DAVID H. COAR, ESQ.
**Arbitration and Mediation**

September 11, 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 first quarter of 2015 as Independent Special Counsel appointed pursuant to the *Fitzsimmons* (Pension Fund) and *Robbins* and *Dorfman* (Health and Welfare Fund) consent decrees.

## Audit

At the January 2015 Meeting of the Pension Fund's Board of Trustees, the Internal Audit Department presented its report concerning the audit of pension application processing. The overall conclusion of this audit was that adequate administrative and internal controls surrounding pension application processing were operating during the period tested, and that these controls provided a basis for reliance that applications are processed in accordance with the Funds policies and procedures.

At the March 2015 Meeting of the Board of Trustees of the Pension and Health and Welfare Funds, Deloitte and Touche, the Funds' outside auditors presented their audit plan relating to the plan/calendar year 2014 audit of the Funds.

## Pension Fund

### Funding and PPA-Related Issues

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 has made the same certification with respect to subsequent plan years, except that in March 2015, the actuary certified the Fund to be in the new category of "critical and declining" created by the Multiemployer Pension Reform Act of 2014 (discussed below). As a result of the initial critical status certification, the Trustees adopted a "rehabilitation plan" as the PPA requires for critical status plans. 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"; the Fund's Rehabilitation Plan mandates 4% annual contribution rate increases. ("Adjustable benefits" under the PPA generally include all benefits other than a contribution-based retirement benefit payable at age 65.) 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. In addition, the Rehabilitation Plan provides that that the members of bargaining units who agree to a withdrawal from the Pension Fund (or otherwise acquiesce or participate in a withdrawal -- an event termed a "Rehabilitation Plan Withdrawal" -- also incur a loss of their adjustable benefits.

As explained in my previous report, in November 2014 the Trustees concluded during the process of updating the Rehabilitation Plan (which the statute requires on an annual basis), that any further or additional benefit reductions or the imposition of additional requirements for increased contributions (*i.e.*, beyond those already implemented and 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.

However, in the 2014 Rehabilitation Plan update process, 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* pp. 11 - 12 below), (ii) the hybrid withdrawal liability method (pp. 10 - 11 below), and (iii) the benefit modifications, contribution rate increases and other features of the Rehabilitation Plan that have been previously adopted (*e.g.*, the Trustees raised the minimum retirement age to 57, effective as of June 1, 2011).

Although it appears the Pension Fund has reported some progress in securing increased employer contributions and in adjusting 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 6.86% for calendar year 2014. However, the asset level as of March 31, 2015 of approximately $17.7 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 indicated in my prior reports, the Pension Fund's Staff has reported 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. Staff reports that these funding ratio targets were also missed for plan years 2009 through 2012 and for plan year 2014, 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 occurred in 2008; that application is still pending.

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. 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. 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 there are two large multiemployer plans that will probably be insolvent within ten years and generate combined claims of more than $26 billion against the PBGC; the report also indicates that 14 smaller multiemployer plans that will also probably encounter insolvencies within that same time frame, and present additional claims approximately $9 billion to the PBGC. The PBGC report does not identify any of these plans that are projected to become insolvent by name, but the Fund's Staff advises that one of the large plans projected to become insolvent is the Central States Pension Fund.

<u>Multiemployer Pension Reform Act of 2014</u>

As indicated in my report on the fourth quarter 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, as also explained in my prior report, 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).

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, 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).

As explained in my prior report, 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 -- an office created under MPRA and charged with advocating the interests of retirees throughout the process of fashioning any suspension plan and seeking Treasury approval of it.

Implementation of any plan of benefit suspensions also requires a number of additional procedural steps, including an application for approval of the plan 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).

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 in general any delays in implementing a plan of suspensions would result in requiring more severe benefit suspensions in order to satisfy the statutory goal of eliminating any projected insolvency.

Beginning in early February of this year, 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.

On June 15, 2015, Treasury issued guidance (in the form of Temporary Regulations, Proposed Regulations and a Revenue Procedure) concerning MPRA benefit suspension plans and the form of the application and notices that must accompany any proposed suspension plan. Comments on the Proposed Regulations are due by August 18, 2015, a hearing on the regulations is to be held on September 10, 2015, and Final Regulations will be issued soon thereafter. In the meantime, the Trustees may elect to file an application with Treasury for approval of a suspension plan *prior* to the issuance of Final Regulations (as is permitted under the Temporary Regulations). However, the Pension Fund's counsel may first seek clarification from Treasury concerning some aspects of the recent guidance.

## **Financial Information - Investment Returns**

The Pension Fund's investment return for the first quarter of 2015 was 2.24%.

A comparison of the Pension Fund's performance to the TUCS[1] universe results published for the first quarter of 2015(showing percent returns on investment) is summarized in the following tables:

**Pension Fund's Composite Return**

| | 1st Quarter Ended March 31, 2015 | One Year Period Ended March 31, 2015 | Three-Year Period Ended March 31, 2015 |
|---|---|---|---|
| TUCS 1st Quartile | 2.72 | 8.67 | 10.82 |
| TUCS Median | 2.39 | 7.40 | 10.20 |
| TUCS 3rd Quartile | 2.08 | 6.13 | 9.22 |
| Fund's Composite Return | 2.24 | 7.41 | 10.57 |

**Pension Fund's Total Equity Return**

| | 1st Quarter Ended March 31, 2015 | One Year Period Ended March 31, 2015 | Three Year Period Ended March 31, 2015 |
|---|---|---|---|
| TUCS 1st Quartile | 3.27 | 10.67 | 14.95 |
| TUCS Median | 2.81 | 7.86 | 13.28 |
| TUCS 3rd Quartile | 2.56 | 6.32 | 11.98 |
| Fund's Total Equity Return | 2.50 | 8.95 | 13.97 |

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 Fixed Income Return**

| | 1st Quarter Ended March 31, 2015 | One Year Period Ended March 31, 2015 | Three-Year Period Ended March 31, 2015 |
|---|---|---|---|
| TUCS 1st Quartile | 2.47 | 10.91 | 7.92 |
| TUCS Median | 1.82 | 5.58 | 3.86 |
| TUCS 3rd Quartile | 1.47 | 4.46 | 3.21 |
| Fund's Fixed Income Return | 1.69 | 3.52 | 3.17 |

The Fund's Named Fiduciary, 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 March 31, 2015 | Jan. 2015 | Feb. 2015 | Mar 2015 |
|---|---|---|---|---|
| Northern Trust's Composite Return | 2.85 | (0.50) | 3.87 | (0.49) |
| Benchmark Composite Return | 2.67 | (0.36) | 3.69 | (0.63) |
| Northern Trust's Total Fixed Income Return | 1.99 | 0.94 | 1.63 | (0.58) |
| Benchmark Fixed Income Return | 1.70 | 0.93 | 1.12 | (0.39) |

Northern Trust's first quarter 2015 composite return included a 3.21% return on U.S. equities (2.01% on large cap, 4.88% on mid cap and 3.31% on small cap U.S. equities), 3.95% on international equities, 4.96% on real estate and (1.26)% on global listed infrastructure).

The Fund's financial group reported the following asset allocation of the Pension Fund as a whole as of March 31, 2015 as follows: 61% equity, 34% fixed income, 4% other and 1% cash.

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

The financial group also reported that for the first quarter of 2015 the returns on the Fund's passive indexed accounts were as follows (showing percent returns on investment):

| Account | Rate of Return for 1st Quarter 2015 |
|---|---|
| Passive Indexed Equity (S&P 500) (25% of investment assets) | 0.86 |
| Passive Indexed Fixed Income (20% of investment assets) | 1.55 |
| Passive EAFE Indexed (5% of investment assets) | 4.98 |

Financial Information - Net Assets
(Dollars shown in thousands)

The financial reports prepared by Pension Fund Staff for the three months ended March 31, 2015 (enclosed) show net assets as of that date of $17,702,971, compared to $17,863,106 at December 31, 2014, a decrease of $160,135 compared to a decrease in net assets of $208,925 for the same period in 2014. The $48,790 difference is due to $81,223 more net investment income offset by $32,433 more net operating loss.

The enclosed Fund's Staff report further notes that for the three months ended March 31, 2015, the Fund's net asset decrease from operations (before investment income) was $539,411 compared to a decrease of $506,978 for the same period in 2014, or a $32,433 unfavorable change. This change in net assets from operations (before investment income) was attributable to:

a) ($31,020) fewer contributions, primarily a decrease in withdrawal liability income,

b) $1,650 fewer benefits and

c) ($3,063) more general and administrative expenses.

During the three months ended March 2015 and 2014, the Fund withdrew $513,625 and $554,891 respectively, from investment assets to fund the cash operating deficit.

Financial Information - Participant Population

The enclosed March 31, 2015 report prepared by Fund Staff further notes that the two-month average number of Full-Time Equivalent ("FTE") memberships decreased 1.06% from February 2014 to February 2015 (going from 59,520 to 58,889). During that period, the average number of retirees decreased 0.86% (from 209,614 to 207,818).

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. This recently formula is referred to as a "hybrid" withdrawal liability method.

Staff reports that it believes the hybrid method offers 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.

Further, as explained in my prior reports, in November 2012, the Trustees 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 Trustees have also approved an amendment 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

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

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**

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 also previously reported, in May 2009 the Funds entered a Contribution Deferral Agreement ("CDA" or "Deferral Agreement") with YRC, Inc. and its affiliates ("YRC") -- one of the largest contributing employers to the Fund. 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.

Following a temporary termination of YRC's participation in the Pension Fund (due to its chronic delinquencies), 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, in light of the company's continuing financial distress, that 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).

At the same time, the Trustees decided that 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 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 $ 40 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 $ 80 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, Staff reports the efforts to reorganize Hostess were unsuccessful and 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).

**Health and Welfare Fund**
**Financial Information**
(Based on preliminary results)
(Dollars shown in thousands)

The Health and Welfare Fund's financial summary for the three months ended March 31, 2015 are compared below with financial information for the same period of 2014:

| | Three Months Ended March 31, 2015 | Three Months Ended March 31, 2014 |
|---|---|---|
| **Contributions** | $ 691,140 | 344,957 |
| **Realized portion of UPS lump sum** | 24,528 | 0 |
| **Benefits** | 571,715 | 288,013 |
| **TeamCare administrative expenses** | 17,065 | 9,232 |
| **General and administrative expenses** | 15,181 | 12,378 |
| **Net operating income** | 111,707 | 35,334 |
| **Investment income (loss)** | 24,835 | 18,411 |
| **Increase in net assets** | 136,542 | 53,745 |
| **Net assets, end of period** | 3,922,688 | 2,070,817 |
| **Two-month average Participants (FTEs)** | 173,510 | 83,265 |

For the three months ended March 2015, the Health and Welfare Fund’s net asset increase from operations (before investment income) was $111,707 compared to an increase of $35,334 for the same period in 2014, or a $76,373 favorable change:

(a) $370,711 more contributions due to increases in FTEs (UPS),

(b) ($283,702) more benefits, primarily due to UPS,

(b) ($7,833) more TeamCare administrative fees and

(d) ($2,803) more general and administrative expenses.

During the three months ended March 2015 and 2014, the Fund transferred $81,111 to investments (BNY Mellon) and withdrew $11,568 from investments, respectively.

The enclosed report entitled "Central States Funds Financial and Analytical Information" prepared by the Fund's financial group as of March 31, 2015 shows the investment asset allocation as 88% fixed income and 12% 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 March 31, 2015 is 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 May 31, 2015, approximately 85% of the Fund's total assets were invested in fixed income securities or cash equivalents, and 15% 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 two-month average number of Full-Time Equivalent (FTE) memberships increased by 108.38% from February 2014 to February 2015 (going from 83,265 to 173,510). During that period, the average number of retirees covered by the Health and Welfare Fund increased by 1.07% (from 8,006 to 8,092).

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 first quarter of 2015 the following for professional services and expenses for the Independent Special Counsel:

| | |
|---|---|
| January | $0.00 |
| February | $0.00 |
| March | $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