Lessons From Central States

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Introduction

• We represented the retiree representative for the Central States Southeast, and Southwest Pension Fund, appointed as part of the process the Fund went through under the Multiemployer Pension Reform Act

• With over 400,000 participants Central States is one of the largest multiemployer pension funds in the U.S.

• It is projected to be insolvent in less than ten years

All information we are providing today has been made publicly available
Introduction

• Millions of Americans are entitled to a retirement benefit from a fund that does not have enough money to pay all of the projected liabilities
• This issue impacts all types of retirement funds, including multiemployer, single employer, and public pension funds
Key Takeaways

• Even well-run pension funds can become insolvent
• Many pension fund participants mistakenly believe it is a virtual certainty that they will receive their pension benefits
• Many pension fund participants do not plan to have sources of retirement income other than their pension benefits, often making those benefits necessary for retired participants to obtain housing, food, and health care
Presentation Outline

• A Very Brief History Of Pension Fund Law In The U.S.
• A Brief Look Under The Hood Of A Pension Fund
• What Happened To The Central States Pension Fund
• Lessons From Central States
A Very Brief History of Pension Fund Law in the U.S.
Until 1974, there was little or no protection for pensions. When Studebaker terminated its employee pension plan in 1963 and more than 4,000 auto workers at its automobile plant in South Bend, Indiana, lost some or all of their promised pension plan benefits, calls for pension reform increased.


They were eventually answered on September 2, 1974—Labor Day—with the Employee Retirement Income Security Act (“ERISA”)
Pension Fund Law

- Employee Retirement Income Security Act of 1974 (ERISA)
  - Core statute governing multiemployer pension plans
  - Public pension plans are not covered by ERISA, PPA or MPRA
- Pension Protection Act of 2006 (PPA) (which became effective for most plans January 1, 2008)
- Multiemployer Pension Reform Act of 2014 (MPRA) (effective immediately)
President Gerald Ford, at the signing of ERISA remarked:

“Under this law, the men and women of our labor force will have much more clearly defined rights to pension fund and greater assurances that retirement dollars will be there when they are needed.”
Pension Fund Law

• Highlights:
  – Fiduciary Duty
  – Anti-cutback rules
  – Funding requirements
  – PBGC
• Fiduciary duty
  – Persons who exercise discretionary authority or control over management of a plan or disposition of its assets are "fiduciaries" for purposes of Title I of ERISA.
  – Fiduciaries are required, among other things, to discharge their duties solely in the interest of plan participants and beneficiaries and for the exclusive purpose of providing benefits and defraying reasonable expenses of administering the plan.
  – In discharging their duties, fiduciaries must act prudently and in accordance with documents governing the plan, to the extent such documents are consistent with ERISA.
Pension Fund Law

- Anti-cutback rule
  - In general, the anti-cutback rules protect a participant’s accrued benefits. Section 411(d)(6) generally provides that the accrued benefit of a participant may not be decreased by an amendment to the plan.
Pension Fund Law

- Funding requirements
  - Pension funds are required to maintain certain minimum levels of assets based upon future projected liabilities
  - On the reverse side, if a pension fund is over-funded (assets exceed projected liabilities), an excise tax is imposed upon contributing employers
    - Prompted the 13th check scenario
    - Responsible for benefit improvements during investment booms
Pension Benefit Guaranty Corporation (PBGC)

- A federal agency created by ERISA
- Designed to provide some “guaranty” for participants in single employer and multiemployer pension funds
- Participants in all single and multiemployer plans should be made aware of the precarious situation with the PBGC
- PBGC projects risk of insolvency for its multiemployer program to be at 50% for 2022 and reaching 90% in 2025

Pension Fund Law

- PBGC estimates 200 plans covering 1.5 million participants will fail, many within next 10 years
- 54 Multiemployer plans issued critical and declining status
Pension Protection Act (2006)
(PPA)
• A number of pension funds began projecting dates when the fund would not be able to pay its liabilities
  – Central States first made this projection in 2004
• The PPA has many requirements relating to the funding of multiemployer pension funds
• Created “zones” classifications for pension plans including:
  – Green
  – Yellow (“endangered”)
  – Red (“critical”)
Under the PPA, the plan’s actuary is required to certify by the 90th day of the plan year if the plan is in critical status. The plan sponsor then has 30 days to notify the plan participants, beneficiaries, bargaining parties and the Pension Benefit Guaranty Corporation (“PBGC”) of the critical status. The PPA required plans determined to be in critical status (the red zone) to adopt rehabilitation plans. Rehabilitation plans generally include prospective benefit reductions and contribution rate increases designed to allow the pension plan to increase its funding health.
The rehabilitation plan must also include a “default” schedule, which assumes no increases in contribution rates and all future benefit accruals and other adjustable benefits have been reduced to the maximum extent permissible.

Within 30 days after adopting the rehabilitation plan, the plan sponsor is required to provide the bargaining parties the schedules.

At the expiration of the current CBA, if the bargaining parties do not adopt the schedules provided in the rehabilitation plan, the plan sponsor is then required to implement the default schedule (within 180 days after expiration of the CBA).

The PPA had a sunset provision for the end of 2014.
Pension Fund Law

• Signed into law on December 16, 2014
• While many pages, two of the most notable provisions—
  – Made the PPA permanent—was scheduled to sunset at the end of 2014
  – Historical change—authorizes the suspension and forfeiture of benefits already vested and being paid
    • Eroded the anti-cutback rule from ERISA
Threshold issue before suspension of benefits—plan must be in critical and declining status (added the super-red zone)
  - Actuarially projected to be insolvent during the next 14 years
  - Projected to be insolvent during the next 19 years and the plan’s ratio of inactive participants to active participants exceeds 2 to 1 or the plan’s funded percentage is less than 80%

Plan Sponsor makes a determination that the plan is projected to be insolvent unless benefits are suspended

All reasonable measures have been taken (and continue to be taken throughout the suspension) to avoid insolvency
Pension Fund Law

• Limits on the benefit suspensions
  – May not be reduced below 110% of PBGC rate
  – No suspension for retirees 80 years and older
    • Reduced by 20% for each year over 75 up to 79
  – No suspension of disability benefits
  – Only to avoid insolvency and no more
  – Shall be equitably distributed across participants and beneficiaries and may take into account one or more of 11 factors
Examples of the equitable factors

- History of benefit increases and reductions
- Years to retirement for active employees
- Any discrepancies between active and retiree benefits
- Extent to which active participants are reasonably likely to withdraw support for the plan, accelerating employer withdrawals and increasing risk of additional benefit reductions
- Extent to which benefits are attributed to service with an employer that failed to pay its full withdrawal liability
Pension Fund Law

• MPRA application process
  – File an application to suspend benefits with Treasury
    • Special Master appointed to review
  – 225 days to review the application
  – Notice to participants and comment period
  – Decision issued by Treasury
    • Participant vote if approved by Treasury
  – Implementation of suspension
A Brief Look Under The Hood Of A Pension Fund
Overview of Pension Funds

• Administering a pension fund is like driving down the road with a navigator who is giving directions while looking out the back window.
Overview of Pension Funds

• A pension fund accepts payments while an employee is working ("contributions"), and, in return, promises to pay the employee a life annuity in a specified monthly amount (a "benefit") beginning at retirement.

• Total pension fund benefit payments to an employee exceed (often greatly exceed) the total contributions for the employee, because the fund must invest the contributions and earn a return.

• The plan sponsor bears the risk that a pension fund’s actual investment return will be less than projected. If a pension fund becomes underfunded due to poor investment returns, the contributing employer generally must make up the difference—if it can.
Overview of Pension Funds

• At the core of a pension fund is a funding policy, which aims to balance the fund’s assets and liabilities
  – Properly funded: Assets = Liabilities
  – Overfunded: Assets > Liabilities
  – Underfunded: Assets < Liabilities

• The balance between a fund’s assets and liabilities primarily depends on three variables, which form a fund’s core funding assumptions

• A fund’s actuary is responsible for providing advice on the appropriate assumptions (See Actuarial Standards of Practice No. 27 and No. 35)
Overview of Pension Funds

• Determining whether a fund’s assets are sufficient to pay its liabilities requires a fund’s actuary to “know” information about the future.

• For instance, fund liabilities are paid, in significant part, by future investment income—to determine future investment income, it is necessary to make an assumption about future investment performance.
Overview of Pension Funds

• There are three key funding assumptions
  – Investment Return
  – Mortality
  – Industry activity (future contributions/maturity)
Overview of Pension Funds

• Investment Return
  – Future investment income is a function of a fund’s present and future investable assets (partly known) and the future investment performance (unknown)
  – A fund’s fiduciaries assume that future investment performance will produce a specific annual return on average
  – Investment return assumptions are typically between 6% and 8% per year
  – A fund’s actuary, often with input from a fund’s investment consultant, is responsible for providing advice on the appropriate investment return assumption
Overview of Pension Funds

This chart details the investment return assumptions of approximately 1200 defined benefit plans, as reported on Form 5500 for the 2014 plan year. The vertical axis is the return assumption, the horizontal axis is total plan assets. The shading between 6.75% and 7.75% represents one standard deviation—approximately 68% of all plans fall within the shading. The red line represents the moving average return assumption.
Overview of Pension Funds

2015 PRIVATE PENSION FUND INVESTMENT RETURNS

Investment Return Data From 1629 DB Plans, Non-Frozen, Assets > $100M, Per Form 5500
Poly. (Investment Return Data From 1629 DB Plans, Non-Frozen, Assets > $100M, Per Form 5500)

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Overview of Pension Funds

• Mortality
  – In simple terms, the cost of benefits is a function of the number of participants (known), the monthly benefits (known), and the length of time that participants draw benefits (unknown)
  – The length of time that a participant will draw benefits depends on how long a participant lives
  – A plan’s mortality assumption is an estimate of how long a participant will live after commencing benefits
  – The mortality assumption is typically based on studies that are issued by the Society of Actuaries, though some plans may adopt modified assumptions based on plan experience
Overview of Pension Funds

• Many plans use the RP-2000 mortality tables (adjusted by a mortality improvement scale), which were issued in 2000 based on data from 1990-1994
• The Society of Actuaries has issued more recent mortality tables, but many plans are not yet using the new tables
• According to a report from the Center for Retirement Research at Boston College, a one-year increase in participant life-span tends to increase plan liabilities by 3.5%. (See http://crr.bc.edu/wpcontent/uploads/2015/04/slp_43.pdf )
Overview of Defined Benefit Plans

• Industry Activity (Future contributions/maturity)
  – The assumption relating to future contributions is called projected industry activity
  – Future contributions provide a lever to dampen the effects of inaccurate investment return and mortality assumptions
  – A plan that is receiving a stream of contributions that is significant in comparison to its overall liabilities can easily correct course by reducing its benefit accrual rate and using a portion of the contributions to pay unfunded liabilities
Overview of Pension Funds

- Mature and frozen plans cannot correct funding deficiencies using future contributions—if a plan is under-funded when it becomes mature or frozen, its only options to avoid insolvency are to exceed investment return expectations or reduce benefits.

- Essentially all defined benefit plans can become mature—a municipality’s plan, for instance, may become mature if the municipality’s population shrinks significantly.
Overview of Pension Funds

- Maturity
Overview of Pension Funds

Breakout of Total MEP Liability, 2015

Retrieved on July 24, 2017

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What happened to Central States?
Central States Pension Fund

• The Fund was formed in the 1950s as a multiemployer, jointly trusteed benefit plan.

• At its height, thousands of employers, primarily in the trucking industry, were participating in the Fund.

• In 1982, after a number of years of litigation, the Fund entered into a consent decree with the federal government.
Central States Pension Fund

- The consent decree with the federal government requires, among other things, oversight by a federal judge, court approval of trustee appointments, and exclusive management of assets by an independent named fiduciary.

- A federal judge attends trustee meetings and has access to all information trustees have. Investments were highly constrained with 50% of total invested in passively managed funds tracking major benchmarks.
  - Later we will talk about the Fund’s investment returns and the two catastrophic losses.
Central States Pension Fund

- Highlight three components of its decline
  - Significant decline in the number of contributing employers
  - Maturity of the fund
    - Ratio of actives to retirees
  - Operating deficit
Central States Pension Fund

• Significant decline in the number of contributing employers

1980

2015
In 1980, the Motor Carrier Act deregulated the trucking industry, significantly reducing barriers to entry into the trucking industry. Many of the existing unionized trucking companies, which carried legacy costs from the regulated era, could not compete in the unregulated environment.
Central States Pension Fund

- 600 Employers went Bankrupt
- More than 10,000 employers have stopped contributing to the Fund since deregulation, many without paying their full pension funding obligation
  - Per MRPA application, in 1980 there were approximately 12,000 contributing employers but as of July 2015 there were approximately 1,800 contributing employers
- About half of all Central States Pension Fund benefits payments currently go to these “orphaned” employees, whose employers never fully paid the Fund to cover their benefits
Central States Pension Fund

- Maturity of the fund

Maturity Graph:

- Retirees and Term Vest: 1980
- Active Participants: 2014
- Retirees and Term Vested: 2014
- Active Participants: 2014
Since 1980, Central States’ active participant population fell by 40%. At the same time, the retiree population increased by 50%.

In 1980, Central States’ active:retiree* ratio was approximately 4:1.

By 1990, the active:retiree ratio was approximately 1.5:1.

Currently the ratio of active:retiree is 1:5.

*Retiree includes terminated vested participants.
Central States Pension Fund

• Operating Deficit

Growing Operating Deficit

<table>
<thead>
<tr>
<th>Year</th>
<th>Contributions</th>
<th>Benefits</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980</td>
<td>$0.7</td>
<td>$2.6</td>
</tr>
<tr>
<td>1985</td>
<td>$0.7</td>
<td>$2.3</td>
</tr>
<tr>
<td>1990</td>
<td>$0.7</td>
<td>$2.0</td>
</tr>
<tr>
<td>1995</td>
<td>$0.7</td>
<td>$1.9</td>
</tr>
<tr>
<td>2000</td>
<td>$0.7</td>
<td>$1.5</td>
</tr>
<tr>
<td>2005</td>
<td>$0.7</td>
<td>$1.3</td>
</tr>
<tr>
<td>2010</td>
<td>$0.7</td>
<td>$1.2</td>
</tr>
<tr>
<td>2011</td>
<td>$0.7</td>
<td>$1.1</td>
</tr>
<tr>
<td>2012</td>
<td>$0.7</td>
<td>$1.0</td>
</tr>
<tr>
<td>2013</td>
<td>$0.7</td>
<td>$0.9</td>
</tr>
</tbody>
</table>
Central States Pension Fund

- The Fund does not have enough assets to pay its projected liabilities
  - Currently about 9 years before it is not able to pay its liabilities
- Assets of the Fund come from employer contributions and investment returns
- Since 1982, the Fund’s assets have been invested by an independent fiduciary
- The Fund’s assumed rate of return on its assets is 7.5% (as of the MPRA filing)
  - Historically, the Fund generally averaged close to that rate
Central States Pension Fund

- Two major recessions since 2000 devastated the U.S. economy and likewise significantly decreased the Fund’s assets.
- Those financial crises also led to more contributing employers filing bankruptcy.
Central States Pension Fund

- As the population matured and employers left the Fund, it began to experience an operating deficit.
- Currently, every $3.46 that the Fund pays out in pension benefits, only $1 is collected from employers, resulting in an annual shortfall of $2 billion.
Central States Pension Fund

- The Trustees took steps to avoid insolvency within the confines of ERISA and the PPA
- Reduction in benefits going forward
  - Anti-cutback rule prevented them from changing accrued benefits
Central States Pension Fund

• History of benefit changes
Central States Pension Fund

- PPA allowed Central States to force contribution increases from employers
- Took away certain adjustable benefits
  - Per MPRA application, actuary valued these benefits at $1.64 billion
- Increased minimum retirement age to 57
  - But significant legacy costs of early retirement subsidizes for retirees in pay status
Central States Pension Fund

• MPRA Application Process
  – Law was passed in December 2014
  – January 2015 the Fund appointed a retiree representative to represent the retirees and term vested participants
    • Retiree representative retained us shortly thereafter
  – Trustees began process of determining how to file the application, what information was required, evaluated more than a dozen different options and compiled the information it believed was required by the law
    • Regulations were supposed to be issued by DOL and Treasury to provide guidance but were not timely issued
Central States Pension Fund

• Application was filed in September 2015
  – In essence the suspension plan sought to recalculate everyone’s benefit at 1% of contributions
  – Complied with the many limitations, including those identified above (not below 110% of PBGC, etc.) and also attempted to comply with the special rules required only of Central States with respect to orphans and UPS participants

• Notices were mailed to all participants
  – What amount were you receiving or projected to receive before and what amount you would receive under the suspension plan
Central States Pension Fund

• Much confusion created by the suspension plan
  – Percentages of reductions ranged between participants
  – Benefits were re-built, not just reduced on a percentage basis (e.g. 33% reduction)

• In April 2016 Treasury finally issued the regulations providing guidance on what information needed to be included in the application

• In May 2016, Treasury issued its letter denying the application
Treasury’s denial letter articulated several reasons for the denial:

- The Plan’s proposed benefit suspensions are not “reasonably estimated to achieve, but not materially exceed, the level that is necessary to avoid insolvency”
  - Annual investment return assumption of 7.5% is not reasonable
  - Actuary must use “select and ultimate” for cash flow testing (first articulated in final regulation issued April 26, 2016, 10 days before Treasury rejection)
  - Entry Age Assumption of 32 (average age at entry for current active workforce) is not reasonable
Central States Pension Fund

• Proposed benefit suspensions are not equitably distributed across the participant and beneficiary population
  – Different treatment of two groups of UPS participants (those covered by make-whole agreement and those not covered by make-whole agreement)

• Notices of proposed benefit suspensions were not written so as to be understandable by the average plan participant
Central States Pension Fund

• At the end of the day, the Central States issue is a tragic math problem
  – Liabilities >> Assets

• What is next?
  – Still projected to run out of money in about 9 years
  – Pension Benefit Guaranty Corporation projected to not be able to pay the benefits “guaranteed”
Lessons from Central States
Lessons From Central States

Even well-run pension funds can become insolvent

- Central States was generally well-run with good long-term investment returns and efficient administration

- Central States’ trustees could not foresee the effects of deregulation, but that was not unreasonable (to the contrary, predicting in 1980 that industry activity would fall by 60% in 10 years would likely have been considered unreasonable)

- By the time it was reasonably clear that the industry would not recover and the trustees pulled the lever to significantly reduce future accruals (while maintaining contribution rates), Central States was already on the path to insolvency
Lessons From Central States

• What did Central States teach us about the participants in a failing fund?
  – Many participants were entirely reliant on their Central States Pension benefits for food, housing, and healthcare
  – Many participants were shocked to learn that the Fund was in crisis – annual funding notices are either not understood or not read (See Example of Annual Funding Notice)
    • Disconnect between knowing that the funding percentage is low versus not receiving my monthly pension benefit payment
  – Many participants believed their benefits were fully insured by the government, when in fact only a small fraction of their benefits were insured and Central States’ insolvency will probably push the PBGC into insolvency
Lessons From Central States

- Many participants believed that the government would bail out the Fund
- Many participants sought to blame someone for the Fund’s impending insolvency—primarily the administration and trustees were the most common target of blame
- Calls for a “forensic audit” were common despite the virtual impossibility that fraud could be responsible for a shortfall of nearly $20,000,000,000
Lessons From Central States

- What did Central States teach us about trying to reduce pension benefits to restore a fund’s health?
  - Reducing benefits is a zero-sum exercise—every group of participants will vocally object to cuts, but cutting less for one group means cutting more from another.
  - Central States proposed to reduce benefits by replacing its highly complex benefit formula with another formula that was intended to be fair by basing benefits solely on contributions.
  - Many participants found the proposed method of reducing benefits confusing—they asked why benefits were not reduced by a uniform percentage under the existing formula.
  - Many participants urged the Fund’s Trustees to allow the Fund to become insolvent, asserting that the government would then bail out the Fund.
Lessons From Central States

• When a pension fund has funding challenges, there is a natural tendency to focus on overcoming the challenges.

• Compare two hypothetical scenarios:
  – Pension Fund A: All participants are independently wealthy and the loss of pension benefits would have essentially no impact on their living standards.
  – Pension Fund B: All participants are low-income workers and many of the older participants are or will be entirely dependent on their pension benefits for daily necessities.

• The fact that a pension fund is on track to become insolvent is a minor problem compared to the human consequences of insolvency when a pension fund’s participants rely on their benefits for necessities.
Lessons From Central States

- Central States was aware of very serious funding challenges by 2004
- Central States sought a legislative solution, with their efforts ultimately resulting in MPRA in 2014
- The Fund’s participants were not preparing for the Fund to become insolvent
- MPRA did not save Central States—and will not likely save many other pension funds
- Education of participants across the country should become more of a priority
Lessons From Central States

• Signs That Your Fund May One Day Face Challenges Like Central States’
  – Your fund’s actuary speaks in Greek
  – Your fund’s key actuarial assumptions differ significantly from long-term experience
  – Your fund is chasing yield
  – Your fund’s stock of future participants is dwindling
Key Takeaways

• Even well-run pension funds can become insolvent
• Many pension fund participants mistakenly believe it is a virtual certainty that they will receive their pension benefits
• Many pension fund participants do not plan to have sources of retirement income other than their pension benefits, often making those benefits necessary for retired participants to obtain housing, food, and healthcare
Questions?
2016 ANNUAL FUNDING NOTICE
FOR
CENTRAL STATES, SOUTHEAST AND SOUTHWEST AREAS PENSION PLAN

Introduction

This notice includes important information about the funding status of your multiemployer pension plan ("the Plan"). It also includes general information about the benefit payments guaranteed by the Pension Benefit Guaranty Corporation ("PBGC"), a federal insurance agency. All traditional pension plans (called "defined benefit pension plans") must provide this notice every year regardless of their funding status. This notice does not mean that the Plan is terminating. It is provided for informational purposes and you are not required to respond in any way. This notice is required by federal law. This notice is for the plan year beginning January 1, 2016 and ending December 31, 2016 ("Plan Year").

How Well Funded Is Your Plan

The law requires the administrator of the Plan to tell you how well the Plan is funded, using a measure called the “funded percentage.” The Plan divides its assets by its liabilities on the Valuation Date for the plan year to get this percentage. In general, the higher the percentage, the better funded the plan. The Plan’s funded percentage for the Plan Year and each of the two preceding plan years is shown in the chart below. The chart also states the value of the Plan’s assets and liabilities for the same period.

<table>
<thead>
<tr>
<th>Funded Percentage</th>
<th>2016</th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valuation Date</td>
<td>January 1, 2016</td>
<td>January 1, 2015</td>
<td>January 1, 2014</td>
</tr>
<tr>
<td>Funded Percentage</td>
<td>42.1%</td>
<td>47.9%</td>
<td>48.4%</td>
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<tr>
<td>Value of Assets</td>
<td>$16,425,541,620</td>
<td>$16,781,283,666</td>
<td>$17,028,061,298</td>
</tr>
<tr>
<td>Value of Liabilities</td>
<td>$39,046,354,526</td>
<td>$35,062,805,288</td>
<td>$35,189,411,452</td>
</tr>
</tbody>
</table>

Year-End Fair Market Value of Assets

The asset values in the chart above are measured as of the Valuation Date. They also are "actuarial values." Actuarial values differ from market values in that they do not fluctuate daily based on changes in the stock or other markets. Actuarial values smooth out those fluctuations and can allow for more predictable levels of future contributions. Despite the fluctuations, market values tend to show a clearer picture of a plan’s funded status at a given point in time. The asset values in the chart below are market values and are measured on the last day of the Plan Year. The chart also includes the year-end market value of the Plan’s assets for each of the two preceding plan years.

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<table>
<thead>
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<th>December 31, 2016</th>
<th>December 31, 2015</th>
<th>December 31, 2014</th>
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<tr>
<td>Fair Market Value of Assets</td>
<td>$15,267,533,341</td>
<td>$16,126,208,142</td>
<td>$17,863,105,558</td>
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**Endangered, Critical, or Critical and Declining Status**

Under federal pension law, a plan generally is in “endangered” status if its funded percentage is less than 80 percent. A plan is in “critical” status if the funded percentage is less than 65 percent (other factors may also apply). A plan is in “critical and declining” status if it is in critical status and is projected to become insolvent (run out of money to pay benefits) within 15 years (or within 20 years if a special rule applies). If a pension plan enters endangered status, the trustees of the plan are required to adopt a funding improvement plan. Similarly, if a pension plan enters critical status or critical and declining status, the trustees of the plan are required to adopt a rehabilitation plan. Funding improvement and rehabilitation plans establish steps and benchmarks for pension plans to improve their funding status over a specified period of time. The plan sponsor of a plan in critical and declining status may apply for approval to amend the plan to reduce current and future payment obligations to participants and beneficiaries.

The Plan was in critical and declining status in the Plan Year ending December 31, 2016 because the Plan’s Actuary determined that: (1) the plan has an accumulated funding deficiency for the current plan year and over the next three plan years, the plan is projected to have an accumulated funding deficiency for the 2017 through 2019 plan years; (2) the funded percentage of the plan is less than 65%, the plan has an accumulated funding deficiency for the current plan year, and over the next four plan years, the plan is projected to have an accumulated funding deficiency for the 2017 through 2020 plan years; (3) the sum of the plan’s normal cost and interest on the unfunded benefits for the current plan year exceeds the present value of all expected contributions for the year; the present value of vested benefits of inactive participants is greater than the present value of vested benefits of active participants; the plan has an accumulated funding deficiency for the current plan year, and over the next four plan years, the plan is projected to have an accumulated funding deficiency for the 2017 through 2020 plan years; (4) the plan was in critical status last year, the plan has an accumulated funding deficiency for the current plan year, and over the next 9 years, the plan is projected to have an accumulated funding deficiency for the 2017 through 2025 plan years; and (5) the plan is projected to become insolvent in 2025.

In an effort to improve the Plan’s funding situation, the trustees adopted a rehabilitation plan on March 25, 2008, and the trustees have made subsequent updates to the rehabilitation plan. The rehabilitation plan is expected to last indefinitely. The rehabilitation plan generally requires, as a condition of maintaining current benefit levels (with the limitation that benefits are not payable prior to age 57), that all contributing employers enter into contracts providing for 8% annual pension contribution rate increases for a period of five years, followed by 4%-6% increases in
later years (the rehabilitation plan’s “Primary Schedule”). However, contribution rate increases are not required beyond $348 per week for employers covered by the National Master Automobile Transporters Agreement and $342 per week for all other employers. As required by law, the rehabilitation plan also includes a “Default Schedule” which eliminates various “adjustable benefits.” The Default Schedule requires 4% annual contribution rate increases, and reduces or eliminates all “early retirement,” pre-age 65 benefit subsidies for bargaining units that agree to adopt it, or units that become subject to it by operation of law. In many instances, the rehabilitation plan also eliminates the adjustable benefits of bargaining units that withdraw completely from participation in the Plan, by (for example) agreeing to a new collective bargaining agreement that eliminates the contribution obligation to the Plan. The rehabilitation plan defines withdrawals of this type, which cause a loss of adjustable benefits, a “Rehabilitation Plan Withdrawal.” Under the Default Schedule or a Rehabilitation Plan Withdrawal, the benefits of participants who retire prior to age 65 are reduced under an actuarial equivalency table.

Also, the rehabilitation plan includes a Distressed Employer Schedule that applies to participants whose last year of Contributory Service Credit was earned with YRC Worldwide, Inc. companies (including YRC, Inc. and USF Holland, Inc.). Generally, the Distressed Employer Schedule has a benefit structure similar to the Default Schedule with certain exceptions for participants that had retired prior to September 24, 2010 or met certain age and service requirements as of the date of the Distressed Employer’s termination of participation in the Fund.

In addition, the rehabilitation plan includes a New Employer “Hybrid Method” Schedule. This schedule applies to those employers that qualify as New Employers under the Plan’s “hybrid withdrawal liability method.” Generally, an employer is a New Employer if the employer has satisfied its withdrawal liability obligations to the Plan but has agreed to continue contributing to the Plan for a period of time at a specified minimum level. Contribution rate increases are not required for those employers that become part of the direct attribution (Hybrid Method) plan by satisfying their withdrawal liability and continuing to contribute to the plan. Further, effective with the expiration of a collective bargaining agreement after December 31, 2016, these employers may agree with the bargaining representative to lower the contribution rate to the Plan in an amount acceptable to the Plan provided that the participants receive the savings from such reduction in a manner acceptable to the bargaining representative.

You may get a copy of the Plan’s rehabilitation plan, any update to such plan and the actuarial and financial data that demonstrate any action taken by the Plan toward fiscal improvement by contacting your plan administrator. Your plan administrator is identified below under “Where To Get More Information.”

If the Plan is in endangered, critical, or critical and declining status for the plan year ending December 31, 2017, separate notification of that status has or will be provided.
Participant Information

The total number of participants and beneficiaries covered by the Plan on the valuation date was 390,926. Of this number, 63,062 were current employees, 201,332 were retired and receiving benefits, and 126,532 were retired or no longer working for the employer and have a right to future benefits.

Funding & Investment Policies

Every pension plan must have a procedure to establish a funding policy for plan objectives. A funding policy relates how much money is needed to pay promised benefits. The funding policy of the Plan is established by the Trustees who set contribution rate increases and benefit levels in the rehabilitation plan schedules.

Pension plans also have investment policies. These generally are written guidelines or general instructions for making investment management decisions. The investment policy of the Plan is that assets will be managed in a prudent manner and allocated among different asset classes to maximize investment return, increase funding status, manage risk and ensure adequate liquidity to meet the Fund’s benefit payments and other expenses. Assets may include any securities, derivative instruments (including but not limited to forwards, options, futures contracts, options on futures contracts and swaps), investment vehicles and/or types of properties which are in conformity with provisions of the Employee Retirement Income Security Act of 1974 and the Consent Decree (as amended to date) with the Department of Labor.

Under the Plan’s investment policy, the Plan’s assets were allocated among the following categories of investments, as of the end of the Plan Year. These allocations are percentages of total assets:

<table>
<thead>
<tr>
<th>Asset Allocations</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stocks</td>
<td>66%</td>
</tr>
<tr>
<td>Investment grade debt instruments</td>
<td>24%</td>
</tr>
<tr>
<td>High-yield debt instruments</td>
<td>8%</td>
</tr>
<tr>
<td>Real estate</td>
<td>0%</td>
</tr>
<tr>
<td>Other</td>
<td>2%</td>
</tr>
</tbody>
</table>

Right to Request a Copy of the Annual Report

Pension plans must file annual reports with the US Department of Labor. This report is called the “Form 5500.” These reports contain financial and other information. You may obtain an electronic copy of your Plan’s annual report by going to www.efast.dol.gov and using the search tool. Annual reports also are available from the US Department of Labor, Employee Benefits Security Administration’s Public Disclosure Room at 200 Constitution Avenue, NW, Room N-1513, Washington, DC 20210, or by calling 202.693.8673. Or you may obtain a copy of the Plan’s annual report by making a written request to the plan administrator. Annual reports do not contain personal information, such as the amount of your accrued benefit. You may contact your plan administrator if
you want information about your accrued benefits. Your plan administrator is identified below under “Where To Get More Information.”

Summary of Rules Governing Insolvent Plans

Federal law has a number of special rules that apply to financially troubled multiemployer plans that become insolvent, either as ongoing plans or plans terminated by mass withdrawal. The plan administrator is required by law to include a summary of these rules in the annual funding notice. A plan is insolvent for a plan year if its available financial resources are not sufficient to pay benefits when due for that plan year. An insolvent plan must reduce benefit payments to the highest level that can be paid from the plan’s available resources. If such resources are not enough to pay benefits at the level specified by law (see Benefit Payments Guaranteed by the PBGC, below), the plan must apply to the PBGC for financial assistance. The PBGC will loan the plan the amount necessary to pay benefits at the guaranteed level. Reduced benefits may be restored if the plan’s financial condition improves.

A plan that becomes insolvent must provide prompt notice of its status to participants and beneficiaries, contributing employers, labor unions representing participants, and PBGC. In addition, participants and beneficiaries also must receive information regarding whether, and how, their benefits will be reduced or affected, including loss of a lump sum option.

Benefit Payments Guaranteed by the PBGC

The maximum benefit that the PBGC guarantees is set by law. Only benefits that you have earned a right to receive and that cannot be forfeited (called vested benefits) are guaranteed. There are separate insurance programs with different benefit guarantees and other provisions for single-employer plans and multiemployer plans. Your plan is covered by PBGC’s multiemployer program. Specifically, the PBGC guarantees a monthly benefit payment equal to 100 percent of the first $11 of the Plan’s monthly benefit accrual rate, plus 75 percent of the next $33 of the accrual rate, times each year of credited service. The PBGC’s maximum guarantee, therefore, is $35.75 per month times a participant’s years of credited service.

Example 1: If a participant with 10 years of credited service has an accrued monthly benefit of $600, the accrual rate for purposes of determining the PBGC guarantee would be determined by dividing the monthly benefit by the participant’s years of service ($600/10), which equals $60. The guaranteed amount for a $60 monthly accrual rate is equal to the sum of $11 plus $24.75 (.75 x $33), or $35.75. Thus, the participant’s guaranteed monthly benefit is $357.50 ($35.75 x 10).

Example 2: If the participant in Example 1 has an accrued monthly benefit of $200, the accrual rate for purposes of determining the guarantee would be $20 (or $200/10). The guaranteed amount for a $20 monthly accrual rate is equal to the sum of $11 plus $6.75 (.75 x $9), or $17.75. Thus, the participant’s guaranteed monthly benefit would be $177.50 ($17.75 x 10).
The PBGC guarantees pension benefits payable at normal retirement age and some early retirement benefits. In addition, the PBGC guarantees qualified preretirement survivor benefits (which are preretirement death benefits payable to the surviving spouse of a participant who dies before starting to receive benefit payments). In calculating a person’s monthly payment, the PBGC will disregard any benefit increases that were made under the plan within 60 months before the earlier of the plan’s termination or insolvency (or benefits that were in effect for less than 60 months at the time of termination or insolvency). Similarly, the PBGC does not guarantee benefits above the normal retirement benefit, disability benefits not in pay status, or non-pension benefits, such as health insurance, life insurance, death benefits, vacation pay, or severance pay.

For additional information about the PBGC and the pension insurance program guarantees, go to the Multiemployer Page on PBGC’s website at www.pbgc.gov/multiemployer. Please contact your employer or plan administrator for specific information about your pension plan or pension benefit. PBGC does not have that information. See “Where to Get More Information,” below.

Where to Get More Information

For more information about this notice, you may contact Thomas C. Nyhan, Executive Director at Central States, Southeast and Southwest Areas Pension Plan, 9377 West Higgins Road, Rosemont, IL 60018, phone number 1-800-323-5000. For identification purposes, the official plan number is 001 and the plan sponsor’s name and employer identification number or “EIN” is Trustees of the Central States, Southeast and Southwest Areas Pension Plan, EIN 36-6044243.