DAVID H. COAR, Esq.
Arbitration and Mediation

3/17/2014

The Honorable Milton I. Shadur
United States District Judge
United States District Court
Northern District of Illinois
Eastern Division
219 South Dearborn Street
Chicago, Illinois 60604

Re: Quarterly Report of Independent Special Counsel, *Perez v. Estate of Frank E.Fitzsimmons, et al.*, No. 78 C 342 (N.D. Ill., E.D.); *Perez v. Robbins et al.*, No. 78 C 4075 (N.D. Ill., E.D.); and *Perez v. Dorfman, et al.*, No. 82 C 7951(N.D. Ill., E.D.)

Dear Judge Shadur:

This is to report on my activities during the third quarter of 2013 as Independent Special Counsel appointed pursuant to the *Fitzsimmons* (Pension Fund) and *Robbins* and *Dorfman* (Health and Welfare Fund) consent decrees.

Since my appointment, I have attended full Board of Trustees meetings, now held every other month (with additional meetings as noted in my reports), and consulted regularly with Fund executives.

Audit

At the July 16, 2013 Meeting of the Board of Trustees the Internal Audit Department reported on the results of its audit of payroll processing; and at the September 10, 2013 Board Meeting, Internal Audit reported on its audit of withdrawal liability processing. The overall conclusions of these audits were that the administrative and internal controls surrounding withdrawal liability and payroll processing are operating in accordance with the Funds' policies and provide a basis for reliance on the propriety of the Funds' withdrawal liability and payroll and functions.

Pension Fund

Funding and PPA-Related Issues

As previously reported, in July 2005 the Internal Revenue Service approved the Fund's request for a 10-year extension for amortizing unfunded liabilities. This extension is likely to defer for the near term a statutory funding deficiency. The IRS granted the request subject to certain conditions. In general terms, these IRS conditions require the Pension Fund to maintain its

existing ratio of assets to liabilities through 2011, and in subsequent years to show moderate annual improvements in that funding ratio.

To meet these IRS-imposed conditions, the Board of Trustees determined based on actuarial and legal advice that the Pension Fund needed increased employer contributions. The Trustees amended the Pension Plan several times in the 2005-2007 period to require 7-8% annual increases in the pension contribution rates specified in new collective bargaining agreements. In addition, pursuant to the Fund's request, the negotiators of the United Parcel Service, National Master Freight and Carhaul Agreements allocated to the Pension Fund all fringe benefit contribution increases that were scheduled for 2006 and 2007.

As explained in previous reports, the multiemployer plan funding rules of the Pension Protection Act of 2006 ("PPA") became effective on January 1, 2008. On March 24, 2008, the Fund's actuary certified the Fund to be in "critical status" under the PPA for the 2008 plan year; the actuary made the same certification with respect to 2009, 2010, and 2011. As a result of the initial critical status certification, the Trustees adopted a "rehabilitation plan" as the PPA requires for critical status plans. The plan approved by the Trustees attempts to build upon and incorporate the funding improvement program instituted prior to the January 1, 2008 effective date of the PPA, and designed to ensure compliance with the conditions imposed by the pre-PPA amortization extension. In broad outline, the Rehabilitation Plan approved by the Trustees contains a "Primary Schedule," which requires each contributing employer to agree to five years of 8% annual contribution increases (7% if the increases began in 2006) in order to maintain current benefit levels for the affected bargaining unit The PPA also requires that a rehabilitation plan contain a "Default Schedule," which must provide for the reduction in what the PPA terms "adjustable benefits." ("Adjustable benefits" under the PPA generally include all benefits other than a contribution-based retirement benefit payable at age 65.) Accordingly, the Pension Fund's Rehabilitation Plan includes a Default Schedule providing for 4% annual contribution rate increases and for the loss or reduction of adjustable benefits for bargaining units electing that Schedule. The PPA also provides that if the bargaining parties have not chosen any of the schedules established by a rehabilitation plan *(i.e.,* the Primary or Default Schedule) within 180 days following the expiration of the parties' last labor agreement, the Default Schedule will be imposed as a matter of law.·

Staff has reported to the Trustees at the Board meetings held during the third quarter of 2013 that the vast majority of the Fund's active members were covered by collective bargaining agreements that have come into compliance with the Fund's Rehabilitation Plan. Almost all of the compliant employers and bargaining units have agreed to adopt the Rehabilitation Plan's Primary Schedule (generally requiring 7-8% annual contribution increases for five years and maintaining current benefit levels).As of September 2013, the Pension Fund's Staff reported that there were only 34 bargaining units, comprising a total of approximately 670 active participants, that were subject to the Default Schedule, either as a result of an agreement of the negotiating parties or by operation of law (due to their failure to agree to be bound by either Primary Schedule or the Default Schedule within 180 days of the expiration of the units' last collective bargaining agreement).

Contributing employers who have not agreed to be bound by one of the Schedules created by the Rehabilitation Plan are required under the PPA to pay a non-benefit bearing surcharge to the Fund on their contractual pension contribution obligation. Under the PPA, the surcharge was

5% of the pension contribution obligation during 2008, and was increased to 10% as of January 1, 2009. Staff has reported that (1) as noted, most employers are in compliance with the Rehabilitation Plan and are *not* incurring surcharges, and (2) as of September 2013 most of the employers who are incurring the surcharges are also voluntarily paying them; those few who have refused to pay the surcharges are being pursued under the Fund's delinquent account collection procedures.

Under the Pension Fund's Rehabilitation Plan adopted pursuant to the PPA, a Rehabilitation Plan Withdrawal ("RPW") generally occurs where an employer ceases to have an obligation to contribute to the Fund at one or more of its locations or facilities, but continues to do the same type of work for which contributions were previously required. The consequence for a bargaining unit incurring an RPW is the loss of PPA adjustable benefits *(i.e.,* the loss of all benefits other than a contribution-based benefit payable at age 65). Staff prepares reports concerning potential RPW events that are reviewed by the Trustees at monthly Trustee subcommittee meetings.

The PPA also contemplates that multiemployer plans in the critical zone will annually "update" their rehabilitation plans. With respect to the 2012 Rehabilitation Plan update process, as explained in my fourth quarter 2012 report, the Funds' Staff advised the Trustees, after consultation with the Funds' actuaries, that under the PPA, the Trustees should continue to pursue "reasonable measures" to forestall the possible insolvency of the Fund.

As indicated in my report concerning the fourth quarter of 2012, the Trustees deliberated concerning the 2012 update at their Board Meetings last November and December. During those deliberations, the Trustees noted that during the last ten years, the Pension Fund has taken a number of measures designed to stabilize its financial condition, including benefit restructurings (such as reducing the benefit accrual rate for contribution-based benefits and mandating age 57 as the minimum retirement age), and the imposition of requirements for increased employer contributions (resulting in a near doubling of pension contribution rates since 2004 for many employers). In addition, the Trustees noted that during 2011, they also introduced, and gained PBGC approval for, a "hybrid" withdrawal liability method *(see* pp. 9-10 below), which the Trustees believe will help encourage existing employers to remain in the Fund and may help stabilize or grow the Fund's contribution base. In order to provide further incentives to employers to pay their "old" withdrawal liability while also continuing to make pension contributions as a "New Employer" under the hybrid method, in November 2012 the Trustees amended the Primary Schedule of the Fund's Rehabilitation Plan to provide that a New Employer who satisfies its withdrawal liability and agrees to continue to contribute to the Pension Fund will be deemed to be in compliance with the Rehabilitation Plan's Primary Schedule without the need for contribution rate increases applicable to other Primary Schedule employers.

However, as explained in my report concerning the fourth quarter of 2012, the Trustees also concluded during the 2012 update process that any further or additional benefit reductions or the imposition of additional requirements for increased contributions *(i.e.,* beyond those already set forth in Rehabilitation Plan) would entail too great a risk of irreparable harm to a large number of contributing employers, or would otherwise risk prompting an undue and harmful number of withdrawals from the Fund. During the 2012 update process the Trustees therefore concluded that mandating further benefit reductions or contribution rate increases at this time would be

counterproductive to the Fund, and would not constitute "reasonable measures" to be adopted or pursued.

Therefore, as indicated in my prior reports, in the 2012 Rehabilitation Plan update, the Trustees did not adopt any additional substantive amendments to the Rehabilitation Plan, other than the amendment described above relating to Primary Schedule rates applicable to New Employers under the hybrid method. In addition, the Trustees approved continued implementation of (i) the Distressed Employer Schedule (which the Trustees believe accommodated the special circumstances presented by YRC, Inc. in a manner that was actuarially favorable to the Fund; *see* p.12 below), (ii) the hybrid withdrawal liability method, and (iii) the benefit modifications, contribution rate increases and other features of the Rehabilitation Plan that have been previously adopted.

Although it appears the Pension Fund has reported some progress in securing increased employer contributions and controlling benefits as required of "critical status" plans under the PPA, the financial information presented below makes clear that the Fund suffered serious investment losses in the general stock market and economic downturn that commenced in 2008. In more recent years, the Fund has enjoyed a significant, but by no means complete, recovery of its 2008 investment losses. For example, for 2013 the Pension Fund's year-to-date rate of return (measured as of September 30, 2013) is 12.24%, but the current asset level of approximately $18.4 billion is still several billion dollars below the value of assets held by the Fund shortly before the commencement of the 2008 stock market collapse.

In addition, as previously reported, Staff has indicated that, for plan year 2008, the Pension Fund was unable to satisfy the funding ratio targets that are a condition of the amortization extension granted to the Fund by the IRS in 2005 (described above, pp. 2-3); Staff reports that these funding ratio targets were satisfied for plan years 2009 and 2010, but it appears that the funding targets for the subsequent plan years were missed. Staff has also reported that as a result of the failure to meet the 2008 funding ratio targets, in early 2009 the Pension Fund filed an application with the IRS requesting a waiver of the funding target conditions established under the amortization extension, due to the unexpected economic decline that has occurred in recent years; that application is still pending. Staff has also indicated that the Fund's legal counsel advises that in light of this prior (and still pending) request for a waiver filed by the Fund in 2009, it is not necessary for the Fund to file a separate request for a waiver relating to the apparent failure to satisfy the funding target conditions for subsequent plan years.

The Trustees have also directed Staff to continue to monitor and pursue additional regulatory or legislative initiatives that may assist in addressing the funding problems created for many pension plans by recent conditions in the general economy and financial markets. In the 111tb Congress, Thomas C. Nyhan, Executive Director and General Counsel, testified before the Senate Committee on Health, Education and Labor in favor of legislation (H.R3936; S.3157; the "Create Jobs and Save Benefits Act of 2010") that would generate additional revenues to alleviate the funding shortfalls. That legislation received little support in the House, Senate or from the Administration, so the bill failed and it has not been reintroduced. More recently on October 29, 2013 Mr. Nyhan testified before the U.S. House of Representatives Committee on Education and the Workforce (Subcommittee on Health, Employment Labor and Pensions). Mr. Nyhan's testimony generally supported a legislative solution that would modify the ERISA anti-cutback rule to allow troubled multiemployer plans more flexibility in addressing funding issues. Mr. Nyhan indicated that this

was not the preferred solution, but it appeared to be the only practical path open in light of the fact that the Pension Benefit Guarantee Corporation ("PBGC," the government agency that underwrites private pensions) has dire funding problems of its own, and given the general lack of political appetite for programs that might increase the government's fiscal commitments. In connection with the same congressional hearings in which Mr. Nyhan testified, there were earlier presentations by both the PBGC and the Government Accounting Office that made clear that many multiemployer plans are facing insolvency, and that as a result, the PBGC's multiemployer guarantee fund will itself become insolvent prior to any projected insolvency of the Central States Pension Fund. According to the GAO study, if these insolvency projections are correct, current retirees face the stark reality that their pension checks could be eliminated entirely, if the Pension Fund becomes insolvent as projected in 2026.In light of this reality, the Board of Trustees has determined that the only concrete and realistic path to preserve the retirement security of the participants is a legislative solution that would enable the Plan to remedy the shortfall itself without relying upon unknown or hypothetical funding sources. To date no further legislation has been introduced in this Congress.

Financial Information - Investment Returns

The Pension Fund's investment return for the third quarter 2013 was 5.37%, and the Fund's year-to-date return (as of September 30, 2013) is 12.24%.

A comparison of the Pension Fund's performance to the TUCS[1] universe results published for the third quarter of 2013 (showing percent returns on investment) is summarized in the following tables:

Pension Fund's Composite Return

	3rd Quarter Ended September 30. 2013	One Year Period Ended September 30. 2013	Three Year Period Ended September 30. 2013
TUCS 1st Quartile	5.30	13.92	11.16
TUCS Median	4.55	12.09	10.31
TUCS 3rd Quartile	3.84	9.62	8.95
Fund's Composite Return	5.37	13.91	10.83

[1] "TUCS" is the Trust Universe Comparison Service. Its Custom Large Funds Universe is composed of plans with assets exceeding $3 billion.

Pension Fund's Total Equity Return

	3rd Quarter Ended September 30, 2013	One Year Period Ended September 30.2013	Three Year Period Ended September 30, 2013
TUCS 1st Quartile	8.26	22.98	16.62
TUCS Median	7.69	21.39	13.80
TUCS 3rd Quartile	6.77	19.39	11.60
Fund's Total Equity Return	7.63	21.44	13.62

Pension Fund's Fixed Income Return

	3rd Quarter Ended September 30.2013	One Year Period Ended September 30, 2013	Three Year Period Ended September 30. 2013
TUCS 1st Quartile	0.98	0.16	5.88
TUCS Median	0.73	(0.81)	4.51
TUCS 3rd Quartile	0.21	(3.42)	3.68
Fund's Fixed Income Return	0.89	(0.85)	3.68

The Fund's Named Fiduciary, The Northern Trust Company of Connecticut ("Northern Trust")[2], which has been allocated 50% of the Fund's investment assets) submits monthly investment reports to the Trustees, summarized below (showing percent returns on investment):

[2] Formerly known as Northern Trust Global Advisors, Inc.

Northern Trust

	Year-to-Date as of September 30. 2013	July 2013	August 2013	September 2013
Northern Trust's Composite Return	13.97	4.26	(2.05)	4.47
Benchmark Composite Return	12.96	3.89	(2.23)	4.33
Northern Trust's Total Fixed Income Return	(0.70)	1.10	(1.42)	1.75
Benchmark Fixed Income Return	(0.88)	0.92	(1.13)	1.60

Northern Trust's third quarter 2013 composite return included an 8.12% return on U.S. equities (6.82% on large cap, 8.26% on mid cap and 11.46% on small cap U.S. equities), 10.02% on international equities and 1.71% on real estate.

The Fund's financial group reported the following asset allocation of the Pension Fund as a whole as of September 30, 2013 as follows: 65% equity, 30% fixed income, 4% other and 1% cash.

The financial group also reported that for the third quarter of 2013 the returns on the Fund's passive indexed accounts were as follows (showing percent returns on investment):

Account	Year-to-date as of September 30. 2013
Passive Indexed Equity (S&P 500) (25% of investment assets)	19.81
Passive Indexed Fixed Income (20% of investment assets)	(2.10)
Passive EAFE Indexed (5% of investment assets)	16.55

Financial Information- Net Assets
(Dollars shown in thousands)

The financial reports prepared by Pension Fund Staff for the nine months ended September 30, 2013 (enclosed) show net assets as of that date of $18,188,109, compared to $17,765,259 at December 31, 2012, an increase of $422,850 compared to an increase in net assets of $373,171for the same period last year. The $49,679 difference is due to $68,962 more net investment income offset by $19,283 more net operating loss.

The enclosed Fund's Staff report further notes that for the nine months ended September 2013, the Fund's net asset decrease from operations (before investment income) was $1,616,635 compared to a decrease of $1,597,352 for the same period in 2012, or a $19,283 unfavorable change. This change in net assets from operations (before investment income) was attributable to:

a) ($18,532) less contributions, primarily withdrawal liability,

b) $1,070 less benefits and

c) ($1,821) more general and administrative expenses.

During the nine months ended September 2013 and 2012, the Fund withdrew $1,591,843 and $1,589,273, respectively, from investment assets to fund the cash-operating deficit.

Financial Information - Participant Population

The enclosed September 30, 2013 report prepared by Fund Staff further notes that the eight-month average number of Full-Time Equivalent ("FTE") memberships decreased 4.75% from August 2012 to August 2013 (going from 65,116 to 62,024). During that period, the average number of retirees decreased 0.92% (from 212,709 to 210,760).

Named Fiduciary

Officers of the Named Fiduciary, Northern Trust, met with the Board of Trustees to discuss portfolio matters including asset allocation.

Hybrid Withdrawal Liability Method

As indicated in my prior reports, in July 2011 the Trustees adopted- subject to approval by the Pension Benefit Guaranty Corporation ("PBGC") - an alternative withdrawal liability method.[3] Under this method, new employers joining the Pension Fund will have their withdrawal liability measured based upon the "direct attribution" method; employers who already participate in the Fund can also be treated as new employers for withdrawal liability purposes on a prospective basis (and become eligible for the "direct attribution" method) by satisfying their existing withdrawal liability under the method historically employed by the Pension Fund *(i.e.,* the "modified presumptive method"), and then agreeing to continue to

[3] The Pension Fund's Staff advises that on October 14, 2011, the PBGC approved the Pension Fund's use of the hybrid method

contribute to the Fund. Because the Fund will apply the historic modified presumptive method to the "old" employers, but apply direct attribution to "new" employers (including "old" employers who satisfy their existing withdrawal liability), this recently approved formula is referred to as a "hybrid" withdrawal liability method.

An employer subject to the direct attribution wing of the hybrid method will have its withdrawal liability determined based on any potential shortfall between the contributions the employer has made on behalf of the employer's own employees and the pension benefits directly attributable to the employees' service with that same employer. All the employers subject to the direct attribution method will form a new withdrawal liability pool, but the Fund's Staff reports that in light of the Fund's current benefit structure, it is unlikely that this pool, or any of the individual employers in the pool, will ever have any actual or potential exposure to withdrawal liability. That is, Staff reports that current levels of contributions are more than sufficient to fund current benefit accruals, and that, therefore, there appears to be only a remote and theoretical possibility of "direct attribution" withdrawal liability. Staff also reports that it believes the hybrid method will offer a means for employers who are concerned about the potential for future growth in their exposure to withdrawal liability to cap their liability at its present level while continuing to participate in the Fund with little or no risk of withdrawal liability in the future. Staff also anticipates that this arrangement will in some cases help avoid the benefit adjustments imposed, pursuant to the Fund's Rehabilitation Plan, upon bargaining units associated with withdrawn employers, while at the same time securing a stream of contribution revenue from employers who would otherwise have withdrawn and completely ceased contributing to the Fund.

Further, as explained in my prior reports, in November 2012, the Trustees approved two additional features that they believe will enhance the attraction of the hybrid method for many contributing employers. One of these features- also discussed above (p. 4)- restructured the Primary Schedule of the Rehabilitation Plan so that employers who satisfy their withdrawal liability qualify as New Employers under the hybrid method and continue to contribute to the Pension Fund will not be subject to the rate increase rate requirements to which other Primary Schedule Employers are subject The other feature is an amendment to the Fund's method for determining mass withdrawal liability (applicable in certain cases in which all or substantially all of the employers in a multiemployer plan withdraw from the plan; *see* ERISA§ 4219(c) (1) (D), 29 U.S.C.§ 1399(c) (1) (D)).This amendment is intended to help ensure that New Employers who satisfy their existing withdrawal liability and continue to contribute to the Fund under the hybrid method will not face increased risks in the event of a mass withdrawal, as compared to employers who have simply withdrawn from the Fund and completely discontinued pension contributions.

Staff reports that to date approximately 60 old employers have satisfied their existing liability and qualified as new employers under the hybrid plan, or have made commitments in principle to do so. This has resulted in the payment of (or commitments to pay, subject to the execution of formal settlement documents) approximately $111million in withdrawal liability to the Pension Fund while the employers in question also continue to contribute to the Fund pursuant to their collective bargaining agreements at guaranteed participation levels.[4]

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[4] As reflected in my prior reports, the Pension Fund's Staff previously indicated there have been

Bankruptcies and Litigation

As explained in more detail below, Hostess, Inc., a significant contributing employer to both Funds, filed for Chapter 11protection on January 11, 2012.

The Fund's Staff also reports that Allied Systems Holdings, Inc. and its affiliates ("Allied") - an automobile transporter with several hundred participants in the Funds- filed for Chapter 11 bankruptcy protection in mid-2012. However, Allied has continued to operate in bankruptcy and has continued to pay contributions to the Funds on behalf of its drivers. The bankruptcy resulted from a dispute between two factions of Allied's commercial lenders. Staff reports that Jack Cooper, Inc., another unionized automobile transporter, has been approved to purchase the assets of Allied in the bankruptcy and will continue to contribute to the Funds with respect to the purchased assets and operations. However, Jack Cooper will not be assuming Allied's withdrawal liability which will be triggered by the asset sale. Allied's withdrawal liability has not yet been assessed but Staff advises the assessment will be significant, and that the Allied bankrupt estate is not likely to have assets sufficient to satisfy the assessment. However, as noted, Jack Cooper should be able to continue the income stream to the Funds represented by the contributions historically paid by Allied.

YRC

As previously reported, in recent years, YRC, Inc. and its affiliates ("YRC") have been among the largest contributing employers to both the Pension Fund and the Health and Welfare Fund.

As also previously reported, in May 2009 the Funds entered a Contribution Deferral Agreement ("CDA" or "Deferral Agreement") with YRC. Under the Deferral Agreement, the Pension Fund ultimately agreed to defer approximately $109 million in pension contributions. The Fund's financial consultant indicated that absent deferral of these contribution obligations, YRC would be in default of loan covenants with its banks; Staff reported that such a default would risk triggering an insolvency and liquidation of YRC, which would destroy any chance of rehabilitating the employer as a healthy contributor to the Funds.

Some 25 other multiemployer pension plans in which YRC participates joined in the Deferral Agreement, but the Pension Fund is owed approximately 64% of the contributions deferred under the Agreement.

Repayment of the Deferral Period contributions was secured under the Deferral Agreement by first lien collateral on approximately 150 real estate parcels owned by YRC, plus additional third lien collateral. The Deferral Agreement originally required repayment of the deferred contributions in 36 monthly installments commencing in January 2010, plus monthly payments of interest commencing in July 2009.

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approximately $256 million in withdrawal liability payments or commitments to pay under the hybrid program. However, Staff now advises that issues has arisen that may make it impossible to execute the final settlement agreements necessary to secure some of these commitments. Therefore, the "paid or committed to pay" figure has been revised downward in this report.

Due to YRC's continuing pension contribution delinquencies, at the Trustees' July 16, 2009 Meeting, the Board formalized action to *terminate* YRC's participation in the Pension Fund. However, in light of an amended labor agreement indicating that YRC intended to resume making contributions to the Pension Fund in January 2011, the Trustees decided at their July 2009 Meeting that YRC's termination of participation in the Pension Fund should not at that time be treated as a complete and permanent cessation of its obligation to contribute to the Pension Fund that would trigger withdrawal liability.

On September 24, 2010, the Teamsters National Freight Negotiating Committee and YRC executed an Agreement for the restructuring of the YRC Worldwide, Inc. Operating Companies ("Restructuring Agreement"), which further revised YRC's pension contribution obligations. Under this Agreement YRC was scheduled to resume contributions to the Pension Fund in June 2011 at a rate constituting a 75% reduction from its pre-termination (pre-July 2009) rate.

In March 2011 the Trustees then approved an arrangement under which the CDA repayment obligations are to be deferred until March 31, 2015 (when a lump sum payment of the entire CDA balance was scheduled to be made), with the exception of monthly interest payments to commence in June 2011.

At the March 9, 2011 Board Meeting, the Fund's Trustees also determined it was appropriate to accept contributions at the new contribution rate proposed under the YRC/TNFNC September 24, 2010 Restructuring Agreement (25% of the rate required prior to the July 2009 termination); it appeared to the Trustees that the proposed contributions were at the highest rate that YRC could reasonably be expected to pay and that the proposed contribution revenue represented an improvement over the status quo for the Pension Fund.

The Trustees also decided at their March 9, 2011 meeting that in light of YRC's new contribution rate, the YRC employee unit should receive reduced benefits equivalent in most respects to the Default Schedule under the Fund's Rehabilitation Plan.

The Pension Fund's Staff also reported that since July 2011, YRC and has remained current in its monthly contribution obligations of approximately $3-4 million per month since that time.

Staff reports that each monthly interest payment from YRC under the arrangement described above is currently in the amount of approximately $550,000, that the Fund received the first such payment on August 15, 2011, and that YRC remains current with respect to these monthly interest payments. In addition, on November 12, 2013 the interest rate under the CDA escalated from 7.5% per year to 7.75%. (This is in addition to the $2.2 million in YRC interest payments received by the Fund in 2009.)

In addition, Staff has reported that to date the Pension Fund has received approximately $34.6 million as its share of the net proceeds from sales of collateralized assets as a pre-payment under the CDA. Staff reports that after accounting for all principal and interest payments made to date, the unpaid balance owed to the Pension Fund under the CDA by YRC is approximately $83.9 million. Staff also notes that in May 2012 the Fund received a payment of approximately $110,000 under the CDA which is expressly denominated as a fee calculated under that Agreement as a match of a portion of a refinancing charge paid by YRC to its commercial lenders; on November 12, 2013 the Fund received approximately $419,000 as another such refinancing fee match. These

refinancing fee-matching payments are not to be applied to reduce either principal or interest owed by the company to the Fund.

In mid-December 2013, YRC's management contacted the Pension Fund's Staff and explained that the company was under an obligation to make a significant lump sum payment to a group of its commercial lenders in February 2014. YRC also indicated that it likely would not be able to make this payment without triggering an event of default under its credit agreements, which could in turn result in a bankruptcy filing and possible liquidation of YRC (thus cutting short the stream of contributions and interest payments the Pension Fund is presently receiving from YRC and accelerating YRC retirements. This circumstance pointed out the need, YRC claimed, to restructure its debt, reduce debt service payments and improve its cash flow. YRC further indicated that the debt restructuring would be impossible unless the Fund agreed to an extension of the existing March 31, 2015 balloon payment date under the CDA to 2019; the company also requested that the pension funds participating in the CDA release the collateral they hold under that Agreement and accept preferred stock in YRC in lieu of YRC's CDA obligations. After consultation with financial, actuarial and legal advisors, the Trustees voted during a January 21, 2014 phone conference to authorize Staff to negotiate a revised CDA extending the balloon payment under the CDA from 2015 to 2019, but instructed Staff to reject YRC's request for a release of the CDA collateral and for a conversion of the CDA debt to preferred stock. The other Teamster Pension Funds who participated in the CDA also agreed to these terms and an amended CDA was executed on January 31, 2014. Staff reports that as a result, it appears that YRC has been able to restructure its commercial debt and to avoid (at least in the near term) the threat of bankruptcy that it faced.

<u>Hostess Brands. Inc.</u>

In August 2011, Hostess Brands, Inc. ("Hostess") - an employer that had regularly contributed to the Pension Fund on behalf of approximately 2,800 participants - failed to make the monthly pension contribution payment of approximately $1.9 million that was due on August 15, 2011.

Hostess's pension contribution delinquency persisted and at the November 2011 Board Meeting the Trustees voted to terminate the participation of Hostess in the Pension Fund and to generally reduce the benefits of the Hostess participants to the Default Schedule levels specified under the Rehabilitation Plan *(see* pp. 5-6 above).

On January 11, 2012, Hostess filed a petition under Chapter 11 of the Bankruptcy Code in the Southern District of New York. The Pension Fund has delinquent contribution claims in the amount of approximately $8 million against the bankrupt estate, as well as withdrawal liability claim in the amount of approximately $583 million.

As previously reported, the bankrupt employer reached an agreement with Teamster bargaining representatives to resume participation in the Pension Fund by 2015 (and that agreement was ratified by the Teamster membership). However, in October 2012 the Hostess employees who belong to the Bakery, Confectionery, Tobacco Workers and Grain Millers International Union voted to reject a proposed collective bargaining agreement comparable to the one accepted by Hostess's Teamster employees. This resulted in a strike by the Bakery

Workers, and the Pension Fund's Staff reports that the bankruptcy court shortly thereafter authorized a liquidation of Hostess. Staff reports that it does not appear at this point that any unionized baking companies that participate in the Funds have acquired or will acquire any significant portion of Hostess assets or operations.

In any event, .the Pension Fund's Staff reports that the liquidation of Hostess's assets is proceeding by means of a court-approved auction process. Based upon preliminary bids, it appears that sale proceeds may not be sufficient to satisfy the company's secured debt, and this, of course, would leave the Pension Fund and other general unsecured and non-administrative priority creditors with unsatisfied claims (the Pension Fund has no administrative claims in the Hostess Bankruptcy).

Health and Welfare Fund
Financial Information

(Dollars shown in thousands)

The Health and Welfare Fund's financial summary for the nine months ended September 2013 is compared below with financial information for the same period of 2012:

	Nine Months Ended September 30.	
	2013	2012
Contributions	$945,464	914,150
Benefits	844,583	821,143
TeamCare administrative expenses	24,827	23,304
General and administrative expenses	30.062	28277
Netoperatinginco01e	45,992	41,426
Investment income(loss)	82.735	94092
Increase in net assets	128,727	135,518
Net assets, end of period	$1,927,243	1,780,200
Eight-month average participants (FTEs)	82,544	83,431

For the nine months ended September 2013, the Health and Welfare Fund's net asset increase from operations (before investment income) was $45,992 compared to an increase of$41,426 for the same period in 2012, or a $4,566 favorable change:

(a)$31,314 more contributions,

(b) ($23,440) more benefits,

(c) ($1,523) more TeamCare administrative fees and

(d) ($1,785) more general and administrative expenses.

During the nine months ended September 2013 and 2012, the Fund transferred $63,580 and $37,873 respectively, to investments (BNY Mellon) as the operations generated positive cash flows for those periods.

The enclosed report entitled "Central States Funds Financial and Analytical Information" prepared by the Fund's financial group as of September 30, 2013 shows the investment asset allocation as 76% fixed income and 24% equity.

This report also notes that the eight-month average number of Full-Time Equivalent (FTE) memberships decreased by 1.06% from August 2012 to August 2013 (going from 83,431to 82,544). During that period, the average number of retirees covered by the Health and Welfare Fund decreased by 11.91% (from 9,928 to 8,746).

Potential of Expanded UPS Participation in the Health & Welfare Fund

As indicated in my report for the second quarter of 2013, United Parcel Service, Inc. ("UPS") and the Teamsters National UPS Negotiating Committee had proposed that in early 2014 a large number of *additional* actively employed and retired UPS Teamsters will commence coverage under the Central States Health and Welfare Fund. The Health and Welfare Fund currently covers approximately 40,000 active UPS employees (and several thousand UPS retirees) and this proposal would result in a significant expansion of UPS's participation in the Fund.

Staff has reported that although the 2013-2018 National/UPS Agreement that embodies the shift of many new UPS participants into coverage under the Central States Health and Welfare Fund was ratified by a vote of the affected Teamster members in June 2013, not all of the regional supplements to that agreement initially achieved ratification. This circumstance has resulted in some revisions to the labor agreements and further ratification votes. As a result, there are some open issues· concerning the number of new UPS employees who will be covered by the Fund and concerning the coverage commencement dates of the various new UPS groups to be added to the Fund's participation. However, Staff reports that it now appears that on March 1, 2014 the first new UPS group (UPS Freight, comprising approximately 10,000 new participants) will commence coverage by the Health and Welfare Fund.

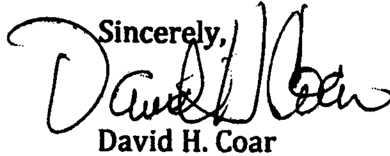
Article V(H)

As required by Article V(H) of the Health and Welfare Fund Consent Decree, the Health and Welfare Fund has paid during the third quarter of 2013 the following for professional services and expenses for the Independent Special Counsel:

July	$ 0.00
August	$1,414.50
September	$ 0.00

I will be glad to provide additional details regarding any aspect of my activities as Independent Special Counsel. Should you have any questions or comments, please do not hesitate to contact me.

Sincerely,



David H. Coar

Enclosure

cc: Ms. M. Patricia Smith (w/encl.) **Via UPS Next Day**
Mr. Michael A. Schloss (w/encl.) **Via UPS Next Day**
Mr. Thomas C. Nyhan