

DAVID H. COAR, ESQ.
Arbitration and Mediation

March 5, 2021

Via UPS Next Day

The Honorable Thomas Durkin
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, *Scalia v. Estate of Frank E. Fitzsimmons, et al.*, No. 78 C 342 (N.D. Ill., E.D.); *Scalia v. Robbins, et al.*, No. 78 C 4075 (N.D. Ill., E.D.); and *Scalia v. Dorfman, et al.*, No. 82 C 7951 (N.D. Ill., E.D.).

Dear Judge Durkin:

This letter comprises my report on activities at the Central States Funds during the fourth quarter of 2020. I have attended meetings of the full Board of Trustees of the Central States Funds, as well as certain Trustee Subcommittee meetings during the period covered by this report.

Board Composition

An Employee Trustee vacancy was created when Marvin Kropp passed away in December 2019. As a result, in accordance with the Funds' Statement of Procedures for the Selection of Employee Trustees ("Procedures"), an election was held to fill this vacancy. Martin Lawrence, Principal Officer of Teamsters Local 638, won the election and was subsequently appointed to fill the remainder of Martin Kropp's term which runs through March 31, 2024. An Employer Trustee vacancy was created when Arthur H. Bunte, Jr. passed away in May 2019. Under the Funds' Trust Agreements, the current Employer Trustees are empowered, by majority vote, to fill the Trustee position left vacant after Mr. Bunte's death. On July 8th, 2020, the current Employer Trustees voted unanimously in favor for Mark Angerame, a retired Fund employee with vast knowledge of the Funds, ERISA and the industries which the Funds operate, to fill the Employer

Trustee vacancy subject to review of his qualifications by the Department of Labor ("DOL") and approval of his appointment by this Court. The DOL completed its review of Mr. Angerame's background and qualifications on November 23, 2020 and found no basis to object to his appointment. The Funds then filed a motion for approval of Mr. Angerame's appointment with this Court which was granted on December 4, 2020. Mr. Angerame's term of office runs through March 31, 2025.

In addition to the matters noted above, two current Trustees' terms of office, one on each side of the Board, were set to expire on March 31, 2021. Christopher Langan is currently serving a term as an Employer Trustee for the Central States Health and Welfare Fund. Under Article II of the Fund's Trust Agreement, United Parcel Service, Inc. ("UPS") has the authority to nominate an individual to serve a new five-year term as an Employer Trustee of the Health and Welfare Fund commencing on April 21, 2021 and expiring on March 31, 2026. On September 21, 2020 UPS nominated Christopher Langan to serve a new five-year term upon expiration of his current term. In addition to Mr. Langan, the term of office presently being served by Employee Trustee George Westley was also set to expire on March 31, 2021. In accordance with the Procedures, an election was held to determine the individual who would fill the next five-year term as an Employee Trustee commencing on April 1, 2021. George Westley won this election and he subsequently was confirmed to serve a new five-year term upon expiration of his current term.

Office Space

As explained in my prior reports, the Funds' lease at their office at 9377 West Higgins Road in Rosemont, Illinois was expiring at the end of 2019. The Funds had approximately 670 full-time employees at this office near the Chicago O'Hare Airport in Rosemont, and the Funds occupied approximately 175,000 square feet of office space at that location. In anticipation of the expiration of the lease, the Funds' Staff consulted with professional real estate brokers and architects, reviewed all potential options in the Chicago O'Hare Airport submarket with respect to the Funds' future office space requirements, and in March 2017 the Health and Welfare Fund's Board of Trustees approved the purchase of a parcel of property located at 8647 West Higgins Road, and construction of a new building on that site. Construction began on November 8, 2017, was completed on time and under budget and the Funds moved their business operations into the new building on July 15, 2019. Independent fiduciaries hired by each Fund negotiated and finalized the terms of a lease between the Pension and Health and Welfare Funds pursuant to which the Health and Welfare Fund leases space in the new building to the Pension Fund.

Beginning in late 2017 the Department of Labor ("DOL") requested, and the Central States Funds provided, various documents relating to above real estate transactions. In early 2019, the DOL also requested information from and interviewed representatives of Jones Lang LaSalle, the real estate broker and consultant that assisted the Funds in their search for office space. Then in January 2020 the DOL interviewed several members of the Funds' Staff. The DOL next contacted the Funds in April 2020 and indicated that,

largely due to the COVID-19 pandemic, they did not believe they could timely complete their review of the Health and Welfare Fund's decision to construct a new office building and to lease space therein to the Pension Fund. As a result, the DOL requested that the Trustees enter into a tolling agreement through the end of 2020 and that agreement was executed in May 2020. Then in November 2020 the DOL requested that the Trustees enter into a six-month extension of the tolling agreement entered into May 2020 and the Trustees agreed to that request. Finally, On December 4, 2020, the DOL sent a request to the Fund for additional information related to the building project and Fund Staff is currently compiling that information.

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 beginning in March 2015 the actuary certified the Fund to be in the new category denominated "critical and declining" created by the Multiemployer Pension Reform Act of 2014 ("MPRA"). 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' labor agreement that was in effect when the Rehabilitation Plan was adopted, the Default Schedule will be imposed as a matter of law. MPRA added a provision dealing with the expiration of a collective bargaining agreement that was *not* in effect at the time of adoption of a Rehabilitation Plan. In that case a failure to adopt a schedule compliant with the rehabilitation plan within 180 days after the collective bargaining agreement has expired results in the implementation of the schedule that controlled under the most recently expired agreement. In addition, the Rehabilitation Plan adopted by the Trustees in 2008 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 prior reports, the PPA and MPRA require the Trustees to consider annual updates to the Rehabilitation Plan. During the 2020 Rehabilitation Plan update process (conducted in November 2020), the Trustees concluded that any further or additional modifications in the existing Rehabilitation Plan Schedules (*i.e.*, beyond the schedules described in prior reports 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, as previously reported, in the 2020 Rehabilitation Plan update process, the Trustees approved continued implementation of all prior provisions and modifications of the Rehabilitation Plan.

Although the Pension Fund has reported some progress in securing increased employer contributions and in adjusting benefits as required of “critical and declining” plans under the PPA and MPRA, 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, with the exception of 2018, enjoyed investment gains. For example, the Fund enjoyed a composite rate of return of 12.74% for calendar year 2017, a return of (0.76%) for calendar year 2018, a return of 10.55% for 2019, and a return of 2.93% for calendar year 2020 (unaudited). The asset level as of December 31, 2020 of \$10 billion is approximately \$17 billion below the value of assets held by the Fund shortly before the commencement of the world-wide stock market collapse in 2008. 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 over \$2 billion per year *more* in benefits than it has collected in contributions from employers.

Funding Issues Confronting Multiemployer Plans

According to the Pension Benefit Guaranty Corporation’s (“PBGC”) most recent fiscal year 2020 Projections Report (published December 10, 2020) the PBGC’s multiemployer guarantee program remains severely underfunded with liabilities of \$66.9 and only \$3.1 billion in assets as of September 30, 2020 and is highly likely to become insolvent in 2026. This means that the PBGC will have no financial resources to pay benefits to the Pension Fund’s participants if, as projected, the Central States Pension Fund also becomes insolvent at approximately the same time as the PBGC.

In his December 11, 2019 testimony before the Senate Committee on Finance, PBGC Director Gordon Hartogensis explained that the PBGC’s Multiemployer Guarantee Program at that time had liabilities of \$68 billion and assets of only \$2.9 billion, resulting in a deficit of about \$65.2 billion. He further reported that “without reforms, the Multiemployer Program – the backstop that is the last resort for retirees when a plan fails – is very likely to become insolvent by the end of 2025, which would leave participants and beneficiaries with significantly less than the level of benefits currently guaranteed by 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. See U.S. Congressional Budget Office, *Options to Improve the Financial Condition of the PBGC’s Multiemployer Program* (August 2016). This CBO report also estimates 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.

Staff has also noted that including the Central States Pension Fund, four of the five largest Teamster multiemployer plans are currently in “critical and declining” status under the Multiemployer Pension Reform Act of 2014 (“MPRA”) and are projected to become insolvent.

Current Legislative Proposals and Efforts

The Pension Fund’s Staff has briefed the Board of Trustees over the past several years on legislative proposals intended to avoid the projected insolvency facing the Pension Fund and other multiemployer plans. Not all of these proposals have been “dropped” as formal bills in the legislative process but various Senators, Congresspersons and their staffs have received briefings concerning them. These proposals have included the following:

1. *UPS Proposal.* Because of certain pension guarantees and promises of indemnity that UPS has provided to its Teamster workforce, the company has an interest in pension legislation that will permit the Central States Pension Fund, as well as other multiemployer plans, to avoid insolvency. UPS has proposed federal legislation involving low interest government loans for troubled multiemployer plans, along with 20% reductions in pension benefits for all multiemployer plan participants and beneficiaries in those plans; the UPS proposal also calls for the creation of a risk reserve pool funded by unions, employers and participants to ensure repayment of the loans. The Pension Fund’s actuary has modeled the UPS proposal and determined that it would likely allow the Fund to avoid its currently projected insolvency.
2. *S.2147 / H.R. 4444 -- Butch Lewis Act of 2017.* The proposal originally advanced by Senator Sherrod Brown (Dem., Ohio) was introduced in the Senate as S.2147 and in the House of Representatives as H.R. 4444 and entitled The Butch Lewis Act of 2017. This proposal involves federally guaranteed loans and federal subsidies to troubled multiemployer plans to allow the plans to pay the pensions of current retirees, with no requirement of pension reductions. Based on modeling of this proposed legislation prepared by the Pension Fund’s actuaries, this Act would require federal loans to the Fund in the range of \$11 billion to \$15

billion to be repaid at the end of a thirty-year period. But the models indicate that the Fund would be unable to repay the loans and would require the federal subsidies ranging from \$20 billion to \$25 billion in order to repay the loans and to avoid insolvency. Under the proposed Butch Lewis Act these federal subsidies would be administered to the Pension Fund by the PBGC and the Fund would not be required to repay these subsidies.

The Congressional Budget Office (“CBO”) preliminarily estimated that the total cost of the Butch Lewis Act -- *i.e.*, to provide relief to *all* the troubled multiemployer plans targeted by that proposed legislation -- would be \$101 billion. It appears that modifications (or alternative interpretations) of the Butch Lewis Act are being contemplated and the Pension Fund’s Staff has been advised by certain Congressional Staff members that the CBO estimate of the total cost of the Butch Lewis Act could be reduced to \$34 billion if the changes are adopted. An October 18, 2018 letter to Congressman Jim Renacci (R-Ohio) from the CBO in pertinent part states:

[S]everal key aspects of the [Butch Lewis Act] as introduced are broadly described, so it is difficult to project how the proposal would be implemented. Under some interpretations of the bill language, few plans would qualify for loans and assistance, resulting in federal costs that would be substantially less than \$100 billion.

3. *Joint Committee.* On February 8, 2018, as part of a package of federal budget legislation, Congress established a Joint Select Committee on Solvency of Multiemployer Pension Plans (the “Joint Committee”). The Joint Committee’s goal was to develop a bipartisan legislative solution for distressed multiemployer pension funds like the Central States Pension Fund. The Joint Committee, which consisted of eight members from the House and eight from the Senate, split evenly between Republicans and Democrats, was tasked with the responsibility to produce a proposed legislative fix no later than November 30, 2018. The Pension Fund believed that the establishment of the Joint Committee was a crucial step towards a legislative solution for the nationwide multiemployer pension plan funding problem. Staff has advised that there are more than 200 pension plans covering 1.5 million Americans that are projected to fail, many -- like the Central States Pension Fund -- within the next 10 years. Because of the importance of this Joint Committee and the urgent need for a legislative solution, the Fund instituted a “Congressional Outreach Campaign” that encourages the Pension Fund’s participants, Local Unions and Employers to contact Congress and the White House on this crucial issue. The Fund sent mailings to all its participants advising them of the importance of this issue, and the Fund has held meetings and electronic town halls (accessible online or by dial-in) on this topic with participants, Local Unions and employers.

On November 29, 2018 The Joint Committee announced that it was unable to meet the November 30, 2018 deadline for the issuance of a bipartisan report and thus, no vote was taken by either the House or Senate. The co-chairs of the Committee indicated that while they had made significant progress and they believe that a bipartisan solution is attainable, more time was needed. Accordingly, they indicated that the Committee would continue its efforts to solve the multiemployer pension crisis past November 30, 2018.

4. *The Rehabilitation for Multiemployer Pensions Act* - On January 1, 2019 representative Richard Neal (D - MA) introduced the Rehabilitation of Multiemployer Pensions Act in the U.S. House of Representatives (H.R. 397). This Act is better known as the Butch Lewis Act because it closely resembles the Butch Lewis Act of 2017 referenced above. On July 24, 2019 this Act was passed by the U.S. House of Representatives and it has been introduced in the Senate where it currently awaits consideration. The Congressional Budget Office ("CBO") was asked to provide additional analysis of this proposed legislation. On September 6, 2019 the CBO issued a letter stating that 25% of the Plans that would receive loans under this Act would be unable to repay their loans in full and most of the remaining plans would probably become insolvent within 10 years of repaying their loans.

5. *The Multiemployer Pension Recapitalization and Reform Plan* - on November 20, 2019, Senate Finance Committee Chairman Chuck Grassley and Senate Health, Education, Labor and Pension Chairman Lamar Alexander introduced the Multiemployer Pension Recapitalization and Reform Plan in an effort to shore up troubled multiemployer pension plans. This proposal differs significantly from the Rehabilitation for Multiemployer Pensions Act introduced in the House of Representatives in early 2019 (item 4 above).

6. *The Emergency Pension Plan Relief Act of 2020* was introduced by House Speaker Nancy Pelosi on May 12, 2020. This proposal was included within a bill called the HEROES Act which is essentially the fourth stimulus bill resulting from the COVID-19 pandemic. Negotiations concerning the fourth stimulus package did not result in agreement prior to the November 2020 Presidential election which was won by Democratic nominee Joe Biden. Renewed discussions are currently taking place concerning a fourth stimulus package.

7. *The Chris Allen Multiemployer Pension Recapitalization and Reform Act of 2020* - On December 17, 2020, Senate Finance Committee Chairman Chuck Grassley and Senate Health, Education, Labor and Pension Chairman Lamar Alexander introduced the Chris Allen Multiemployer Pension Recapitalization and Reform Act of 2020. No action was taken with respect to this bill prior to the November 2020 Presidential election. As noted above, renewed discussions concerning a fourth stimulus package are currently taking place which may include multiemployer pension reform legislation.

Asset Allocation

As indicated in my previous reports, during the December 2016 Pension Fund Trustee Subcommittee Meeting, the Fund's Named Fiduciary, Northern Trust Investment, Inc. ("Northern Trust")¹, discussed an asset allocation plan which is designed to address the Fund's projected insolvency in the year 2025. 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 entails 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, as the Court is aware, implementation of certain aspects of the allocation plan required review by the Department of Labor and approval by this Court. As a result, the Fund and Northern Trust engaged in consultations with the Department of Labor concerning the asset reallocation plan and filed motions with the Court requesting approval of the features of the plan for which Court approval is required and on June 5, 2017 the Court granted those motions. The last stage of the asset reallocation plan was completed in March 2020. Pursuant to that Plan 99% of the Fund's assets are in intermediate fixed income securities, 0% in return-seeking assets, and the remaining 1% in cash or cash equivalents.

Campbell Litigation

As explained in my prior reports, 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 were all present or former employees of The Kroger Co. ("Kroger"), which at the time the suit was filed was a significant contributing employer to the Fund. The *Campbell* complaint alleged 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. On March 22, 2020, following over three years of protracted litigation, the court granted the Pension Fund's Motion for Summary Judgment and entered final judgment in favor of the Fund. The time within which to file an appeal has now lapsed and the decision is final.

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

Government Accounting Office (“GAO”) Review

As indicated in my report for the third quarter of 2018, on June 4, 2018, the GAO issued its reports concerning the investigations it commenced in 2016 of (1) the Pension Fund’s investment activities, and (2) the activities of the Department of Labor in overseeing the Fund pursuant to the 1982 consent decree entered in Case No. 78 C 342. The key findings and conclusions of these GAO reports can be summarized as follows:

- The Pension Fund has suffered from severe funding issues at least since the initial entry of the Consent Decree in 1982.
- Over the course of the next two decades, the Pension Fund made some progress in moving towards fuller funding, but never achieved a funded ratio of more than 75%.
- The achievement of fuller funding has been hindered by trucking deregulation (which forced many unionized trucking companies out of business) and difficulties in organizing new employers that were willing to contribute to the Pension Fund.
- This has eroded the Fund’s contribution base due to sharp declines in the number of active Participants in comparison to retired Participants. The Pension Fund lost 30% of its active Participants when UPS withdrew from the Fund in 2007.
- The resulting operating deficits of more than \$2 billion per year, in conjunction with the market declines of the early 2000s and in 2008, launched the Fund on the path towards insolvency, which is now projected to occur in 2025.
- The Fund undertook efforts to increase employer contributions, but that effort was limited by the practical ability of the remaining employers in the Fund to absorb continuous and compounding contribution rate increases.
- The Pension Fund’s investment returns and investment expenses are in line with those of comparable pension plans. (4.9% average annual investment return for the Pension Fund from 2000 – 2014; 4.8% average return over the same period for comparable pension plans. And the Pension Fund’s average investment expense fee ratio was 9% lower than comparable pension plans during the 2000 – 2014 period.)
- The Pension Fund’s administrative expenses have generally been about 16% lower than comparable pension plans since 2014.
- The Department of Labor’s oversight of the Pension Fund under the consent decree has been appropriate. In the time since the Consent Decree was

established (1982), DOL has not found Central States in violation of the Consent Decree or the Employee Retirement Income Security Act (ERISA).

- The GAO has no recommendations concerning either its review of the Pension Fund's investment activities or of the GAO's oversight of the Pension Fund. The GAO provided drafts of its reports to the Department of Labor, Treasury and the PBGC, and those agencies had no substantive comments.

Financial Information - Investment Returns

The Pension Fund's investment return for the fourth quarter of 2020 was 0.36%.

Shown below is a comparison of the Pension Fund's performance to a Composite Benchmark consisting of a composite of representative and weighted index returns for each asset class held by the Fund. That is, the Composite Benchmark is formed from the cumulative index returns for each distinct class of assets held by the Fund on a dollar-weighted basis.

Pension Fund's Composite (Percent) Return / 4th Quarter Ended December 31, 2020

| | |
|--|------|
| Fund's Return (All asset classes) | 0.36 |
| Benchmark Composite Return (All asset classes) | 0.36 |

Pension Fund's Total Fixed Income (Percent) Return / 4th Quarter Ended December 31, 2020

| | |
|---|------|
| Fund's Return (Total Fixed Income) | 0.37 |
| Benchmark Composite Return (Total Fixed Income) | 0.36 |

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. These reports are summarized below (showing percent returns on investments):

Northern Trust's (Percent) Returns / 4th Quarter Ended December 31, 2020

| | <u>Quarter-to-Date as of December 31, 2020</u> | <u>Oct. 2020</u> | <u>Nov. 2020</u> | <u>Dec. 2020</u> |
|--|---|-----------------------------|-----------------------------|-----------------------------|
| Northern Trust's Return (All asset classes) | 0.39 | 0.08 | 0.19 | 0.12 |
| Northern Trust's Benchmark Composite Return (All asset classes) | 0.35 | 0.07 | 0.16 | 0.12 |
| Northern Trust's Return (Total Fixed Income) | 0.41 | 0.08 | 0.19 | 0.14 |
| Northern Trust's Benchmark Composite Return (Total Fixed Income) | 0.36 | 0.07 | 0.16 | 0.13 |

Northern Trust's fourth quarter 2020 composite return resulted primarily from fixed income. U.S. equities, international equities, and global listed infrastructure were eliminated in the second quarter.

The Fund's financial group reported the following asset allocation of the Pension Fund as of December 31, 2020 as follows: 99% fixed income 1% cash.

The financial group also reported that for the fourth quarter of 2020 the returns on the Fund's passive indexed accounts were as follows (showing percent returns on investments):²

| | <u>Fund's Rate of Return for 4th Quarter 2020</u> | <u>Benchmark for Account 4th Quarter 2020</u> |
|--|---|---|
| Passive Indexed Fixed Income (50.00% of investment assets as of December 31, 2020) | 0.33 | 0.36 |

² The Fund's return for each of the passive index accounts is presented net of all investment expenses and transaction costs. Of course, the Benchmarks (indices) to which the passive accounts are compared do *not* reflect any deductions for investment expenses.

Financial Information - Net Assets

(Dollars shown in thousands and 2020 does not include year-end adjustments)

The financial reports prepared by Pension Fund Staff for the twelve months ended December 31, 2020 (enclosed) show net assets as of that date of \$10,399,621 compared to \$12,309,907 at December 31, 2019, a decrease of \$1,910,286 compared to a decrease of \$858,137 for the same period in 2019. The \$1,052,149 difference is due to \$958,200 less net investment income combined with \$93,949 more net operating loss.

The enclosed Fund's Staff report further notes that for the twelve months ended December 31, 2020, the Fund's net operating loss was \$2,233,408 compared to a loss of \$2,139,459 for the same period in 2019, or a \$93,949 unfavorable change. This change in net assets from operations (before investment income) was attributable to:

- a) (\$90,570) less contributions due to a decrease in FTEs and withdrawal liability income,
- b) (\$5,605) more benefits and
- c) \$2,226 less general and administrative expenses.

During the twelve months ended December 31, 2020 and 2019, the Fund withdrew \$2,206,159 and \$2,128,907, respectively, from investment assets to fund the cash operating deficits.

Financial Information - Participant Population

The enclosed December 31, 2020 report prepared by Fund Staff further notes that the eleven-months average number of Full-Time Equivalent ("FTE") memberships decreased by (11.10)% from December 2019 to December 2020 (from 50,962 to 45,303). During that period, the average number of retirees decreased by (0.81)% (from 199,431 to 197,820).

Named Fiduciary

During the fourth quarter 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 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 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 100 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) of approximately \$295 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 \$160 million.

Bankruptcies and Litigation

YRC

As detailed in my prior reports, in 2009 YRC, Inc. and its affiliates (“YRC”), one of the largest contributing employers to the Pension Fund, became delinquent in its contribution obligations to the Fund. This delinquency culminated in the Fund entering

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

into a Contribution Deferral Agreement (“CDA” or “Deferral Agreement”) with YRC in May 2009. Under the Deferral Agreement, the Pension Fund agreed to defer approximately \$109 million in pension contributions. Since its original execution in 2009, the CDA has been amended several times, most recently in 2017 when the maturity date (for final payment of all balances) was extended to December 31, 2022. As a result of the CDA, the Pension Fund has received approximately \$126 million in principal and interest payments from YRC through December 31, 2020 reducing the contribution delinquency to approximately \$45.9 million.

On April 9, 2020 YRC contacted the Funds and requested a three-month deferral of its contribution obligations to both the Health and Welfare and Pension Funds. At that time no details concerning repayment terms were given by YRC other than the Health and Welfare Fund would be repaid upon receipt of a loan which the Company was seeking from the federal government under the CARES Act and that the Pension Fund would receive payment based upon “business performance”. Following this request, the Funds retained Stout Risius and Ross (“Stout”), an Independent financial consulting firm that the Pension Fund had used in the past to analyze the financial condition of YRC, to help the Funds evaluate the Company’s financial situation. Representatives of the Funds and Stout subsequently engaged in extensive communications with YRC and made several requests for information necessary to enable the Funds to properly analyze and make a determination regarding the company’s deferral request. Although certain information was provided, as of April 28, 2020, a number of necessary items of information still had not been provided. Having not received all requested information, the Trustees of the Health and Welfare Fund on April 28, 2020 denied YRC’s request for a deferral of its March, April and May 2020 contributions and advised the Company if payment for its March contributions was not received by April 30, 2020, notices would be sent to their employees advising that their health benefits would be suspended effective May 10, 2020. The Trustees of the Pension Fund deferred decision on YRC’s deferment request pending receipt of additional information.

Subsequent to April 28, 2020 representatives of the Funds engaged in continued discussions with representatives with YRC in an effort to reach an acceptable resolution with respect to the Company’s request for a deferment of its March, April and May 2020 contribution obligations. Unrelated to YRC, on April 21, 2020, in response to the COVID-19 pandemic, the Trustees of the Health and Welfare Fund had approved amendments to certain of its plans that provided up to eight weeks of layoff coverage to certain affected participants (see pp. 19-20 below). Representatives of both YRC and the International Brotherhood of Teamsters (“IBT”) contacted the Health and Welfare Fund and expressed concerns about YRC employees who had previously been laid off and were being recalled by the Company. This presented the situation where the Fund suspends benefits on May 10, 2020 (pursuant to the Trustees’ April 28, 2020 decision referenced above) and not all YRC employees will have the full eight weeks of layoff coverage available to them. YRC and the IBT were concerned that this scenario had the potential to cause labor unrest. In an effort to avoid this potential labor unrest, YRC proposed to pay the Fund the amount of contributions necessary to reimburse it for the total number of weeks of layoff coverage

used by any of its employees from March 1, 2020 through May 9, 2020 in exchange for the Fund's agreement to provide all of the Company's covered employees with a full eight week bank of layoff coverage effective May 10, 2020. The Trustees accepted this proposal and YRC paid the required contributions. YRC was eventually successful in its efforts to secure a loan under the Cares Act and on July 14, 2020 the Company paid its delinquent March, April and May contributions to the Pension and Health and Welfare Funds and on July 15, 2020 timely paid its June 2020 contributions, and to date remains current in its contribution obligations for months subsequent to June 2020.

Jack Cooper

As explained in my prior reports, in late 2018 Jack Cooper Transport Company, Inc. and Auto Handling Corporation (Collectively "JC"), a large carhaul company that participates in both the Pension and Health and Welfare Funds, became delinquent in its continuing obligations to the Funds. These delinquencies culminated in the Funds entering into a term sheet with JC and one of its lenders, Solus Alternative Asset Management L.P. ("Solus"). Pursuant to this term sheet, and as detailed in my prior reports, JC filed a Chapter 11 bankruptcy petition, was terminated from participation in the Pension Fund, its assets were sold and the new entity, Jack Cooper Transport Company, LLC and Auto Handling, LLC (Collectively "Jack Cooper"), among other obligations, entered into a collective bargaining agreement with the International Brotherhood of Teamsters pursuant to which it agreed to participate in the Pension Fund as a new employer under the Fund's hybrid plan, agreed to guaranty a minimum level of participation in the Fund through 2024, and agreed to make a payment 18 months following the asset sale closing representing the contributions not paid by JC from May 26, 2019 through the date of closing on the asset sale. Pursuant to this agreement, Jack Cooper also agreed to participate in the Health and Welfare Fund. The asset sale closed on November 4, 2020 at which point Jack Cooper began participating in the Funds pursuant to the terms of the parties agreement.

In March 2020 Jack Cooper contacted the Health and Welfare Fund and requested a deferment of its February 2020 contribution obligation which it proposed to pay over 12 months commencing in March 2020. Jack Cooper explained that its request was necessitated by the announced two-week closure of the automobile manufacturer's ("OEMs") operations resulting from the COVID-19 pandemic. On March 24, 2020, the Board of Trustees of the Health and Welfare Fund granted this request. Then, on April 1, 2020 Jack Cooper indicated that the OEMs had extended their shutdown from two to six weeks and, as a result, the Company would not be able to pay its March 2020 contributions. It requested a deferral of this obligation which it proposed to pay over three months commencing in April 2020. The Board approved this request on April 21, 2020, and Jack Cooper remitted its third and final installment for its March 2020 contributions by June 20, 2020. Jack Cooper has also remained current with its monthly installments for its February 2020 contributions as well as its normal contribution obligations.

Health and Welfare Fund

Department of Labor Review

As indicated in my prior reports, on February 2, 2016 the Chicago office of the U.S. Department of Labor (DOL) commenced an onsite review of various Health and Welfare Fund documents that the DOL had 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 standard review and has apparently not been prompted by any specific concerns by the DOL about the Fund's compliance with ERISA and other legal requirements.

The DOL's review has focused on the operations of the Active Health and Welfare Plan, and the documents requested by the DOL 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 DOL 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 requested by the DOL in 2016 were promptly produced. Staff also reports that on November 15, 2018 the DOL made a supplemental request for some additional records relating to claims processing. Staff has indicated that they responded to that document request on February 6, 2019 and provided follow up information on April 12, 2019. Finally, the Fund was contacted by the DOL on July 1, 2020 requesting a conference call to verify their understanding of several benefits provided by the Fund following their review of the information previously provided by the Fund. That conference call was conducted on July 6, 2020 and confirmed the DOL's prior understanding of the benefits in question.

Financial Information

(Dollars shown in thousands and 2020 does not include year-end adjustments)

The Health and Welfare Fund's financial summary for the twelve months ended December 31, 2020 is compared below with financial information for the same period of 2019:

| | <u>Twelve Months Ended December 31,</u> | |
|--|---|----------------|
| | <u>2020</u> | <u>2019</u> |
| Contributions | \$ 4,209,326 | \$ 3,924,648 |
| Rent income | 912 | 456 |
| Benefits | 3,336,670 | 3,266,244 |
| TeamCare administrative expenses | 95,262 | 88,674 |
| General and administrative expenses | <u>96,478</u> | <u>94,542</u> |
| Operating gain (loss) | 681,828 | 475,644 |
| Investment income (loss) | <u>568,647</u> | <u>650,482</u> |
| Change in net assets | 1,205,475 | 1,126,126 |
| Net assets, end of period | \$ 8,700,290 | \$ 7,449,815 |
| Eleven-months average Participants (FTEs) | 218,692 | 205,973 |

For the twelve months ended December 31, 2020, the Health and Welfare Fund's net operating gain was \$681,828 compared to a gain of \$475,644 for the same period in 2019, or a \$206,184 favorable change:

- (a) \$285,134 more revenue due to an increase in FTEs and rates,
- (b) (\$70,426) more benefits,
- (c) (\$6,588) more TeamCare administrative fees and
- (d) (\$1,936) more general and administrative expenses.

During the twelve months ended December 2020 and 2019, the Fund transferred \$748,291 and \$595,391, respectively, to investments as the operations generated positive cash flows for those periods.

The enclosed December 31, 2020 report also notes that the eleven-months average number of Full-Time Equivalent (FTE) memberships increased by 6.18% from 2019 to 2020 (from 205,973 to 218,692). During that period, the average number of

retirees covered by the Health and Welfare Fund increased by 6.40% (from 8,385 to 8,922).

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 2020 the following for professional services and expenses for the Independent Special Counsel:

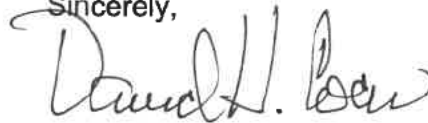
| | |
|----------|------------|
| October | \$6,621.62 |
| November | \$0.00 |
| December | \$0.00 |

COVID – 19 Issues

On April 8, 2020 a special telephonic meeting of the Health and Welfare Trustees was convened for the purpose of considering several time sensitive issues which had come up as a result of the COVID-19 pandemic. After full discussion and review of an actuarial analysis prepared by Segal, the Trustees approved amendments to the Active Plans providing for: a) an 8 week extension of benefits for participants on layoff status between March 1, 2020 and December 31, 2020 and b) the waiver of any co-pays or deductibles for any COVID-19 related testing or treatment. At its November 11, 2020 meeting the Trustees approved further amendments to the Active Plans extending the enhanced coverage for COVID-19 related diagnosis, prevention and treatment previously approved in April 2020 until December 31, 2021 due to the continuation of the COVID-19 pandemic.

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. Kate O'Scannlain, Solicitor of Labor (w/encl.) **Via UPS Next Day**
Mr. Wayne Berry (w/encl.) **Via UPS Next Day**
Mr. Thomas C. Nyhan