

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

November 29, 2022

**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, *Walsh v. Estate of Frank E. Fitzsimmons, et al.*, No. 78 C 342 (N.D. Ill., E.D.); *Walsh v. Robbins, et al.*, No. 78 C 4075 (N.D. Ill., E.D.); and *Walsh 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 third quarter of 2022. 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.

**2021 Annual Report / Form 5500**

At the September 2022 Board meeting and Audit Committee meetings, the Trustees approved for filing the 2021 annual reports/Form 5500 of the Pension Fund and the Active and Retiree Health Plans. The Fund's independent auditors, WithumSmith + Brown, PC, issued unqualified audit opinions concerning the financial statements included in these reports.

**Office Space**

As explained in my prior reports, the Funds' lease at their office space at 9377 West Higgins Road in Rosemont, Illinois expired 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 the 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 and then extended in November 2020 for an additional six-months. Next on December 4, 2020, the DOL sent a request to the Fund for additional information related to the building project and the Fund responded to that request on March 5, 2021. On April 7, 2021, the DOL requested that the Trustees enter into an additional six-month extension of the tolling agreement and the Trustees agreed to that request. On November 17, 2021 the DOL requested another six-month extension of the tolling agreement which the Trustees agreed to on December 14, 2021. Most recently, on May 26, 2022 the DOL requested another six-month extension of the tolling agreement which the Trustees agreed to on June 14, 2022

### 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 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 2021 Rehabilitation Plan update process (conducted in November 2021), 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 2021 Rehabilitation Plan update process, the Trustees approved continued implementation of all prior provisions and modifications of the Rehabilitation Plan.

Although the Pension Fund 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 subsequent years, the Fund has, with the exception of 2018 and 2021, 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 calendar year 2019, a return of 2.93% for calendar year 2020, and a return of (0.29%) for calendar year 2021. Through the third quarter of 2022, the Fund had a return of (4.26%). The asset level as of September 30, 2022 of \$6 billion is approximately \$21 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**

Fiscal year 2021 marked a significant milestone for the Pension Benefit Guaranty Corporation's ("PBGC") Multiemployer Program with the enactment of the American Rescue Plan Act of 2021 ("ARPA"). According to the PBGC's FY 2021 Annual Report (released November 16, 2021), prior to the enactment of ARPA, its Multiemployer Program was expected to run out of money by 2026. According to the PBGC, "ARP's Special Financial Assistance ("SFA") Program will significantly extend the solvency of the Multiemployer Program by at least thirty years." This report further notes that "The Multiemployer Program's positive net position of \$481 million at the end of FY 2021 is in sharp contrast to the negative net position of \$63.7 billion at the end of FY 2020, a drastic improvement of \$64.2 billion."

### **Current Legislative Proposals and Efforts**

As detailed in my prior reports, the Pension Fund's Staff has briefed the Board of Trustees over at least the past ten years on numerous legislative proposals intended to avoid the projected insolvency facing the Pension Fund and other multiemployer pension plans. After years of efforts, on March 11, 2021, President Biden signed into law the American Rescue Act of 2021 ("ARPA"). Included within this Act was the Butch Lewis Emergency Pension Plan Relief Act of 2021. ARPA creates a special financial assistance program under which eligible pension plans, like Central States, can apply for financial assistance directly from the PBGC. Upon approval, eligible pension plans will receive a single lump-sum payment in an amount required to allow the plan to pay promised benefits, generally without reduction, through the end of 2051. This lump sum payment is in the form of a grant which does not need to be repaid by the plan. On July 9, 2021 the PBGC issued interim-final regulations setting forth the requirements for special financial assistance applications and related restrictions and conditions pursuant to ARPA. The PBGC invited public comments on this interim-final rule which were due on or before August 11, 2021. Pension Fund Staff prepared and submitted written comments to the PBGC. Pursuant to the PBGC's interim-final rule, pension funds in critical and declining status with more than 350,000 participants, such as Central States, were allowed to submit their applications for special financial assistance commencing on April 1, 2022. The Fund filed its application on April 28, 2022. Following the above-referenced comment period, the PBGC issued its final regulation with respect to special financial assistance under ARPA which took effect on August 8, 2022. In response to guidance from the PBGC and to take advantage of favorable provisions of the PBGC's final regulation, the Pension Fund on August 12, 2022 withdrew its application and re-filed an amended application that same day.

### **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")<sup>1</sup>, 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 approximately 99% of the Fund's investment assets are in fixed income securities, with the remaining 1% in cash or cash equivalents.

#### **Financial Information - Investment Returns**

The Pension Fund's investment return for the third quarter of 2022 was (1.31%).

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 / 3<sup>rd</sup> Quarter Ended September 30, 2022**

Fund's Return (All asset classes)	(1.31)
Benchmark Composite Return (All asset classes)	(1.35)

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

**Pension Fund's Total Fixed Income (Percent) Return / 3<sup>rd</sup> Quarter Ended September 30, 2022**

Fund's Return (Total Fixed Income)	(1.36)
Benchmark Composite Return (Total Fixed Income)	(1.38)

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/ 3<sup>rd</sup> Quarter-to-Date as of September 30, 2022**

	<b><u>Quarter-to-Date as of September 30, 2022</u></b>	<b><u>July 2022</u></b>	<b><u>Aug. 2022</u></b>	<b><u>Sept. 2022</u></b>
Northern Trust's Return (All asset classes)	(1.24)	0.55	(0.60)	(1.19)
Northern Trust's Benchmark Composite Return (All asset classes)	(1.32)	0.64	(0.72)	(1.24)
Northern Trust's Return (Total Fixed Income)	(1.33)	0.58	(0.64)	(1.27)
Northern Trust's Benchmark Composite Return (Total Fixed Income)	(1.38)	0.65	(0.75)	(1.29)

Northern Trust's third quarter 2022 composite return resulted primarily from fixed income.

The Fund's financial group reported the following asset allocation of the Pension Fund as of September 30, 2022 as follows: 97% fixed income, 3% cash.

The financial group also reported that for the third quarter of 2022 the returns on the Fund's passive indexed account was as follows (showing percent returns on

investments):<sup>2</sup>

	<u>Fund's Rate of Return for</u> <u>3<sup>rd</sup> Quarter 2022</u>	<u>Benchmark for Account</u> <u>3<sup>rd</sup> Quarter 2022</u>
Passive Indexed Fixed Income (50.00% of investment assets as of September 30, 2022)	(1.39)	(1.38)

### Financial Information - Net Assets

(Dollars shown in thousands)

The financial reports prepared by Pension Fund Staff for the nine months ended September 30, 2022 (enclosed) show net assets as of that date of \$6,183,957 compared to \$8,158,228 December 31, 2021, a decrease of \$1,974,271 compared to a decrease of \$1,644,672 for the same period in 2021. The \$329,599 difference is due to \$324,011 less net investment income combined with \$5,588 more net operating loss.

The enclosed Fund's Staff report further notes that for the nine months ended September 2022, the Fund's net operating loss was \$1,664,038 compared to a loss of \$1,658,450 for the same period in 2021, or a \$5,588 unfavorable change. This change in net assets from operations (before investment income) was attributable to:

- a) (\$1,954) less contributions due to an \$18.5 million decrease to YRC deferral agreement reserve offset by decreased withdrawal liability revenue,
- b) (\$2,302) more benefits and
- c) (\$1,332) more general and administrative expenses.

During the nine months ended September 2022 and 2021, the Fund withdrew \$1,897,320 and \$1,659,726 respectively, from investment assets to fund the cash operating deficits.

### Financial Information - Participant Population

The enclosed September 30, 2022 report prepared by Fund Staff further notes that the eight-month average number of Full-Time Equivalent ("FTE") memberships decreased by (3.31)% from August 2021 to August 2022 (from 43,968 to 42,512). During that period, the average number of retirees decreased by (1.11)% (from 195,529 to 193,359).

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<sup>2</sup> The Fund's return for the passive index account 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.

### Named Fiduciary

During the third 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.<sup>3</sup> 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 105 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 \$315 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 \$ 171 million.

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<sup>3</sup> 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**

### **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 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 \$ 133.5 million in principal and interest payments from YRC through September 30, 2022 reducing the contribution delinquency to approximately \$44.7 million.

### **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 (the "Special Contribution"). Pursuant to this agreement, Jack Cooper also agreed to participate in the Health and Welfare Fund. The asset sale closed on November 4, 2019 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 April 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. Additionally, Jack Cooper remained current with normal contribution obligations and remitted its twelfth and final installment for its February 2020 contributions by March 19, 2021. Also, as noted above, pursuant to the parties 2019 agreement, Jack Cooper agreed to make the Special Contribution payment to the Fund on May 4, 2021. However, in late March 2021, Jack Cooper contacted the Fund and advised that it would be unable to make the Special Contribution payment in full on May 4, 2021. It proposed to pay this obligation in six monthly installments commencing on May 10, 2021. On April 14, 2021 the Board approved this request and the first three payments due under this revised payment schedule were timely received. Next, in late May 2021 Jack Cooper contacted the Fund and indicated that it would be unable to pay its May 2021 contributions on a timely basis as a result of the shortage of semiconductor chips which had slowed, and in some places stopped the production of automobiles. On June 15, 2021 the Board approved a deferral of Jack Cooper's May 2021 contributions due to the Pension and Health and Welfare Funds to be paid on or before September 15, 2021 or earlier, with interest, subject to the terms of a contribution deferral agreement entered into between the parties. In August 2021 Jack Cooper contacted the Pension Fund and requested an additional deferral of the dates it was required to pay the remaining three installments of its Special Contribution payments. The company indicated that this request was necessitated by the semiconductor chip shortage which has continued longer than expected. Additionally, in September 2021 Jack Cooper once again contacted the Pension and Health and Welfare Funds and requested a further deferral past September 15, 2021 of its May 2021 contributions. The company indicated that this was a result of the continued decline of automobile production and the corresponding required terms of Jack Cooper's lender under a proposed new term loan. In return, the Pension and Health and Welfare Fund would receive interest on the May 2021 contributions balance at a rate of 11.75%. The Board approved allowing the May 2021 contributions to be paid in equal installments to be paid on February 10, 2022, March 10, 2022, and April 10, 2022 with interest to be paid monthly on the declining balance. Additionally, the final three Special Contribution Payments were simultaneously approved for a further deferral and were scheduled to be paid on March 10, 2022, April 10, 2022, May 10, 2022 and June 10, 2022 with interest to be paid monthly on the declining balance.

Next, in January 2022 Jack Cooper contacted the Pension and Health and Welfare Funds and requested a further deferral of its May 2021 contributions and its Special Contributions as a result of its continued liquidity challenges resulting from the semiconductor chip shortage. In return, the Pension and Health and Welfare Funds would continue to receive interest on all outstanding amounts at a rate 11.75% and Jack Cooper would agree that a portion of the proceeds of a pending real estate sale would be turned over directly to the Pension and Health and Welfare Funds from the title company in an amount equal to the full principal and interest balance owed to the Pension and Health and Welfare Funds at the time of the proposed real estate sale. Absent proceeds from the proposed real estate sale, the Board of Trustees approved allowing the May 2021 contributions to be paid in equal installments to be paid on May 10, 2022 and June 10,

2022 with interest to be paid monthly on the declining balance. Additionally, the final Special Contribution Payments were simultaneously approved for a further deferral and were scheduled to be paid on July 10, 2022, August 10, 2022, September 10, 2022, October 10, 2022, November 10, 2022 and December 10, 2022 with interest to be paid monthly on the declining balance.

On May 13, 2022, Jack Cooper completed a sale of certain real estate, which resulted in the Pension and Health and Welfare Funds receiving payment in full for all outstanding principal and interest associated with the May 2021 contributions and the Special Contribution. As a result, Jack Cooper has resolved its past due delinquencies and is current with all amounts owed to the Pension and Health and Welfare Funds.

### **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. The Fund was next 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. Finally, on March 24, 2021, the DOL sent a letter to the Fund questioning its adjudication of certain emergency room claims. The Fund responded on May 19, 2021 disagreeing with the DOL's position and noting that regardless the issue only involved a de minimis number of claims. In its response, the Fund proposed a resolution of the issue which was approved by the DOL and is currently being implemented.

**Financial Information**

(Dollars shown in thousands)

The Health and Welfare Fund's financial summary for the nine months ended September 30, 2022 is compared below with financial information for the same period of 2021:

	<u>Nine Months Ended September 30,</u>	
	<u>2022</u>	<u>2021</u>
Contributions	\$ 3,604,607	3,422,357
Rent income	684	684
Benefits	2,897,092	2,795,159
TeamCare administrative expenses	74,333	71,638
General and administrative expenses	<u>78,391</u>	<u>72,924</u>
Operating gain (loss)	555,475	483,320
Investment income (loss)	<u>(1,140,718)</u>	<u>247,341</u>
Change in net assets	(585,243)	730,661
Net assets, end of period	9,216,108	9,527,707
Eight-month average Participants (FTEs)	222,281	222,366

For the nine months ended September 2022, the Health and Welfare Fund's net operating gain was \$555,475 compared to a gain of \$483,320 for the same period in 2021, or a \$72,155 favorable change:

- (a) \$182,250 more revenue due to an increase in rates,
- (b) (\$101,933) more benefits,
- (c) (\$2,695) more TeamCare administrative fees and
- (d) (\$5,467) more general and administrative expenses.

During the nine months ended September 2022 and 2021, the Fund transferred \$637,014 and \$528,542 respectively, to investments as the operations generated positive cash flows for those periods.

The enclosed September 30, 2022 report also notes that the eight-month average number of Full-Time Equivalent (FTE) memberships decreased by (0.04)% from August 2021 to August 2022 (from 222,366 to 222,281). During that period, the average number of retirees covered by the Health and Welfare Fund increased by 7.50% (from 9,768 to 10,501).

**Internal Audit Report on 2022 Accounts General Ledger Audit**

At the July 2022 Board Meeting the Internal Audit Department presented a report on the 2022 Accounts General Ledger Audit. The overall audit conclusion was that the administrative and internal accounting controls surrounding general ledger processing are operating in accordance with Funds' policies and procedures and provide a basis for reliance on the propriety of transactions processed.

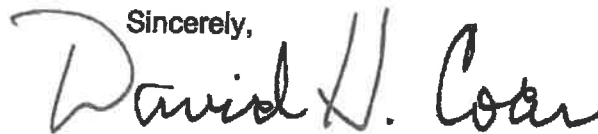
**Article V (H)**

As required by Article V (H) of the Health and Welfare Fund Consent Decree, the Health and Welfare Fund has paid during the third quarter of 2022 the following for professional services and expenses for the Independent Special Counsel:

July	\$0.00
August	\$0.00
September	\$0.00

I will be glad to provide additional details regarding any aspect of my activities as Independent Special Counsel. Should you have any questions or comments, please do not hesitate to contact me.

Sincerely,



David H. Coar

Enclosure

cc: Ms. Seema Nanda, Solicitor of Labor (w/encl.) **Via UPS Next Day**  
Mr. Wayne Berry (w/encl.) **Via UPS Next Day**  
Mr. Thomas C. Nyhan