

Western States Office and Professional Employees Pension Fund

2018 ANNUAL FUNDING NOTICE

Page 1 of 5

Introduction

This notice includes important information about the funding status of your pension plan (“the Plan”) and general information about the benefit payments guaranteed by the Pension Benefit Guaranty Corporation (“PBGC”), a federal insurance agency. All traditional pension plans (called “defined benefit pension plans”) must provide this notice every year regardless of their funding status. This notice does not mean that the Plan is terminating. It is provided for informational purposes and you are not required to respond in any way. This notice is required by federal law. This notice is for the plan year beginning January 1, 2018 and ending December 31, 2018 (“Plan Year”).

How Well Funded Is Your Plan

Under federal law, the plan must report how well it is funded by using a measure called the “funded percentage.” This percentage is obtained by dividing the Plan’s assets by its liabilities on the Valuation Date for the plan year. In general, the higher the percentage, the better funded the plan. Your Plan’s funded percentage for the Plan Year and each of the two preceding plan years is set forth in the chart below, along with a statement of the value of the Plan’s assets and liabilities for the same period.

Funded Percentage			
	2018	2017	2016
Valuation Date	January 1, 2018	January 1, 2017	January 1, 2016
Funded Percentage	63.5%	65.0%	65.0%
Value of Assets	\$333,355,231	\$342,812,133	\$347,859,875
Value of Liabilities	\$ 525,324,100	\$ 527,455,968	\$534,860,955

Year-End Fair Market Value of Assets

The asset values in the chart above are measured as of the Valuation Date. They also are “actuarial values.” Actuarial values differ from market values in that they do not fluctuate daily based on changes in the stock or other markets. Actuarial values smooth out those fluctuations and can allow for more predictable levels of future contributions. Despite the fluctuations, market values tend to show a clearer picture of a plan’s funded status at a given point in time. The asset values in the chart below are market values and are measured on the last day of the Plan Year. The chart also includes the year-end market value of the Plan’s assets for each of the two preceding plan years.

	December 31, 2018	December 31, 2017	December 31, 2016
Fair Market Value of Assets	\$296,809,307 ¹	\$335,048,313	\$326,919,954

Endangered, Critical, or Critical and Declining Status

Under federal pension law, a plan generally is in “endangered” status if its funded percentage is less than 80 percent. A plan is in “critical” status if the funded percentage is less than 65 percent (other factors may also apply). A plan is in “critical and declining” status if it is in critical status and is projected to become insolvent (run out of money to pay benefits) within 15 years (or within 20 years if a special rule applies). If a pension plan enters endangered status, the trustees of the plan are required to adopt a funding improvement plan. Similarly, if a pension plan enters critical status or critical and declining status, the trustees of the plan are required to adopt a rehabilitation plan. Funding improvement and rehabilitation plans establish steps and benchmarks for pension plans to improve their funding status over a specified period of time. The plan sponsor of a plan in critical and declining status may apply for approval to amend the plan to reduce current and future payment obligations to participants and beneficiaries.

As a result of the market downturn experienced during the 2008 Plan Year, the Plan was initially certified critical in 2009. At the time of the initial critical certification, the Plan’s funding percentage was estimated to be 69.4% and the credit balance in the Funding Standard Account was projected to be depleted by 2011. Despite the adoption and implementation of a rehabilitation plan, investment gains and all reasonable measures to forestall insolvency the credit balance was not projected to stay positive over the subsequent 10 years, the Plan remained in critical status for its 2010 through 2015 Plan Years (Code section 432(e)(4)(B)). In addition, since the Plan was projected to run out of money within 20 years and the funded percentage was less than 80%, the Plan was certified in critical and declining status for the 2016 through 2018 Plan Years.

On May 15, 2018 the Board of Trustees submitted an application with the U.S. Department of the Treasury to reduce benefits as allowed under the Multiemployer Pension Reform Act of 2014 (MPRA) to avoid plan insolvency. On September 14, 2018, the U.S. Department of the Treasury approved the application for benefit reductions effective October 1, 2018, which reduced benefits accrued through September 30, 2018 by 30% for eligible participants, but not below 110% of the PBGC maximum guaranteed benefit level. Due to the benefit reductions that took effect October 1, 2018, the Plan is no longer projected to become insolvent. Accordingly, the Plan has emerged from critical and declining status and is in critical status for the Plan Year ending December 31, 2019. A separate notice (“Notice of Critical Status”) is included in the same mailing as this notice for your reference.

You may request a copy of the rehabilitation plan, or any other material previously sent relating to the Plan’s status, by making a written request to the plan administrator.

¹ The December 31, 2018 fair market value of assets figure is an estimate based on the plan administrator’s unaudited financial statements. The final figure may differ from this estimate once the Plan’s regular audit is issued for the Plan Year.

Participant Information

The total number of participants and beneficiaries covered by the Plan on the valuation date was 7,394. Of this number, 626 were current employees, 3,970 were retired and receiving benefits, and 2,798 were retired or no longer working for the employer and have a right to future benefits.

Funding & Investment Policies

Every pension plan must have a procedure to establish a funding policy for plan objectives. A funding policy relates to how much money is needed to pay promised benefits. The funding policy of the Plan is to confirm that the minimum funding requirements of ERISA are being satisfied and to determine that anticipated employer contributions will not exceed the amounts deductible under the Internal Revenue Code.

Pension plans also have investment policies. These generally are written guidelines or general instructions for making investment management decisions. The investment policy of the Plan is to achieve the following objectives over a long-term investment horizon:

- A. Maintain sufficient liquidity for the ongoing payment of Plan benefits and expenses;
- B. Maintain sufficient reserves and adequate returns to provide Plan benefits and pay Plan expenses consistent with minimizing investment volatility and negative investment returns;
- C. Obtain an annual investment yield in excess of the assumption used by the Plan's actuary in determining the Plan's actuarial valuation (including over any actuarial smoothing period, if applicable); and
- D. Obtain a long-term competitive rate of return on investments, net of expenses, equal to or exceeding the Policy Index and appropriate benchmark rates over various appropriate trailing periods determined by the Investment Consultant.

Under the Plan's investment policy, the Plan's assets were allocated among the following categories of investments, as of the end of the Plan Year. These allocations are percentages of total assets:

Asset Allocations	Percentage
Stocks	<u>41.7%</u>
Investment Grade Debt Instruments	<u>21.1%</u>
High-Yield Debt Instruments	<u>1.9%</u>
Real Estate	<u>13.6%</u>
Other	<u>21.7%</u>

Right to Request a Copy of the Annual Report

Pension plans must file annual reports with the US Department of Labor. The report is called the "Form 5500." These reports contain financial and other information. You may obtain an electronic copy of your Plan's annual report by going to www.efast.dol.gov and using the search tool. Annual reports also are available from the US Department of Labor, Employee Benefits Security Administration's Public Disclosure Room at 200 Constitution Avenue, NW, Room N-1513, Washington, DC 20210, or by calling 202.693.8673. Or you may obtain a copy of the Plan's annual report by making a written request to the plan administrator, or by accessing the Plan's website at www.wsp.aibpa.com. Annual reports do not contain personal information, such as the amount of your accrued benefit. You may contact your plan administrator if you want information about your accrued benefits. Your plan administrator is identified below under "Where to Get More Information."

Summary of Rules Governing Insolvent Plans

Federal law has a number of special rules that apply to financially troubled multiemployer plans that become insolvent, either as ongoing plans or plans terminated by mass withdrawal.

The plan administrator is required by law to include a summary of these rules in the annual funding notice. A plan is insolvent for a plan year if its available financial resources are not sufficient to pay benefits when due for that plan year. An insolvent plan must reduce benefit payments to the highest level that can be paid from the plan's available resources. If such resources are not enough to pay benefits at the level specified by law (see Benefit Payments Guaranteed by the PBGC, below), the plan must apply to the PBGC for financial assistance. The PBGC will loan the plan the amount necessary to pay benefits at the guaranteed level. Reduced benefits may be restored if the plan's financial condition improves.

A plan that becomes insolvent must provide prompt notice of its status to participants and beneficiaries, contributing employers, labor unions representing participants, and the PBGC. In addition, participants and beneficiaries also must receive information regarding whether, and how, their benefits will be reduced or affected, including loss of a lump sum option.

Benefit Payments Guaranteed by the PBGC

The maximum benefit that the PBGC guarantees is set by law. Only benefits that you have earned a right to receive and that cannot be forfeited (called vested benefits) are guaranteed. There are separate insurance programs with different benefit guarantees and other provisions for single-employer plans and multiemployer plans. Your Plan is covered by the PBGC's multiemployer program. Specifically, the PBGC guarantees a monthly benefit payment equal to 100 percent of the first \$11 of the Plan's monthly benefit accrual rate, plus 75 percent of the next \$33 of the accrual rate, times each year of credited service. The PBGC's maximum guarantee, therefore, is \$35.75 per month times a participant's years of credited service.

Example 1: If a participant with 10 years of credited service has an accrued monthly benefit of \$600, the accrual rate for purposes of determining the PBGC guarantee would be determined by dividing the monthly benefit by the participant's years of service ($\$600/10$), which equals \$60. The guaranteed amount for a \$60 monthly accrual rate is equal to the sum of \$11 plus \$24.75 ($.75 \times \$33$), or \$35.75. Thus, the participant's guaranteed monthly benefit is \$357.50 ($\35.75×10).

Example 2: If the participant in Example 1 has an accrued monthly benefit of \$200, the accrual rate for purposes of determining the guarantee would be \$20 (or $\$200/10$). The guaranteed amount for a \$20 monthly accrual rate is equal to the sum of \$11 plus \$6.75 ($.75 \times \$9$), or \$17.75. Thus, the participant's guaranteed monthly benefit would be \$177.50 ($\17.75×10).

The PBGC guarantees pension benefits payable at normal retirement age and some early retirement benefits. In addition, the PBGC guarantees qualified preretirement survivor benefits (which are preretirement death benefits payable to the surviving spouse of a participant who dies before starting to receive benefit payments). In calculating a person's monthly payment, the PBGC will disregard any benefit increases that were made under a plan within 60 months before the earlier of the plan's termination or insolvency (or benefits that were in effect for less than 60 months at the time of termination or insolvency). Similarly, the PBGC does not guarantee benefits above the normal retirement benefit, disability benefits not in pay status, or non-pension benefits, such as health insurance, life insurance, death benefits, vacation pay, or severance pay.

For additional information about the PBGC and the pension insurance program guarantees, go to the Multiemployer Page on the PBGC's website at www.pbgc.gov/multiemployer. Please contact your employer or plan administrator for specific information about your pension plan or pension benefit. The PBGC does not have that information. See "Where to Get More Information" about your Plan, below.

Where to Get More Information

For more information about this notice, you may contact BeneSys, Inc. by phone at (800) 413-4928 or by mail at 5331 S.W. Macadam Ave, Suite 258, Portland, Oregon, 97239. For identification purposes, the official plan number is 001 and the plan sponsor's name and employer identification number or "EIN" are: Board of Trustees of the Western States Office and Professional Employees Pension Fund, 94-6076144.