increases greater than 5.0% could trigger mass withdrawals and significant losses to the Plan. To date, no mass withdrawal has occurred and the largest contributing employers have remained in the Plan.

(2) The impact on plan solvency of the subsidies and ancillary benefits, if any, available to active participants.

Not applicable, as there are no longer any subsidies or ancillary benefits available to active participants.

(3) Compensation levels of active participants relative to employees in the participants' industry generally.

In the Plan's geographic area, industry competition has impeded wage growth for Union members, although overall compensation costs for union members are higher due to better benefits. *Crosatto Decl.,* Document No. 19.2, ¶ 15.

The rising costs of pension benefits have caused a downward pressure on Union wages in general. Employers have experienced rising pension costs due to the cumulative supplemental employer contributions imposed by the Rehabilitation Plan, which took effect on January 1, 2013. Since cumulative supplemental employer contributions are scheduled to increase each year through 2019, the overall pension costs will continue to rise. This increase in the pension costs has come out of the non-pension portions of the total compensation package and led to slower wage growth for participants.

At the same time, Plan participants have experienced a reduction in the amount of pension benefit accruals they could expect to receive for each dollar contributed on their behalf along with the reduction or elimination of other benefits, as described above. The confluence of the cumulative supplemental employer contributions and the benefit reductions has meant that an increasing portion of pension contributions are being used to pay unfunded pension obligations, which has led to a decline in support for the Plan among active participants and made it more difficult to attract and retain contributing employers. *Crosatto Decl.*, Document No. 19.2, ¶ 11 – 13.

(4) Competitive and other economic factors facing contributing employers.

The decline over the last 10 years in the domestic automotive industry coupled with the economic recessions over the last 15 years have had a great impact on the businesses, especially automotive related businesses, in the Union's jurisdiction. Plan employers are engaged in a fragmented, competitive industry and have higher labor costs. Consequently, employers must either charge more for the same services, resulting in less business, or endure smaller profit margins. Specifically, these occurrences led to the closure of many of the local auto dealerships and retail parts shops in the San Francisco Bay Area, which employed a significant portion of our participants. *Crosatto Decl.,* Document No. 19.2, ¶ *2.*

Thus, the Plan has lost many contributing employers over the last 10-15 years. For example,

1. In 2000, there were approximately 16 Ford and 10 Chrysler dealerships in the East Bay contributing to the Plan. In 2015, only 3 of those East Bay dealerships remain as contributing employers to the Plan.
2. The Union used to represent a large retail automotive parts industry but many of those employers have gone out of business. For example, at one time, Grand Auto Supply employed approximately 600 Plan participants. Now, the company no longer exists. *Crosatto Decl.,* Document No. 19.2, ¶ *3.*

Employers, including several of the largest employers, have openly contemplated withdrawing from the Plan. Factors affecting an employer's decision to withdraw from the Plan include alleviating the economic burden imposed by the Rehabilitation Plan supplemental contributions, eliminating the withdrawal liability reported on an employer's financial statements and taking advantage of the 20 year cap currently imposed on the withdrawal liability calculation. The Union has had to expend considerable effort in encouraging employers to stay in the Plan. *Crosatto Decl.*, Document No. 19.2, ¶ 12.

Document No. 19.2

DECLARATION OF DONALD CROSATTO

I, Donald Crosatto, declare as follows:

1. I am the Assistant Directing Business Representative for District 190 of the International Association of Machinists and Aerospace Workers, AFL-CIO ("Union"), and a Trustee of the Automotive Industries Pension Plan (the "Plan"). District 190 represents members working for automotive industry businesses, including automotive dealerships, auto and truck repair shops, auto body shops, and auto parts distributors and retail shops. District 190 also represents members working for machine and manufacturing businesses, including manufacturing plants, canneries, bakeries, and waterfront repair and maintenance. I have 27 years of experience representing workers in the automotive and machine/manufacturing industries.
2. The decline over the last 10 years in the domestic automotive industry coupled with the economic recessions over the last 15 years have had a great impact on the businesses, especially automotive related businesses, in the Union's jurisdiction. Specifically, these occurrences led to the closure of many of the local auto dealerships and automotive parts retail shops in the San Francisco Bay Area, which employed a significant portion of our members.
3. The following provides examples of the decline in the automotive industry businesses in the Union's jurisdiction and contributing employers to the Plan:
    a. In 1955, there were approximately 149 employers (exclusively automotive industry related businesses) signatory to the first collective bargaining agreement that required participation in the Plan. 145 of these original signatory employers are now defunct.
    b. In 2000, there were approximately 16 Ford and 10 Chrysler dealerships in the East Bay contributing to the Plan. In 2015, only 3 of those 26 East Bay dealerships remain as contributing employers to the Plan.
    c. The Union used to represent a large automotive parts retail industry. As of today, all but one of those employers have gone out of business. For example, at one time, Grand Auto Supply employed approximately 600 Plan participants. Now, the company no longer exists.
4. Between the implementation of the 2008 Rehabilitation Plan and its update in 2012, the local auto dealer and automotive parts retail industries continued to decline.
5. The 2008 Rehabilitation Plan initially imposed a 12.5% cumulative supplemental employer contribution on employers which was set to take effect in 2013.
6. Some of our employers were financially healthy and could afford such an increase. However, many of the smaller employers informed me during collective bargaining that they would be unable to pay this supplemental employer contribution and threatened that they would have no choice but to go out of business or file for bankruptcy.

7. In addition to potentially losing many small employers, the Trustees were convinced that the 12.5% cumulative supplemental employer contribution would cause the three largest contributing employers to leave the Plan and, if those employers left, it could lead to a mass withdrawal.
8. By 2012, the Plan's financial situation had deteriorated further such that a 12.5% cumulative supplemental contribution on employers would not be sufficient to enable the Plan to emerge from Critical Status. Instead, a 35.8% cumulative supplemental contribution on employers would be required to emerge from Critical Status by the end of 2023. For example, the average contribution would have to grow from $394 to $3,356 to emerge from critical status by the end of 2023.
9. In the updated 2012 Rehabilitation Plan, the Trustees determined that the 35.8% cumulative supplemental contribution would be unreasonable and only further jeopardize the Plan's funding status. Employers, unable to afford these increases, would leave the Plan resulting in a mass withdrawal. Moreover, without such an increase, emergence from Critical Status was not possible and the Rehabilitation Plan could not be expected to do any more than forestall the insolvency of the Plan.
10. Based on information obtained in collective bargaining, the Trustees believed that a maximum cumulative supplemental employer contribution rate of 5.0% would allow the Plan to retain employers and discourage withdrawals thereby allowing the Plan to maintain or possibly improve its funding status and forestall insolvency as long as possible. Accordingly, the Trustees adopted the cumulative supplemental employer contribution rate of 5.0% as part of the 2012 Rehabilitation Plan update.
11. The Plan's underfunded status and the Rehabilitation Plan surcharges have made it very difficult to bring new employers into the Plan. Since the Plan first had withdrawal liability in 2004, only a handful of new employers have entered into the Plan and no new employers have entered the Plan since the Rehabilitation Plan in 2008. While the Union has successfully organized many new workplaces, it has stopped proposing that employers enter into the Automotive Industries Pension Plan and instead proposes other alternatives.
12. In a typical year, I am involved in the collective bargaining agreement ("CBA") negotiations with 10-15 employers. District Lodge 190 does not have a master collective bargaining agreement but rather over 160 individually negotiated agreements. Since the Rehabilitation Plan, employers have not been agreeable to increases in the pension contribution rate. The issue of pension underfunding comes up in virtually all negotiations. Employers, including several of the ten largest employers, have openly contemplated withdrawing from the Plan. The Union has had to expend considerable effort in encouraging employers to stay in the Plan. The possibility of the Plan avoiding insolvency with a benefit suspension has had a calming effect on employers' desire to leave the Plan.

13. Active participants in the Plan have also been seeking alternatives to remaining in the Plan. At Union contract proposal meetings, members are proposing that any new retirement money is bargained into either a 401(k) Plan or into the IAM National Pension Fund ("IAM"). IAM is increasingly attractive to participants, as it is fully funded and its accrual rate is approximately 2%, twice the rate that active Automotive Industries Plan participants receive.
14. Once informed about MPRA, active participants tend to support the Plan making an application because they believe that the Plan's projected insolvency will mean they will receive little, if any, of their pension when they retire.
15. In the Plan's geographic area, industry competition has impeded wage growth although overall compensation costs for union members are higher due to better benefits.

I declare under penalties of perjury that, to the best of my knowledge and belief, the foregoing is true and correct.

Executed on September 22, 2016 at Oakland, California.

Redacted by the U.S. Department of the Treasury

[redacted]