

DAVID H. COAR, ESQ.
Arbitration and Mediation

April 9, 2017

Via UPS Next Day

The Honorable Milton I. Shadur
United States District Judge
United States District Court
Northern District of Illinois
Eastern Division
April 9, 2017
219 South Dearborn Street
Chicago, Illinois 60604

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

Dear Judge Shadur:

This is to report on my activities during the fourth quarter of 2016 as Independent Special Counsel appointed pursuant to the *Fitzsimmons* (Pension Fund) and *Robbins and Dorfman* (Health and Welfare Fund) consent decrees.

Board Composition

Gary Caldwell's term as an Employer Trustee of both the Central States Funds was set to expire on March 31, 2017. However, under the Trust Agreements of both Funds ABF Freight Systems, Inc. ("ABF") has the authority to nominate an individual to serve the five year Employer Trustee term commencing on April 1, 2017 upon the expiration of Gary Caldwell's current term. On January 23, 2017, ABF re-nominated Gary Caldwell to serve as an Employer Trustee of both Funds for the term running from April 1, 2017 to March 31, 2022.

Under the Trust Agreements, the Employer Trustees have the power to reject or to approve persons nominated by ABF to fill an Employer Trustee position. At the March 15, 2017 Board Meeting by unanimous vote of the Employer Trustees (with Gary Caldwell's abstention) Mr. Caldwell was confirmed and approved to serve another five year term as an Employer Trustee of both Funds, commencing on April 1, 2017 and extending to March 31, 2022. Mr. Caldwell has previously been approved by the Court to serve as a Trustee and no further action by the Court with respect to his service as Trustee is required at this time.

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 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 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 2016 Rehabilitation Plan update process the Trustees noted that because the Fund was facing insolvency (projected to occur in 2025), the PPA required that they take "reasonable measures" to forestall the insolvency. ERISA §305(e)(3)(A)(ii). During the 2016 Rehabilitation Plan update process the Trustees decided to add a new schedule to the Rehabilitation Plan to address situations in which "hybrid" employers (*i.e.*, employers that have qualified for treatment under the hybrid method of calculating withdrawal liability; see pp. 11 - 12 below) who have fulfilled the participation guarantees made in order secure treatment under the hybrid method may qualify for a *reduction* in their pension contributions rates. The Fund's Staff reminded the Trustees that in order to secure treatment under the hybrid method, employers must pay their existing withdrawal liability, and guarantee that they will continue to participate in the Fund at a specified level of employment and for a specified number of years. However, Staff also reported that some of the hybrid method employers are nearing completion of their participation guarantee periods. Further, Staff also reported that some of these employers may require additional incentives to continue participation in the Fund after fulfillment of their participation commitments because they will be free to bargain-out of participation in the Fund at the end of their current labor agreements without threat of withdrawal liability. Therefore, as part of the December 2016 Rehabilitation Plan update, the Trustees approved a new schedule

to the Rehabilitation Plan under which, on a case-by-case basis, the Trustees may approve pension contribution rate reductions with respect to hybrid method employers, provided the employers (1) have completed all participation guarantees or commitments associated with their hybrid status and (2) can demonstrate to the satisfaction of the Trustees that their continued participation in the Fund under a renewed participation guarantee and at a reduced pension contribution rate (to be determined in each case by the Trustees) is likely to generate positive net cash flow for the Fund.

Under this new Rehabilitation Plan schedule (deemed a "Special Schedule: Qualifying New ('Hybrid Method') Employers") all benefits for the affected bargaining units are to be preserved to the same extent as under the Primary Schedule.

During the December 2016 Rehabilitation Plan update process, the Trustees concluded that any further or additional modifications in the existing Rehabilitation Plan Schedules (*i.e.*, beyond the Special Schedule described above and those benefit modifications and contribution rate requirements that the Trustees previously approved) 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 and declines in active participation

However, in the 2016 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. 12 – 13 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 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 8.5% for calendar year 2016. Nevertheless, the asset level as of December 31, 2016 of \$15.26 billion is approximately \$10 billion below the value of assets held by the Fund shortly before the commencement of the world wide stock market collapse in 2008. But the Fund's Staff reports that the continuing 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.

As is indicated in my prior reports, Staff advises that on April 28, 2016, the IRS approved a modification of the amortization extension granted to the Fund in 2005. Staff advises that as a consequence of this modification there will be no retroactive funding deficiency for years prior to 2009 resulting from any failure of the Fund to satisfy the funding target conditions for 2009 and subsequent years under the original (2005) amortization

extension. Staff also advises that under the modified amortization extension the Fund's employers will not be exposed to excise taxes as long as the Fund has a PPA rehabilitation plan in place and is complying with it.

Funding Issues Confronting Multiemployer Plans

As also previously reported, according to the Pension Benefit Guarantee Corporation's ("PBGC") fiscal year 2015 Projections Report (published on June 17, 2016), it is more likely than not that the PBGC multiemployer guaranteed program will run out of money by the end of 2025. 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.

And according to an August 2016 report issued by the Congressional Budget Office ("CBO"), multiemployer pension plans in the United States have in the aggregate approximately \$850 billion in pension obligations, but have only about \$400 billion in assets. U.S. Congressional Budget Office, *Options to Improve the Financial Condition of the PBGC's Multiemployer Program* (August 2016). This CBO report also indicates that the present value of the combined projected claims of all multiemployer plans for financial assistance from the PBGC during the 2017-2036 period totals \$101 billion. But the CBO also reports that since the PBGC is projected to become insolvent in 2025, that agency will only be able to satisfy a small portion of these claims.

Multiemployer Pension Reform Act of 2014

As explained in my prior reports, it appears that in response to the funding issues impacting the PBGC and 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. MPRA provides "critical and declining" multiemployer plans -- such as the Pension Fund -- with the option of requesting approval for a plan of benefit suspensions from the U.S. Department of Treasury. Any such benefit suspension plan (a) would be required to avoid the Fund's projected insolvency, but (b) may not contain benefit suspensions that are materially greater than those required to avoid the insolvency.

In addition, my prior reports noted that on September 25, 2015, the Pension Fund filed an application under MPRA with the U.S. Department of the Treasury requesting approval of a plan of benefit suspensions.

And as also indicated in my prior reports:

1. On May 6, 2016 the Department of Treasury denied the Fund's MPRA application.
2. Due to the passage of time (and the accompanying decline in the Fund's assets), and due to the new requirements of the recently published Treasury regulations governing MPRA applications, the Pension Fund Trustees have concluded that it

is not possible for the Fund to submit a new or revised application or proposed suspension plan.

3. The Trustees have also resolved to continue to cooperate with Congress, regulatory agencies, unions, employers and private parties and organizations to search for a solution to the multiemployer pension funding problem.

Asset Allocation

During the December 2016 Pension Fund Trustee Subcommittee Meeting the Fund's Named Fiduciary, Northern Trust Investment, Inc. ("Northern Trust")¹, discussed a potential asset allocation plan which is designed to address the fact that -- in light of Treasury's denial of the Fund's MPRA application -- the Fund is currently projected to be insolvent within the next ten years. Northern Trust indicated that the intent of its allocation plan is to forestall the projected insolvency to the extent reasonably possible, with an emphasis on additional measures designed to protect the Fund's assets from market downturns. Northern Trust noted that asset protection has become especially important because under current projections there is a substantial risk that the Fund's assets would not have sufficient time to recover from any sharp market downturn prior to the Fund's projected insolvency. Therefore, Northern Trust's plan would entail a gradually increased allocation of the Fund's assets to fixed income investments. Although this is largely an investment matter that the consent decree has placed under the exclusive control of the Named Fiduciary, the Pension Fund's Trustees and their financial advisor have indicated that they concur with Northern Trust's asset allocation plan. However, implementation of certain aspects of the allocation plan will require review by the Department of Labor and approval by this Court. The Pension Fund's Staff advises that representatives of the Fund and of Northern Trust met with the Department of Labor on December 16, 2016 to commence this review process, and the Fund is currently awaiting the Department's response.

Campbell Litigation

As the Court is aware, on April 25, 2016 Doris Campbell and several other participants in the Pension Fund filed an action alleging breach of fiduciary duty against the Fund and its Trustees. *Campbell v. Whobrey*, No. 16-CV-04631 (U.S. Dist. N.D. Ill.). The *Campbell* plaintiffs are all present or former employees of The Kroger Co. ("Kroger"), a significant contributing employer to the Fund. The *Campbell* complaint alleges that the Pension Fund defendants acted imprudently in considering (or failing to consider) a proposal that Kroger had made to the Pension Fund concerning the timing of Kroger's planned withdrawal from the Pension Fund and the resolution of the company's resulting withdrawal liability.

The *Campbell* case was assigned to Judge James Zagel, but on May 3, 2016, the Pension Fund defendants filed a motion with this Court requesting reassignment of *Campbell*

¹ Formerly known as Northern Trust Company of Connecticut, which was in turn formerly known as Northern Trust Global Advisors, Inc.

as a case related to the Pension Fund consent decree case (No. 78 C 342). On May 6, 2016, this Court denied the reassignment motion for the reasons stated in open court.

The *Campbell* plaintiffs filed a motion for a preliminary injunction requesting, along with other relief, the appointment of an independent fiduciary to consider the Kroger proposal relating to that company's planned withdrawal from the Pension Fund, and presumably to negotiate with Kroger on behalf of the Fund concerning the terms of Kroger's planned withdrawal. That motion was briefed and argued before Judge Zagel, who denied the motion on June 30, 2016 on the grounds that (1) the plaintiffs had not shown a probability of success on the merits (2) they had requested a form of final, irrevocable relief in their preliminary injunction motion, and (3) they had failed to show irreparable harm.

The Pension Fund contends that the *Campbell* complaint is baseless. The Pension Fund's Staff also reports that the action is being controlled and funded by Kroger pursuant to an agreement with the International Brotherhood of Teamsters (or its affiliates) in an effort to gain leverage in negotiations with the Fund. In any event, the Fund's Staff reports that it has provided the actuarial data requested by Kroger in order to permit the company to analyze various settlement alternatives. In addition, Staff reports that it presented a counter - proposal to Kroger on July 15, 2016 and met with Kroger representatives on July 18 to discuss that proposal. Staff also reports that Kroger rejected the Fund's proposal at the July 18th meeting, and did not offer a counter - proposal at the time of the meeting. However, Staff reports that on October 21, 2016 Kroger did submit a counter-offer to the Fund's July 15, 2016 proposal, and that on November 4, 2016 the Fund submitted a further revised offer to Kroger. As of this date, Kroger has not responded to the Fund's November 4th proposal.

On October 27, 2016 the *Campbell* case was reassigned from Judge Zagel to Judge Edmond Chang. The Pension Fund has filed, and fully briefed, a motion for a protective order before Judge Chang to limit the discovery to the administrative record before the Trustees concerning their consideration of Kroger's proposals. The parties are awaiting a ruling on that motion by Judge Chang.

Government Accounting Office Review

In response to a February 1, 2016 request by Senator Charles Grassley (R-Iowa), the Government Accounting Office (GAO) has commenced a review of the Department of Labor's (DOL) oversight of the Pension Fund under the consent decree. On June 20, 2016 a number of members of Congress also requested that the GAO review the Pension Fund's investment activities, and the GOA has acknowledged that it will undertake that review as well.

As I previously reported, the Fund's Staff advises that on June 15, 2016, Staff met with representatives of the GAO in order to review the history and the background of the consent decree, including the various amendments to the consent decree that have been entered since that order was originally entered on September 22, 1982. The GAO also made inquiries during this meeting concerning the appointments of named fiduciaries and independent special counsels under the consent decree. Subsequently, the representatives of the GAO requested additional documentation from the Fund relating to the administration of the consent decree, investment procedures and investment performance and fees. Staff advises that all documents referenced in the GAO's original requests have been produced and that the Fund has,

produced, or is in the process of producing, materials responsive to supplemental requests more recently submitted by the GAO.

On October 19, 2016, the GAO conducted a telephone interview with key Pension Fund Staff Members as a follow-up to the initial June 2016 meeting with Staff. The Pension Fund's Staff advises that the October 2016 telephonic interview focused on the reasons for (and consequences of) the Pension Fund's decline in active participation, the responses of the IRS and the DOL to the Fund's financial difficulties and efforts taken by the Fund (including the Named Fiduciaries and the Trustees) to improve or stabilize the Funds financial condition. Staff also advises that the GAO interviewed the Fund's Employer Trustees on February 14, 2017, and interviewed the Employee Trustees on March 14, 2017. During March the GAO also conducted interviews of Northern Trust and of Professor John Heaton of the University of Chicago Booth School Of Business, who has served as a financial advisor to the Board of Trustees.

The GAO has tentatively estimated that it will issue written reports on these matters in July or August of this year.

Financial Information - Investment Returns

The Pension Fund's investment return for the fourth quarter of 2016 was 0.60%.

A comparison of the Pension Fund's performance to the TUCS² universe results published for the fourth quarter of 2016 (showing percent returns on investment) is summarized in the following tables:³

² "TUCS" is the Trust Universe Comparison Service. Its Custom Large Funds Universe is composed of plans with assets exceeding \$3 billion.

³ 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.

Pension Fund's Composite (Percent) Return

	<u>4th Quarter Ended December 31, 2016</u>	<u>One Year Period Ended December 31, 2016</u>	<u>Three Year Period Ended December 31, 2016</u>
TUCS 1 st Quartile	1.35	8.70	5.88
TUCS Median	0.69	7.87	5.29
TUCS 3 rd Quartile	(0.46)	7.09	4.52
Fund's Composite Return	0.60	8.52	4.77

Pension Fund's Total Equity (Percent) Return

	<u>4th Quarter Ended December 31, 2016</u>	<u>One Year Period Ended December 31, 2016</u>	<u>Three Year Period Ended December 31, 2016</u>
TUCS 1 st Quartile	3.73	11.72	6.78
TUCS Median	2.55	9.56	5.74
TUCS 3 rd Quartile	1.60	6.90	4.34
Fund's return (Total equity)	2.29	8.96	5.40

Pension Fund's Fixed Income (Percent) Return

	<u>4th Quarter Ended December 31, 2016</u>	<u>One Year Period Ended December 31, 2016</u>	<u>Three Year Period Ended December 31, 2016</u>
TUCS 1 st Quartile	(1.40)	8.48	6.45
TUCS Median	(2.01)	5.69	3.86
TUCS 3 rd Quartile	(3.90)	3.91	3.15
Fund's Fixed Income Return	(1.71)	7.37	3.10

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

Northern Trust

	<u>Year-to-Date as of December 31, 2016</u>	<u>Oct. 2016</u>	<u>Nov. 2016</u>	<u>Dec. 2016</u>
Northern Trust's Composite Return	9.72	(1.65)	0.82	1.42
Benchmark Composite Return	10.80	(1.83)	0.71	1.92
Northern Trust's Total Fixed Income Return	13.70	0.10	(1.66)	1.60
Benchmark Fixed Income Return	12.21	(0.18)	(1.84)	1.43

Northern Trust's fourth quarter 2016 composite return included a 3.96% return on U.S. equities (3.02% on large cap, 3.41% on mid cap and 7.98% on small cap), (2.48)% on international equities, (4.87)% on real estate and (4.43)% 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, 2016 as follows: 61% equity, 34% fixed income, 3% other and 2% cash.

The financial group also reported that for the fourth quarter of 2016 the returns on the Fund's passive indexed accounts were as follows (showing percent returns on investment):

<u>Account</u>	<u>Rate of Return for 4th Quarter 2016</u>
Passive Indexed Equity (S&P 500) (25% of investment assets)	3.80
Passive Indexed Fixed Income (20% of investment assets)	(3.06)
Passive EAFE Indexed (5% of investment assets)	(0.80)

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, 2016 (enclosed) show net assets as of that date of \$15,266,652, compared to \$16,126,208 at December 31, 2015, a decrease of \$859,556 compared to a decrease of \$1,736,898 for the same period in 2015. The \$877,342 difference is due to \$1,367,733 more net investment income offset by \$490,391 more net operating loss.

The enclosed Fund's Staff report further notes that for the twelve months ended December 31, 2016, the Fund's net asset decrease from operations (before investment income) was \$2,082,778 compared to a decrease of \$1,592,387 for the same period in 2015, or a \$490,391 unfavorable change. This change in net assets from operations (before investment income) was attributable to:

- a) (\$500,469) less contributions primarily due to a decrease in withdrawal liability receipts and recognition of withdrawal liability previously classified as potentially refundable in 2015,
- b) \$4,733 less benefits and
- c) \$5,345 less general and administrative expenses.

During the twelve months ended December 2016 and 2015, the Fund withdrew \$2,076,580 and \$1,718,259, respectively, from investment assets to fund the cash operating deficit.

Financial Information - Participant Population

The enclosed December 31, 2016 report prepared by Fund Staff further notes that the eleven month average number of Full-Time Equivalent ("FTE") memberships decreased 1.47% from November 2015 to November 2016 (from 60,307 to 59,418). During that period, the average

number of retirees decreased 1.17% (from 206,579 to 204,172).

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 90 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 \$290 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. Staff estimates that contributions paid to date under these participation guarantees, plus future contributions required to satisfy the guarantees, will total approximately \$90 million.

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

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 has to date been 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 \$45 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 \$68.3 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.

Health and Welfare Fund

Department of Labor Review

As indicated in my report on the second quarter of this year, on February 2, 2016 the Chicago office of the U.S. Department of Labor (the "Department") commenced an onsite review of various Health and Welfare Fund documents that the Department requested pursuant to its general authority under ERISA § 504, 29 U.S.C. §1134. The Health and Welfare Fund's Staff advises that this is a fairly standard review, and has apparently not been prompted by any specific concerns by the Department of Labor about the Fund's compliance with ERISA and other legal requirements.

The Department of Labor's review has focused on the operations of the Active Health and Welfare Plan, and the documents requested by the Department include Trust Agreements, Plan Documents, Summary Plan Descriptions, Evidence of Coverage, Enrollment Packages, Summaries of Benefits and Coverage, contracts with service providers and Form 5500 Annual Reports.

Following their onsite inspection of documents at the Fund's offices during the week of February 2, 2016, the Department of Labor personnel involved in this review asked the Fund to provide various data and files relating to claims processing. The Fund's Staff reports that all

requested files and data have been provided to the Department of Labor, and that these materials are currently being reviewed by the Department.

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, 2016 are compared below with financial information for the same period of 2015:

	<u>Twelve Months Ended December 31,</u>	
	<u>2016</u>	<u>2015</u>
Contributions	\$ 3,250,383	2,973,546
Recognized portion of UPS lump sum	85,812	98,112
Benefits	2,642,584	2,430,448
TeamCare administrative expenses	77,633	73,573
General and administrative expenses	<u>72,426</u>	<u>67,057</u>
Net operating income	543,552	500,580
Investment income (loss)	<u>181,447</u>	<u>(4,253)</u>
Increase in net assets	724,999	496,327
Net assets, end of period	5,041,067	4,316,068
Eleven-month average Participants (FTEs)	188,864	181,929

For the twelve months ended December 31, 2016, the Health and Welfare Fund's net asset increase from operations (before investment income) was \$543,552 compared to an increase of \$500,580 for the same period in 2015, or a \$42,972 favorable change:

- (a) \$264,537 more contributions due to increases in FTEs and rates (UPS and American Red Cross),
- (b) (\$212,136) more benefits, primarily due to UPS and American Red Cross,
- (c) (\$4,060) more TeamCare administrative fees and
- (d) (\$5,369) more general and administrative expenses.

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During the twelve months ended December 2016 and 2015, the Fund transferred \$412,719 and \$437,377, respectively, to investments (BNY Mellon) as the operations generated positive cash flows for those periods.

The enclosed report also notes that the eleven month average number of Full-Time Equivalent (FTE) memberships increased by 3.81% from November 2015 to November 2016 (from 181,929 to 188,864). During that period, the average number of retirees covered by the Health and Welfare Fund increased by 4.19% (from 6,037 to 6,290).

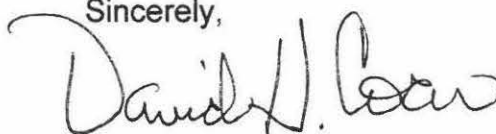
Article V (H)

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 2016 the following for professional services and expenses for the Independent Special Counsel:

October	\$ 0
November	\$ 0
December	\$ 5,835.24

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: Nicholas C. Geale, Acting Solicitor of Labor (w/encl.) **Via UPS Next Day**
Mr. Wayne Berry (w/encl.) **Via UPS Next Day**
Mr. Thomas C. Nyhan