WESTERN STATES OFFICE & PROFESSIONAL EMPLOYEES PENSION FUND

ADDITIONAL FREQUENTLY ASKED QUESTIONS REGARDING THE

- Questions Q1 to Q26: Questions submitted for town hall Meetings held September 14, 2017 & September 16, 2017

- <u>Questions 27 to Q31: Questions submitted prior to the town hall meetings.</u>

Q1: What happens if any employer fails/refuses to pay the withdrawal liability charges?

<u>Response:</u> The Trust monitors all withdrawal liability payments. Employers are notified if a payment is late. Collection proceedings are initiated if the employer fails to make any payment. The Trust collects the back payment as well as interest and collection costs. To date, two employers have not paid withdrawal liability: Marana Benefits (went out of business and had no assets) and ATPA (filed bankruptcy). The Trust has filed a claim in the ATPA bankruptcy proceeding but does not expect a recovery given ATPA's lack of assets.

Q2: Has there been any active recruitment of potential employers?

<u>Response:</u> The Trust is prohibited from being involved in collective bargaining issues. So this question is best directed to the Locals, who are involved in bargaining.

Q3: What is there to say about a current contributing employer making false assertions that their employees will be making better wages without a Union Agreement so that they can avoid a fair contribution?

<u>Response:</u> Again, this is an issue for the Locals, as the Trust is not involved in collective bargaining issues.

Q4: Is there going to be only a telephone Town Hall or will there also be something on the Web?

<u>Response:</u> Two telephone Town Halls are scheduled. The Locals can sponsor an in-person Town Hall meeting. The Board felt that additional in-person meetings are not needed at this time because the two applications are substantially similar, except as noted.**Q5: I would like some information on what effect this is going to have on the spousal option that I took when I started my pension?**

<u>Response:</u> The benefit paid to a surviving spouse of a retiree who elects a joint and survivor annuity option may also be affected by the Recovery Plan. For example, assume a retiree elects a 100% joint and survivor's annuity. In that case, the surviving spouse's benefit will equal the retiree's reduced benefit under the Recovery Plan. On the other hand, assume a retiree elects a 50% or 66 2/3% joint and survivor's annuity. In that case, the surviving spouse's benefit is determined using a two-step process. First, the surviving spouse's share of the retiree's reduced benefit~~s~~ is determined. For example, either 50% or 66 2/3% of the retiree's reduced benefit under the Recovery Plan. Second, the spouse's benefit is calculated using 110% of the spouse's PBGC guaranteed benefit, which is determined using the retiree's years of benefit service. The surviving spouse receives the bigger benefit under the first and second steps, but no more than the spouse's share of the retiree's benefit prior to the Recovery Plan.

Q6: Does this reduction in benefits guarantee that this plan will not fail?

Response: The goal of the Recovery Plan is for the Plan to avoid insolvency. That is all the statute requires. For example, the Recovery Plan cannot be designed to bring the Plan into the green zone (although the Plan could achieve green zone status through investment returns). Since the Plan is restricted to reducing benefits by the minimum amount to avoid insolvency, the Recovery Plan could fail if investment returns are less than the assumed returns used to model the Recovery Plan.

Q7: Are you anticipating that people will flock back to this plan once you implement this "recovery" with the loss of benefits?

Response: No. Modeling for the Recovery Plan does not include an assumption that more employers will adopt the Plan. However, the Plan would accept new employers.

Q8: You speak about the inactive to active participant ratio, and the decline in contributing employers. What are your plans to correct this?

Response: The Plan would benefit from new employers and additional active participants. This is one of the reasons the Plan proposed the accrual rate increase in the first application, which Treasury rejected. Since the Plan is not involved in collective bargaining issues, the Plan relies on the Locals to bring in new employers and additional active participants.

Q9: The page that starts with HOW YOUR MONTHLY PAYMENTS WILL BE AFFECTED, gives the current plan/Reduction benefit and PBGC. The PBGC is the estimated amount I would receive should the plan without the REDUCTION. What is the PBGC amount I will receive if the proposed reduction is approved?

Response: If the Recovery Plan is approved you will receive the amount listed for your reduced benefit. The benefit will be paid by the Plan and the PBGC will not be involved in any way.

Q10: All building trades' plans have done an amazing job of recovery. Why didn't our plan recover? Mismanagement? Or allowing people to leave?

Response: Every plan is different, with different actuarial assumptions, cash flow needs, investments and participant profile, including the mix of retirees vs. actives. Without reviewing building trade plans in detail, it is difficult to compare them to the Plan because of these differences. However, there are a couple of points to remember.

- First, all pension plans lost money in the 2008 market crash, followed by low returns in subsequent years.

- Second, the ability of a plan to recover from the market crash depends, in part, on the plan's cash flow needs. This Plan has a negative cash flow. More money is paid out each month in retirement payments than the Plan receives in contributions and investment returns. This is because of the high retiree to active ratio. In addition, the Plan has to invest a part of the portfolio in fairly liquid assets in order to have funds available to make monthly pension payments. Many other plans, like those in the building trades, may not have that requirement.
- Third, taking all the factors that contribute to the Plan's financial condition, particularly the stock market, there is no basis for stating that the Plan was mismanaged.
- Fourth, the Plan currently has little control over when participants retire and leave the Plan. One step the Plan took was to eliminate the early retirement subsidy as part of the Rehabilitation Plan back in 2010.
- In summary, the Plan's financial condition is attributable mostly to lower than expected investment returns, the stock market crash in 2008, the volatility of the stock market after 2008, and the large ratio of retirees to actives.

Q11: When do we vote?

Response: Voting is conducted by the Treasury Department, within **30 days** after they approve the application. The voting period runs for 21 days. The Plan has no control over the voting process, which is conducted by Treasury.

Q12: With the ratio of 8 to 1 - how likely is it that the proposed Pension Benefit Reduction & Recovery plan will be voted in by the participants?

Response: The Board believes that the Recovery Plan is the best alternative for preserving as much pension benefits as possible, and encourages a "yes" vote. However, the Plan has no basis on which to estimate how participants will vote.

Q13: How solvent is the PBGC? Could/will it run out of money?

Response: Here are some facts from the PBGC's 2016 annual report, regarding the PBGC's insurance program for multiemployer plans:

- As of 9/16/2016, the PBGC multiemployer program had liabilities of $61 billion and assets of $2.2 billion. That results in a deficit of $58.8 billion, which is an increase from $52.3 billion for 2015.

- During fiscal year 2016, the PBGC provided $113 million in financial assistance to 65 insolvent multiemployer plans. In the prior year they paid $103 million to 57 plans.

- Experts expect that the PBGC will become insolvent when the Central States Teamsters pension plan goes insolvent, which is expected to happen in the next 10 years.

Q14: It has been stated that the fund will run out of money by 2034 if we do not take action now. How was this estimate calculated and how accurate is this estimate?

Response: The projection is based on actuarial assumptions set by the Plan's actuary in accordance with generally accepted actuarial principles and practices. The assumptions include an assumed investment return, retirement rates, length of life, etc. The Plan has been making this determination yearly since the Pension Protection Act became effective in 2008. The projection is included in the application filed with Treasury and will be reviewed by both the Pension Benefit Guarantee Corporation and Treasury.

Q15: Also, what is the estimated time frame that the fund will continue to operate if we DO vote to accept this reduction?

Response: The application requires that the Plan's recovery plan must show that the Plan will not become insolvent in the foreseeable future. So the answer is forever, based on the assumptions made in the application.

Q16: Comment: By taking the reduction in June of 2018, and just basing it on my living until I am age 88 (of course this would change if I lived longer or shorter), I will lose over $50,000 more in pension benefits than if we let the plan run out of money. I feel we should let the plan run out of money.

Response: There are Plan participants in many different situations, given ages, health conditions, years to retirement, etc. As you determine how the Recovery Plan may affect your individual situation, remember that without the Recovery Plan the Plan is projected to become insolvent **in the next 17 years**. In that case, all participants alive after that date will have to rely on the PBGC to fund an even lower benefit at the PBGC guaranteed level. If the PBGC is insolvent, participants are likely to receive few if any benefits.

Q17: How can someone that doesn't vote be a yes vote?

Response: That's the law. Congress adopted this rule when they enacted the Multiemployer Pension Reform Act of 2014 (MPRA). The Plan cannot change this rule.

Q18: At the last meeting, there were people that had not received a notice but had heard about it and attended. I am sure there were hundreds of people that had not received the notice in the mail so did not attend. I know for a fact that my daughter did not receive a notice. This recent mailing you even sent it to my old address. I have notified your office MULTIPLE times. The only reason I received it was because the post office forwarding is still in place.

Response: The Trust Office constantly updates mailing addresses. Since most pension checks are deposited electronically, the Trust Office does not know if someone moved until they are told by the participant or receive returned mail. Notices for the second application were sent to all current participants, including those hired after January 1, 2017. If a change of address is received, the notice (and all future mailings) will be sent to the new address. With regard to voting, the Treasury regulations dictate how the vote is conducted and how mailings are made. The Plan has no control over how Treasury mails voting materials. However, the Plan will continually updated addresses so that voting materials can be resent.

Q19: I think the vote should be counted on each vote…as it is…a yes or a no. I believe it is WRONG to count the non-votes as a yes vote. Why aren't the non-votes counted as no votes? If you say that the recovery plan allows for non-votes to be counted as yes votes (which is really wrong) then…THESE NOTICES SHOULD BE SENT BY CERTIFIED MAIL.

Response: As noted above, voting must take place according to the law and Treasury regulations. The Plan is not at liberty to ignore the law. Also as noted above, Treasury runs the voting. The Plan has no control over how Treasury sends out the voting notice.

Q20: It still shocks me that we are in such trouble with our plan. When I was working, I worked for a labor union - with multiple unions in our building. They did not have the problems that we are having. Who was looking out for us, or should I say, who was not looking out for us?

Response: This is not the only multiemployer pension plan with financial difficulties. The Central States Teamsters plan is underfunded and headed to insolvency. As noted above, during fiscal year 2016, the PBGC provided $113 million in financial assistance to **65 insolvent multiemployer plans**. In the prior year they paid $103 million to 57 plans. An additional 10 multiemployer pension plans became insolvent in 2016. This is a national issue that Congress needs to address.

Q21: I strongly object to the statement on page 6: "This means that not voting counts the same as a vote to approve the reduction." The actual vote should be used to determine the outcome!!!!!!

Response: As noted above, voting must take place according to the law and Treasury regulations. The Plan is not at liberty to ignore the law. Also as noted above, Treasury runs the voting.

Q23: When did the PBGC start?

Response: The PBGC was created when ERISA was enacted in 1974. Before then there was no federal insurance program for pensions.

Q24: I would like to know how much money the Union was required to pay to PBGC?

Response: All multiemployer pension plans must pay an annual premium to the PBGC. The Plan paid $209,468 in premiums for 2017. The 2017 premium is $28 per participant. The premium for 2016 was $27 per participant.

Q25: This is not a Town Hall meeting, it is a one side statement by the Union. The letter states we may submit a question but are not given a way to dispute or further question the so called Town Hall phone reply. The vote count should include union members.

Response: All materials you received are from the Plan, not a union. The materials you received are based on form notices set by the U.S. Treasury. You can email as many questions as you would like to the email address: wsope@aibpa.com. As noted earlier, in-person town hall meetings are not currently scheduled but may be scheduled by the Locals. By statute, all participants can vote.

Q26: I entered the plan at 62 and now I'm 75 and ever since I started there were these letters about insolvency and nothing ever came of it. I can see when the market crashed to 6000+ there might be a problem but now that it is over 20,000 I don't see why the market has compensated and you should have an excess. $440 is hardly anything in the grand scheme of things and I need it more than you do. How much does the plan CEO get???

Response: You are correct that the Plan has been providing notices regarding the Plan's financial condition starting in 2009, when the Plan had to adopt a Rehabilitation Plan. As you point out, the market has recovered after many volatile years. However, through all of those years the Plan had more money flowing out to pay pensions than contributions received. So each year the Plan has less assets invested, and less investment return. Given statutory and legal restrictions, there is no way the Plan can "earn" its way back to financial health through the stock market. The Plan does not have a CEO. The Plan is governed by a Board of Trustees. Trustees receive no compensation.

QUESTIONS ASKED PRIOR TO THE TOWN HALL MEETINGS

Q27: At the time the Plan went into declining status in 2008-09 why were enhanced benefits offered, i.e. full retirement benefits at an early age with the ability to continue to work?

Response: The Plan does not offer full retirement benefits at an early age.

As part of the Rehabilitation Plan, the Plan was amended effective January 1, 2010, to:

1. reduce the rate of benefit accrual from 1.80% to 0.75%;
2. increase the normal retirement age to age 65 (previously 62);
3. eliminate the early retirement subsidy;
4. eliminate the "Rule of 80" for early retirement;
5. limit the optional forms of benefit to straight life annuity, joint and 50% survivor annuity and joint and 66 2/3 survivor annuity;
6. change the pre-retirement death benefit for single participants from a 60-month guarantee to a lump sum equal to $500 per year of service up to a maximum of $5,000; and
7. eliminate disability benefits except:
   (a) grandfather disabled retirees in pay status prior to November 1, 2009; and
   (b) modify the disability benefit as of January 1, 2010, as follows: a participant

who becomes disabled prior to age 55, has five years of service and at least 200 hours in the twelve months before becoming disabled can apply for a disability benefit. The benefit is 50% of the participant's accrued benefit and is payable until the participant reaches age 55. At age 55, the participant can apply for early retirement (but there is no subsidy – see below).

A participant can retire between 55 and 64, but receives no subsidy from the Plan. An early retiree's benefit is his/her benefit at normal retirement age, actuarially reduced for early retirement. Since there is no subsidy there is no "cost" to the Plan for allowing early retirement with a reduced benefit.

The Plan's existing rules regarding return to work were not changed as part of the Rehabilitation Plan. These rules are addressed in the Questions and Answers on the Plan's website.

Go to: www.wsp.aibpa.com
Select the "News & Updates" tab on the left
Scroll down to find "WSOPE Rehabilitation Plan Q&As" and select this document
Scroll through the document to: Supplement Participant Questions and Answers, Updated and Revised – July 2009.

The Board considered changes to the return to work rules when adopting the Rehabilitation Plan. The Plan cannot take advantage of more restrictive return to work rules that apply to construction trades. After consideration the Board decided to keep the existing rule.

Q28: When was the Plan changed regarding an unmarried participant's option to designate a beneficiary to receive a lifetime benefit equaling 1/2 of the participant's benefit upon the death of the participant rather than the original 5 year certain and life?

Response: The benefits available to single participants changed January 1, 2010, as part of the Rehabilitation Plan. The 5-year certain benefit was eliminated effective January 1, 2010. The standard form of benefit for a single participant, as required by law, is a single life annuity.

The Plan has always allowed a single participant to elect among the optional forms of benefits available to a married participant. The optional forms of benefits include a joint annuity and an enhanced annuity (for participants who rolled an account to the Plan). Joint annuities are the actuarial equivalent to a single life annuity, so there is no cost to the Plan if a single participant elects a joint annuity.

Q29: Why is the Plan or Union not enforcing withdrawal liability payments?

Response: The Plan enforces all withdrawal liability provisions and collects all available withdrawal liability payments. There are two employers from which the Plan cannot collect withdrawal liability: Marana Benefits (went out of business and has no assets) and ATPA (filed bankruptcy). The Plan has filed a claim in the ATPA bankruptcy but recovery is questionable given ATPA's lack of assets.

Q30: At this time has the Plan calculated the number of employers/employees who may withdraw from the Plan and/or decertify due to this most recent reduction and recovery plan?

Response: The Plan continuously monitors the number of employers in the Plan, how many have withdrawn and how many have requested a withdrawal liability estimate. Employers withdraw for a number of reasons. There is no way to forecast the number of employers that may withdraw in the future, due to adoption of the Pension Benefit Reduction and Recovery Plan.

Q31: It appears both this and the number of participants who availed themselves to taking the enhanced benefits which were offered when the Plan was determined to be in declining status may have been greatly underestimated.

Response: Enhanced benefits were not offered when the Plan entered critical and declining status. There is no indication that the number of withdrawn employers was not determined correctly.