Western States Office and Professional Employees Pension Fund

IMPORTANT INFORMATION ABOUT YOUR PENSION

PLEASE READ THIS LETTER FIRST

UPDATE ON THE PLAN'S MPRA APPLICATION

May 22, 2018

To: All Plan Participants, Beneficiaries and Employers

From: Board of Trustees, Western States Office and Professional Employees Pension Fund ("Pension Plan")

Subject: Updated Plan Application under the Multiemployer Pension Reform Act of 2014 ("MPRA")

NOTICE

The enclosed documents explain actions proposed by the Board of Trustees to address our Pension Plan's funding crisis. Please review the contents carefully.

As explained below, the Board of Trustees has approved the following actions:

- The current MPRA application was withdrawn March 26, 2018.
- A new MPRA application was submitted May 15, 2018.
- The new application keeps the benefit accrual rate at 0.75%.
- Treasury has 225 days to review the application. However, the Pension Plan expects Treasury will make a decision on the application without taking all 225 days, and in time to implement the proposed benefit reduction by October 1, 2018.
- The benefit reduction will remain at 30% (same as the previous MPRA application).
- All other provisions of the original application will be the same.
- Frequently Asked Questions are addressed on the Pension Plan's recovery website.
- The call center telephone number and the Pension Plan's recovery website will remain operational if you have questions (see last page of this notice for contact information).

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Introduction

This letter updates the letter you received dated August 30, 2017, concerning the Pension Plan's application under the Multiemployer Pension Reform Act of 2014 ("MPRA").

1. The Pension Plan has held numerous conversations with staff at the U.S. Department of the Treasury ("Treasury") and the Pension Benefit Guarantee Corporation ("PBGC"). These Federal agencies jointly process MPRA applications. However, the Secretary of the Treasury must approve all MPRA applications.

2. The Pension Plan's MPRA application filed on August 24, 2017, was reviewed by both Treasury in consultation with the PBGC. However, due to the 225-day limit for agency review several issues could not be resolved before the expiration of the statutory review period. Therefore, Treasury requested that the Pension Plan withdraw the application and file a revised application to restart the agency review period. The Pension Plan expects that Treasury and PBGC will not need the full 225 day review period to complete their review of the new application. The Pension Plan expects Treasury will make a decision on the application in time to implement the proposed benefit reduction by October 1, 2018.

3. The Board continues to maintain a flat percentage, "across the board" benefit reduction for all participants (subject to the MPRA restrictions).

   <u>Note</u>: The proposed benefit reduction in the new application <u>remains at 30%</u> (same as the August, 2017 application). Keeping the reduction at 30% was possible, even with the later effective date, due to the Plan's investment earnings during 2017.

The remainder of this letter is the same letter you first received in April of 2017, with updated dates and information.

We are writing to update you on the state of our Pension Plan. In April 2017, we informed you that the annual review of the Plan's finances led us to conclude that the Plan was in "Critical and Declining Status." This means that the Plan is expected to run out of money in the near future—during 2036—unless we take action now.[1]

We encourage you to take the time to read this letter and all of the additional materials provided with this letter. These materials are provided to help you understand the Board's actions and how they may affect your Plan benefits.

The Board has reviewed all available options and taken all available steps to keep the Plan on sound financial footing, including merging with other plans, restructuring the Plan, and making benefit changes. However, despite the Board's best efforts, a combination of forces have battered the Plan's finances and now threaten the Plan's survival:

[1] For the Pension Plan's 2018 Pension Protection Act ("PPA") certification, the Pension Plan was projected to become insolvent (i.e. run out of money and not be able to pay benefits to participants) during the 2036 Plan Year. This date may change based on the investment and demographic experience, as well as other factors. For example, the Pension Plan's 2017 certification projected the Pension Plan to be insolvent during the 2034 Plan Year.

- **The inactive to active participant ratio.** The number of retired participants and vested terminated participants now exceeds the number of active participants—***by an 11 to 1 ratio***. This is mainly due to the following factors:
    - o A spike in the number of terminated vested participants due to the 2008 recession and slow economic recovery;
    - o A substantial number of employer withdrawals that occurred since the Plan was first certified as Critical and Declining; and
    - o A higher-than-expected number of participants retired when the Plan was first certified as Critical and Declining, before the initial Rehabilitation Plan changes took place.

- **The number of contributing employers.** Employer contributions are a critical source of Plan funding. However, due to the recession and subsequent slow economic recovery, the number of employers contributing to our Plan is significantly down, from 280 in 2008, to just 168 in 2018. And, while employers exiting the Plan are required to pay withdrawal liability, there is a dwindling level of "new money" coming into the Plan.[2]

- **The number of active participants.** The number of active participants is significantly down from 2008—by 73%. Fewer active employees mean fewer ongoing contributions coming into our Plan to fund future benefits earned.

- **Short-sighted federal laws.** Government regulations for multiemployer pension plans like ours have made it difficult for the Plan to save for a financial crisis, and to retain and bring new employers and active participants into the Plan.

- **Investment returns.** The Plan invests its assets and uses investment returns to help pay benefits. The Plan, like most other pension plans, suffered large investment losses (-32%) in 2008, due to the stock market crash. While investment returns have stabilized over the past few years, they have not been sufficient to make up for the 2008 loss **<u>and</u>** fewer contributions coming into the Plan due to decreasing membership.

Our Proposed Pension Benefit Reduction and Recovery Plan

There are no easy answers to fixing the Plan's funding issues. ***However, there is a path forward***. The Board has made the difficult decision to take advantage of new legislation enacted by Congress, called the Multiemployer Pension Reform Act of 2014 ("MPRA").

MPRA allows the Plan to implement a reduction (within certain limitations) to the benefits of most Plan participants, but only if the reduction will fix the Plan's funding status for the foreseeable future. The Board has tried to avoid this option at all costs in order to protect Plan benefits. However, the Board has determined that using MPRA is the last best option for preserving the Plan, so the Plan can continue to provide the benefits in the future.

Below is information describing the process the Board will follow under MPRA:

[2] Employers that withdraw from the Plan are required to pay their share of the Plan's unfunded vested liabilities, commonly called "withdrawal liability."

- The Board submitted a ***Pension Benefit Reduction and Recovery Plan*** application with the U.S. Treasury Department on May 15, 2018.
- The U.S. Treasury Department has up to 225 days to review the Pension Benefit Reduction and Recovery Plan. However, as noted above the Pension Plan expects that Treasury will not need the full 225 day review period and Treasury will make a decision on the application in time to implement the proposed benefit reduction by October 1, 2018.
- If approved by Treasury, participants will have an opportunity to vote whether to accept or reject the Pension Benefit Reduction and Recovery Plan later this year. The voting process is explained in further detail in the attached *Notice*.
- If approved, the changes will take effect as soon as possible after the vote.

IMPORTANT INFORMATION FOR INDIVIDUALS AGE 75 AND OLDER AND THOSE RECEIVING A DISABILITY PENSION

Retirees and beneficiaries age 80 and older, and disability pensioners, are exempt from the proposed benefit reduction. Also, the benefit reduction for those who are at least age 75, but younger than age 80, will be calculated on a sliding scale based on their age. See the attached notice titled, "*Notice of Application for Approval of a Proposed Reduction of Benefits under the Western States Office and Professional Employees Pension Fund*" for details.

Since we all have a stake in our Pension Plan, and in the decision to go forward with the Pension Benefit Reduction and Recovery Plan, we want to make sure you are informed and understand how this action may affect you.

- **Review the enclosed document, titled "*Notice of Application for Approval of a Proposed Reduction of Benefits under the Western States Office and Professional Employees Pension Fund*."** This document explains why the Board is proposing to reduce benefits, what will happen if the Plan runs out of money,[3] and how the application, review and approval process works.

  Note: At this time no additional Town Hall meetings are scheduled, since the application details are largely unchanged. You can access the September, 2017 Town Hall meetings at the Plan's recovery website (see address below). The meeting materials and audio recordings are available by clicking on the "Announcements & meetings" tab and then clicking on "Meetings".

[3] As noted above, the Plan was projected to become insolvent (i.e. run out of money and not be able to pay benefits to participants) during the 2036 Plan Year. This date may change based on the investment and demographic experience, as well as other factors.

Additional Resources and Contact Information

The Board is committed to keeping you informed throughout the Pension Benefit Reduction and Recovery Plan process. A special call center and an informational website are available as resources to you. For example, the call center is available to answer your questions. The website includes important documents, like the information you received with this letter, and addresses frequently asked questions. Contact information for these resources is provided below:

Telephone call center: 1-888-999-4089 (toll free)

Open between 9:00 a.m. and 5:00 p.m. Pacific Time, Monday – Friday.

Pension Benefit Reduction and Recovery Plan Website:

www.wspensionrecovery.com

If you need help accessing the internet, be sure to contact your local union. Also note, the website is mobile-friendly if a smart phone is your primary tool for using the internet.

Conclusion

This has been a very difficult decision for the Board of Trustees. Reducing pensions for current and future retirees and beneficiaries is not something we ever thought we'd have to do. However, these changes are the last best option for preserving the Plan, so the Plan can continue to provide the benefits now and in the future.

If the Pension Benefit Reduction and Recovery Plan works as we expect it to, we will have a Pension Plan you can count on for years to come.

Sincerely,

The Board of Trustees

IMPORTANT INFORMATION REGARDING THE PENSION BENEFIT REDUCTION AND RECOVERY PLAN

The Board's decision to propose the Pension Benefit Reduction and Recovery Plan, the contents of the Pension Benefit Reduction and Recovery Plan, the information provided in this letter, the Notice of Application and your personalized benefit estimate are all based on the following factors: the best information available to the Board; current actuarial projections; and current legal and regulatory requirements. Any or all of these factors may change during the Treasury review process. The Board reserves the right to modify, revise and/or withdraw the Pension Benefit Reduction and Recovery Plan at any time, as allowed under the current law. This letter and the enclosed documents are provided only to describe the Pension Benefit Reduction and Recovery Plan and how the plan may affect your benefits, and not as legal advice. Benefit estimates are not final until confirmed by the Trust Office and the Pension Plan's actuary.