International Painters and Allied Trades **Industry Pension Fund**

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# SPECIAL BULLETIN

To: Plan Participants
Participating District Councils and Local Unions
Participating Employers

From: IUPAT Industry Pension Fund Board of Trustees

Date: December 14, 2011

We are writing to inform you of amendments to the IUPAT Industry Pension Plan, changes that may result in a reduction in the rate at which benefits accrue for future service for many Participants. This notice is to advise you of these changes that are effective January 1, 2012 and the impact they may have on your benefits.

As a result of the unprecedented deterioration in the financial markets in 2008 and early 2009, investment portfolios of virtually every pension fund, endowment fund, and charitable trust declined significantly. We, the Board of Trustees hoped that the economy and investment markets would recover faster than has proven to be the case.

As members of the Board of Trustees, we have been given the fiduciary responsibility to oversee the Plan and it is our job to make decisions that are best for the Plan as a whole and to ensure the financial security of all participants. It is therefore our primary objective to ensure that the Pension Plan is sound, now and for the future. We, The Trustees, do not want you to lose your earned pension benefits or pension plan.

In the current economic and investment climate, we need to make benefit, as well as contribution, changes to keep the Plan on a sound course. This notice covers changes to the Plan that are necessary for the Plan to comply with the Funding Improvement Plan ("FIP"), as required by federal law.

- Under the standard FIP option (Option I), each Employer's hourly contribution rate in effect as of March 1, 2009 must be increased by thirty-five percent (35%) effective January 1, 2012. The FIP provided, however, that if the bargaining parties entered into a collective bargaining agreement providing for a 35% contribution increase ***earlier*** than January 1, 2012, then the Plan would provide a benefit accrual of two percent (2%) of contributions for increases up to the 35% supplemental contribution that are received prior to January 1, 2012. However, as of January 1, 2012, when the 35% supplemental contribution goes into effect, no further benefit accruals will be provided on that extra 35% as it is needed to make-up for the losses from 2008 and 2009 that have not yet been recovered on the Plan's investments.

- Under the FIP "default" option (Option II), contributions must increase to 115% of contribution rate in effect as of March 1, 2009. Unfortunately, this increase is not enough to sustain prior benefits. As a result, contributions below the Option I rate after 2011 (for any reason) will produce no increase in your benefits and work at the default rate will not keep you eligible for disability or death benefits. Contribution hours under the default option will however maintain your "active employee" status in the Plan and allow you to receive your early retirement benefits as of 12/31/2011 with a limited reduction.

- If an employer does not contribute at the standard or default option within 180 days of the expiration of its collective bargaining agreement (in effect at 1/1/09), the company may be terminated as a contributing employer. This may cause you to lose "active employee" status for all purposes and will limit you to deferred "vested" benefits under the Plan.

The amendments to the Plan are being made at this time to reflect the resulting change in benefits effective January 1, 2012. To obtain a copy of the Plan's FIP, contact the Fund Administrator at the address shown on the cover page of this notice.

The remainder of this notice describes the changes in greater detail.

## CURRENT BENEFIT FORMULA

**At present, a Participant's normal retirement benefit is his/her accrued benefit as of December 31, 2009 (under the formulas described in the Plan booklet) plus the benefits accrued for service on or after January 1, 2010 based on a varying percentage of an Employer's required contributions for an employee's work, as follows:**

- Base Contribution Rate. The amount of benefits earned depends on the contribution rate for work covered by the Plan that was in effect at January 1, 2006 – which the Plan calls the "Base Contribution Rate."

- March 2009 Contribution Rate. The amount of benefits earned also depends on the contribution rate for work covered by the Plan that was in effect at March 1, 2009 – which the Plan calls the "March 2009 Contribution Rate."

- Benefit Percentage at the Base Contribution Rate. If an Employer pays the Base Contribution Rate, the benefit earned in 2010 and 2011 was equal to one half percent (1/2%) of an Employer's required contributions for the employee's work.

- Benefit Percentage above the Base Contribution Rate. If an Employer pays more than the Base Contribution Rate, the benefit earned in 2010 and 2011 was the sum of (1) + (2) + (3) + (4), determined as follows.

    (1) One half percent (1/2%) of an Employer's required contributions at the Base Contribution Rate, plus

    (2) One percent (1%) of an Employer's required contributions above the Base Contribution Rate but below the March 2009 Contribution Rate, plus

(3) If the parties choose to elevate their contribution rates as required by the Plan's FIP prior to January 1, 2012, two percent (2%) of an Employer's required contributions above the March 2009 Contribution Rate but below 135% of the March 2009 Contribution Rate, plus

(4) If an Employer pays more than 135% of the March 2009 Contribution Rate, one percent (1%) of an Employer's required contributions above 135% of the March 2009 Contribution Rate.

- Benefit Percentage below the Base Contribution Rate. If an Employer pays less than the Base Contribution Rate, benefits are only earned in 2010 and 2011 if the contribution rate for work is over 70% of the Base Contribution Rate. The benefit earned is a percentage of the actual contribution rate. Sample percentages are as follows.

| Contribution Rate as a % of the Base Contribution Rate | | Benefit Accrual Rate |
|---|---|---|
| 100% | | 0.5000% |
| 90% | | 0.3350% |
| 80% | | 0.1650% |
| 70% | | 0.0000% |

The Plan may determine that a contribution rate has been reduced due to limitations on the hours or employees covered by a pension contribution agreement or other factors, even though the nominal dollar rate is the same as the Base Contribution Rate.

If the rate was less than 71% of the Base Contribution Rate but more than 30% of the Base Contribution Rate in 2010 and 2011, no benefits are earned for the contributions, but service will still count for vesting and retirement eligibility.

The Plan could refuse contributions below 30% of the Base Contribution Rate in 2010 and 2011 and terminate the employer from the Plan. Except as required by law, no service credit will be earned for any purpose under the Plan after contributions cease (either directly by the Employer or due to rejection of contributions by the Trustees). The Employer may also be obligated to pay withdrawal liability.

## NEW BENEFIT FORMULA FOR WORK AFTER JANUARY 1, 2012

**The Plan benefit formula is being changed by a Plan amendment. After 2011, a Participant's normal retirement benefit is his/her accrued benefit at December 31, 2011 (under the formulas described above), plus the benefits accrued for service on or after January 1, 2012. The formula for computing benefits on or after January 1, 2012 is based on a varying percentage of an Employer's required contributions for an employee's work, determined as follows:**

- Benefit Percentage below 115% of the March 2009 Contribution Rate. If an Employer pays less than 115% of the March 2009 Contribution Rate after 2011, no benefits are earned for that work or contributions. If the Employer does not increase its contributions within 180 days after the expiration of its 2009 collective bargaining agreement, the Employer may be terminated from the Plan and obligated to pay withdrawal liability. Except as required by law, no service credit will be earned for any purpose under the Plan after contributions cease (either directly by the Employer or due to rejection of contributions by the Trustees).

- Benefit Percentage above 115% of the March 2009 Contribution Rate but less than 135% of the March 2009 Contribution Rate. If an Employer pays at least 115%, but less than 135% of its March 2009 Contribution Rate, no benefits are earned for the contributions after 2011, but service with the Employer will still count for vesting and early retirement eligibility (including "Active Employee" status). Service with an employer who contributes at this level after 2011 will not count in determining eligibility for disability or death benefits (other than required spouse benefits for vested employees), even if the service was before 2012.

- Benefit Percentage at or above the 135% of the March 2009 Contribution Rate. If an Employer pays 135% of the March 2009 Contribution Rate or more, the benefit earned for work after 2011 is the sum of (1) + (2) + (3) below.

  (1) One half percent (1/2%) of an Employer's required contributions at the Base Contribution Rate, plus

  (2) One percent (1%) of an Employer's required contributions above the Base Contribution Rate but below the March 2009 Contribution Rate, plus

  (3) If an Employer pays more than 135% of the March 2009 Contribution Rate, one percent (1%) of an Employer's required contributions above 135% of the March 2009 Contribution Rate.

  (4) There is a "doughnut hole" after 2011. Contributions between the March 2009 Contribution Rate and 135% of that rate earn no benefits after 2011. In the current economic and investment climate, this money needs to be used to shore up the Plan's funding and protect the benefits you have earned in the past.

  If an Employer was first required to make contributions after March 1, 2009, the March 2009 Contribution Rate is deemed to be 74% of the contribution rate at which an Employer initially was required to contribute to the Plan.

Your benefit for future service from January 1, 2012 will be calculated as described above for your work from January 1, 2012 forward. Your total accrued benefit will be the benefit you earn from January 1, 2012 PLUS your accrued benefit as of December 31, 2011.

**EXAMPLES**

**Benefit Percentage below 115% of the March 2009 Contribution Rate**

Say that the contribution rate for your employer is $2.00 per hour and your Base Contribution Rate (the contribution rate in effect on January 1, 2006) and your March 2009 Contribution Rate were both $2.00. The employer's IUPAT contract as of January 1, 2009 expired before June 1, 2011 and no increase in contributions has been negotiated as of January 1, 2012.

Option I of the FIP calls for a 35% increase in your March 2009 Contribution Rate, or $2.70 per hour (a 70 cent increase). Option II of the FIP calls for a 15% increase in your March 2009 Contribution Rate, or $2.30 per hour (a 30 cent increase). Since the employer contribution rate for your work falls short of the Option II rate as of January 1, 2012, the Trustees are required to terminate the company as a contributing employer.

If you worked 1,800 eligible hours in 2010 and 2011, and continue work with 1,800 hours with this employer in 2012, the monthly pension benefit you earned for each year, payable beginning at age 65, would be as follows.

| **Plan Year** | **2010** ($2.00/hr.) | **2011** ($2.00/hr.) | **2012** ($2.00/hr.) |
|---|---|---|---|
| (1) ½% of contributions up to Base Contribution Rate | $18.00 | $18.00 | $0.00 |
| (2) 1% of contributions between Base Contribution Rate and March 2009 Contribution Rate | $0.00 | $0.00 | $0.00 |
| (3) 2% of contributions between March 2009 Contribution Rate and 135% of March 2009 Contribution Rate | $0.00 | $0.00 | Not applicable |
| (4) 1% of contributions above 135% of March 2009 Contribution Rate | $0.00 | $0.00 | $0.00 |
| (5) Total | $18.00 | $18.00 | $0.00 |

As illustrated, no benefits are earned for any contributions made after 2011. Service with the Employer will no longer count for vesting and retirement eligibility (including "Active Employee" status). This may limit you to deferred "vested" benefits under the Plan.

**Benefit Percentage above 115% of the March 2009 Contribution Rate but less than 135% of the March 2009 Contribution Rate.**

Say that the contribution rate for your work was increased from $2.00 per hour to $2.50 per hour effective January 1, 2011 and your Base Contribution Rate (the contribution rate in effect on January 1, 2006) and your March 2009 Contribution Rate were both $2.00.

Option I of the FIP called for a 35% increase in your March 2009 Contribution Rate, or $2.70 per hour (a 70 cent increase). Option II of the FIP called for a 15% increase in your March 2009 Contribution Rate, or $2.30 per hour (a 30 cent increase). Since the contribution rate for your work falls short of the Option I rate as of January 1, 2012, your benefit will be determined under the FIP "default" option (Option II).

If you worked 1,800 eligible hours in 2010, 2011, and 2012, the monthly pension benefit you earned for each year, payable beginning at age 65, would be as follows.

| **Plan Year** | **2010** ($2.00/hr.) | **2011** ($2.50/hr.) | **2012** ($2.50/hr.) |
|---|---|---|---|
| (1) ½% of contributions up to Base Contribution Rate | $18.00 | $18.00 | $0.00 |
| (2) 1% of contributions between Base Contribution Rate and March 2009 Contribution Rate | $0.00 | $0.00 | $0.00 |
| (3) 2% of contributions between March 2009 Contribution Rate and 135% of March 2009 Contribution Rate | $0.00 | $18.00 | Not applicable |
| (4) 1% of contributions above 135% of March 2009 Contribution Rate | $0.00 | $0.00 | $0.00 |
| (5) Total | $18.00 | $36.00 | $0.00 |

As illustrated, no benefits are earned for the contributions after 2011. However, service with the Employer will still count for vesting and early retirement eligibility (including "Active Employee" status).

**<u>Benefit Percentage above the 135% of the March 2009 Contribution Rate</u>.**

Say that the contribution rate for your work was increased from $2.00 per hour to $3.00 per hour effective January 1, 2011 and your Base Contribution Rate (the contribution rate in effect on January 1, 2006) and your March 2009 Contribution Rate were both $2.00. The FIP called for a 35% increase in your March 2009 Contribution Rate, or $2.70 per hour (a 70 cent increase) Since the contribution rate for your work is at least the amount required under Option I as of January 1, 2012, your benefit will be determined under the standard FIP option (Option I).

If you worked 1,800 eligible hours in 2010, 2011, and 2012, the monthly pension benefit you earned for each year, payable beginning at age 65, would be as follows.

| Plan Year | 2010 ($2.00/hr.) | 2011 ($3.00/hr.) | 2012 ($3.00/hr.) |
|---|---|---|---|
| (1) ½% of contributions up to Base Contribution Rate | $18.00 | $18.00 | $18.00 |
| (2) 1% of contributions between Base Contribution Rate and March 2009 Contribution Rate | $0.00 | $0.00 | $0.00 |
| (3) 2% of contributions between March 2009 Contribution Rate and 135% of March 2009 Contribution Rate | $0.00 | $25.20 | Not applicable |
| (4) 1% of contributions above 135% of March 2009 Contribution Rate | $0.00 | $5.40 | $5.40 |
| (5) Total | $18.00 | $48.60 | $23.40 |

As illustrated in Item (3) above, the additional benefit accrual of two percent (2%) of contributions for increases up to the 35% supplemental contribution – in this example, 70 cents of the $1.00 increase effective January 1, 2011 – does not apply after January 1, 2012.

**FEDERAL LAW PROTECTIONS**

**Please note that those currently receiving a pension will not be affected by these changes and their benefits will remain unchanged under current federal law.** Also, all participants should keep in mind the benefits you have earned under the IUPAT Industry Pension Plan current structure based on your service and contribution rates through December 31, 2011 are protected. You do however need to remain active in the Plan under the standard FIP option to receive disability, death or early retirement benefits (with limited reductions) after 2011.

This information is a summary of recent changes affecting your benefit under the IUPAT Industry Pension Plan and is furnished in compliance with Section 204(h) of the Employee Retirement Income Security Act. (ERISA). You should keep this information with the Plan booklet previously provided.

The Fund Office will be happy to answer your questions and the concerns that inevitably accompany a change in benefits. Please feel free to contact the Fund Office at (410) 564-5500, or write to the Fund Administrator at pension@iupat.org, or the address on this letter.