New York State Teamsters Conference Pension and Retirement Fund's

Application to the Department of the Treasury for Approval of Suspension of Benefits under the Multiemployer Pension Reform Act of 2014

Dated: May 15, 2017

SECTION 1. BACKGROUND AND PURPOSE

Pursuant to Internal Revenue Service Revenue Procedure 2016-27 (the "Revenue Procedure") and the Department of the Treasury's Final regulations issued under Section 432(e)(9) of the Internal Revenue Code of 1986 (the "Code") and published in the Federal Register on April 28, 2016 (collectively, the "Regulations"), the Board of Trustees ("Trustees") of the New York State Teamsters Conference Pension and Retirement Fund (the "Plan") submits this Application, and the accompanying Exhibits and Appendices, to the Secretary of the Treasury for approval of a suspension of benefits.

Section 432(e)(9)(G) of the Code provides that the Secretary of the Treasury shall approve an application for the approval of suspension of benefits upon finding that the Plan is eligible for the benefits suspension and has satisfied the criteria set forth in subparagraphs (C), (D), (E), and (F) of Section 432(e)(9) of the Code. As set forth below, the Plan is eligible to suspend benefits and has satisfied each of the enumerated criteria under the Regulations. Therefore, the Plan respectfully requests that the Secretary approve this Application to suspend benefits accordingly.

SECTION 2. APPLICATION PROCEDURES

.01 Plan Sponsor submission. The Trustees, as Plan Sponsor, submit this Application for approval of a proposed benefit suspension under Code Section 432(e)(9). This Application is signed and dated by both a Union and an Employer Co-Chair Trustee, who are both authorized to sign and current members of the Board of Trustees. The proposed suspension of benefits is sometimes referred to herein as the "Pension Preservation Plan" or "PPP."

.02 Terms of Plan's proposed benefit suspension.

Effective Date. The effective date of the proposed suspension is October 1, 2017.

Expiration Date. The proposed suspension will not expire by its own terms.

Different Treatment of Participants and Beneficiaries. The Trustees' proposed suspension provides for different treatment between only two categories of Plan Participants: Active Participants and Non-Active Participants. Active Participant is defined as a Participant who (1) has not retired and entered pay status as of September 30, 2017 and (2) had at least 500 hours of employer contributions submitted to the Plan on his behalf in the 2015 Plan Year, in the 2016 Plan Year, or in the 2017 Plan Year before October 1, 2017. Non-Active Participant is defined as any Participant who does not meet the definition of Active Participant and includes retirees, beneficiaries, and terminated vested Participants.[1]

Active Participants: The proposed benefit suspension for Active Participants will be a 18% reduction in the accrued monthly benefit as of September 30, 2017, subject to the limitations described in Code Sections 432(e)(9)(D)(i), (ii) and (iii). The formula used to determine the amount of the proposed suspension for Active Participants is based on the 18% reduction percentage being applied to each Active Participant's monthly benefit amount.

Non-Active Participants: The proposed benefit suspension for Non-Active Participants will be a 29% reduction in the accrued monthly benefit as of September 30, 2017, subject to the limitations described in Code Sections 432(e)(9)(D)(i), (ii) and (iii). The formula used to determine the amount of the proposed suspension for all Non-Active Participants is based on the 29% reduction percentage being applied to each Non-Active Participant's monthly benefit amount.

[1] The Plan is a calendar year plan, effective January 1 through December 31.

.03 Penalties of perjury statement. **See Exhibit 1.**

.04 Public disclosure statement. **See Exhibit 2.**

SECTION 3. DEMONSTRATION THAT THE PLAN IS ELIGIBLE FOR SUSPENSION

.01 Plan actuary's certification of Critical and Declining status. **See Exhibit 3** for a certification from the Plan's actuary required under Section 432(b) that the Plan is in critical and declining status as defined in Section 432(b)(6) for the Plan Year commencing 2017. Included with this certification is documentation supporting the actuarial certification of status, including a Plan Year-by-Plan Year projection of the Plan's available resources and the benefits under the Plan, demonstrating that the Plan is projected to become insolvent during the 2026[2] Plan Year. The documentation includes a description of each of the assumptions used, including the new entrant profile, the total contribution base units (hours) and average contribution rates. The Plan Year-by-Plan Year projection separately identifies the market value of assets as of the beginning and end of the 2016 Plan Year through the 2026 Insolvency Year, and the following cash-flow items for those years: (1) contributions; (2) withdrawal liability payments; (3) benefit payments; separately identifying benefit payments with respect to current retirees and beneficiaries, terminated vested participants who are not currently receiving benefits, currently active participants, and future new entrants; (4) administrative expenses; and (5) investment returns.

.02 Plan actuary's certification that the plan is projected to avoid insolvency. **See Exhibit 4** for a certification from the Plan's actuary under Section 432(e)(9)(C)(i) that the Plan is projected to avoid insolvency within the meaning of Section 418E taking into account the proposed benefit suspension, and assuming that the proposed suspension continues indefinitely. Included with this certification is documentation supporting the certification, including a Plan Year-by-Plan Year projection of the available resources of the Plan within the meaning of Section 418E(b)(3) and the benefits under the Plan demonstrating the avoidance of insolvency of the Plan through the extended period of 32 Plan Years, which would be the 2049 Plan Year. The documentation includes a description of each of the assumptions used, including the new entrant profile, the total contribution base units (hours) and average contribution rates. Also included with this certification is the Plan's Plan Year-by-Plan Year projection that separately identifies the market value of assets as of the beginning and end of the initial period and each subsequent Plan Year in the extended period and the following cash-flow items for the initial period and each of those years: (1) contributions; (2) withdrawal liability payments; (3) benefit payments, separately identifying benefit payments with respect to current retirees and beneficiaries, terminated vested participants who are not currently

[2] Based on the updated asset values used for this Application, the actuary subsequently determined that the Plan would become insolvent in 2027.

receiving benefits, current active participants, and future new entrants; (4) administrative expenses; and (5) investment returns.[3]

.03 Plan sponsor's determination of projected insolvency. The Trustees determined under Section 432(e)(9)(C)(ii), after a review of all available information and possible Plan changes, that the Plan is not projected to avoid insolvency if benefits are not suspended, even though the Trustees have taken all reasonable measures to avoid insolvency. The Trustees made this formal determination at their meeting on May 19-20, 2016.

.04 **See Exhibit 5** for information which supports the Trustees' determination of projected insolvency. **See also Exhibit 3, Appendix C** for additional actuarial information in support of the Trustees' determination.

The Trustees have included additional documentation and information in Section 5 of this Application illustrating their determination of projected insolvency and the reasonable measures taken into account in making the determination that the proposed suspensions are necessary to avoid insolvency.

[3] For this purpose, the initial period begins on the first day of the calendar quarter in which the Application is submitted (April 1, 2017) and ends with the last day of the Plan Year that includes that first day (December 31, 2017).

SECTION 4. DEMONSTRATION THAT THE PLAN'S PROPOSED SUSPENSION SATISFIES THE STATUTORY REQUIREMENTS

.01 Demonstration that limitations on individual suspensions are satisfied. **See Exhibit 6** for a demonstration of how the proposed suspension satisfies the limitations described in Sections 432(e)(9)(D)(i), (ii) and (iii) as required under the Revenue Procedure. **Exhibit 6** includes:

(1) A sample calculation applying the guarantee-based limitation under §432(e)(9)(D)(i) for an individual in each category or group identified in accordance with the Revenue Procedure.

(2) A sample calculation applying the disability-based limitation under §432(e)(9)(D)(iii) for an individual in each category or group identified in accordance with the Revenue Procedure. Additionally, **see Exhibit 16, at page 40** for a description of each benefit based on disability under the Plan that is paid to an individual under the Plan (including disability benefits that are not available to newly disabled participants).

(3) A sample calculation applying the age-based limitation under §432(e)(9)(D)(ii) for an individual in each category or group identified in accordance with the Revenue Procedure.

.02 Demonstration that the proposed suspension is reasonably estimated to enable the plan to avoid insolvency. **See Exhibit 7** for a demonstration that, in accordance with Section 432(e)(9)(D)(iv), the proposed benefit suspension is reasonably estimated to enable the Plan to avoid insolvency. **Exhibit 7** includes:

(1) An illustration, prepared on a deterministic basis, showing that:

(a) For each Plan Year during the extended period described in §1.432(e)(9)-1(d)(5)(ii)(C), the plan's solvency ratio – the ratio of the Plan's available resources (as defined in § 418(E)(b)(3)) to the scheduled benefit payments under the Plan for the Plan Year – is projected on a deterministic basis to be at least 1.0.

(b) The Plan's projected funding percentage at the end of the extended period is less than or equal to 100 percent, and neither the Plan's solvency ratio nor its available resources are projected to decrease in any of the last five Plan Years of the extended period.

(2) An illustration, using stochastic projections that reflect variance in investment return, that the probability the Plan will avoid insolvency throughout the extended period as result of the proposed suspension is greater than 50 percent.

(3) A description of each assumption used, including:

(a) An explanation of the information and analysis that led to the selection of the actuarial assumption used for the deterministic projections under Section 4.02(1) of the Revenue Procedure as it differs from that used under Section 3.01 of the Revenue Procedure.

(b) With respect to stochastic projections described in Section 4.02(2) of the Revenue Procedure, the assumed mix of assets (and how it compares with the current mix of assets), the distribution of returns for each asset class, and the correlation among those rates of returns and any other economic variables in the projections.

(c) An explanation of the information and analysis that led to the selection of the actuarial assumption used for stochastic projections described in Section 4.02(2) of the Revenue Procedure as it differs from that used for deterministic projections described in Section 4.02(1) of the Revenue Procedure.

.03 Demonstration that the proposed suspension is reasonably estimated to not materially exceed the level necessary to avoid insolvency. **See Exhibit 8** for a demonstration that, in accordance with Section 432(e)(9)(D)(iv), the proposed benefit suspension is reasonably estimated to not materially exceed the level necessary to enable the Plan to avoid insolvency. The demonstration includes an illustration, prepared on a deterministic basis, of the Plan's available resources and solvency ratio as described in Section 4.02(1) of the Revenue Procedure (and also an illustration of the probability that the Plan will avoid insolvency prepared using stochastic projections, as described in Section 4.02(2) of the Revenue Procedure) showing the proposed suspension would not reasonably be estimated to avoid insolvency if the dollar amount of the proposed suspension for each participant and beneficiary were reduced (but not below zero) by the greater of:

(1) Five percent of the reduction in the periodic payment proposed for that participant or beneficiary; or

(2) Two percent of the participant's or beneficiary's periodic payment determined without regard to the reduction proposed in the application.

.04 Demonstration that the proposed benefit suspension is distributed equitably. In accordance with Section 432(e)(9)(D)(vi), the proposed benefit suspension is distributed in an equitable manner across the Plan's participant and beneficiary population.

(1) **See Exhibit 9** for a demonstration of the following:

(a) The number of participants, beneficiaries, and alternate payees; the average monthly benefit before the suspension; the average monthly benefit after the suspension (determined taking into account the individual limitations); and the aggregate present value of the reduction in benefits for all individuals.

(b) The distribution of the benefit suspension for the requested demonstrations under this section. The demonstration shows a count of individuals whose benefits are not reduced, and whose benefits are reduced by a percentage that falls within a series of ranges that do not exceed 10%**.** This information is shown on an aggregate basis and as between the Active and Non-Active Participant groups.

(2) Since the proposed suspension will be implemented differently between two different groups, Active Participants and all Non-Active Participants, the Application includes the following information:

(a) The information described in Sections 4.04(1)(a) and (b) above for each such category or group, which is in **Exhibit 9.**

(b) The factors the Trustees considered in designing the proposed benefit suspensions to be distributed in an equitable manner across the Participant and beneficiary population, which include:

- Accelerating employer withdrawals from the Plan, increasing the risk of additional benefit reductions for participants in and out of pay status;
- Negative reaction by Active Participants that would further prompt withdrawals of Active Participant groups and contributing employers, and Active Participants reasonably likely to withdraw support;
- History of benefit reductions for Active Participants;
- Amount of benefit;
- Discrepancies/relative benefits as between Active Participants and Non-Active Participants, including subsidized benefits; and
- Differences in historical employer contribution rates/increases as between Active Participants and Non-Active Participants.

(c) Factors listed in Section 432(e)(9)(D)(I) through (XII) were taken into account in designing the proposed suspensions.

(d) After thorough consideration of the above factors, the Plan proposes a different suspension in benefits for two different groups: Active Participants and Non-Active Participants. The Trustees have proposed different suspensions for these two groups and designed them equitably based on a reasonable application of relevant factors.

First, the Trustees identified the retention of Active Participants as the most important factor for ensuring the Plan's continued viability. The Trustees recognize that the Plan simply will not survive unless it retains its Active Participant population and the corresponding employer contributions in the Plan. The Plan receives no employer contributions on Non-Active Participants, leaving Active Participants (and some employer withdrawal liability payments) as the sole sources of funding. The Trustees are convinced that the proposed reduction for Active Participants appropriately limits the risk that they will withdraw support for the Plan. As discussed in more detail later in this Application, employers and bargaining unit groups have left the Plan at an alarming rate over the last decade as contribution rates have steadily increased and the Plan has repeatedly reduced benefits for Active Participants. To stop this trend, the Plan must demonstrate to employers and Active Participants that there is an end in sight for continued benefit reductions and contribution increases, and that the Plan will offer competitive retirement benefit options in exchange for the rates at which employers currently are contributing. Failing to provide a competitive pension benefit, the Trustees fear – and history has demonstrated – will result in more employers and bargaining groups withdrawing from the Plan leading to a decreased Active membership and less employer contributions.

The proposed suspensions in this Application (together with the Trustees' communications to, and informational meetings with, Active Participants) demonstrate to Active Participants that a final 18% reduction in their benefits, together with a 29% reduction to Non-Active Participants are not only projected to save the Plan, but will allow Active Participants to continue accruing benefits at the same rate they have since 2011. The Active Participants have never previously been provided with such a projection – no such projection was available - because the law prohibited reductions to participants in pay status. The Active Participants can now see there is a reason to remain in the Plan. The Trustees determined that reducing Active Participants' benefits by 18% and continuing benefit accruals will make the Plan more attractive to Active Participant groups and will result in their voting in favor of the proposed suspensions and against any potential employer-negotiated withdrawal.

Likewise, the benefit suspensions and contribution increases provide employers with more specific information about their future economic obligations to the Plan. Contributing employers will know that future

contribution increases will not only be less than what are currently required under the Plan's Rehabilitation Plan, but will cease all together in 15 years. As is discussed later in the Application, the contribution rate increases required under the Rehabilitation Plan are not sustainable; the contribution rate increases set forth in this Application are sustainable, realistic, and will provide an incentive for employers not to withdraw.

Additionally, in considering the different suspension percentages, the Trustees considered relative benefit levels and previous benefit reductions for Active Participants. As outlined in detail in Section 5, the Active Participant population has already incurred several significant benefit reductions since 2004. The Trustees cut accruals by 50% in 2004. The Trustees eliminated most adjustable benefits and early retirement subsidies for Active Participants under the Rehabilitation Plan, and participants working under certain alternative schedules have been forced to divert wages to pay for remaining early retirement subsidies. While there are some Non-Active Participants who also incurred prior benefit reductions, they are no longer a source of funding for the Plan. Accordingly, the Trustees settled on two categories of reductions, with a strong focus on retaining support for the Plan from Active Participants who are still working and providing a contribution base for the Plan. The Trustees recognized that losing Active Participant support would lead to further erosion in the Plan's contribution base, and likely accelerated employer withdrawals. This would further exacerbate the Plan's funding problem, which would eventually force the Trustees to reduce benefits further for all participants, including Non-Active Participants.

Prior to the passage of the Multiemployer Pension Reform Act (MPRA), federal law prohibited the Plan from reducing or modifying vested accrued benefits. This meant that all pension reductions to meet Pension Protection Act (PPA) requirements and to address the Plan's funding issues were made to Active Participants' benefits. Accordingly, the Trustees believe the prior reductions for Active Participants must be given great weight when considering the equitable distribution of the proposed suspensions between the Active and Non-Active Participants.

The proposed suspension reduction percentages for each group – 18% for Actives and 29% for Non-Actives – were also designed and tested to ensure the difference amounted to an equitable distribution when considered against the relevant factors. Specifically, the Trustees considered the comparative aggregate savings to the Plan from the benefit suspensions between the two groups, and determined that the chosen percentages amounted to similar total savings in liability to the Plan after considering the previous benefit reductions to Active Participants under the Rehabilitation Plan and the pre-PPA benefit reductions. Additionally, the Trustees considered the practical effect on the benefit calculation for each group, and concluded that the selected percentages yielded a

reasonably comparable benefit. These considerations are discussed below.

Considering the relative aggregate liability reduction between the two groups, the decrease in the Plan's actuarial liability as a result of the benefit suspensions for retirees and beneficiaries is approximately $470 million. The corresponding decrease in liability to the Plan for Active Participant benefit suspensions is approximately $121 million. **See Exhibit 9.**

In addition to the reduction in liability for Active Participants associated with the proposed benefit suspensions, the Trustees also considered the previous subsidy reductions for Actives under the Rehabilitation Plan. The decrease in liability as of January 1, 2011 due to the adjustable benefits reduced as part of the Rehabilitation Plan resulted in a decrease in Plan liabilities of approximately $190 million. **See Exhibit 21, Actuarial Valuation as of January 1, 2016 at page 17**. With interest to the date of suspension, the value of the reduction in adjustable benefits would be greater than $190 million. Additionally, as a result of the Rehabilitation Plan benefit reductions, the value of annual benefit accruals was reduced by approximately $20 million per year. Since the Trustees adopted the Rehabilitation Plan in 2011, the loss of benefits earned by Active Participants is approximately $125 million (estimated to be over $160 million with interest). Lastly, the value of annual benefit accruals was significantly decreased in 2004 from 2.6% of contributions to 1.3% of contributions. This change in future accruals reduced the value of annual benefit accruals by approximately $25-$30 million dollars per year. **See Exhibit 21, Actuarial Valuation as of January 1, 2016, Appendix C for benefit accrual information**. Combining the reduction in liability associated with the proposed suspensions, the elimination of subsidies under the Rehabilitation Plan, and the prior reductions in benefit accruals, the total reduction in liability for Active Participants is consistent with, or possibly greater than the reduction in liability associated with Non-Active Participants under the proposed suspensions.

The Trustees believe the close comparison in liability savings demonstrates that the different benefit suspension percentages are an equitable distribution between Actives and Non-Actives.

In determining whether the proposed suspensions are equitable among the two groups, the Trustees also reviewed how the relative suspensions affect participant benefits in each group. Specifically, they compared Non-Active Participants who retired with 30 years of service to Active Participants with varying credit to date, but who will retire in the future with 30 years of service. Specifically, a retiree with over 30 years of service is estimated to have a monthly benefit of $5,000 before any reduction for form of payment as of October 1, 2017. Under the proposed

suspension, this retiree's benefit would be reduced to $3,550 after a 29% reduction.

By comparison, an Active Participant who currently has 20 years of service will retire after 30 years of service with an estimated monthly benefit of $4,100. With a 18% benefit suspension (on the portion of the accrued benefit earned prior to October 1, 2017), this Active Participant would have a reduced benefit of $3,551. Using another comparison, an Active Participant with 10 years of service and 20 years of future service will have a total estimated monthly benefit of $3,500. After a 18% benefit suspension (on the portion of the accrued benefit earned prior to October 1, 2017), this Active Participant would have a reduced benefit amount of $3,266 Lastly, a newly hired Active Participant (not subject to suspension) with 30 years of future service will have a total estimated monthly benefit of $3,350. These examples are shown in the table below.

Status	Service at 2017	Benefit at 2017	Proposed Suspension	Benefit at 2017 After Suspension	Future Service	Future Accruals	Total Benefit After Suspension
Retired	30+ Years	$5,000	29%	$3,550	0 Years	$0	$3,550
Active	20 Years	$3,050	18%	$2,501	10 Years	$1,050	$3,551
Active	10 Years	$1,300	18%	$1,066	20 Years	$2,200	$3,266
Active	0 Years	$0	18%	$0	30 Years	$3,350	$3,350

Although this example is based on the accruals of a UPS full-time employee, there would be a similar comparative result using participants working for employers with lower contribution rates. Because the Plan's benefits are based to a large extent on the employer's contribution rate, the dollar amount of the benefits would be similarly lower for both the retired and active examples.

The analysis of relative benefits strongly supports the Trustees' determination that the proposed benefit suspensions are equitably distributed across the participant and beneficiary population. Although the 29% reduction for Non-Active Participants, such as retirees, is larger than the 18% for Active Participants, the percentages produce a reasonably comparable benefit between the two groups.

.05 Notices.

The following describes the Trustees' method for satisfying the notice requirements of Section 432(e)(9)(F).

(1) Individual Notices.

See Appendix A for each type of actual notice that will be given to each participant, beneficiary, and alternate payee under the Plan. The Plan has included the following eight (8) sample actual notices:

1. Participant, beneficiary, alternate payee in pay status subject to suspensions.
2. Participant, beneficiary, alternate payee in pay status with Social Security benefit leveling subject to suspensions.
3. Participant, beneficiary, alternate payee below Normal Retirement Date, not in pay status, and subject to suspensions.
4. Participant, beneficiary, alternate payee over Normal Retirement Date, not in pay status, and subject to suspensions.
5. Participant, beneficiary, alternate payee under age 80 and protected from suspensions by the PBGC guarantee-based limitation.
6. Participant, beneficiary, alternate payee over age 80 and protected from suspensions by the age-based limitation.
7. Participant, beneficiary, alternate payee protected by the disability-based limitation.
8. Participant, beneficiary, alternate payee partially protected by the PBGC guarantee-based limitation.

(2) Efforts made to contact Participants, Beneficiaries and Alternate Payees.

The Trustees will make all reasonable efforts to contact all participants, beneficiaries of deceased participants, and alternate payees of the Plan (regardless of whether their benefits are proposed to be suspended) pursuant to the Treasury's Final Regulations and in satisfaction of their fiduciary duties under ERISA. Specifically, the Trustees will provide notice to the last known address of the participant, beneficiary or alternate payee on file with the Plan, using the same address the Trustees used to distribute the Plan's most recent annual funding notice. If that notice is returned as undeliverable, the Trustees will contact the Teamster local unions representing Participants in the Plan in an attempt to locate those missing individuals for whom the notice was returned as undeliverable. Further, if still necessary to locate missing individuals, the Trustees will request contact information from the plan administrators of any other employee benefit plans that the Trustees reasonably believe may have information useful for locating the missing individuals. Lastly, the Trustees will then use an internet search tool, a credit reporting agency

and a commercial service to search for those remaining individuals for whom they were not able to obtain updated information from the local unions. The Trustees will mail notices to individuals within five (5) days of locating them.

(3) Notices will not be delivered electronically.

(4) List of contributing employers.

See Exhibit 10 for a list of the contributing employers as of the date of this Application that have an obligation to contribute to the Plan within the meaning of Section 4212(a) of ERISA**.**

(5) Employee organization representing participants under the Plan.

The employee organizations representing participants under the Plan are: Teamster Local Union Nos. 118, 264, 294, 317, 449, 529, 560, 687, and 812.

SECTION 5. PLAN SPONSOR'S DETERMINATION RELATING TO REASONABLE MEASURES TAKEN TO AVOID INSOLVENCY

.01 Measures taken to avoid insolvency

Although only required to describe ten years of their efforts to avoid insolvency, the Trustees have been proactively taking steps to address funding issues for longer than ten years.

Plan Design

Even before the passage of the PPA, which required multiemployer plans to take certain actions to improve funding, the Trustees addressed the funding issue in the hope that taking action early would avoid a longer-term solvency crisis. Following the dot-com bubble bust and after three consecutive years of investment returns below the assumed rate of return erased millions of dollars in Plan assets and hundreds of millions of dollars in expected earnings, the Trustees cut future benefit accruals in half, from 2.6% to 1.3% of contributions, effective January 1, 2004. The Trustees took this difficult action when the Plan's funded ratio was 74.4%, well above the 37.6% as of January 1, 2016. Although these benefit cuts were difficult and unpopular, it is hard to imagine what the state of the Plan would be today if the Trustees had not taken this early action. To the contrary, the combination of those benefit reductions and several years of positive investment returns helped stabilize the Plan, and in 2007 the funded ratio had improved to 75.7%.

Following passage of the PPA, the Plan's actuary certified the Plan as being in Endangered Status on March 27, 2008. As required, the Trustees adopted a Funding Improvement Plan (FIP), which went into effect on January 1, 2009. The FIP provided for annual contribution increases of 5% in exchange for participants being able to retain the 1.3% accrual rate, and offered two other schedules with lower benefit accruals for a lower contribution increase requirement. **See Exhibit 16.**

As was the case for most other pension funds, the unprecedented global financial crisis of 2008 had a devastating effect on the Plan. That year alone, the Plan suffered $822 million net asset losses, or almost 36% of the Plan's total assets. The Plan's funding ratio at January 1, 2009 was down to 56.6% (based on the actuarial value of assets). The Plan took advantage of the Worker, Retiree & Employer Recovery Act of 2008 and remained in Endangered Status in 2009, but was certified in Critical Status for 2010, with a funding ratio of 61.6%.

The Trustees adopted a Rehabilitation Plan in 2010 as required by the PPA. **See Exhibit 19**. The Rehabilitation Plan's Default Schedule eliminated all adjustable benefits effective January 1, 2011, and eliminated all lump sum payments above $5,000, effective April 30, 2010, as legally required. The following adjustable

benefits were eliminated: the Regular Pension (age 60); all disability benefits; all death benefits (other than the qualified pre-retirement survivor's annuity); and, all Reciprocal Pensions to the extent such pension was tied to one of the foregoing eliminated adjustable benefits. In addition, the Trustees froze the Supplemental Social Security Benefit.

The Rehabilitation Plan established several other "alternative" schedules providing for lesser reductions in early retirement subsidies. In each case, however, the alternative schedule is designed to offset the actuarial cost of the additional subsidies through higher annual contribution increases. For example, an employer participating in the Plan under Schedule E is required to make annual contribution rate increases of 8.25% (as opposed to 6% under the Default Plan) in order to pay for the cost of the early retirement subsidies offered under that schedule, including retirement at age 55 with 30 years of service. **See Exhibit 19 for additional information on the subsidies provided in the alternative schedules of the Rehabilitation Plan.** [4]

In addition to adopting the Rehabilitation Plan, in 2010 the Trustees attempted to address the serious funding issue caused by the shrinking number of contributing employers and, in particular, the Plan's inability to attract new employers. The Trustees requested and were granted in November of 2010, approval by the Pension Benefit Guaranty Corporation (PBGC), to implement an alternative withdrawal liability method for allocating unfunded vested benefits. Effective for withdrawals that occurred on or after January 1, 2011, the Plan effectively created two pools of unfunded vested benefits – one for "Old Employers" and one for "New Employers." The Trustees determined to manage the "New Employer" pool in a manner to avoid creating unfunded vested liability. This was to be accomplished through conservative benefit accruals and careful monitoring of the "New Employer" pool. The Plan marketed this approach to several new employers and the union, although in the end, no significant employers were interested in entering the Plan under the "New Employer" pool approach.

On June 1, 2012, the Trustees again tried to address the funding threat caused by the steady decline in employer contributions, this time focusing on retaining employers and bargaining groups in the Plan. In connection with updating the Rehabilitation Plan, the Trustees added one additional alternative schedule, Schedule F, designed to retain more financially-stable employers that could continue to contribute to the Plan for the long-term. In recognition that the Plan's mounting contingent withdrawal liability and contribution increases were a significant factor in employers' decisions to withdraw from the Plan, Schedule F provided for existing contributing employers to pay 80% of the present value of their withdrawal liability in a lump sum (or in periodic installments not to exceed

[4] The Rehabilitation Plan's alternative schedules provided for a transition benefit, which offered a lesser reduction to the Thirty-Year Pension benefit for participants with at least 25 years of credited service as of January 1, 2011, and who retire after earning at least 30 years of credited service but prior to attaining the applicable unreduced age. (**See Exhibit 19**).

five years), and then participate in the "New Employer" pool for purposes of withdrawal liability. Now being offered to existing employers, the "New Employer" pool was the same one created and approved by the PBGC in 2010, and was to be managed to avoid future unfunded liability for employers in that pool. This concept had advantages for both the Plan and employers. There were significant funding advantages to the Plan to have additional employer monies immediately paid, while employers got the benefit of eliminating their existing contingent withdrawal liability and avoiding, to the extent legally permissible, any additional future contingent liability.[5] Schedule F also offered employers relief in the short term with respect to contribution increases, generally a 15% reduction in the contribution rate for five years. Participants of "New Employers" received a benefit accrual rate of 1% of contributions, with future contribution rate increases resulting in increased benefit accruals. Most of the other schedules under the Rehabilitation Plan provide for non-benefit bearing annual contribution increases. Although the Plan met with a number of existing contributing employers about the advantages of Schedule F, no employer has adopted this specific alternative schedule. **See Exhibit 19.**[6]

Investments

Recognizing that the Plan would require increasingly greater investment income to cover the increasing benefit expenses, the Trustees adopted and implemented an asset allocation utilizing best practices for risk control, diversification, and return enhancement. In consultation with their professional investment consultants, they also realized that this increased reliance on investment income meant the Plan needed to protect itself from extreme market fluctuations, and required an investment portfolio and asset allocation that could increase investment return without adding imprudent, additional risk. With these goals and objectives, the Trustees implemented an alternative and diversified investment strategy, which is not usually available to smaller multiemployer pension plans. Based on the Plan's asset allocation and alternative investment strategy, the Plan has been able to maintain an 8.5% investment return assumption, well above the return assumption for a traditional 60/40 global stock to global bond portfolio.

The Plan's current asset allocation is well-diversified and has a higher expected return compared to a traditional 60% global stock and 40% global bond portfolio.

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[5] To offer further assurances against potential withdrawal liability for employers adopting Schedule F, the Trustees amended the Plan so the "New Employer" pool would use the direct attribution method of withdrawal liability, subject to the approval of the PBGC. The Plan submitted the amendment to the PBGC for approval on January 28, 2013. To date, the PBGC has not acted on the request to approve the amendment.

[6] On January 1, 2013, the Trustees updated the Rehabilitation Plan to add Schedule G, which was adopted to help retain YRC and its affiliated companies after it negotiated a series of amendments to its collective bargaining agreement that, among other things, provided for a temporary cessation of pension contributions and a reduced contribution rate.

See Exhibit 4, at Appendix B. Further, the Plan's asset allocation is not overly reliant on any one asset class. No more than 20% of the portfolio is allocated to any one asset class, which reduces the risk of negative experience from excessive exposure to any single asset class.

The Plan's largest allocation is 18% to U.S. equities, making it significantly less reliant on U.S. equities than a traditional 60/40 global equity and global bond portfolio. Including international and emerging market equities along with U.S. equities, the Pension Fund has a 42% allocation to publicly-traded equities, still well below traditional 60/40 portfolios.

To enhance returns and improve diversification, the Plan's asset allocation includes private equity (15%), real estate (7%), natural resources (7%), and infrastructure (5%).

During the seven years prior to the Plan's filing of its initial application, the Plan returned 9.1%, net of fees, outperforming a 60/40 global equity and global bond portfolio by 1.8% per year, or greater than 20% cumulatively.

Over that same seven year period, the Plan's investments in private equity returned 14.9% per year, real estate returned 10.8% per year, and infrastructure returned 11.2% per year, all exceeding publicly-traded equities by 1.5% to 5.5% per year, and exceeding global bond returns by 6.4% to 10.4% per year. The Plan's natural resources investments do not yet have a seven-year return history, but have returned 3.2% per year over the past five years.

Employer Withdrawals

The Trustees recognize that employer withdrawals from the Plan are a serious threat to the Plan's solvency, particularly withdrawals by employers that do not pay the full assessed withdrawal liability due to company closures, bankruptcies, liquidations, de minimis reductions and 20 year cap limitations imposed by ERISA. Although the Trustees cannot generally control whether an employer withdraws, the Trustees have taken a number of measures to protect the Plan's solvency with respect to these withdrawals. First, the Plan is diligent and aggressive in attempting to collect withdrawal liability from all withdrawing employers and members of their controlled group who are responsible for paying the liability. Of the more than 600 employer withdrawals, the Plan has collected, or is collecting, more than $450 million in withdrawal liability. Second, the Trustees have been diligent in reviewing any employer transaction seeking safe harbor protection under Sections 4204 or 4218 of ERISA to ensure the Plan's financial integrity is not disadvantaged, including whether a principal purpose of any transaction is to evade or avoid withdrawal liability under Section 4212(c).

Additionally, to better reflect the Plan's severely underfunded status, the assumptions used for calculating withdrawal liability were changed for

withdrawals occurring on or after January 1, 2010. The actuaries now use PBGC assumptions, which require withdrawing employers to pay an amount consistent with the amount needed to settle the unfunded vested liability they are leaving behind. This change was made because the Plan is no longer attracting new and financially stable employers to replace employers that withdraw. While the Plan has always been aggressive in assessing and collecting withdrawal liability, since changing assumptions the Plan has collected millions of dollars more of withdrawal liability than what it would have collected using the prior assumptions.

Finally, withdrawing employers that participated in one of the Rehabilitation Plan's alternative schedules can leave behind greater unfunded vested liability because the actuarial cost of the subsidized benefits are paid for by increased employer contributions over time. To ensure the solvency of the Plan is not jeopardized by such withdrawals, the current Rehabilitation Plan requires that the withdrawing employer be deemed to have participated under the Default Schedule. Participants working for that employer at the time of the withdrawal receive only the Default Schedule benefits, which include no early retirement subsidy or adjustable benefits, regardless of the alternative schedule in which those participants previously participated.

.02 Plan Factors

(1) For the past ten Plan Years immediately preceding the Plan Year in which the Application is submitted:

(a) Contribution levels.

The information concerning contribution levels for the past 10 years is included in **Exhibit 12**.

(b) Level of benefit accruals, including any prior reductions in the rate of benefit accruals.

The current rate of benefit accruals varies from 1% of contributions to 0.25% of contributions depending on the applicable schedule adopted by the contributing employer under the Plan's Rehabilitation Plan. **See Actuarial Valuation as of January 1, 2016, attached as part of Exhibit 21 at Appendix C for a history of the Plan's benefit accruals.**

(c) Prior reductions, if any, of adjustable benefits under §432(e)(8).

The Trustees eliminated the following adjustable benefits for all participants under the January 1, 2011 Rehabilitation Plan:

(1) Regular Pension (age 60); (2) All disability benefits; (3) All death benefits (other than the qualified pre-retirement survivor's annuity); (4) All Reciprocal Pensions to the extent such pension was tied to one of the foregoing eliminated adjustable benefits. The Trustees also froze the Supplemental Social Security Benefit.

In addition, Participants whose employers adopted the Default Schedule under the Rehabilitation Plan had the following adjustable benefits eliminated/reduced effective January 1, 2011:

(1) The Thirty Year Pension; (2) Supplemental Accrual Rate; (3) Five Year Certain Annuity; (4) Ten Year Certain Annuity; (5) Qualified 100% Joint and Survivor Annuity; (6) 50%, 75%, and 100% Joint and Survivor Annuities with Pop-Up; (7) Voluntary lump sum payments equal to $5,000 or more; (8) Early and Vested Pensions calculated to equal the actuarial equivalent of the monthly amount of the Normal Pension to which a participant would have been entitled upon attaining age sixty-five (65) based upon credited service as of the date of the participant's early retirement. **See Exhibit 21 at Appendix C (Actuarial Valuation as of January 1, 2016) for list of subsidies under the Rehabilitation Plan's Alternative Schedules.**

(d) Any prior suspension of benefits under §432(e)(9).

The Plan has had no prior suspension under §432(e)(9).

(e) Measures undertaken by the plan sponsor to attract or maintain contributing employers.

The Trustees have undertaken a number of measures to attract and maintain employers.

First, in designing the Rehabilitation Plan, the Trustees recognized that a one-size-fits-all benefit and contribution approach would provide employers and participant groups a further incentive to withdraw. The Plan has many employers and participant groups, and each employer has a different economic situation and each participant group has different benefit expectations. Forcing an employer that is struggling financially to pay the large contribution increases required to fund the benefits demanded of participant groups with expectations of enhanced benefit levels could force them out of business or to otherwise withdraw. On the other hand, forcing a participant group of a financially-sound employer to accept the lower benefits that a less viable company could afford would likely prompt the employer, with potentially the backing of the union and employees, to withdraw from the Plan. For this reason, the Trustees

developed several alternative schedules under the Rehabilitation Plan that took into account these varying financial conditions and expectations. [7]

Additionally, as described in more detail above in Section 5.01, the Trustees attempted a number of other measures to retain and attract contributing employers. In 2010, the Trustees implemented a two-pool withdrawal liability methodology, with the new, second pool designed and managed to avoid withdrawal liability to the maximum extent possible. Given employers' great aversion to unchecked withdrawal liability, the Trustees believed this two-pool approach might be attractive to some employers and provide the union some ability to negotiate new employers into the Plan. Focusing on retaining existing contributing employers, the Trustees also developed new Alternative Schedule F in 2012. Schedule F allows current employers to avoid or limit their future withdrawal liability by paying 80% of their withdrawal liability while continuing to contribute to the Plan as a "New Employer." **See Exhibit 19.** Both these efforts were the Trustees' attempts to retain and attract contributing employers.

A strong disincentive for employers to withdraw, as well as a deterrent for participants to favor their employer's withdrawal, was established when the actuary changed the calculation assumptions for withdrawal liability. As discussed above, the changed assumptions generally make it much more expensive for employers to withdraw, and participants working for a withdrawing employer can only receive the Default Schedule benefits, regardless of whether they were previously working under an alternative schedule. This is a significant deterrent, particularly for participants who agreed to divert wages to pay for the enhanced benefits.

(2) The impact on Plan solvency of the subsidies and ancillary benefits, if any, available to Active Participants.

The Plan for many years offered benefits that included various early retirement subsidies, as well as ancillary benefits like disability pensions. Effective January 1, 2011, the Trustees eliminated all subsidies and ancillary benefits under the Rehabilitation Plan Default Schedule. As discussed previously in this Application, the Trustees did not eliminate all

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[7] In order to avoid the loss of another major employer, the Plan – like most other Teamsters pension plans – permitted YRC and its affiliated companies to temporarily cease contributions and thereafter participate in the Plan at a reduced contribution rate. The Trustee adopted Schedule G of the Rehabilitation Plan to accommodate YRC's situation and address the benefits levels provided under reduced contribution rates. The Trustees determined that accepting YRC's negotiated concessions and permitting the Company to remain in the Plan was more beneficial to the solvency of the Plan than rejecting the concessionary agreement. The Trustees' determination has proved accurate, as YRC's Active Participant base has remained stable since the adoption of Schedule G. Since 2013, the YRC's Active Participant population has remained stable, and is projected to remain at the 2016 level throughout the projection period. **See Exhibit 4**.

subsidized benefits under the Rehabilitation Plan's alternative schedules. Eliminating all subsidies under the Rehabilitation Plan would likely have driven employers and employee groups to withdraw from the Plan. Any subsidized benefit that remains in the alternative schedules, however, is paid for through higher contribution rate increases required under those schedules. To the extent there was any additional liability associated with retaining the subsidies, the Trustees concluded that the negative effect of additional withdrawals as a result of eliminating the remaining subsidies would be greater than the savings in liability associated with eliminating the remaining subsidies.

(3) Compensation levels of Active Participants relative to the Participants' industry generally.

As of January 1, 2016, the Plan had 11,576 Active Participants. **See Exhibit 21 (Actuarial Valuation as of January 1, 2016).** These participants are spread among various occupations and industries, although the Plan historically and today covers primarily transportation and warehousing employees. Historically, compensation levels of the Plan's Active Participants have been greater than non-participants in these industries. According to the Bureau of Labor & Statistics ("BLS"), the median weekly earnings of unionized transportation and warehousing employee is $980, compared to a non-union median of $754 per week.[8]

A discussion of the participants' compensation is not complete, however, without taking into account the differences in retirement plan costs between unionized and non-unionized employees. A BLS March 2016 News Release reports that in the unionized sector of the "service producing industries," which include transportation and warehousing, an average of $3.28 per hour of total employee compensation (7.4%) goes to fund retirement plan costs. The non-unionized sector average is only $.88 per hour (3%).[9]

Although on average unionized employees have traditionally received higher wages than non-union employees, in recent years non-union workers' wages have increased more rapidly than unionized workers' wages.[10] It is likely that pension costs for unionized workers are keeping their wages stagnant. This has a profound effect on the Plan, which has seen employer contribution rates increase approximately 200% since the

[8] *See Industries at a Glance, Transportation and Warehousing: NAICS 48-49,* http://www.bls.gov/iag/tgs/iag48-49.htm.

[9] *See Employer Costs for Employee Compensation*, March 2016, Table 13 at page 22.

[10] *See* George L. Long, "Differences Between Union and Non-Union Compensation," *Monthly Labor Review* (April 2013).

early 2000s. The Plan's actuary has projected that an Active Participant today is likely to receive approximately the same benefit as a current retired participant, but that benefit will cost three times as much. Pension contributions have continued to increase. Many Active Participants working under Alternative Schedule E have seen those increases funded through reductions in their wages.

(4) Competitive and other economic factors facing contributing employers.

A number of competitive and economic factors over the past 35 years have negatively affected the Plan's contributing employers and directly impacted the Plan's solvency. The deregulation of the trucking industry in the early 1980s started the steady decline in the number of the Plan's contributing employers and the Plan's financial condition. There has been a huge decline in unionized employment in the U.S. from approximately 27% in 1977 to 13% in 2011. Additionally, during the past 10-15 years, the LTL sector of the trucking industry, especially those smaller freight businesses in New York State, and its unionized workforce covered under the Plan have suffered an even more rapid decline.

During the past 10 years, which included the economic disaster of 2008-2009, there has been little to no growth in the U.S. economy, which has a significant impact on the trucking industry. The two major recessions in the 2000s drove many contributing employers out of business or into bankruptcy. Further, because so many of these employers withdrew from the Plan in severe financial distress, a large number were unable to pay their full withdrawal liability to the Plan.

In 2009 - 2015, the Plan saw some significant contributing employer events that negatively affected the Plan's funding. One of the Plan's larger employers, YRC, and its affiliated companies, negotiated a temporary cessation of their obligation to contribute for the period from July 2009 through December 31, 2012, and then commenced contributions at a collectively bargained concessionary pension rate that is 25% of the pre-July 2009 rate. On November 18, 2009, Penn Traffic, the Plan's fifth largest contributing employer, filed for bankruptcy. In 2013, Wegmans, the Plan's second largest employer, negotiated a withdrawal from the Plan. Later, in 2015, Dairy Farmers of America also negotiated a withdrawal from the Plan instead of sustaining any further contribution increases.

Additionally, during the past 10 years, there has been a shifting demographic whereby the "baby boomer" generation has been retiring in record numbers, and the unionized workforce employed by the Plan's contributing employers has steadily declined. In 1990, there were 23,883 Active Participants and 10,150 retired Participants, for a ratio of more than 2 Active Participants for every 1 retired Participant. In 2000, the ratio was

almost 1 to 1, as the number of active participants declined to 16,827, and the number of retired participants increased to 14,198. As of January 1, 2016, there were 11,576 active participants, compared to 15,936 retired participants and beneficiaries. The Plan has simply been unable to replace retirees with new hires on a one-to-one basis, which has hurt the Plan. The Plan's equal ratio of active participants to retirees has been reversed significantly.

The trend of workers retiring and not being replaced by active employees has negatively impacted the Plan's funding over the years. In 2008, the Plan paid out approximately $144 million more in benefits than it received in employer contributions. That difference was $168 million in 2009, $182 million in 2010, and $187 million in 2011. The demographic shift has caused the Plan, which has historically been dependent on contribution income, like many other Teamster plans, to grow increasingly dependent on investment income to cover the differences between contributions received and benefits paid. A review of 2016 employer contributions and benefit payments reveals that for every $2.25 the Plan pays out in pension benefits, only $1 is collected from employers, resulting in the annual shortfalls outlined above.

Lastly, employers have been moving away from establishing or participating in defined benefit plans and are instead moving into defined contribution plans. Such plans are generally less expensive for the employer than defined benefit plans, and they shift the investment risk away from the employer. The availability of such plans makes it harder to attract new employers to the Plan. Employers do not want exposure to withdrawal liability, or the risk associated with economic market fluctuations they know can leave them with a volatile contribution obligation.

.03 How plan factors were taken into account.

(1) *Contribution levels*

As explained above in Section 5.02(1)(a), over the last 10 years the Trustees have taken all reasonable measures with respect to employer contribution levels. In fact, the Trustees' efforts to increase contribution levels go back to the early part of this century, as employer contribution rates have increased almost 200% since that time. Given these massive increases in contributions over the years, and the continued withdrawal of contributing employers, it is clear that additional contribution rate increases (especially those set forth in the Rehabilitation Plan) are not sustainable for the Plan's remaining contributing employers. The result of further contribution increases will be more employer bankruptcies and thus more employer and participant group withdrawals.

In developing each of the Rehabilitation Plan schedules, the Trustees carefully considered contribution levels and the effect additional increases would have on the Plan's contributing employers. Although the Trustees saw the increases driving employers from the Plan at a faster pace, the Trustees had no other way to keep the Plan from becoming insolvent, once the Rehabilitation Plan reduced benefits to the maximum extent allowable under then-existing law. In an attempt to retain employers, the Trustees adopted a series of alternative schedules to the Rehabilitation Plan to allow the bargaining parties (union and employers) to negotiate for subsidized benefits in exchange for higher contribution rates. Each alternative schedule was designed to have the same actuarial cost as the Default Schedule, and the contribution rates for each schedule were set to pay for the subsidized benefit.

Currently, the Rehabilitation Plan has seven alternative schedules as well as the required Default Schedule. The Default Schedule requires a 6% annual contribution rate increase for the PPA statutorily-required minimum benefit of 1% accrual and elimination of all adjustable benefits, including early retirement subsidies. Under the current alternative schedules, various additional benefits are available for required contribution rate increases of between 6.50% and 8.25% annually.

Although these alternative schedules were originally developed to provide different cost options for employers, the increases have quickly become so costly that the only way some employers have been willing to accept the more-expensive alternative schedules is to require a reallocation of monies from wages to pension contributions, under their collective bargaining agreements. For example, United Parcel Service ("UPS"), which represents approximately 76% of the Plan's overall contributions, participates in Schedule E for its full-time employees. As of January 1, 2016, the UPS full-time rate is $14.6650 per hour, with required increases annually of 8.25%. To maintain the Schedule E benefits, which provide for a subsidized early retirement option important to many of the UPS employees, the union and employer negotiated for wages to be reallocated to pay for the a portion of the cost of the enhanced pension benefits. UPS employees currently have $1.60 per hour reallocated from wages in order to fund their Schedule E pension benefit level.

Current contribution rates are economically stifling for the Plan's contributing employers. ABF Freight Systems, for example, is paying $13.6299 per hour for its employees, which is $545.196 per week or $28,350.192 per year. **See Exhibit 22 for list of employer contribution rates as of August 1, 2015.** Moreover, the required 6% to 8.25% annual contribution increases under the Rehabilitation Plan schedules create rates that are unsustainable in the long-term. For example, if UPS is annually required to increase its contributions to the Plan by 8.25%, its contribution

rate in 20 years, by 2037, would be approximately $170,000 annually for each full-time employee covered under the Plan.

In 2015, the actuary informed the Trustees that the current Rehabilitation Plan contribution rates likely would require increases commencing in 2016, in order for the Plan to continue to project solvency. At about the same time and in connection with the Plan's annual certification for the 2016 Plan Year, the Trustees deadlocked over whether they would instruct the Plan's actuary that continued annual employer contribution increases of 6.00-8.25% was an unreasonable projection of future industry activity under ERISA Section 305(b). In consideration of the Plan's experience, the employer Trustees put forth a motion to instruct the actuary that continued employer contribution increases of 6% were not sustainable and should not be assumed for the purposes of projecting future industry activity.

After a deadlock arbitration hearing on October 15, 2015, Arbitrator Elliot Shriftman ruled that the Plan's actuaries should not assume future annual contribution increases of 6.00% as part of the industry activity projection. Based on the arbitrator's decision, the Plan's actuaries have assumed that future annual contribution increases will be less than 6% annually.

Although not a factor in the Arbitrator's decision, the Trustees also considered the effect of continued employer contribution increases on Plan participant behavior. Approximately 20% of each dollar of contributions to the Plan generated by work performed by the Active Participants pays for the pension that they earned for that work and to operate the Plan; the remainder funds the pensions of Non-Active Participants (retired and terminated vested participants). The Trustees have determined that mandatory additional contribution rate increases would be likely to: (a) cause a net decline in support for the Plan among Active Participants; and (b) make it more difficult for contributing employers to attract and retain qualified employees. These consequences, in turn, will lead to more employer withdrawals and to a decline in contribution income to the Plan.

Accordingly, for purposes of this Application, the Trustees agreed that contribution rate increases would be equal to those called for under the Rehabilitation Plan until 2018. Starting in 2018, contribution rate increases are assumed to be 3.5% for 4 years, then 3% for the next 9 years, and then 0.0% thereafter. In developing these rates, the Trustees gave serious consideration to macroeconomic factors, the financial strength of contributing employers, competition in the marketplace, the relationship between contribution levels and benefit levels, and expected changes in the wage packages over the next several years. In doing so, the Trustees determined that it was reasonable to require contribution increases at the

rates prescribed in the Rehabilitation Plan for the next two years, followed by additional increases at a rate less than what is required under the Rehabilitation Plan, with the understanding that in fifteen years the employers would not incur any additional increases. The Trustees determined that such increases will avoid insolvency, keep employers financially viable, and help retain and attract qualified employees.

(2) *Benefit accrual levels, including any prior reductions in the rate of benefit accruals.*

As explained above in Section 5.02(1)(b), the Trustees have made a number of benefit accrual reductions over the last 10 – 12 years. The benefit reductions, when considered with the required annual contribution increases, have resulted in employers paying more for their employees to receive a smaller benefit. This has caused many employers – and increasingly rank-and-file union members – to want to support their employer's withdraw from the Plan.

The first benefit accrual level reduction was effective January 1, 2004. After three consecutive years of less than assumed investment returns, the Trustees took a difficult, yet proactive step when they reduced the accrual rate from 2.6% to 1.3% of contributions. After entering Critical Status, the Trustees eliminated most adjustable and ancillary benefits and implemented Rehabilitation Plan Schedules which further reduced benefit accrual rates to a range of 0.25% to 1% of contributions.

In reviewing levels of benefit accruals, the Trustees concluded, in consultation with the actuaries, that any further reduction in the future accrual rate beyond those contained in the Rehabilitation Plan would have a detrimental effect on the Plan by undermining contributing employers' ability to attract and retain qualified employees. It would also severely undermine the support of the Plan's Active Participants. Further, it was determined that further reductions in accruals would have an immaterial effect on the solvency of the Plan because the Plan is projected to become insolvent by 2027. **See Exhibit 5.** There is just not enough time for additional reductions in accrual rates to have a significant impact on the Plan's solvency. Accordingly, the Trustees concluded that maintaining future accruals at the rates set forth in the Rehabilitation Plan is a reasonable measure to avoid insolvency.

(3) *Prior reductions of adjustable benefits under Section 432(e)(8).*

Section 5.02(3)(c) above details the reductions in adjustable benefits the Trustees made after adopting the Rehabilitation Plan. Adjustable benefits include essentially all subsidized benefits other than those in pay status

prior to 2011, disability benefits in pay status at any time, and accrued benefits payable at age 65. The Rehabilitation Plan eliminated the following adjustable benefits for all participants:

- The Regular Pension (age 60);
- Disability Benefits, including the Disability Pension and Lump Sum Disability Benefit;
- Death Benefits, including but not limited to, the Lump Sum Death Benefit and 60-month pre-retirement death benefit; and
- All Reciprocal Pensions to the extent any such pension is tied to one or more of the adjustable benefits listed above.

  The Trustees also froze the Supplemental Social Security Benefit.

Under the Rehabilitation Plan's Default Schedule, the following adjustable benefits were also eliminated[11]:

- The Thirty-Year Pension.
- The following benefit payment options: 1) Five Year Certain Annuity; 2) Ten Year Certain Annuity; 3) Qualified 100% Joint and Survivor Annuity; 4) 50%, 75% and 100% Joint and Survivor Annuity with Pop-Up; and 5) Voluntary lump sum payments equal to $5,000 or more.

The Plan's actuary advises that the decrease in liability as of January 1, 2011 due to the adjustable benefits reduced as part of the Rehabilitation Plan is approximately $190 million. **See Exhibit 21, Actuarial Valuation as of January 1, 2016 at page 17**. With interest to the date of suspension, the value of the reduction in adjustable benefits would be greater than $190 million. Additionally, as a result of the Rehabilitation Plan benefit reductions, the value of annual benefit accruals was reduced by approximately $20 million per year. Since the Trustees adopted the Rehabilitation Plan in 2011, the loss of benefits earned by Active Participants is approximately $125 million (estimated to be over $160 million with interest).

[11] The Alternative Schedules retain some of the early retirement subsidies. **See Exhibit 21, Actuarial Valuation as of January 1, 2016 at Appendix C** for a description of the subsidies.

(4) *Prior benefit suspensions under Section 432(e)(9).*

The Plan has not implemented prior benefit suspensions under Section 432(e)(9).

(5) *Measures taken to retain or attract contributing employers.*

As explained in Section 5.02(1)(e), the Trustees have taken many measures to try to retain or attract new contributing employers, including:

- Adopting Funding Improvement and Rehabilitation Plans that provide several alternative schedules to offer different options for contributing employers of varying financial condition;

- Creating a hybrid plan whereby new employers may enter the Plan and participate in what is now a separate pool of liabilities, which is managed conservatively to avoid future withdrawal liability;

- Adopting a Distressed Employer Schedule which allowed YRC to remain in the Plan rather than withdraw and incur withdrawal liability sufficient to send the employer into bankruptcy;

- Adopting Schedule F which allowed existing contributing employers to pay 80% of the present value of their withdrawal liability in a lump sum (or in periodic installments not to exceed five years), and then participate in the "New Employer" pool, and pay a contribution rate that was 15% lower than the rate set forth in their applicable Rehabilitation Plan schedule.

The Plan's experience with efforts to retain and attract contributing employers has been very difficult. Some of these measures have not been successful, but given the limited options available, the Trustees concluded that in enacting each of these measures, they made every reasonable effort to protect the Plan's solvency. The Trustees believe that the measure proposed in this Application, as a whole, will provide the Plan its best chance of retaining – and possibly attracting – employers.

(6) *The impact on the Plan's solvency of the subsidies and ancillary benefits, if any, available to active participants.*

Effective January 1, 2011, the Trustees eliminated all disability benefits and subsidized early retirement benefits under the Rehabilitation Plan's Default Schedule. Any remaining subsidized benefits available under alternative schedules are paid for by additional contributions required under those schedules. Accordingly, the Trustees determined that the subsidies available to Active Participants do not impact Plan solvency. As previously discussed, it was determined that the negative effect of additional withdrawals as a result of eliminating the remaining subsidies would be greater than any savings in liability associated with eliminating the remaining subsidies.

The Trustees also noted, however, that most of the subsidized benefits are paid to Non-Active Participants in pay status and that at the time those benefits were earned the Plan did not receive contributions commensurate with the value of those benefits. The disproportionality of the subsidies compared to the contribution/cost ratio of normal retirement benefits was a factor in the Trustees' decision to adopt a plan of benefit suspensions which provides for larger reductions to those participants in pay status. Active Participants are having larger contributions made on their behalf, while deriving less benefit from them.

(7) *Compensation levels of Active Participants relative to employees in the Participants' industry generally.*

Retirement plan costs are generally higher for unionized employees in the transportation and warehousing industry than for non-union employees. The previously cited BLS March 2016 News Release reports that in the unionized sector of the "service producing industries," which include transportation and warehousing, an average of $3.28 per hour of total employee compensation (7.4%) goes to fund retirement plan costs. The non-unionized sector average is only $0.88 per hour (3%).

Although on average unionized employees have traditionally received higher wages than non-union employees, in recent years non-union workers' wages have increased more rapidly than unionized workers' wages. It is likely that pension costs for unionized workers are keeping their wages stagnant. As the contribution rates needed to sustain plans continue to increase, employers cannot absorb them. This means that participants are often required to reallocate a portion of their total compensation package from wages to pension contributions. Union employees are seeing reductions in wages, and reductions in retirement benefits, but are paying more than ever for those reduced retirement benefits.

Because of these trends and the desire of many workers to improve their wages rather than see increasing amounts of their total compensation dedicated to pension contributions (particularly when approximately 20% of each dollar of contributions to the Plan generated by work performed by the Active Participants pays for the pension that they earned for that work; most of the rest funds the pensions of retired and terminated vested participants), the Trustees have determined that mandatory additional contribution rate increases would be likely to: (a) cause a net decline in support for the Plan among Active Participants; and (b) make it more difficult for contributing employers to attract and retain qualified employees. These consequences, in turn, will lead to more employer withdrawals and to a decline in contribution income to the Plan. The aforementioned factors relating to the compensation levels of active participants relative to other employees in the participants' industry generally have caused the Trustees to conclude that they have taken all necessary steps to avoid insolvency.

(8) *Competitive and other economic factors facing contributing employers.*

As discussed above in Section 5.04, the Trustees have continually considered the competitive pressures and financial constraints faced by the Plan's contributing employers. The Trustees recognize that if they set contribution requirements at a level that the employers cannot sustain, it is very likely that the employers will go out of business, and/or file for bankruptcy, or simply leave the Plan. This is not pure speculation; the Trustees have seen it happen now for several years.

YRC and its affiliated companies, one of the Plan's larger employers, negotiated a temporary cessation of their obligation to contribute and now participate at a reduced contribution rate. Penn Traffic, the Plan's fifth largest contributing employer, filed for bankruptcy. Wegmans, the Plan's second largest employer, negotiated a withdrawal from the Plan. The Trustees' conclusion that the economic factors confronting employers will not permit additional, unchecked increases in contributions is based on first-hand experience.

The Trustees are also aware that most non-union employers do not sponsor defined benefit plans. Contributing employers are competing with non-union employers that do not have legally required pension contribution obligations. Most of the employers' non-union competitors maintain profit sharing or 401(k) plans. Such plans are not subject to the Internal Revenue Code's minimum funding requirements, and place the investment risk on the employee. The Plan's employers bear the burden of having to make contributions that are not only contractually required, but

legally required. Moreover, when the financial markets underperform or suffer losses, it is the employers that have to make up the difference.

(9) *The impact of benefit and contribution levels on retaining Active Participants and bargaining groups under the Plan.*

As discussed above, the Trustees recognize that benefit and contribution levels have an effect on retaining Active Participants. In enacting reasonable measures to avoid insolvency, the Trustees were mindful of recent experience, where the Plan's second largest employer negotiated a withdrawal from the Plan with the approval of its employees.

In developing this application, the Trustees took into account all the benefit reductions the Active Participants have experienced since 2004. Benefit accrual rates have been cut from 2.6% of contributions to 1%, and in some cases, 0.25% under the Rehabilitation Plan. In addition, the participants have in many cases seen wages stagnate or be reduced in order to pay for the benefit reductions. The reality is that the increases are not completely going to pay for the Active Participants' reduced benefits; the bulk of the increases are going to pay the benefits for the Non-Active Participants. The Trustees, based on experience, know that there is a limit to what Active Participants will tolerate before they look for other retirement options. They also know that if there are no active employees, the Plan is not viable and all retired Participants' benefits are at risk. With this in mind, the Trustees took the reasonable measure of proposing 18% reduction in the accrued benefit of Active Participants versus a 29% reduction for Non-Active Participants.

(10) *The impact of past and anticipated contribution increases under the Plan on employer attrition and retention levels.*

As discussed in detail above, the prior contribution increases imposed on contributing employers have become unsustainable. The Trustees saw first-hand what effect the rates were having on contributing employers: employers were withdrawing from the Plan, either voluntarily, as was the case with Wegmans or by filing bankruptcy, like Penn Traffic. If the increases were left unchanged, in twenty years UPS would be paying approximately $170,000 annually for each full-time employee covered under the Plan. Even a financially successful company like UPS cannot absorb such costs. Arbitrator Shriftman found that contribution increases called for under the Rehabilitation Plan were based in "excessive" optimism and "dangerous speculation" given the Plan's experience.

When designing their PPP, the Trustees determined that the anticipated future increases required, which would otherwise be unreasonable based

on the Trustees' past experience and Arbitrator Shriftman's ruling, became reasonable in the long-term when applied in conjunction with the proposed benefit suspensions. Moreover, there is relief in sight in 2031, when no increases will be required. In reviewing all these factors, the Trustees determined that prior contribution increases had brought the Plan's remaining employers to the brink of leaving the Plan. Contribution increases called for under the Rehabilitation Plan will take them over the brink. The contribution increases required under the PPP give employers hope that there is light at the end of the tunnel, and such light gives the remaining employers an incentive to stay in the Plan and keep it from becoming insolvent.

.04 Other Factors considered.

(1) *Investment Return Assumptions.*

Another factor the Trustees considered when developing the PPP is the effect of future investment returns on the Plan's ability to remain solvent. Given the Plan's current asset allocation, the investment return assumptions are well above a traditional 60% global stock and 40% global bond portfolio ("60/40 portfolio"). Assuming the current asset allocation remains unchanged, Meketa Investment Group's ("Meketa") 20-year return estimates are 8.8% for the Plan, and 7.0% for a 60/40 portfolio. The 10-year median estimates from the Horizon Actuarial 2016 Survey of Capital Market Assumptions ("2016 Survey") are 7.37% for the Plan and 5.95% for a 60/40 portfolio. The 20-year median estimates from the 2016 Survey are 8.35% for the Plan and 7.11% for a 60/40 portfolio.

The Trustees expect to obtain these higher returns with the current asset allocation without incurring much additional risk. That is because the Plan's private markets assets have less price volatility risk than the publicly-traded assets. While private market assets generally have more liquidity risk, the Plan's private market assets currently have a positive cash flow. The investment consultant projects the Plan's private market cash flow to be significantly positive over the next several years. [12]Accordingly, the Plan's exposure to the liquidity risk normally associated with private market assets is reduced. It is not expected that the Plan will have to liquidate the private market assets at depressed values to make benefit payments.

[12] With respect to the private equity distribution projections for 2017 – 2019, it should be noted that a number of the Plan's investments in private equity were made during the period 2006-2009, and generally have a duration of 10 years. Accordingly, the duration of the investments made in 2006, 2007, 2008 and 2009 will be ending 2016, 2017, 2018 and 2019, respectively. The Plan is expecting significant distributions from private equity in these years.

In selecting the investment return assumptions, the actuary has taken into account many factors as described in **Appendix B of Exhibit 4**. These factors include the possibility that the asset allocation may need to change in the future because the timing of future expected contributions and benefit payments result in the Plan having significant negative cash flow (only partially offset by the cash flow from private market investments), and the greater materiality of asset returns during the earlier years of the cash flow projection.

As discussed above, the Plan is structured differently than a 60/40 portfolio, with a higher expected return than a 60/40 portfolio. Even with the possibility of future adjustments in the asset allocation, investment returns are expected to be greater than a 60/40 portfolio. This is because the Plan can maintain some of its private market investments as these investments are mature and well beyond the initial j-curve phase.

(2) *Strengthening the Plan's Re-Employment Rules.*

As discussed above, the Trustees have recognized that the Plan's solvency problem as caused by a growing imbalance in the ratio of actives to retirees/beneficiaries has not been solely as a result of employer withdrawals. Another factor contributing to the problem is that an increasing number of participants are retiring (sometime under early retirement provisions of an alternative schedule), commencing their pension and then returning to work in "prohibited employment". This includes working for non-union companies that compete with the Plan's contributing employers. Although the Plan always has been diligent in its efforts to ensure compliance with its re-employment rules, the Trustees have strengthened enforcement by requiring retired participants to annually certify their employment information, including their place of employment and amount of earnings. Retirees are also required to provide written authorization for the Plan to access their Social Security records to confirm the information in the certification. Strict enforcement of the Plan's re-employment rules is yet another reasonable measure the Trustees have taken to help forestall insolvency.

SECTION 6. OTHER REQUIRED INFORMATION.

.01 Ballot. **See Exhibit 11** for a proposed ballot intended to satisfy the requirements of Section 432(e)(9)(H)(iii).

.02 Partition. The Plan is not applying to the PBGC for a partition order.

.03 Ten-year experience for certain critical assumptions. **See Exhibit 12** for a disclosure of the Plan's experience for certain critical assumptions for each of the 10 Plan Years immediately preceding the Plan Year in which the Plan's application is submitted for the proposed benefit suspension.

.04 Demonstration of sensitivity of projections. **See Exhibit 13** for the following separate projections: (1) a reduction of 1% in the Plan's assumed rate of return on assets; (2) a reduction of 2% in the Plan's assumed rate of return on assets; (3) a change in the assumed future contribution base units from the population assumption described above in **Exhibit 4** to a 4.45% annual reduction for the next ten years; and (4) a change in the assumed future contribution base units from the assumption above to a 5.45% annual reduction for the next 10 years. The 4.45% annual reduction in future contribution base units is based on the historical decline in contribution base units as shown in **Exhibit 12**. As noted in **Exhibit 12**, the drop in contribution base units from the 2013 to 2014 Plan Year is primarily due to the withdrawal of employers who are currently making withdrawal liability payments or have satisfied their withdrawal liability obligation in full.

The Trustees believe that the downward trend in contribution base units will not continue, as the withdrawals in 2013 – 2014 were specific, one-time events unlikely to be repeated. The withdrawn employers in 2013 and 2014 accounted for approximately 2.5 to 3.0 million hours in the years 2010 – 2013. If the withdrawn employers' hours for 2010 – 2013 are factored out, there is a steady pattern of hours for 2010 – 2013. As discussed earlier, the Trustees are confident that the economic certainty provided to employers under this Application with respect to their future contribution obligations will provide employers with an incentive to remain in the Plan. Likewise, the Application and other communications with Active Participants have shown them that there is long-term hope for the Plan, and it is to their economic advantage to remain participants.

.05 Projection of funded percentage. **See Exhibit 14** for the Trustees' illustration, prepared on a deterministic basis, of the projected value of Plan assets, the accrued liability of the Plan (calculated using the unit credit funding method) and the funded percentage for each year in the Plan's extended period, which ends with the Plan Year 2049.

.06 Plan sponsor certifications relating to plan amendments. **See Exhibit 15** for the Trustees' certification that if they receive final authorization to implement the suspension of benefits as described in Section 432(e)(9)(H)(vi), and choose to implement the authorized suspension, then, in addition to the Plan amendment implementing the suspension, the following Plan amendments will be timely adopted and not modified at any time thereafter before the suspension of benefits expires: (1) a Plan amendment providing that, in accordance with Section 432(e)(9)(C)(ii), the benefit suspension will cease as of the first day of the first Plan Year following the Plan Year in which the Trustees fail to maintain a written record of their determination that both: all reasonable measures to avoid insolvency continue to be taken during the period of the benefit suspension; and the Plan is projected to become insolvent unless benefits continue to be suspended; and (2) a Plan amendment providing that any future benefit improvements must satisfy the requirements of Section 432(e)(9)(E).

.07 Whether a plan is described in Section 432(e)(9)(D)(vii)(III). Not Applicable.

.08 Optional additional information. Not Applicable.

SECTION 7. IDENTIFICATION AND BACKGROUND INFORMATION ON THE PLAN.

.01 Plan sponsor. The Board of Trustees of the New York State Teamsters Conference Pension and Retirement Fund. The Board of Trustees' mailing address is PO Box 4928, Syracuse, NY 13221-4928, T: 315.455.9790, F: 315.234.1047, E: benefits@nytfund.org.

.02 Plan Identification. The name of the Plan is the New York State Teamsters Conference Pension and Retirement Fund. The Plan has been assigned the Plan Number 074. Its Employment Identification Number (EIN) is 16-6063585. The Plan is a multiemployer pension plan within the meaning of Code Section 414(f) and ERISA Section 3(37).

.03 Retiree Representative. On January 18, 2016, the Trustees selected Tom Baum to be the retiree representative. He is a retiree currently receiving benefits under the Plan and is not a member of the Board of Trustees. Participants and beneficiaries may contact Tom Baum at his website at: http://nysteamstersfundretireerep.com or at his e-mail address: info@nystfretireereptbaum.com.

.04 Plan's enrolled actuary. The Plan's enrolled actuary is James M. Locey (EA# Re of Horizon Actuarial Services, LLC, 8601 Georgia Ave, #700, Silver Spring, MD 20910.

.05 Power of Attorney. **See Appendix B.** The Plan's representatives as attorney-in fact are John F. Ring and James T. Kimble of Morgan, Lewis & Bockius LLP and Bernard T. King and Jonathan M. Cerrito of Blitman & King LLP.

.06 Plan documents. **See Exhibit 16** for the Plan's: 1) most recently restated Plan Document and any subsequent Plan amendments, 2) the most recent summary plan description, 3) the Plan's most recent determination letter, and 4) the Plan's Funding Improvement Plan.

.07 Participation agreements. **See Exhibit 17** for excerpts from the participation agreements pursuant to which the Plan is maintained, including language from any portions of a collective bargaining agreement or side agreement that are relevant to the Plan or proposed suspension.

.08 Annual return. **See Exhibit 18** for the following sections of the Plan's most recently filed 2015 Plan Year Form 5500:

(1) Pages 1 and 2 of the Form 5500;

(2) The Schedule MB, including attachments; and

(3) The Schedule R with attachments.

.09 Rehabilitation Plan. **See Exhibit 19** for a copy of the Plan's most recently updated Rehabilitation Plan, effective as of January 1, 2011 and Amended and Restated as of January 1, 2015.

- The Rehabilitation Plan contains the following schedules: Default Schedule and Seven (7) Alternative Schedules, Schedule A through Schedule G.

- **See Exhibit 20** demonstrating the Plan's contributing employers' contributions to the Plan pursuant to their applicable Rehabilitation Plan's schedule for the Plan Year ending December 31, 2015.

.10 Valuation Reports. **See Exhibit 21** for copies of the 2015 and 2016 Plan Year valuation reports for the Plan.

.11 Completed checklist. **See Appendix C** for the completed checklist of information required to be included in the Plan's application.

SECTION 8. RESUBMISSION REVIEW

This Section is not applicable. This application is not being submitted for a resubmission review.

Request for a meeting. The Trustees respectfully request an in-person meeting to discuss the issues involved if the Secretary is not inclined to approve the Plan's application.

The Trustees very much appreciate Treasury's willingness to review this important matter and application for the Plan. Should you have any questions or require any additional information, please contact the undersigned Trustees at PO Box 4928, Syracuse, NY 13221-4928, T: 315.455.9790, F: 315.234.1047, E: benefits@nytfund.org.

[SIGNATURE PAGE TO FOLLOW]

Very truly yours,

THE BOARD OF TRUSTEES OF THE NEW YORK STATE TEAMSTERS CONFERENCE PENSION AND RETIREMENT FUND

Redacted by the U.S. Department of the Treasury

Signature: ____

Name: John A. Bulgaro

Title: Chairman and Union Trustee

Date: 5/11/17

Redacted by the U.S. Department of the Treasury

Signature: ____

Name: Michael S. Scalzo, Sr.

Title: Chairman and Employer Trustee

Date: 5-11-17