DAVID H. COAR, Esq.
Arbitration and Mediation

May 8, 2015

Via UPS Next Day

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. Dorman, et al.*, No. 82 C 7951 (N.D. Ill., E.D.)

Dear Judge Shadur:

This is to report on my activities during the fourth quarter of 2014 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 of the Pension Fund and the Health and Welfare Fund, now held every other month (with additional meetings as noted in my reports), and consulted regularly with Fund executives.

Board Composition and Trustee Selection

Jerry Younger, who has served as an Employee Trustee of the Funds since April 1995, elected to retire at the end of his five-year term expiring on March 31, 2015. Pursuant to the Funds' Statement of Procedure for Trustees Selection ("Procedures"), in September 2014 ballots were sent to the 11 members of the Central Trustee Review Board in order to fill the Employee Trustee position with a five-year term commencing on April 1, 2015. Those ballots were opened and counted in my presence on October 16, 2014. The result of that vote count indicated that William Lichtenwald, principal officer of Local 20 in Cleveland, Ohio, achieved the plurality of votes cast required under the Procedures to win this Trustee election. As the Court is aware, the U.S. Department of Labor reviewed Mr. Lichtenwald's background and qualifications and found no reason to object to his service as a Trustee of the Funds. On March 3, 2015, this Court entered orders approving Mr. Lichtenwald's appointment, and the Employee Trustees of the Board have also, pursuant to the Funds' Trustee Selection Procedures, reviewed the election results reported above and confirmed Mr. Lictenwald's appointment to serve as an Employee Trustee for a five-year term that commenced on April 1, 2015.

Arthur Bunte was originally approved by this Court to serve as an Employer Trustee of the Funds in December 1982. In November 2009, Mr. Bunte was re-appointed to a five-year term that began on April 1, 2010. Under the Funds' Trust Agreements, the Employer Trustee position held by Mr. Bunte is subject to appointment by the majority vote of the other Employer Trustees of the Funds. At the March 2015 Pension and Health and Welfare Fund Board Meetings, the Employer Trustees voted to re-appoint Mr. Arthur Bunte, so that he is serving another five-year term as an Employer Trustee that commenced on April 1, 2015. (Under the Consent Decrees, Court approval of Trustee appointments is only required in the case of *initial* appointments; therefore no further Court action with respect to Mr. Bunte is required.)

Consequently, the current composition of the Boards of the Funds is as follows:

Employee Trustees	**Employer Trustees**
Charles A. Whobrey	Arthur H. Bunte, Jr.
George J. Westley	Gary F. Caldwell
Marvin Kropp	Ronald DeStefano*
William Lichtenwald	Greg R. May
	Christopher J. Langan**

* Pension Fund Trustee Only
** Health and Welfare Fund Only

In addition, December 31, 2014 marked the expiration of the four-year terms of (1) all 11 members of the Central Trustee Selection Board (who have appointing authority with respect to the Employee Trustee positions held by Charles Whobrey, Jerry Younger (soon to be replaced with William Lichtenwald) and Marvin Kropp), and (2) all 9 members of the Southern Trustee Selection Board (who have appointing authority with respect to the Employee Trustee position held by George Westley). In November 2014, ballots were sent out to the Teamster Local Unions located in the 11 central region states and 9 southern region states eligible to vote for a Trustee Selection Board Member for the state in which each of the Local Union is located. The results of that voting process, which were reviewed and confirmed by the Employee Trustees (as required under the Procedures) at their January 2015 Meeting, and in subsequent polling of the Trustees, are that the following individuals are now serving four-year terms, commencing January 1, 2015, as members of the Central and Southern Trustee Selection Boards and will be eligible to vote for Employee Trustees (as terms expire or vacancies arise) during that period:

CURRENT MEMBERS
OF THE CENTRAL TRUSTEE SELECTION BOARD
(January 1, 2015 to December 31, 2018 term)

CTSB INDIVIDUAL	STATE	LOCAL UNION
Jesse Castillo	Kansas	795 (Wichita)
Daniel W. Avelyn	Nebraska	554 (Omaha)
Wayne Perleberg	Minnesota	160 (Rochester)
James Kabell	Missouri	245 (Springfield)
John T. Coli	Illinois	727 (Chicago)
Thomas J. Bennett	Wisconsin	200 (Milwaukee)
Robert R. Warnock III	Indiana	364 (South Bend)
Greg Nowak	Michigan	1038 (Detroit)
Patrick Darrow	Ohio	348 (Akron)
Fred Zuckerman	Kentucky	89 (Louisville)
Gary Dunham	Iowa	238 (Cedar Rapids)

CURRENT MEMBERS
OF SOUTHERN TRUSTEE SELECTION BOARD
(January 1, 2015 to December 31, 2018 term)

STSB INDIVIDUAL	STATE	LOCAL UNION
Kelly Swon	Oklahoma	516 (Muskogee)
Brent Taylor	Texas	745 (Dallas)
David Negrotto	Louisiana	270 (New Orleans)
Timothy Nichols	Arkansas	878 (Little Rock)
Ledon Grisham	Tennessee	480 (Nashville)
W.C. (Willie) Smith	Mississippi	891 (Jackson)
Donnie West	Alabama	612 (Birmingham)
Kenneth Wood	Florida	79 (Tampa)
Randall Brown	Georgia	728 (Atlanta)

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.

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 subsequent plan years. 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 fourth quarter of 2014 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 November 2014, the Pension Fund's Staff reported that there were only 30 bargaining units, comprising a total of approximately 500 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 November 2014 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 2014 Rehabilitation Plan update process, 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.

The Trustees deliberated concerning the 2014 update at their November 2014 Board Meetings. 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. 15-16 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.

The Trustees concluded during the 2014 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 2014 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 also not constitute "reasonable measures" to be adopted or pursued.

However, in the 2014 Rehabilitation Plan update process, the Trustees approved continued implementation of) 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. 18 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 Fund suffered serious investment losses in the general stock market and economic downturn that commenced in 2008 (and before that in the 2002 - 2003 market decline). In more recent years, the Fund has enjoyed significant investment gains. For example, the Fund enjoyed a composite rate of return of 19.04% for calendar year 2013, and a rate of return of 6.8% for calendar year 2014. However, the asset level as of December 31, 2014 of approximately $17.9 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. The Fund's Staff reports that the downward pressure on the Fund's assets is largely due to the Fund's current annual operating deficit of more than $2 billion per year - meaning that in recent years the Fund has paid out more than $2 billion each year *more* in benefits than it has collected in contributions from employers.

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 also missed for plan years 2009 through 2012, but the funding target for 2013 was satisfied. 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.

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.

Funding Issues Confronting Multiemployer Plans

As previously reported, in the 111th Congress, Thomas C. Nyhan, Executive Director and General Counsel, testified before the Senate Committee on Health, Education and Labor in favor of legislation (H.R.3936; 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. Nyman'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.

The Pension Fund's Staff has also noted that the 2014 Annual Report of the PBGC states that the PBGC's multiemployer guarantee program's net position declined by $34.17 billion during the agency's most recent fiscal year, which is an all-time record for the multiemployer program. Under the PBGC's projections, the risk of an insolvency of its multiemployer program rises over time, with the risk of insolvency exceeding 50% in 2022 and reaching 90% by 2025. When the multiemployer program becomes insolvent, the PBGC will be unable to pay guarantee benefits to the participants of insolvent plans.

Staff has further noted that the most recent PBGC Annual Report indicates that the significant increase during fiscal year 2014 in the multiemployer program's deficit is primarily due to losses from financial assistance stemming from the addition of two large new probable multiemployer plan insolvencies with a net claim of $26.33 billion on the guarantee program, and 14 new additional probables with a net claim of $8.99 billion. By "probable" the PBGC means the plans are projected (under the PBGC's methods and assumptions) to become insolvent within ten years. The PBGC does not identify any of the "new probable" plans by name, but Staff advises that one of "new probable" plans (*i.e.*, one of the two large plans projected to present a net claim of $26.33 billion upon the guarantee program) is the Central States Pension Fund.

Multiemployer Pension Reform Act of 2014

It appears that in response to these funding issues, in December 2014 the Multiemployer Pension Reform Act of 2014 ("MPRA" or the "Act") was enacted.

The provisions of MPRA (codified as amendments to ERISA and the Tax Code) that seem to have the greatest potential significance for the Central States Pension Fund relate to what the new statute terms a "suspension of benefits," defined as a "temporary or permanent reduction of any current or future obligation of the plan to any participant or beneficiary, whether or not in pay status at the time of the suspension of benefits." ERISA § 305 (e)(9)(B)(i). The sponsor of a plan, such as the Pension Fund, that is in "critical and declining status" (*e.g.*, projected to become insolvent in 10-15 years) "may [as] the sponsor deems appropriate" enact, and seek Department of the Treasury approval for, plan amendments implementing suspensions of benefits. ERISA § 305 (e)(9)(A).

However, MPRA prohibits suspensions of benefits that would exceed 110 percent of the benefits that PBGC guarantees. (The PBGC maximum annual guarantee amount for a multiemployer plan participant with 30 years of service is $12,870.00.) Further, participants aged 75 to 80 are subject to more restrictive suspension rules; those age 80 and above, and those with disability-based pensions, are entirely exempt from MPRA suspensions. ERISA § 305 (e)(9)(D).

Any suspensions of benefits are also subject to the following conditions: The plan's actuary must determine that the suspensions are large enough in scope to permit the plan to avoid insolvency (but are not materially in excess of the level required to accomplish that goal), and the plan sponsor must determine "in a written record to be maintained throughout the period of suspension" that the plan is still projected to become insolvent "unless the benefits are suspended, although all reasonable measures to avoid insolvency have been taken…" ERISA § 305 (e)(9)(D).

A large multiemployer plan, such as the Central States Pension Fund, cannot implement suspensions of benefits without first appointing a retiree representative, who must be a retired participant of the plan. The retiree representative is charged with advocating the interests of retirees and of non-active (but vested) plan participants who have not yet retired. The plan is required to pay the reasonable expenses of the retiree representative, including any reasonable legal and actuarial expenses. ERISA § 305 (e)(9)(B)(v). On January 18, 2015, Susan Mauren, a retired officer of a Teamster Local Union and current retired participant of the Pension Fund, agreed to serve as the Fund's retiree representative.

Under MPRA, "any suspensions of benefits shall be equitably distributed across the participant and beneficiary population, taking into account factors … that may include one or more of the following: age and life expectancy; length of time in pay status; amount of benefit; extent to which active participants are likely to withdraw support for the plan, and extent to which benefits are attributable to service with an employer that failed to pay its withdrawal liability [etc.]." ERISA § 305 (e)(9)(D)(vi).

Implementation of any plan of benefit suspensions also requires a number of additional procedural steps, including an application for approval filed with the Secretary of the Treasury ("Treasury"), individualized notice of the suspensions to each participant and beneficiary, a vote by the participants and beneficiaries concerning any plan approved by Treasury, and if the plan is rejected in the vote, a further review by the Treasury to determine whether the suspension plan should be implemented notwithstanding the vote to reject it. ERISA § 305 (e)(9)(G)-(H) (Treasury may approve a suspension plan, notwithstanding a vote by participants to reject the plan, in the case of "systemically important" multiemployer funds.).

In total, the time from the filing of the application for approval of a plan of benefit suspensions with Treasury to implementation of the suspensions could be as much as 346 days, and this period could be even longer in some cases. This is significant because the Pension Fund's Staff advises that a postponement in implementing a plan of suspensions could result in requiring more severe benefit suspensions in order to satisfy the statutory goal of eliminating any projected insolvency. Further, on February 11, 2015, Treasury issued a notice requesting comments concerning regulatory guidance it plans to issue under MPRA, and indicating that this guidance may not be issued until June 2015. Fed. Reg., Volume 80, No. 32 (February 18, 2015). This notice also advised pension plans not to file a proposed plan of benefit suspensions for approval by Treasury until the planned final guidance is issued.

In the meantime, the Pension Fund's Trustees have held a number of meetings in which the Fund's Staff, legal counsel and consultants have presented various options under MPRA for the Trustees' consideration. The retiree representative, Sue Mauren, and her legal counsel have also participated in these meetings. To date, the Trustees are continuing to weigh a number of possible courses of action under MPRA, and they have made no decision as to whether to approve a plan of benefit suspensions or concerning the scope and distribution of the suspensions -- if they do elect to seek Treasury approval of such a plan.

If the Trustees do elect to seek approval of a plan of benefit suspensions, the Pension Fund's Staff is mindful of the need to minimize any delay in gaining final approval and implementation of a plan of benefit suspensions

Financial Information - Investment Returns

The Pension Fund's investment return for the fourth quarter 2014 was 2.08 %.

A comparison of the Pension Fund's performance to the TUCS[1] universe results published for the fourth quarter of 2014 (showing percent returns on investment) is summarized in the following tables:

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[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 Composite Return

	4th Quarter Ended Dec. 31, 2014	One Year Period Ended Dec. 31, 2014	Three-Year Period Ended Dec. 31, 2014
TUCS 1st Quartile	2.29	8.66	12.77
TUCS Median	1.55	7.33	12.02
TUCS 3rd Quartile	1.10	6.27	10.30
Fund's Composite Return	2.08	6.86	13.04

Pension Fund's Total Equity Return

	4th Quarter Ended Dec. 31, 2014	One Year Period Ended Dec. 31, 2014	Three-Year Period Ended Dec. 31, 2014
TUCS 1st Quartile	4.03	9.81	19.66
TUCS Median	2.61	7.08	16.77
TUCS 3rd Quartile	1.03	4.95	15.14
Fund's Total Equity Return	2.77	7.72	17.76

Pension Fund's Fixed Income Return

	4th Quarter Ended Dec. 31, 2014	One Year Period Ended Dec. 31, 2014	Three-Year Period Ended Dec. 31, 2014
TUCS 1st Quartile	3.03	12.42	6.99
TUCS Median	1.28	6.21	4.99
TUCS 3rd Quartile	0.88	5.19	3.52
Fund's Fixed Income Return	0.20	3.93	3.02

The Fund's Named Fiduciary, The Northern Trust Investments, Inc. ("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):

Northern Trust

	Year-to-Date as of Dec. 31, 2014	Oct. 2014	Nov. 2014	Dec. 2014
Northern Trust's Composite Return	4.76	1.41	0.89	(1.00)
Benchmark Composite Return	5.74	1.81	0.94	(1.18)
Northern Trust's Total Fixed Income Return	1.52	0.75	(0.59)	(1.80)
Benchmark Fixed Income Return	2.83	1.11	(0.33)	(1.60)

Northern Trust's fourth quarter 2014 composite return included a 5.48% return on U.S. equities (3.95% on large cap, 5.84% on mid cap and 9.49% on small cap U.S. equities), (3.29)% on international equities, 8.37% on real estate and (0.26)% on global listed infrastructure.

The Fund's financial group reported the following asset allocation of the Pension Fund as a whole as of December 31, 2014 as follows: 61% equity, 34% fixed income, 4% other and 1% cash.

The financial group also reported that for the fourth quarter of 2014 the returns on the Fund's passive indexed accounts were as follows (showing percent returns on investment):

Account	Rate of Return for 4th Quarter 2014	Rate of Return for 12 months ended Dec.31, 2014
Passive Indexed Equity (S&P 500) (25% of investment assets)	4.89	13.67
Passive Indexed Fixed Income (20% of investment assets)	1.71	5.96
Passive EAFE Indexed (5% of investment assets)	(3.55)	(4.66)

[2] Formerly known as Northern Trust Company of Connecticut, which was in turn formally known as Northern Trust Global Advisors, Inc.

Financial Information - Net Assets
(Dollars shown in thousands)

The financial reports prepared by Pension Fund Staff for the twelve months ended December 31, 2014 (enclosed) show net assets as of that date of $17,865,631, compared to $18,740,759 at December 31, 2013, a decrease of $875,128 compared to an increase in net assets of $975,500 for the same period in 2013. The $1,850,628 difference is due to $1,942,347 less net investment income offset by $91,719 less net operating loss.

The enclosed Fund's Staff report further notes that for the twelve months ended December 31, 2014, the Fund's net asset decrease from operations (before investment income) was $2,042,556 compared to a decrease of $2,134,275 for the same period in 2013, or a $91,719 favorable change. This change in net assets from operations (before investment income) was attributable to:

a) $92,335 more contributions, primarily due to an increase in withdrawal liability income,

b) $260 less benefits and

c) ($876) more general and administrative expenses.

During the twelve months ended December 2014 and 2013, the Fund withdrew $2,028,398 and $2,050,749 respectively, from investment assets to fund the cash-operating deficit.

Financial Information - Participant Population

The enclosed December 31, 2014 report prepared by Fund Staff further notes that the eleven-month average number of Full-Time Equivalent ("FTE") memberships decreased 1.71% from November 2013 to November 2014 (going from 62,301 to 61,234). During that period, the average number of retirees decreased 0.77% (from 210,563 to 208,941).

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 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 which they believe will enhance the attraction of the hybrid method for many

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

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 80 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 $130 million 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.

Bankruptcies and Litigation

As explained in more detail below, Hostess, Inc., a significant contributing employer to both Funds, filed for Chapter 11 protection 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 continued to operate in bankruptcy and to pay contributions to the Funds on behalf of its drivers. Staff reports that in December 2013 Jack Cooper, Inc., another unionized automobile transporter, purchased the assets of Allied in the bankruptcy and will continue to contribute to the Funds with respect to the purchased assets and operations, but without an assumption or Jack Coopers' withdrawal liability. Allied's withdrawal liability (in the amount of $976 million) was triggered by the sale and Staff advises that the Allied bankrupt estate is not likely to have assets sufficient to satisfy this 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 fourth 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.

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. (This is termed the "Distressed Employer" schedule of benefits.)

In mid-December 2013, YRC's management indicated that it had to restructure its overall commercial debt in order to avoid bankruptcy, and 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. In January 2014, after consultation with financial, actuarial and legal advisors, the Trustees voted to approve a revised CDA extending the balloon payment under the CDA from 2015 to 2019. 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 also reports that since July 2011, YRC has remained current in its pension contribution payments ($3-$4 million per month), and in the monthly interest payments (beginning in August 2011) of approximately $500,000. In addition, on November 12, 2013 the interest rate under the CDA escalated from 7.5% per year to 7.75%.

In addition, Staff has reported that to date the Pension Fund has received approximately $38 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 $81 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 (and not applicable to reduce YRC's principal or interest balance); on November 12, 2013 the Fund received approximately $419,000 as another such refinancing fee match.

Hostess Brands, Inc.

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, 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 eventually led the bankruptcy court to authorize 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.

It appears that proceeds from the Hostess liquidation 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).

Kroger Co.

On April 10, 2015, the Pension Fund received a letter jointly signed by Kroger Co. (which Staff advises employs about 1500 Pension Fund participants) and by the International Brotherhood of Teamsters (the "IBT," through its Warehouse Division Director). This letter asked the Pension Fund to agree to a proposal whereby, during the term of a new collective Kroger collective bargaining agreement, Kroger (1) would be allowed to withdraw from participation in the Pension Fund and (2) would be allowed to settle its resulting withdrawal liability owed to the Pension Fund by means of a transfer to a new Kroger/IBT pension plan of the accrued benefits owed to current Kroger retirees and current Kroger employees who are covered by the Pension Fund. That is, under the Kroger / IBT proposal the Pension Fund would accept the transfer of accrued benefits in lieu of the cash payments of withdrawal liability required under the Multiemployer Pension Plan Amendment Act of 1980. On April 14, 2015 the Pension Fund Trustees determined that the proposal made by Kroger and the IBT would be detrimental to the interests of the participants of the Pension Fund, and the Trustees voted to reject that proposal. On April 15, 2015, the Fund's Staff wrote to Kroger and the IBT to inform them of the Trustees' decision to reject their proposal.

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Health and Welfare Fund Financial Information (Preliminary - Subject to Final Adjustments)

(Dollars shown in thousands)

The Health and Welfare Fund's financial summary for the twelve months ended December 31, 2014 are compared below with financial information for the same period of 2013:

	Twelve Months Ended December 31, 2014*	2013
Contributions	$ 2,095,911	1,282,118
Realized portion of UPS lump sum	1,428,917	0
Benefits	1,746,272	1,119,110
TeamCare administrative expenses	54,033	33,514
General and administrative expenses	66,718	43,224
Net operating income	1,657,805	86,270
Investment income (loss)	107,006	132,286
Increase in net assets	1,764,811	218,556
Net assets, end of period	$3,781,883	2,017,072
Eleven-month average Participants (FTEs)	129,181	83,177

For the twelve months ended December 2014, the Health and Welfare Fund's net asset increase from operations (before investment income) was $1,657,805 compared to an increase of $86,270 for the same period in 2013, or a $1,571,535 favorable change:

(a) $2,242,710 more contributions due to realized portion of UPS contributions, and increases in FTEs (UPS) and contribution rates,

(b) ($627,162) more benefits, primarily due to UPS (benefits paid and estimated claims liability),

* The 2014 figures are preliminary and subject to final year-end adjustments. These figures, and in particular the Benefits figure, will likely change.

(c) ($20,519) more TeamCare administrative fees and

(d) ($23,494) more general and administrative expenses, including transitional reinsurance fees.

During the twelve months ended December 2014 and 2013, the Fund transferred $1,996,825 and $92,296, 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 December 31, 2014 shows the investment asset allocation as 85% fixed income and 15% equity; in previous years, 75% of the Health and Welfare Fund's assets were allocated to fixed income. Staff reports that the somewhat higher allocation to fixed income as of December 31, 2014 was temporary and was caused by the increased revenue associated with the increased participation of UPS, Inc. (and its affiliates) in the Health and Welfare Fund, including a lump sum payment made by UPS, Inc. on June 1, 2014. As noted in my prior report, under the Third Amended Consent Decree approved by the Court, on August 11, 2014, Northern Trust Investments, Inc. ("NTI") was appointed as a named fiduciary of the Fund with responsibility for rebalancing and reallocating the Fund's assets in light of this increased revenue. On January 15, 2015, pursuant to the Third Amended Consent Decree, a reallocation of assets was implemented so that as of that date, 50% of the Health and Welfare Fund's assets were controlled by NTI as named fiduciary, and 50% of the assets were in passive or indexed accounts controlled by asset managers appointed by the Trustees. This reallocation has resulted in a rebalancing of the Fund's investment assets, so that as of February 1, 2015, approximately 87% of the Fund's total assets were invested in fixed income securities or cash equivalents, and 13% in equity securities. The Fund's Staff reports that NTI plans to gradually increase the allocation to equity of the assets under its control so that by year-end 2015 20% of the Fund's total assets will be invested in equity securities.

The enclosed report also notes that the eleven-month average number of Full-Time Equivalent (FTE) memberships increased by 55.31% from November 2013 to November 2014 (going from 83,177 to 129,181). During that period, the average number of retirees covered by the Health and Welfare Fund decreased by 6.53% (from 8,619 to 8,056).

Retiree Plan Funding

As indicated in my report for the fourth quarter of 2013 (dated May 31, 2014), the Health and Welfare Fund underwent a restructuring with an effective date of January 1, 2014. As a result of this restructuring, a more formal separation was created between the benefit packages provided to actively employed participants, on the one hand, and retired participants, on the other. As also explained in my prior report, this separation resulted in the creation of a new plan that provides coverage *only to retired participants* (the "New Retiree Plan") and a separate plan that continues to provide coverage to participants who are actively employed (the "Active Plan"). Staff reports that, as planned, this separation has not resulted in any change in the coverage or services provided to either active or retired participants. My prior report on this subject also indicated that two separate subaccounts have been established under the Health and Welfare Fund to provide funding for the Active Plan and the Retiree Plan. Under this new Health and Welfare Fund structure, the Active Plan is authorized to provide a "Retiree Contribution Benefit" to ensure proper funding of the New Retiree Plan for the benefit of present and former Active Plan participants. The funding requirements of the New Retiree Plan are reviewed by the Trustees periodically with the goal of assuring that the New Retiree Plan retains approximately the same financial strength (in terms of liquid asset reserves in comparison to coverage obligations) as the Active Plan. The Trustees most recently reviewed the funding of the New Retiree Plan at their November 2014 Meeting and approved a Retiree Contribution Benefit that was determined by the Trustees to be sufficient to maintain this financial parity between the two plans at least through the end of 2015.

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 fourth quarter of 2014 the following for professional services and expenses for the Independent Special Counsel:

October	$ 0.00
November	$ 0.00
December	$ 2,565.00

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