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Arbitration and Mediation

MARCH 14, 2016

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 2015 as Independent Special Counsel appointed pursuant to the *Fitzsimmons* (Pension Fund) and *Robbins* and *Dorfman* (Health and Welfare Fund) consent decrees.

Board Composition

As indicated in my report for the third quarter of 2015, Mr. William Lichtenwald is presently serving a five-year term as an Employee Trustee of the Central States Funds that commenced on April 1, 2015 (following this Court's approval of his service as a Trustee, pursuant to the consent decrees, on March 3, 2015). However, Mr. Lichtenwald has announced his intent to resign from his Employee Trustee position, but he has also indicated that he is willing to continue to serve as a Trustee until a successor can be elected, appointed and approved by this Court. The Funds' Staff, as directed by the Trustees, has been engaged in conducting an election and related procedures in order to fill Mr. Lichtenwald's position, in accordance with the Funds' Statement of the Procedures for Selection and Monitoring of Employee Trustees. It is anticipated that the Funds' Staff will soon be able to file motions with the Court seeking approval of an appropriate individual to serve the remainder of Mr. Lichtenwald's term as an Employee Trustee.

Pension Fund

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 with respect to the Default Schedule. ("Adjustable benefits" under the PPA generally include all benefits other than a contribution-based retirement benefits 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 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 also explained in my previous reports, the PPA also requires the Trustees to engage in an annual process of considering whether it is appropriate to update the Rehabilitation Plan in any fashion. Last December during the 2015 Rehabilitation Plan update process, the Trustees noted that because the Fund is facing an insolvency (most recently projected to occur in 2024) the PPA required that they take "reasonable measures" to forestall the insolvency. ERISA §305(e)(3)(A)(ii). The Trustees also concluded that the application that the Trustees approved for filing with the U.S. Department of Treasury on September 25, 2015 pursuant to the Multiemployer Pension Reform Act (MPRA) was a reasonable measure designed to forestall the projected insolvency, and therefore one that the Trustees were *required* to take under the PPA. However, during the 2015 Rehabilitation Plan process the Trustees also concluded that any further or additional benefit reductions or the imposition of additional requirements for increased contributions (*i.e.*, beyond filing the 2015 MPRA application and those measures previously 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.

In the 2015 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* p. 14 below), (ii) the hybrid withdrawal liability method (pp. 11 – 12 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 and declining status" plans under the PPA, the Fund suffered serious investment losses in the general stock market during the 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, 2015 proved to be a more difficult year for investors and the asset level as of December 31, 2015 of approximately $16.1 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. However 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 years 2014 and 2015, 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, although in November and December 2015 the IRS and the Fund's legal counsel held further discussions concerning a possible resolution of the amortization extension issues.

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.

The PBGC's 2014 Annual Report, released in September 2015, indicates that (due largely to recent increases in the premiums multiemployer plans are required to pay to the PBGC) there has been a slight improvement in the financial condition of the agency's multiemployer plan guaranty fund -- which is now projected to become insolvent in 2025 as compared to the 2022 insolvency that was projected in the prior (fiscal year 2013) PBGC annual report. This means that the PBGC will have no financial resources to pay benefits to the Pension Fund participants if, as projected, the Fund also becomes insolvent at approximately the same time as the PBGC.

Multiemployer Pension Reform Act of 2014

As indicated in my prior reports, it appears that in response to these funding issues impacting a number of multiemployer plans throughout the United States, in December 2014 the Multiemployer Pension Reform Act of 2014 ("MPRA" or the "Act") was enacted.

As discussed in my report for the second and third quarters of 2015, the provisions of MPRA (codified as amendments to ERISA and the Tax Code) of greatest 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).

As has also been indicated in my prior reports, after the enactment of MPRA at the end of 2014, the Trustees held a number of meetings with Ms. Susan Mauren (the retirement representative appointed pursuant to the requirements of MPRA) and with Staff, actuarial consultants and legal advisors in order to consider (1) whether to propose a suspension plan and (2) the form that any such suspension plan should take. MPRA requires that any suspension plan must not only be projected to avoid the insolvency that the plan is facing but must also only impose those benefit suspensions that are required to avoid the insolvency, and are not materially greater than are necessary to accomplish that goal. ERISA § 305(e)(D)(iv). In addition, MPRA sets forth a number of other conditions and limitations relating to benefit suspensions, such as rules prohibiting benefit suspensions for participants at age 80 or older, limiting suspensions for those between the ages of 74-79, protecting disability-based pensions and prohibiting any reductions that result in benefits below 110% of the amount that would be guaranteed by the PBGC. These conditions and limitations were summarized in my prior report concerning the first quarter of 2015.

As outlined in my report for the second and third quarters of 2015, after considering a number of options and gathering actuarial and legal advice in the course of the meetings described above, the Trustees authorized the filing of an application with the Department of the Treasury for approval of a MPRA suspension plan on September 25, 2015. The application, with its attachments, comprises more than 8,000 pages of documents. The proposed suspension plan is summarized in the attached two page document entitled "Central States Pension Fund Proposed Rescue Plan Overview." This overview was sent on October 1, 2015 to each of the more than 400,000 participants of the Pension Fund, along with a statutory notice of the Pension Fund's filing of the September 25, 2015 application for approval of the suspension plan, and individualized statements concerning the estimated impact of the proposed suspension plan on each participant.

As indicated in the attached overview, except with respect to participants impacted by the conditions and limitations concerning benefit suspensions mandated by MPRA, the proposed suspension plan essentially recalculates the benefit entitlements of all participants on the basis of the amount of contributions paid to the Fund on the participants' behalf. This means that, subject to the statutory limitations and conditions, all retirees and participants actively employed by contributing employers, and all "terminated" participants (*i.e.*, those who are terminated from active service with a contributing employer, but have not yet retired) who have more than twenty years of contributory service credit, will receive a monthly pension benefit equal to 1% of the total contributions made to the Fund on their behalf as of the implementation date of the suspension plan. The "1%-of-contributions" rule accords with the basic benefit accrual rule that has been in place since 2004. Terminated participants with fewer than twenty years of contributory service credit will receive 0.5% of contributions. *After* implementation of the proposed suspension plan, the future rate of benefit accrual will be reduced from 1% to 0.75% of contributions.

The Pension Fund's Staff advises that although there are many variables in the plan that cause the impact of the suspensions to vary greatly among the individual participants (including the requirements and conditions mandated by MPRA), the *average* benefit reduction under the plan will be approximately 22%. Further, Staff advises that 33% of the participants will incur no benefit reductions at all under the proposed suspension plan -- and that this "no-cut" percentage jumps to 45% after including the participants who earned pension credit while employed with United Parcel Service, Inc. ("UPS") and whose benefits with the Pension Fund have been separately guaranteed by UPS. Finally, Staff advises that 41% of retirees will receive complete or partial protection under the age-based limitations on suspensions mandated by MPRA, and that 74% of the surviving beneficiaries of deceased participants will experience no benefit reductions under the suspension plan.

The plan also includes liberalized post-retirement reemployment rules applicable to participants who experience benefit reductions under the suspension plan. These new reemployment rules will make it easier for participants to work in post-retirement jobs while drawing pensions, thus enabling the participants to earn income that will help offset the benefit reductions under the suspension plan.

As required under Treasury guidelines relating to the timing of the implementation of MPRA suspension plans, the Pension Fund's

September 25, 2025 application requests a July 1, 2016 implementation date. In any event, MPRA provides that Treasury has 225 days from the filing of the application to decide whether to approve it. If Treasury does not make a ruling on the application in that time frame, the application is deemed approved. This "default approval" would occur on May 7, 2016 in Central States' case. MPRA also states that any suspension plan approved by Treasury must be put out for a vote by all participants within 30 days of approval by Treasury. However, Treasury also has authority to approve or modify a proposed suspension plan that has been rejected in a vote by the participants, if Treasury determines that the suspension plan involves a "systemically important" multiemployer plan *i.e.,* a plan important to the entire system of federally regulated multiemployer pension plans.

Treasury has posted the Pension Fund's entire application for approval of the suspension plan on the agency's website. In total approximately 8,700 comments from parties of all types have been submitted to Treasury concerning the Fund's proposed suspension plan, including comments from the International Brotherhood of Teamsters ("IBT") and United Parcel Service, Inc. ("UPS"). The IBT and UPS both oppose the Fund's proposed plan, but apparently for quite different reasons. The Pension Fund's Staff advises that the IBT argues that the Fund's projections are *too optimistic* and that the Fund can only forestall, but not avoid, an insolvency, while UPS contends that the Fund's projections relating to increases in certain future cost and declines in future revenue are *too pessimistic.* On this basis, UPS contends that the Fund should have proposed less severe suspensions for certain UPS participants, whom UPS is obliged to indemnify.

On March 1, 2016, the Fund submitted responsive comments to Treasury that address the points raised by UPS, the IBT and others.

The Fund's Staff advises that to date,of approximately 2,800 comments concerning the Pension Fund's MPRA application submitted to Treasury, approximately 2,100 comments have been from Pension Fund participants. There are, as noted, approximately 400,000 participants in the Pension Fund, and Staff reports that in many cases a single participant has submitted multiple comments to Treasury.

In addition, Staff advises that approximately 5,500 Pension Fund participants have submitted comments or questions concerning the suspension plan directly to the Fund (or to Sue Mauren, the MPRA Retiree Representative who has passed along to the Pension Fund those questions or comments requiring detailed research into individual pension files). Staff also advises that to date the Fund has issued written response to all but approximately 450 of these 5,500 participant questions or comments concerning the suspension plan, and the Fund is in the process of responding to the remaining 450.

In my prior report for the third quarter of 2015, in addition to mailing the required statutory notices and impact statements to all participants, the Pension Fund will continue to post information concerning the proposed suspension plan on the Fund’s website and the Fund has also hosted a teleforum at which participants were invited to pose questions to the Fund by phone or e-mail concerning the suspension plan. The Fund has held meetings to explain the suspension plan to participating Local Unions and employers. The MPRA retiree representative, Ms. Susan Mauren, has also posted information concerning the suspension plan on her website, along with her own comments concerning the plan and a report concerning the plan prepared by an independent actuary whom she has retained.

Financial Information - Investment Returns

The Pension Fund’s investment return for the fourth quarter of 2015 was 3.17 %. [1]

A comparison of the Pension Fund's performance to the TUCS [2] universe results published for the fourth quarter of 2015(showing percent returns on investment) is summarized in the following tables:

[1] As required under the consent decree, 50% of the Pension Fund’s investments are held in passive or indexed accounts and 50% of the investments are subject to active management under the control of Northern Trust Investments, Inc. (“Northern Trust”) as the Fund’s court-appointed Named Fiduciary. However, the Named Fiduciary is also responsible for setting the Pension Fund’s overall asset allocation, and in doing so it must take account of the mandatory allocation of 50% of the Fund’s assets to passive or indexed accounts as directed under the consent decree – an allocation that includes, for example, an indexed or passive bond / fixed income account that comprises 20% of the Fund’s total assets. Therefore, the Pension Fund’s Composite Returns presented below reflect the combined returns of the passive / indexed portion of the Fund’s total investment portfolio and the portion under active management controlled by the Named Fiduciary. On the other hand, Northern Trust’s returns, as presented below, reflect only the performance of the assets under the control of Northern Trust as Named Fiduciary. However, Northern Trust’s separately stated returns can be influenced at times by the asset allocations that it feels constrained to make within its own actively managed portfolio in light of the allocations required under consent decree in the passive / indexed portion of the Fund’s portfolio.

[2] "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, 2015	One Year Period Ended Dec. 31, 2015	Three Year Period Ended Dec. 31, 2015
TUCS 1st Quartile	2.85	1.38	8.22
TUCS Median	2.31	0.37	7.54
TUCS 3rd Quartile	1.67	(0.41)	6.22
Fund's Composite Return	3.17	(0.81)	8.06

Pension Fund's Total Equity Return

	4th Quarter Ended Dec. 31, 2015	One Year Period Ended Dec. 31, 2015	Three Year Period Ended Dec. 31, 2015
TUCS 1st Quartile	5.74	0.74	13.15
TUCS Median	4.99	(0.36)	11.70
TUCS 3rd Quartile	4.37	(1.85)	9.20
Fund's Total Equity Return	5.74	(0.22)	11.78

Pension Fund's Fixed Income Return

	4th Quarter Ended Dec. 31, 2015	One Year Period Ended Dec. 31, 2015	Three Year Period Ended Dec. 31, 2015
TUCS 1st Quartile	(0.10)	0.57	2.44
TUCS Median	(0.45)	(0.05)	1.83
TUCS 3rd Quartile	(0.66)	(2.00)	0.96
Fund's Fixed Income Return	(1.01)	(1.80)	0.32

The Fund's Named Fiduciary, Northern Trust Investments, Inc. ("Northern Trust")[3], 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, 2015	Oct 2015	Nov. 2015	Dec. 2015
Northern Trust's Composite Return	(2.73)	5.37	(0.60)	(2.01)
Benchmark Composite Return	(3.04)	5.60	(0.91)	(2.01)
Northern Trust's Total Fixed Income Return	(4.49)	2.26	(1.71)	(1.91)
Benchmark Fixed Income Return	(3.40)	2.26	(1.40)	(1.86)

Northern Trust's fourth quarter 2015 composite return included a 4.74% return on U.S. equities (6.95% on large cap, 2.11% on mid cap and 3.23% on small cap U.S. equities), 4.86% on international equities, 4.34% on real estate and (1.74)% 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, 2015 as follows: 60% equity, 35% fixed income, 4% other and 1% cash.

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

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

Account	Rate of Return for 4th Quarter 2015	Rate of Return 2015 (as of Dec. 31, 2015)
Passive Indexed Equity (S&P 500) (25% of investment assets)	7.05	1.32
Passive Indexed Fixed Income (20% of investment assets)	(0.60)	0.38
Passive EAFE Indexed (5% of investment assets)	4.73	(0.53)

Financial Information - Net Assets

(Dollars shown in thousands and do not include year-end adjustments)

The financial reports prepared by Pension Fund Staff for the twelve months ended December 31, 2015 (enclosed) show net assets as of that date of $16,123,719, compared to $17,863,106 at December 31, 2014, a decrease of $1,739,387 compared to a decrease in net assets of $877,653 for the same period in 2014. The $861,734 difference is due to $1,311,980 less net investment income offset by $450,246 less net operating loss.

The enclosed Fund's Staff report further notes that for the twelve months ended December 31, 2015, the Fund’s net asset decrease from operations (before investment income) was $1,594,885 compared to a decrease of $2,045,131 for the same period in 2014, or a $450,246 favorable change. This change in net assets from operations (before investment income) was attributable to:

a) $456,233 more contributions, primarily increase in withdrawal liability receipts and recognition of withdrawal liability previously classified as potentially refundable,

b) $7,910 less benefits and

c) ($13,897) more general and administrative expenses.

During the twelve months ended December 2015 and 2014, the Fund withdrew $1,718,259 and $2,028,398, respectively, from investment assets to fund the cash operating deficit.

Financial Information - Participant Population

The enclosed December 31, 2015 report prepared by Fund Staff further notes that the eleven month average number of Full-Time Equivalent (“FTE”) memberships decreased 1.75% from November 2014 to

November 2015 (going from 61,282 to 60,209). During that period, the average number of retirees decreased 1.13% (from 208,941 to 206,579).

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.[4] 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 compared to employers who have simply withdrawn from the Fund and completely discontinued pension contributions.

Staff reports that to date approximately 83 old employers have satisfied their existing liability and qualified as new employers

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

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 $272 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 $39.2 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 79.4 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 indicates 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

(Dollars shown in thousands and do not include year-end adjustments)

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

	Twelve Months Ended December 31,	
	2015	2014
Contributions	$ 2,972,592	2,095,455
Recognized portion of UPS lump sum	98,112	1,428,917
Benefits	2,368,866	1,706,828
TeamCare administrative expenses	73,451	54,105
General and administrative expenses	66,041	67,328
Net operating income	562,346	1,696,111
Investment income (loss)	(4,266)	106,558
Increase in net assets	558,080	1,802,669
Net assets, end of period	4,377,821	3,819,741
Eleven-month average Participants (FTEs)	184,862	129,249

For the twelve months ended December 31, 2015, the Health and Welfare Fund’s net asset increase from operations (before investment income) was $562,346 compared to an increase of $1,696,111 for the same period in 2014, or a $1,133,765 unfavorable change:

(a) ($453,668) less contributions, primarily due to recognized portion of 2014 UPS lump sum offset by increases in FTEs (UPS),

(b) ($662,038) more benefits, primarily due to UPS,

(c) ($19,346) more TeamCare administrative fees and

(d) $1,287 less general and administrative expenses.

During the twelve months ended December 2015 and 2014, the Fund transferred $437,377 and $1,996,825, respectively, to investments (BNY Mellon) as the operations generated positive cash flows for those periods.

As noted in my prior reports, 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 the increased revenue attributable to UPS's increased participation in the Fund. 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. As indicated in the enclosed report entitled "Financial and Analytical Information," as of the end of the fourth quarter of 2015, NTI accomplished its goal of gradually increasing the allocation to equity of the assets under its control so that by year-end 2015 20% of the Fund's total assets were invested in equity securities.

The enclosed report also notes that the eleven-month average number of Full-Time Equivalent (FTE) memberships increased by 43.03% from November 2014 to November 2015 (going from 129,249 to 184,862). During that period, the average number of retirees covered by the Health and Welfare Fund increased by 3.34% (from 8,182 to 8,455).

<u>Article V (H)</u>

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

October	$3,941.79
November	$0.00
December	$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

David H. Coar

Enclosure

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

CENTRAL STATES PENSION FUND PROPOSED RESCUE PLAN OVERVIEW

(See Enclosed Notice Dated September 25, 2015 for Full Explanation)

OVERALL: Central States' proposed rescue plan has been designed so that post-MPRA benefits are tied to the amount of pension contributions made on each participant's behalf by employers.

TIMING: Benefit reductions under Central States' proposed pension rescue plan, submitted to the U.S. Department of the Treasury ("Treasury") on September 25, 2015, will, under current rules, become effective on July 1, 2016—if approved by both Treasury and a subsequent vote of our plan participants.

If the proposed rescue plan is rejected by a participant vote, but Central States is deemed by Treasury to be "systemically important" (meaning its failure could play a role in bringing down the entire multiemployer pension system), then Federal law requires Treasury to permit implementation of the plan (or a modified version of the plan).

RE-EMPLOYMENT: Under our proposed pension rescue plan, Central States will remove all re-employment restrictions for participants who retired on or before October 1, 2015.

Participants who retire from active status at age 62 or older but before age 65 after October 1, 2015 may seek any re-employment they choose outside of Core Teamster Industries (as defined in the Plan), but must avoid re-employment with any Contributing Employer for whom they worked in the one year before retirement.

Upon reaching age 65, regardless of the age at which they retire, retirees will not be subject to any re-employment restrictions, except that participants who last worked (pre-retirement) for a Contributing Employer in a non-bargaining unit capacity cannot return to work for that same employer for a period of one year after retirement.

Please note that these revised re-employment rules will not be applicable to participants whose benefits are not reduced under this pension rescue plan (due to age, disability, etc.) Additionally, these changes to Central States' re-employment rules will only become effective if our proposed pension rescue plan is approved and implemented.

FUTURE ACCRUALS FOR ACTIVE PARTICIPANTS: Moving forward, after rescue plan implementation on July 1, 2016, pension benefits will continue to be earned—at a rate of 0.75 percent of employer contributions—on top of the projected monthly rescue plan benefit amount (as shown on page 6 of the enclosed Notice).

For example, participants covered by the National Master Freight Agreement will earn an additional monthly pension benefit of $133.38 ($342 weekly employer contribution rate x 52 weeks x 0.75%) for each year they continue to work. So, after having 10 additional years of contributions, the monthly pension benefit will increase by $1,333.80 (10 x $133.80). Another example: a participant with a current contribution rate of $256.42 will earn an additional monthly pension benefit of $100 ($256.42 x 52 weeks x 0.75%) for each year of continued work. **Should contribution rates increase, the amount of additional monthly accruals will also increase.**

EARLY RETIREMENT: Starting in 2021 (five years from the implementation date of its proposed pension rescue plan), Central States will begin to gradually increase the minimum age at which participants can retire (early retirement) without reductions for pre-age 65 retirements. (Until that time, benefits for participants with 20 years of service credit who retire prior to age 62 will be reduced, as is presently the case.) Please reference page 5 of the enclosed Notice for further details.

TERMINATED STATUS PARTICIPANTS: Central States' proposed rescue plan applies lower benefit reductions to retirees and active participants, as compared to terminated participants (those who are not retired and not working for a Contributing Employer), except for terminated participants with 20 years or more of contributory service credit.

The reasons for this are threefold: First, because all categories of participants are dependent on the continued support of the Plan by active participants, they (active participants) should in general be treated at least as favorably as any other class of participants. Second, retirees have given up their jobs and may have been out of the workforce for many years and therefore are likely to be dependent on their Central States pension and unable to replace the income lost through benefit reductions. Finally, many terminated participants have not recently worked for a Contributing Employer for an extended period, and therefore, have presumably found gainful employment and are less dependent on their Central States pension. Because terminated participants who have more than 20 years of contributory service credit are likely to be more dependent on their Central States pension, they are treated under the rescue plan in the same way as active and retired participants.

ORPHANS ("Tier 1"): MPRA mandates the terms of benefit reductions for "orphans," participants (and their beneficiaries) whose employers failed to pay their full employer pension withdrawal obligations (as required under pension law or pursuant to a settlement with the Fund).

Specifically, MPRA requires that the pension benefits of such "orphan" participants (identified in the law as "Tier 1") must be reduced to the equivalent of 110 percent of the amount that they would receive from the Pension Benefit Guaranty Corporation (PBGC) if their multiemployer pension fund were to become "insolvent" and run out of money to pay benefits. This amount is based on years of service and can be generally calculated using the following formula (assuming the maximum PBGC guarantee of $35.75 per year of service):

$35.75 per month x Participant years of credited service x 110 percent

So, for example, for a participant with 30 years of credited service, the Tier 1 benefit would be:
$35.75 per month x 30 years of credit service x 110 percent = $1,179.75 per month

UPS TRANSFER GROUP ("Tier 3"): By law (MPRA), benefits for participants whose employers withdrew from a multiemployer pension plan but paid their full withdrawal liability and also guaranteed certain payments from the multiemployer plan are in a different tier ("Tier 3").

Under the terms of its 2007 withdrawal from Central States, UPS paid the Fund its full withdrawal liability. UPS subsequently promised in a labor agreement that a UPS Pension Plan would cover any future reductions in Central States benefits "permitted or required by law" for participants who were active or terminated UPS employees on December 29, 2007 ("UPS Transfer Group"). Because UPS has committed to making up the difference, there should be no net loss of pension benefits for protected UPS Transfer Group participants with Tier 3 benefits or their beneficiaries under our proposed pension rescue plan even though these participants' Central States pension benefits may be reduced.

"TIER 2" PARTICIPANTS: All participants not classified in "Tier 1" or "Tier 3," including participants who retired from UPS before December 29, 2007, will be classified as "Tier 2" and their benefits may be subject to reductions as part of Central States' pension rescue plan, based on each participant's age, years of service, employer contributions, disability status, etc. For all Tier 2 participants, our pension rescue plan has been designed so that post-MPRA benefits are tied to the amount of pension contributions made on each participant's behalf by employers.

AGE: By law (MPRA), the pension benefits of participants age 80 or older as of the rescue plan implementation date are fully protected from reductions.

Pension benefit reductions for participants who are at least 75 but less than 80 as of last day in the month of the rescue plan implementation date will be calculated on a sliding scale, based on age and the amount of the participant's preliminary (non-age adjusted) benefit reduction under the rescue plan, as indicated in the following formula:

Number of months until participant reaches age 80 divided by 60 months multiplied by preliminary rescue plan benefit reduction = Final, age-adjusted benefit reduction.

For example, a participant who is age 77 years and 6 months on the last day of the month of the proposed rescue plan implementation date (July 31, 2016) would have two years and 6 months (30 months) until the age of 80. As a result, their proposed pension benefit reduction would be limited to 50 percent (30 months/60 months) of what the reduction would otherwise be without the age protection.

DISABILITY: By law (MPRA), participants who are receiving a disability benefit from a multiemployer pension fund are protected from reductions under our proposed pension rescue plan.

Under the terms of Central States' proposed rescue plan, pension benefits for participants who previously received a disability benefit from our Fund and subsequently converted to a regular pension upon reaching retirement age will be maintained at or above the level of their disability benefit prior to conversion.

A participant receiving a disability benefit from the Social Security Administration <u>will</u> be subject to benefit reductions under our proposed rescue plan <u>unless</u> the participant also receives a disability benefit from Central States.

SPOUSAL/SURVIVOR BENEFITS: Spousal/survivor benefits may be subject to benefit reductions under Central States' proposed pension rescue plan based on the living participant's age. If the participant is deceased, any benefit reductions will be based on the surviving spouse's age.

Consistent with current practice, neither the participant nor spouse may change a joint survivor election once it has been made.