

IMPORTANT INFORMATION ABOUT YOUR PENSION

PLEASE READ THIS LETTER FIRST

UPDATE ON THE PLAN'S MPRA APPLICATION

August 30, 2017

To: All Plan Participants, Beneficiaries and Employers

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

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

NOTICE

The enclosed documents explain actions proposed by the Board of Trustees to address our Pension Plan's funding crisis. Please review the contents carefully and plan to attend a telephone Town Hall meeting to learn more and ask questions. The meeting schedule is included as an attachment.

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

- The Pension Plans' original MPRA application was withdrawn August 11, 2017.
- A revised MPRA application was submitted August 24, 2017.
- The revised application will not include the accrual rate increase to 1%. That means that the accrual rate will stay at 0.75%.
- The new effective date of the proposed benefit reductions will be June 1, 2018.
- The benefit reduction will increase from 29% to 30%.
- All other provisions of the original application will be the same.
- The call center telephone number and the Pension Plan's recovery website will remain operational if you have questions.
- There will be two Town Hall call-in meetings, as explained below. Additional meetings will be determined by the Board and announced by separate cover letter.

Introduction

This letter updates the letter you received dated February 15, 2017, concerning the Pension Plan's application under the Multiemployer Pension Reform Act of 2014 ("MPRA").

1. The Pension Plan has held numerous conversations with staff at the U.S. Department of the Treasury ("Treasury") and the Pension Benefit Guarantee Corporation ("PBGC"). These Federal agencies jointly process MPRA applications. The Secretary of the Treasury must approve all MPRA applications.
2. The original February 15, 2017 MPRA application included a proposed increase in the accrual rate for active participants, from 0.75% to 1%. That proposed increase was included in the application for two reasons: first, to help attract new participants; and second, to help rebalance the cost of the Pension Plan's rehabilitation plan, generally born by actives.

After discussions, Treasury staff notified the Pension Plan of their position on the accrual rate increase. The Pension Plan was advised that because of the proposed rate increase, staff would recommend that the Secretary of the Treasury deny the application. As such, the new application rescinds that proposed increase and keeps the ongoing accrual rate at 0.75%.

3. The Board decided to maintain the flat percentage, "across the board" benefit reduction for all participants (subject to the MPRA restrictions); however, because of the passage of time the benefit reduction in the new application is 30%.

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

We are writing to update you on the state of our Pension Plan. In April 2017, we informed you that the annual review of the Plan's finances led us to conclude that the Plan was in "Critical and Declining Status." This means that the Plan is expected to run out of money in the near future—during 2034—unless we take action now.¹

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

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

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

- **The inactive to active participant ratio.** The number of retired participants and vested terminated participants now exceeds the number of active participants—*by an 8 to 1 ratio*. This is mainly due to the following factors:
 - A spike in the number of terminated vested participants due to the 2008 recession and slow economic recovery;
 - A substantial number of employer withdrawals that occurred since the Plan was first certified as Critical and Declining; and
 - A higher-than-expected number of participants retired when the Plan was first certified as Critical and Declining, before the initial Rehabilitation Plan changes took place.
- **The number of contributing employers.** Employer contributions are a critical source of Plan funding. However, due to the recession and subsequent slow economic recovery, the number of employers contributing to our Plan is significantly down, from 280 in 2008, to just 180 in 2017. And, while employers exiting the Plan are required to pay withdrawal liability, there is a dwindling level of “new money” coming into the Plan.²
- **The number of active participants.** The number of active participants is significantly down from 2008—by 64%. Fewer active employees mean fewer ongoing contributions coming into our Plan to fund future benefits earned.
- **Short-sighted federal laws.** Government regulations for multiemployer pension plans like ours have made it difficult for the Plan to save for a financial crisis, and to retain and bring new employers and active participants into the Plan.
- **Investment returns.** The Plan invests its assets and uses investment returns to help pay benefits. The Plan, like most other pension plans, suffered large investment losses (-32%) in 2008, due to the stock market crash. While investment returns have stabilized over the past few years, they have not been sufficient to make up for the 2008 loss **and** fewer contributions coming into the Plan due to decreasing membership.

Our Proposed Pension Benefit Reduction and Recovery Plan

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

MPRA allows the Plan to implement a reduction (within certain limitations) to the benefits of most Plan participants, but only if the reduction will fix the Plan's funding status for the

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

foreseeable future. The Board has tried to avoid this option at all costs in order to protect Plan benefits. However, the Board has determined that using MPRA is the last best option for preserving the Plan, so the Plan can continue to provide the benefits in the future.

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

- The Board submitted a ***Pension Benefit Reduction and Recovery Plan*** application with the U.S. Treasury Department on August 24, 2017.
- The U.S. Treasury Department has up to 225 days to review the Pension Benefit Reduction and Recovery Plan.
- If approved by Treasury, participants will have an opportunity to vote whether to accept or reject the Pension Benefit Reduction and Recovery Plan later this year. The voting process is explained in further detail in the attached *Notice*.
- If approved, the changes will take effect as soon as possible after the vote.

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

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

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

- **Review the enclosed document, titled "*Notice of Application for Approval of a Proposed Reduction of Benefits under the Western States Office and Professional Employees Pension Fund*."** This document explains why the Board is proposing to reduce benefits, what will happen if the Plan runs out of money,³ and how the application, review and approval process works.
- **Review the enclosed personalized benefit estimate, titled "*How Your Monthly Payments Will Be Affected*."** This document shows how your benefit will change under the proposed Pension Benefit Reduction and Recovery Plan. It also shows the portion of your benefit covered by the federal government if the Pension Benefit Reduction and Recovery Plan is not approved and our Plan runs out of money.⁴
- **Attend a telephone or in-person Town Hall meeting.** You will hear all of the details about the Pension Benefit Reduction and Recovery Plan. You will also have the opportunity to ask questions. A meeting schedule is provided as an attachment.

³ As noted above, the Plan was projected to become insolvent (i.e. run out of money and not be able to pay benefits to participants) during the 2034 Plan Year. This date may change based on the investment and demographic experience, as well as other factors.

⁴ Pension benefits are partially insured by the Pension Benefit Guarantee Corporation, a federal agency.

Additional Resources and Contact Information

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

Telephone call center: Call between 9:00 a.m. and 5:00 p.m. Pacific Time, Monday – Friday. The toll-free number is 1-888-999-4089.

Website: www.wspensionrecovery.com

If you need help accessing the internet, be sure to contact the Trust Office (see contact information on the last page). Also note, the website is mobile-friendly if a smart phone is your primary tool for using the internet.

Conclusion

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

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

Sincerely,

The Board of Trustees

IMPORTANT INFORMATION REGARDING THE PENSION BENEFIT

REDUCTION AND RECOVERY PLAN

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

Western States Office and Professional Employees Pension Fund

Pension Benefit Reduction and Recovery Plan

Town Hall Meeting Schedule

You can attend an electronic Town Hall meeting to hear all of the details about the Pension Benefit Reduction and Recovery Plan. In addition, you will have the opportunity to have your questions answered.

Telephone Call-in Town Hall Meetings:

- Thursday, September 14, 2017, from 4:00 p.m. to 6:00 p.m. Pacific Time
Phone: 1-855-880-1246 (Toll Free) or 1-877-853-5257 (Toll Free)
Webinar ID: 164 494 623
- Saturday, September 16, 2017, from 10:00 a.m. to 12:00 p.m. Pacific Time
Phone: 1-855-880-1246 (Toll Free) or 1-877-853-5257 (Toll Free)
Webinar ID: 643 619 750

If you would like to submit questions to be addressed at the Town Hall meetings, please submit them by email to **wspensionrecovery@gmail.com**.

Local Sponsored Town Hall Meetings:

No additional in-person Town Hall meetings are scheduled at this time. Separate advance notice will be provided for Town Hall meetings sponsored by OPEIU Locals, when scheduled.

Trust Office contact information:

BeneSys, Inc.
1220 SW Morrison St. Suite 300, Portland, OR 97205-2222
(503) 222-7694 (800) 413-4928 Fax (503) 228-0149
www.wsp.aibpa.com