NEW ENGLAND TEAMSTERS AND TRUCKING INDUSTRY PENSION FUND

2013 Review of the Rehabilitation Plan December 2013

On December 29, 2008, the New England Teamsters and Trucking Industry Pension Fund ("the Fund") was certified by its actuaries to be in "critical status" or "the Red Zone," as defined by the Pension Protection Act (the "PPA"), for the Plan Year beginning on October 1, 2008. A Rehabilitation Plan was adopted on January 15, 2009 amending the Rules and Regulations of the Fund to include revised pension contribution and benefit structures which, if adopted, were expected to enable the Fund to emerge from critical status by the end of the ten-year Rehabilitation Period as defined by the PPA.

ERISA Section 305(e)(3)(B) requires the Fund Trustees to review and update the Rehabilitation Plan on an annual basis. The Board of Trustees of the Fund has undertaken such reviews to determine whether the Rehabilitation Plan will allow the Fund to emerge from critical status within the prescribed Rehabilitation Period, which began on October 1, 2011.

Pursuant to ERISA Section 305(e)(3)(A) and IRC Section 432(e)(3)(A):

> A rehabilitation plan is a plan which consists of —
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> (i) actions, including options or a range of options to be proposed to the bargaining parties, formulated, based on reasonably anticipated experience and reasonable actuarial assumptions, to enable the plan to cease to be in critical status by the end of the rehabilitation period and may include reductions in plan expenditures (including plan mergers and consolidations), reductions in future benefit accruals or increases in pension contributions, if agreed to by the bargaining parties, or any combination of such actions, or
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> (ii) if the plan sponsor determines that, based on reasonable actuarial assumptions and upon exhaustion of all reasonable measures, the plan cannot reasonably be expected to emerge from critical status by the end of the rehabilitation period, reasonable measures to emerge from critical status at a later time or to forestall possible insolvency (within the meaning of section 4245).
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> If clause (ii) applies, as it does in this case, the plan "shall set forth the alternatives considered, explain why the plan is not reasonably expected to emerge from critical status by the end of the rehabilitation period, and specify when, if ever, the plan is expected to emerge from critical status in accordance with the rehabilitation plan."

Based upon the review of the Rehabilitation Plan conducted in 2011 – which considered the Fund's financial status, the impact of possible changes to future benefit schedules or pension contribution rates, reasonable actuarial assumptions, and the investigation of all reasonable measures – the Board concluded that the Fund is not expected to emerge from critical status by the end of the Rehabilitation Period. The Board updated the Rehabilitation Plan in 2011 to

include the actions and measures described in this document. Based upon the reviews of the Rehabilitation Plan that were conducted in 2012 and again in 2013, the conclusions reached by the Board are unchanged.

This document summarizes: (I) the alternatives that were considered in determining whether the Fund could be reasonably expected to emerge from critical status by the end of the Rehabilitation Period, (II) the basis for the conclusion that no further reasonable measures can be taken to allow the Fund to emerge from critical status by the end of the Rehabilitation Period, and (III) the reasonable measures that are included as part of the adopted Rehabilitation Plan to enable to Fund to emerge from critical status at a later date or forestall possible insolvency.

I. ALTERNATIVES CONSIDERED

Alternatives that would result in emergence from critical status in the rehabilitation period include substantial increases in pension contribution rates and significant reductions in future benefits and/or future benefit accruals. Each of these alternatives has been examined in detail.

Increase in Pension Contribution Rate: In 2011, as part of the annual review and update of the Rehabilitation Plan, the Fund Actuary estimated that pension contribution rates would be required to increase at a rate of 17% per year compounded annually for 12 years upon the expiry of the current contracts in order for the Fund to emerge from critical status by 2024. If the Schedule of Benefits for all participants were reduced to the schedule set forth in the Default Schedule (i.e. the elimination of adjustable benefits and the reduction of the accrual to 1%), participating employers would be required to pay 14% annual pension contribution rate increases in order to emerge from critical status by 2024. The Board of Trustees has determined each of the alternatives set forth below to be unsustainable.

Rate Change Date	Rehabilitation Plan Pension Contribution Rate 8% Annually	Recovery From Critical – Maintain Current Benefits Pension Contribution Rate 17% Annually	Recovery From Critical – Reduction in Current Benefits Pension Contribution Rate 14% Annually
8/1/2008	$5.91	$5.91	$5.91
8/1/2009	$6.56	$6.56	$6.56
8/1/2010	$7.21	$7.21	$7.21
8/1/2011	$7.86	$7.86	$7.86
8/1/2012	$8.51	$8.51	$8.51
8/1/2013	$9.19	$9.96	$9.70
8/1/2014	$9.93	$11.65	$11.06
8/1/2015	$10.72	$13.63	$12.61
8/1/2016	$11.58	$15.95	$14.38
8/1/2017	$12.51	$18.66	$16.39
8/1/2018	$13.51	$21.83	$18.68
8/1/2019	$14.59	$25.54	$21.30
8/1/2020	$15.76	$29.88	$24.28
8/1/2021	$17.02	$34.96	$27.68
8/1/2022	$18.38	$40.90	$31.56
8/1/2023	$19.85	$47.85	$35.98

8/1/2024	$21.44	$55.98	$41.02
8/1/2025	$23.16	$65.50	$46.76

Decrease in Benefits: The Fund has frozen its accrual at the July 2005 rate such that pension contribution increases do not generate higher accruals. Consequently, the accrual will steadily decrease to less than 1% of pension contributions between 2017 and 2020. Even the elimination of all adjustable benefits with an immediate reduction of the accrual to 1% still requires 14% annual increases in the pension contribution rate to emerge from critical status by 2025. In 2011, the Fund actuaries determined that even if accruals were cut to 0% with no adjustable benefits, annual pension contribution increases of 12% would be required to emerge from critical status within the Rehabilitation Period.

II. NO FURTHER REASONABLE MEASURES CAN BE TAKEN TO ALLOW THE FUND TO EMERGE FROM CRITICAL STATUS BY THE END OF THE REHABILITATION PERIOD

The Board of Trustees concluded that utilizing the measures necessary to allow the Fund to emerge from critical status by the end of the Rehabilitation Period as set forth above would be unreasonable. In fact, given the on-going economic malaise, such alternatives will more than likely serve to further destabilize the funding level as union members would reject continued participation in the Fund because of the drastic reductions in benefit accruals and other benefits and employers would withdraw from the Fund voluntarily or involuntarily through bankruptcy because of the dramatic increase in required pension contributions.

Even under the Fund's existing contracts, on a relative basis, pension contributions increase more than wages and represent an ever-increasing proportion of members' total compensation package. In addition, employees and employers also continue to face substantial increases in health and welfare contributions in order to maintain employee medical benefits. These increases place additional stress on the negotiating parties' ability to shift a greater portion of the overall wage package to pension benefits.

Union representatives believe that the diversion of an even greater percentage of the wage package to pension contributions over an extended period without any concurrent increase in future benefits or with a reduction of benefits would not be supported by union membership. This sentiment is especially true as the current increases in pension contributions do not result in benefits over the frozen 2005 accrual. Similarly, employer representatives have indicated that in this economic climate, continued increases beyond the minimum "Maintenance of Benefits" ("MOB") schedule are unsustainable and will not allow employers to remain competitive in today's market.

As further evidence of the inability of current employers to continue to pay increased pension contributions, two of the Fund's top ten largest employers have been directly affected. In order to avoid insolvency, one negotiated an agreement with the International Brotherhood of Teamsters to temporarily cease pension contributions to the Fund and then to resume pension contributions at a significantly reduced level. Another which emerged from bankruptcy notified the Fund that it is unable to pay its current pension contributions.

III. REASONABLE MEASURES TO EMERGE FROM CRITICAL STATUS AT A LATER TIME OR TO FORESTALL POSSIBLE INSOLVENCY

The review of the Fund's present pension contributions, benefit payments and asset returns indicate that the Fund is not expected to emerge from critical status under the Rehabilitation Plan within the Rehabilitation Period. However, the following additional measures have been taken in order to allow the Fund to emerge from critical status at a later time or to forestall possible insolvency.

A. New Preferred and Default Schedules have been adopted. As stated above, existing contributing employers have indicated that the increases in pension contribution levels under the Preferred Schedule at 8% per year (indefinitely), following five years of 10% increases, is unsustainable. As a result, the Preferred and Default Schedules have been modified as set forth below.

1. The Revised Preferred Schedule.

The following schedule is applicable to those collective bargaining agreements ("CBA") which were deemed compliant with the Rehabilitation Plan of 2009 and have met the required five years of 10% MOB increases as set forth therein for CBA extensions or renewals on or after March 4, 2008. Such schedules do not apply to new employers as that term is defined by Article XVI, Section 16.02 of the Rules and Regulations of the Pension Plan.

REVISED PREFERRED

Schedule A

Pension Contribution Rate Increases By Year
(All rate increases are to be compounded annually)

Contract Year	Pension Contribution Rate Increase	Pension Contribution Rate Formula
Year 6	6%	Pension Contribution Rate at the expiration of five years of 10% MOB compliant CBA x 1.06
Year 7	8%	Pension Contribution Rate in effect in Year 1 x 1.08
Year 8	8%	Pension Contribution Rate in effect on Year2 x 1.08
Year 9	8%	Pension Contribution Rate in effect on Year 3 x 1.08
Year 10	8%	Pension Contribution Rate in effect on Year4 x 1.08

2. The Default Schedule.

The following schedule is applicable to CBAs extended or renewed on or after March 4, 2008 and to which the Default Schedule applies as defined by Section III B of the Rehabilitation Plan of 2009.

DEFAULT SCHEDULE

Schedule B
Pension Contribution Rate Increases By
Year
(All rate increases are to be compounded annually)

Contract Year	Pension Contribution Rate Increase	Pension Contribution Rate Formula
Year 1 of default	14%	Pension Contribution Rate in effect at the expiration of the CBA preceding default
Year 2	14%	Pension Contribution Rate in effect in Year 1 x 1.14
Year 3	14%	Pension Contribution Rate in effect on Year 2 x 1.14
Year 4	14%	Pension Contribution Rate in effect on Year 3 x 1.14
Year 5	14%	Pension Contribution Rate in effect on Year 4 x 1.14

B. A revised withdrawal liability method for New Employers has been adopted and approved by the PBGC. It was apparent that the prior method of calculating withdrawal liability presented a substantial disincentive for new employers who face an allocation of the existing unfunded vested liability. The Fund amended Article XV of the Pension Plan to place New Employers in a withdrawal liability pool separate from existing employers for withdrawal liability purposes. New employers' unfunded vested liability is computed by the direct attribution method.

C. A New Plan of Benefits for New Employers has been adopted under Article XVI of the Pension Plan. It is believed that the current MOB increases in pension contributions and substantial withdrawal liability have discouraged new employers from entering the Fund. To bring New Employers to the Fund, the Trustees adopted the revised withdrawal liability method for New Employers described above in conjunction with a schedule of benefits for New Employers with a pension accrual rate specific to each New Employer, no requirement for MOB increases, a later normal retirement date and without any subsidized benefits. As of November 2013, several New Employers have entered the Fund.

D. Pursuant to the revised withdrawal liability method, current employers may pay their individual withdrawal liability and re-enter as a New Employer. Several existing employers, concerned about the substantial MOB increases under the prior Rehabilitation Plan and their ever-increasing withdrawal liability, were considering withdrawal from the Fund. To encourage these employers to pay their withdrawal liability and remain in the Fund, Article XV of the Pension Plan was amended to allow a so-called "Transition Employer" to pay its existing withdrawal liability on an extended schedule, then re-enter the Fund as a "new employer". The MOB pension contribution rate increases do not apply to Transition Employers.

As of November 2013, 39 existing employers with collective bargaining agreements covering more than 12,800 employees, approximately 60% of the active employee population, have transitioned into the new liability pool. These employers have committed to remaining in the Fund as they pay more than $2.7 billion in withdrawal liability payments over 25 years. [1]

The Fund actuaries performed an analysis of the expected economic impact on the Fund of the Transition New Employer arrangement. The actuaries determined that the agreements with Transition Employers already in effect are expected to have a positive effect on the Fund's projected solvency. The actuaries also determined that if all remaining Employers were to convert their status to Transition Employers, the Fund's projected solvency would be expected to improve further.

This result is achieved because, in addition to the significant amount of funds received by the Fund in the form of withdrawal liability payments, pension contribution hours received in future plan years from Transition New Employers are expected to equal or exceed their current level as the economy improves. Also, pursuant to the Fund's policy of discouraging withdrawal liability to be incurred by Transition New Employers because of significant economic disincentives, increases in pension contribution hours are achievable without any deleterious withdrawal liability effect.

Without doubt, the Transition New Employer arrangement benefits the Fund, regardless of the size of the company's workforce for the following reasons:

1. As previously noted, pension contribution rate increases that continue indefinitely are unsustainable. Further, even the pension contribution rate increases that have already taken effect under the prior Rehabilitation Plan were largely offset by decreasing work levels. The net result was a stagnant overall pension contribution level to the Fund over the past few years.

2. The withdrawal liability and post-transition pension contribution payment schedules set forth under typical agreements with Transition Employers remove the uncertainty of a future withdrawal liability assessment. Further, there are no scheduled pension contribution rate increases for post-transition hours worked. These factors are expected to result in stabilized – if not increasing – work levels by Transition Employers.

3. When employers have withdrawn from the Fund in the past, the overall experience has been to collect less than 100% of the assessed withdrawal liability. Further,

[1] It should be noted that only one Transition Employer negotiated a longer term than 25 years. The employer is the Fund's largest in terms of employees and contributions and is making its payments on a fifty year schedule. This extended period includes significant economic disincentives for the employer (and economic advantages to the Fund) in the event it withdraws during the payment period (see No. 6 below) thus contributing to the stability of the contribution stream to the Fund into the foreseeable future. Some Transition Employers elected to pay their withdrawal liability in a single lump sum and the terms of those agreements include significant economic disincentives for the employer (and economic advantages to the Fund) in the event it withdraws during an extended post-transition participation period (see No. 6 below),

when an employer withdraws (by definition) pension contributions cease for future hours worked, if any. To contrast, under the typical agreement with a Transition Employer, the Transition Employer pays its withdrawal liability over a period of 25 years while continuing to make pension contributions to the Fund for future hours worked. These dual pension contribution payment streams paid by Transition Employers improve cash flow to the Fund.

4. With improved net cash flow, the Board of Trustees has greater flexibility in entering into investments that will maximize the likelihood of meeting the Fund's expected return assumption.

5. Under the typical agreement, the Transition Employer settles its withdrawal liability obligation by making payments under a fixed 25 year schedule. Further, if a Transition Employer elects to pay its withdrawal liability in a lump sum, the Fund is less concerned about the possibility of the Transition Employer becoming insolvent during the payment period.

6. In the unlikely event that a Transition Employer subsequently and permanently withdraws from the Fund (and given that certain other conditions are met), the employer will be obligated to pay its withdrawal liability under the schedule that would have applied had its transition agreement with the Fund never applied. In most cases, such an event results in shorter payment schedules as defined under section 4219 of ERISA, as well as larger monthly withdrawal liability payments. This ERISA schedule is less favorable to the employer – both in timing and in present value of total payments – creating a strong disincentive for the Transition Employer to subsequently withdraw from the Fund.

E. A transition team has been formed to assist local unions in their negotiations with contributing employers. The transition team will work with the local unions to encourage employer to enter into agreements to become Transition Employers. Given that retaining contributing employers is one of the most crucial elements necessary for the ongoing fiscal health of the Fund, transition team members meet with the contributing employer, local union representatives and bargaining unit members to directly address employer proposals, determine the withdrawal liability payment schedule, calculate benefit accruals based on the negotiated pension contribution rate and, generally, to ensure that the Transition Employer, local union representatives and, if requested the bargaining unit, understand the Fund's policies with respect to the transition agreement.

F. The Fund will continue due diligence policies outlined below.

- Closely monitor funding levels.
- Adjust asset allocation to improve return and optimize cash flow.
- Monitor investment management performance and fees and petition for fee reductions where appropriate.
- Advocate for legislative relief in Washington through the National Coordinating Committee for Multiemployer Plans and the Mathis Group, retained by the Fund, with

particular focus on partition of benefits paid to orphan retirees which is one of the Fund's more challenging problems.

- Sustain the employer pension contribution audit program to insure timely and accurate payment of pension contributions.
- Optimize Fund expenses while maintaining core services to members.