ALASKA IRONWORKERS PENSION PLAN

SECTION 6.09 - NARRATIVE STATEMENT OF THE REASONS THE PLAN IS IN CRITICAL AND DECLINING STATUS

A. INTRODUCTION

Simply stated, the reason the plan is in critical and declining status is because it has experienced significant asset losses and hours decreases. This has led to the situation where despite very large: (a) increases in the hourly contribution rate, (b) decreases in the rate at which benefits are being earned, and (c) reductions to the early retirement and other "adjustable" benefits of members who did not retire before 2011, there are no longer enough contributory hours to keep the assets of approximately $50 million from declining due to annual benefit payments of over $7 million. This is a very mature plan with many more retirees than actively contributing members. Contributions based on the hours worked by the active members can no longer pay for the unfunded benefits of the retirees.

B. HISTORICAL CONTEXT

This Plan emerged from the 1990's fully funded but due to Treasury regulations at the time it did not have sufficient reserves. Following the dot.com melt down in the early 2000's the Plan struggled but was on its way to recovery. However, before the Plan could fully recover the crash of 2008 hit. The impact was catastrophic. Discussed below are the actions the Plan took starting in 2010 to address the crisis. In short the Plan has eliminated every adjustable benefit and obtained every dollar that both the employers and active members could afford to pay. The retirement age was raised. The contribution rate was lowered. All subsidies for early retirement were eliminated. Unfortunately, this is a mature Plan in which the retirees substantially outnumber the actives. In spite of the actions taken by the Board to reduce costs there were not enough expected man hours for the contribution rates, which are substantial, to correct the funding deficiency. Also, the expected investment returns were not enough. The damage from 2008 was too severe.[1] This was obvious before the Plan became critical and declining. Once the Plan reached that benchmark in 2016, the board instructed the actuary and attorney to file for a suspension of benefits. There were, and are, no remaining options if this Plan is to be saved.

C. DISCUSSION

On August 27, 2010 the Plan was certified by its actuary to be in "critical status", and the Trustees adopted a Rehabilitation Plan effective October 31, 2010, which amended and was incorporated into the Plan document. The Rehabilitation Plan increased employer contributions for funding improvement on an annual basis, and reduced future benefit accruals. The

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[1] The Plan was most recently fully funded in 2002, and prior to that had a funding surplus; however, investment losses due to prevailing market trends in the early 2000s caused the funded ratio to decline to 77.6% in 2006, before recovering slightly up to 82.7% in 2008. Following the stock market crash of 2008, the funded ratio plummeted to 58.2% in 2009.

Rehabilitation Plan also eliminated *all* adjustable benefits, effective November 1, 2010. This included a Disability Pension; a set 1% Pop-Up Reduction; Lump Sum Pre- and Post-Retirement Death Benefits; and a 6-Year Period Certain Life Annuity. The Rehabilitation Plan also raised the Normal Retirement Age from 60 to 62 for benefits earned after June 30, 2011, reduced the Accrual Rate from 1.2% to 1.0% after June 30, 2011, and sharply reduced the Early Retirement Factors.

The Trustees each year, in consultation with the Plan's actuary, reviewed and updated the Rehabilitation Plan to reflect the worsening condition of the Plan. After much consideration, the Trustees in 2014 determined that they could not adopt a rehabilitation Plan that would enable the Plan to emerge from critical status using reasonable assumptions, due to adverse impact from the investment markets and the downturn in the local economy and ironworking industry in Alaska. The Trustees determined that they could not raise contribution rates sufficient to bring the Plan out of critical status without effecting the withdrawal or bankruptcy of most or all participating employers. Accordingly, a Rehabilitation Plan was adopted in 2014 that represented the Trustees' best efforts to forestall insolvency while maintaining employer participation and offering some level of ongoing benefit accrual for active participants. This Plan deferred a scheduled $1/hour increase in funding improvement contributions until 2015. This was calculated to give the Plan the best chance to survive if the economy and industry experienced a resurgence. Because the Trustees determined that the employers could not bear further contribution increases, the Rehabilitation Plan has not been updated further in 2015 or 2016, but has been continued as it was following the last scheduled funding increase in 2015.

Contribution rates have risen over the Plan's history, reaching $4.75 per hour in 2005; since then, contributions to benefits have remained level at $4.75, but contributions exclusively to funding improvement began in 2006 at $1.00 per hour and have increased steadily since then to $9.00 per hour in 2015, reaching a total contribution rate of $13.75 in 2015, where it remains. This represents a significant commitment by the Trustees and the active participants to repairing the funded status of the Plan. However, the increasing amount of total contributions has made it more difficult over time to attract new employers, and has not significantly improved the funded ratio of the Plan, but more or less only maintained it.

The Trustees have determined that further increases to contributions would likely drive contributing employers from the Plan, either through business failure or withdrawal. The $9.00 portion of the contribution that is non-accrual is, and has been, a significant economic burden for the active members. Further, the total pension contribution rate of $13.75 for the Alaska Ironworkers Pension is already among the highest in the nation for ironworkers' pension funds; for those Plans containing ironworkers of "mixed" disciplines, only the locals in Hartford and Newhaven, CT; Chicago and Rockford, IL; Detroit, MI, and New York City, NY had higher pension contribution rates as of 2017.

Despite all of the Trustees' best efforts, the funded ratio has not recovered significantly from 2009, reaching only 55.4% by 2016, despite reductions in benefits and annual increases in funding contributions. Part of the reason has been a decline in contributory hours. The actuarial hours assumption used in 2009 was 290,000 per year; however, since 2009, contributory hours have steadily decreased each year, to 184,000 in 2016. This reflects the declining number of active participants in the Plan; from 2006 to 2016, the number of active participants has decreased from 227 to 153, while the number of retirees increased from 522 to 569, and the number of terminated vested participants increased from 73 to 101.

The following is a table showing the hourly employer contribution rates since 1999, including the amount going to benefits, the amount going to funding improvement, and the total.

Year	Benefits	Funding Only	Total
1999	4.40	0.00	4.40
2000	4.40	0.00	4.40
2001	4.40	0.00	4.40
2002	4.40	0.00	4.40
2003	4.40	0.00	4.40
2004	4.40	0.00	4.40
2005	4.75	0.00	4.75
-2006	4.75	1.00	5.75
2007	4.75	2.00	6.75
2008	4.75	2.00	6.75
2009	4.75	4.00	8.75
2010	4.75	5.00	9.75
2011	4.75	6.00	10.75
2012	4.75	7.00	11.75
2013	4.75	8.00	12.75
2014	4.75	8.00	13.75
2015	4.75	9.00	13.75
2016	4.75	9.00	13.75
2017	4.75	9.00	13.75

The Plan has reduced benefit accrual levels from a rate of 1.2% to 1.0% starting in July 2011. The accrual rate was previously reduced from 2.1% to 1.2% of contributions for hours starting in July 2003. This shows how the Trustees have been working on the Plan's funding problem since the economic downturn after the turn of the century. Unfortunately, as a mature Plan in a shrinking market, the only avenue for real relief has been the investment returns. Even with significant non-accrual contribution rates the work hasn't supported a turnaround in the Trust's finances. When the meltdown of 2008 hit, it was clear that the Plan was facing steep funding challenges.

The Trustees have concluded, in consultation with the Plan actuary, that any further reduction in the accrual rate beyond those contained in the Rehabilitation Plan would have had a detrimental effect on the Plan by undermining contributing employer's ability to attract and retain qualified employees.

It is the determination of the Trustees that no rational employer would be interested signing on to a contract that may result in the assessment of massive withdrawal liability. The only long term participation is from contractors who were under contract when the withdrawal liability was first imposed. Other than that, the financial condition of the Plan makes it effectively impossible to attract local long term Employer participants. However, the Union has kept wages at competitive levels, and the current law on one-job agreements along with the Construction Industry exemption from withdrawal liability for employers (ERISA § 4203(b)) makes agreements on a project by project basis possible. Under a one job agreement, the employer can cease work on the project and be exempt from withdrawal liability since further work in Alaska isn't "in the jurisdiction" of the one job agreement under ERISA § 4203(b)(2)(B)(1). These one job agreements are, and have been, instrumental in sustaining the existing work. Prior to withdrawal liability, employers signed the regular collectively bargained agreement and requested Ironworkers when and as needed. Since withdrawal liability, the model has changed.

Without the ability to attract new employers, the Trustees have made every effort to retain the contributing employers that it has. It is for this reason that no further contribution increases will be approved. The Trustees have determined that any further increases to contributions would lead to the loss of contributing employers, either through bankruptcy or through withdrawal.

The Trustees have determined that further decreases in benefit levels under the Plan would result in reduced employee and participant retention. The Plan's contributing employers are unable to financially sustain any increase in contribution levels. The active employees may leave the local union if more wages are diverted to pay the funding deficiency, because economically speaking, doing union ironwork in Alaska becomes an increasingly poor decision for them and their families. This is not to suggest that the position of the active employees can be fairly categorized as selfish. It is the actives who have born the burden of saving the Plan. They have paid $9.00 per hour towards funding improvement from a limited pot of money that could have gone to wages or other benefits, while at the same time the early retirement and disability benefits they once could look forward to have been reduced or eliminated. We have simply reached the end of the road. Neither the actives nor the employers can be reasonably expected to do more than they have done.

As described above, the impact of past and anticipated contribution increases under the Plan have had a detrimental impact on employer attrition and retention levels. The Trustees have determined that employers will not bear any further contribution increases, and the benefits being earned by actives in the Plan are not nearly substantial enough to bear the costs. Of the $13.75 per hour of pension contributions at present, only $4.75 goes to benefits for actives and it earns the low accrual rate of 1.0%. This is not a particularly high amount, and, combined with the elimination of all adjustable benefits, the Plan offers relatively little to new participants.

It is the Trustees' determination under § 432(e)(9)(C)(ii), after consideration of all of the available information and possible Plan changes, that the Plan is projected to become insolvent unless benefits are suspended as proposed in this application, even though all reasonable measures to avoid insolvency have been taken.[2]

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[2] As noted above, these measures include the adoption of a Rehabilitation Plan following passage of the Pension Protection Act of 2006.