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# LOCAL 807 LABOR-MANAGEMENT HEALTH & PENSION FUNDS

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## Notice of Critical Status Local 807 Labor Management Pension Fund

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Participants, Beneficiaries, Contributing Employers and Teamsters Local 807:

This is to inform you that on November 29, 2010, the actuaries for the Local 807 Labor Management Pension Fund (the "Fund") certified to the U.S. Department of the Treasury and to the Board of Trustees that the Fund is in critical status for the plan year beginning September 1, 2010. Federal law requires that you receive this notice.

### Introduction

The Pension Protection Act ("PPA"), signed into law in 2006, is intended to improve the financial condition of pension funds. The Act introduced several formal safeguards and controls and added notification requirements for Trustees to share more information about a fund's financial circumstances with participants, contributing employers and others directly related to the pension plan.

Many of the Act's provisions relate to funding, which, in simplest terms, is how much a pension plan has coming in, going out, and what is in reserve (or "in the bank") for the future. The safeguards are intended to create more discipline to prevent future funding problems and correct those that have already developed.

The Act requires us to test the Fund annually to classify its funding status. Standardized measurements are established for classifying pension plans based on their funding issues. Funds that are in "seriously endangered" or "endangered" status (also referred to as yellow zone) or "critical" status (or, red zone) must notify all fund participants, beneficiaries, unions, and contributing employers of the fund's status, as well as take corrective action to restore the fund's financial health.

### Fund's Status – Red Zone

The Fund is in critical status (red zone) as of September 1, 2010 as a result of the actuary's determination that:

- The Fund is projected to have an accumulated funding deficiency in five years. This means that contributions to the fund are not expected to be sufficient to meet government standards for funding promised benefits plus those benefits that participants are currently earning.
- The funded percentage of the Plan is 64.9%
- The liabilities for non-active participants are greater than those for active participants
- The contributions for the year are not expected to cover the cost of accruals during the year plus interest on liabilities not already funded

### Rehabilitation Plan and Possibility of Reduction in Benefits

The Act requires that a fund in the red zone adopt a Rehabilitation Plan designed to enable the fund to improve its funded position so that, over time, it will be able to meet the statutory funding requirements. The Rehabilitation Plan, which must be adopted by July 27, 2011, will consist of one or more "schedules" of recommended contribution increases and possible reductions in benefits. The bargaining parties will be provided with these schedules for consideration in negotiations for new or renewed collective bargaining agreements.

If the bargaining parties cannot agree to adopt one of these schedules, the law requires the Trustees to impose a default schedule for any bargaining unit in that situation. The default schedule will include any legally required reductions in the adjustable benefits, as well as any increase in employer contributions, if benefit reductions are not enough to correct the funding problems.

The Trustees may provide, and the bargaining parties may also agree on, an alternative schedule that may include less drastic or no reductions in benefits in addition to employer contribution increases.

In addition to revising the formula for future benefit accruals and making similar changes, under the PPA a Rehabilitation Plan may eliminate or reduce "adjustable benefits". Adjustable benefits include:

- » Pre and Post-retirement death benefits;
- » Disability benefits (if not yet in pay status);
- » Early retirement benefit or retirement-type subsidy;
- » 60 month payment guarantee; and
- » Benefit payment options other than a qualified joint-and survivor annuity (QJSA).

The level of benefits already earned that are payable at normal retirement age as a single life or qualified joint and survivor annuity cannot and will not be reduced under these PPA rules. Any reductions pursuant to the Rehabilitation Plan will apply only to participants and beneficiaries whose benefit commencement date is after **December 27, 2010**. You will be notified before any benefit reduction is put into effect.

### **Employer Surcharge**

The law requires that all contributing employers pay to the Fund a surcharge to help correct the Fund's financial situation beginning 30 days after the employer is notified that the plan is in critical status. The surcharge is a percentage of the employer's negotiated contribution rate. A 5% surcharge is applicable during the first year in critical status. The surcharge goes up to 10% for each succeeding plan year in which the Fund is in critical status, until the employer agrees to a collective bargaining agreement that implements one of the schedules in the Rehabilitation Plan.

For the remainder of the first plan year, the 5% surcharge will be due with respect to any contribution required for work performed on or after **January 26, 2011**, and will continue until **August 31, 2011**. For subsequent plan years, i.e., beginning **September 1, 2011**, the 10% surcharge will apply to any contributions due on and after that date.

### **What's Next**

We understand that legally required notices like this one can create concern about the Fund's future. Be assured that the Board of Trustees takes its obligation to preserve the financial viability of the Fund very seriously. With the assistance of the Fund's actuaries, counsel and other professionals, and working with the contributing employers and the Union, the Trustees will develop a Rehabilitation Plan that addresses these issues. You should know that we expect that both contribution increases and benefit reductions will be necessary in order to improve the Fund's serious financial condition.

As a final note, since the Pension Plan is influenced by economic and financial variables beyond our control (such as market volatility and changes in employment and/or the number of contributing employers), unexpected developments can affect the Fund's status and any future corrective actions needed. The Trustees, along with its professional advisors, will review the Fund's progress periodically and assess whether future changes to the recommended contribution and benefit schedules are needed.

For more information about this notice or the Fund, please contact the Fund Office at the address or phone number listed at the top of this letter.

Sincerely,  
Board of Trustees

*As required by law, this notice is being provided to the Pension Benefit Guaranty Corporation (PBGC) and the U.S. Department of Labor.*

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HEALTH AND PENSION FUNDS

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