The Board of Trustees for the Iron Workers Local 17 Pension Fund (Pension Fund) previously sent you a Notice informing you that an application had been filed with the Secretary of the Treasury (Treasury) to reduce benefits pursuant to the Multiemployer Pension Reform Act of 2014 (MPRA). The Notice explained that the amount of a person's benefit reduction would depend on three factors:

- the person's average "benefit accrual rate" ("benefit accrual rate" means the amount of monthly benefit that will be paid for each Benefit Credit earned)
- whether the person earned more than one Benefit Credit per year (for example, by working more than 1,200 hours in a year)
- whether the person received an early retirement benefit (after having retired before age 62) that was not reduced at the time it began.

The Notice also explained that, if the Pension Fund's application met the Congressionally-established requirements, then the participants and beneficiaries would be able to vote on whether the proposed benefit reduction should go into effect.

After reviewing the Pension Fund's application, Treasury, in consultation with the Pension Benefit Guaranty Corporation (PBGC) and the Secretary of Labor (Labor) determined that the proposed benefit reduction satisfies the applicable legal requirements. As a result, Treasury, in consultation with PBGC and Labor, was required by MPRA to approve the application to reduce benefits, which it did on December 16, 2016. Unless a majority of participants and beneficiaries vote to reject the benefit reduction, the reduction will go into effect on February 1, 2017.

You are now being asked to vote on whether the proposed benefit reduction should go into effect. You may vote either to approve or to reject it. If you do not vote or if your vote is received after 5:00 PM ET, January 20, 2017, you will be treated as though you voted to approve the benefit reduction. In other words, your failure to vote on time is the same as a vote in favor of the benefit reduction. This treatment of non-voters is required by MPRA.

This Explanation is intended to assist you in making your decision on whether to vote for or against the proposed benefit reduction. The statements and opinions in this ballot are those of the Board of Trustees of the Pension Fund or are compiled from public comments on the proposed benefit reduction, and do not reflect the views or opinions of any government agency.

This Explanation includes the following important information:

- Detailed information about the proposed benefit reduction;
- Factors considered by the Board of Trustees in designing the proposed benefit reduction;
- A statement from the Board of Trustees in support of the proposed benefit reduction;
- A statement in opposition to the proposed benefit reduction; and
- Important information on what will happen next.
PROPOSED BENEFIT REDUCTION AND ITS IMPACT ON YOUR PENSION

The Pension Fund’s application explains the details of the proposed benefit reduction, which will go into effect on February 1, 2017 and will stay in place indefinitely unless it is rejected by participants and beneficiaries in this vote. This is a brief summary of the proposed benefit reduction.

The Trustees propose to amend the Pension Fund to recalculate all accrued benefits (including benefits currently being paid) for all affected participants, beneficiaries and Alternate Payees (that is, individuals who are receiving benefits from the Pension Fund pursuant to a domestic relations order). However, this recalculation will not reduce any benefit below 110% of the amount guaranteed by the PBGC.

The recalculation will include the following changes:

1. Proposed Reduction of Benefit Credit Rate

   The accrued benefit earned for each participant under the Pension Fund has historically depended upon how many years of Benefit Credit you have accumulated and the Benefit Credit rate in effect during your working career and at your retirement. The rates have ranged from a $12 to a $100 monthly benefit per year of Benefit Credit since the beginning of the Pension Fund. The current Benefit Credit rate of $50 was adopted in November 2004.

   Under the proposed benefit reduction, the accrued benefit (including benefits currently being paid) for any affected participant, beneficiary or Alternate Payee will be recalculated as of April 30, 2016 (the plan year-end preceding the effective date of the proposed benefit reduction) to be reduced so the highest average accrual rate is no more than $72 per year of Benefit Credit.

   For example: If a participant had 12 full years of Benefit Credits and at retirement had an unreduced monthly benefit of $1,020, then under the proposed benefit reduction his average benefit accrual rate would be determined by dividing $1,020 by 12 years of Benefit Credits. This results in an average Benefit Credit rate of $85. Under the proposed benefit reduction, since $85 is greater than the $72 reduced rate, the average rate of $72 will be multiplied by the 12 Benefit Credits for an adjusted monthly benefit of $864.

2. Proposed Elimination of Benefit Credits in Excess of One Per Year

   During the period of May 1, 1986 to April 30, 2005, participants who worked more than 1,200 hours in a Plan Year could earn more than one (1) full year of Benefit Credit. Effective May 1, 2005, the Pension Fund changed the crediting schedule to require working 1,900 hours in a Plan Year to earn one (1) full year of Benefit Credit and eliminated the ability of any participant to earn more than one (1) Benefit Credit per year.

   Under the proposed benefit reduction, the accrued benefit (including benefits currently being paid) will be adjusted so any additional Benefit Credits over one (1) will be eliminated as of February 1, 2017.

   For example: During the years of 1986 through 2005, participants could earn more than 1 year of Benefit Credit if they worked over 1,200 hours in the plan year. If the participant’s monthly benefit was based upon 35 years of Benefit Credit, but this included 4 years when the participant earned 1½ Benefit Credits, the total years of Benefit Credit would be reduced by 2 years (4 years x ½) from 35 to 33 for purposes of calculating the reduced monthly benefit.

3. Proposed Modification of Unreduced Early Retirement Benefit

   Prior to 2009, the Pension Fund provided for an unreduced early retirement benefit for participants with long service of 30+ years of vesting service, referred to as the “30 Year Service Pension.”

   Under the proposed benefit reduction, the benefits being paid for any affected participant, beneficiary or Alternate Payee who received an unreduced early retirement benefit will be recalculated as of February 1, 2017 to apply a 1.5% reduction for each year that the person’s pension commenced prior to age 62.

   For example: If a participant retired prior to May 2009 with 30 years of vesting service at age 57, he would receive an unreduced pension even though he retired 5 years before age 62. If the monthly benefit was $3,200 without a reduction, the benefit would now be reduced by 7.5% (1.5% x 5 years) or $240. The adjusted monthly benefit would be $2,960.

If you received a prior, partial lump-sum payment, your benefit after taking into account the reductions described above will be further reduced by the same amount your pre-reduction monthly benefit was reduced to account for the prior lump-sum payment.
For example, if your original monthly benefit was reduced by $200 to reflect the partial lump sum you received, your benefit after taking into account the reductions described above would also be reduced by $200 per month.

These changes will apply only to “affected” participants, beneficiaries and Alternate Payees. You are part of this “affected” group if you do not fall into one of the following exemptions:

- participants who are receiving a disability pension and beneficiaries of these participants;
- participants and beneficiaries who are at least age 80 as of February 28, 2017;
- participants and beneficiaries who are receiving a benefit that is less than 110% of the PBGC guarantee.

Other protections may apply to you even if you do not qualify for the exemptions described above. First, if your benefit after taking into account the proposed reduction would be less than 110% of the PBGC guarantee, your benefit will not be reduced below that threshold.

Second, the proposed reductions will be limited for any participant, beneficiary or Alternate Payee who is between age 75 and 80 as of February 28, 2017. This group will have their accrued benefit (including benefits currently being paid) recalculated under the changes described above that apply to affected participants. However, the Pension Fund will then increase this “recalculated benefit” as follows:

- It will determine 1/60th of the difference between the current benefit and the “recalculated benefit.”
- That amount will be multiplied by the number of months that you are over age 75 as of February 28, 2017 to provide an “increase amount.”
- Your new benefit under the proposed benefit reduction will be equal to the “recalculated benefit” plus the “increase amount.”

In addition, the proposed benefit reduction would make changes to the current return to work restrictions. The Pension Fund currently does not allow retirees who are younger than age 65 to return to any work in the industry. Under the proposed benefit reduction, the Trustees would amend the current return to work restrictions on retirees who are younger than age 65 to allow participants in pay status as of February 1, 2017 to return to work for up to 39.5 hours per month under the same rules that currently apply to retirees that have reached Normal Retirement Age without having their monthly benefit suspended.

The proposed reductions will apply to all participants, beneficiaries and Alternate Payees who do not qualify for an exemption. However, each participant in the Pension Fund has a different work history and retirement date. This means that the proposed benefit reduction will affect people in different ways. To help you understand the effect each of the proposed changes will have on you, the following 7 categories of individuals have been identified based upon the pre-reduction benefit accrual formula:

- Category 1 – Participants with a pre-reduction $100 Benefit Credit rate
- Category 2 – Participants with a pre-reduction $90 Benefit Credit rate
- Category 3 – Participants with a pre-reduction $85.50 Benefit Credit rate
- Category 4 – Participants with a pre-reduction $75 Benefit Credit rate
- Category 5 – Participants with a pre-reduction $72.50 Benefit Credit rate
- Category 6 – Participants with a pre-reduction $72 or less average Benefit Credit rate
- Category 7 – Participants with a pre-reduction average Benefit Credit rate between $99.99 and $72.01

If you are in any category other than Category 6, your post-reduction benefit will be reduced to the average of $72 per Benefit Credit as described in the section above titled Proposed Reduction of Benefit Credit Rate.

Within each of these categories, individuals are further affected differently depending upon whether they retired on an unreduced early retirement benefit (30 Year Service Pension) and whether they earned more than one Benefit Credit in any year. To help you understand the effect of these other changes on you if the proposed benefit reduction occurs, four additional sub-groups have been identified as follows:
According to the application, the proposed benefit reduction would affect the benefits of participants and beneficiaries in the Pension Fund in the following ways:

- 52% of participants would not have their benefits reduced
- 8% of participants would have their benefits reduced up to 10%
- 10% of participants would have their benefits reduced by 10 to 20%
- 13% of participants would have their benefits reduced by 20 to 30%
- 10% of participants would have their benefits reduced by 30 to 40%
- 6% of participants would have their benefits reduced by 40 to 50%
- Under 2% of participants would have their benefits reduced by 50 to 60%.

FACTORS CONSIDERED BY THE TRUSTEES IN DESIGNING THESE REDUCTIONS

Federal law requires that any reduction of benefits pursuant to MPRA be distributed fairly among the various categories or groups of participants and beneficiaries. In deciding whether the proposed reduction would be distributed fairly, the Board of Trustees explained that they took into account the following factors:

1. The age and life expectancy of the participants;
2. The length of time the participants are in pay status;
3. The amount of the benefits being provided by the Pension Fund;
4. The extent to which the benefits provided include subsidies, specifically early retirement benefits without a reduction for early payment;
5. The history of benefit increases and reductions, specifically the extent to which the benefits being received are subject to the reductions which took place starting in 2004 and which changed the benefits provided by the Pension Fund for participants who did not retire prior to May 2009;
6. Differences between the benefits provided to active and retired participants;
7. The extent to which the current active participants are reasonably likely to withdraw support for the Pension Fund, which may cause employer withdrawals and increase the risk of additional benefit reductions for all participants and beneficiaries in the Pension Fund because of the burdensome level of contributions being paid for a maximum of $50 per Benefit Credit.

BOARD OF TRUSTEES’ STATEMENT IN SUPPORT OF THE PROPOSED REDUCTION

As you are aware, the Board of Trustees has the obligation to manage and preserve the long-term financial viability of the Pension Fund to make sure we protect the retirement security of all the people who have been promised a benefit upon their retirement including retirees, beneficiaries, terminated vested participants and active participants.
We continually monitor the state of your Pension Fund and where the Fund is headed based on future projections. We regularly meet with our advisors, including investment advisors, actuaries and attorneys, to review the Pension Fund’s status and discuss possible options to strengthen the Fund and protect your benefits.

The Current State of Our Pension Fund

Various economic and financial factors impact pension funds. For much of the past two decades, these factors have provided our Fund with unprecedented challenges.

- **The investment markets continue to be volatile.** While the markets have performed better in recent years, the Fund has not fully recovered from the downturns of the last two decades.
- **Employment in our industry—nationally and throughout the Cleveland area—is still significantly down** from the highs prior to the Great Recession. Cleveland was once an industrial based economy which provided industrial maintenance hours in the steel mills and auto plants, but now our area’s economy is focused on education and healthcare. Because hours worked are down, **employer contributions to the Pension Fund are also down.**
- **Retirees outnumber active participants and are retiring earlier and living longer**, causing our benefit payments to be greater than our contributions. This causes a decline in Fund assets.

Over the last decade, the Board of Trustees has taken a series of steps designed to mitigate these risk factors and strengthen your Pension Fund. We first took corrective action in 2004 by reducing the Benefit Credit rate from $100 to $50. Then in 2006, we increased the number of hours required to earn a Benefit Credit from 1,200 to 1,900 and also instituted the requirement that a Total and Permanent Social Security Award is required for a disability pension from the Fund. We then adopted a Rehabilitation Plan in 2008 when the Fund was designated in Critical Status, as defined by the Pension Protection Act of 2006. Even with this series of corrective measures, we were forced to amend the plan in 2011, when we projected that the Fund would run out of money in 2024.

This year, the Pension Fund was certified in Critical and Declining Status, a new category created by MPRA. Until MPRA was passed, there was no real way to truly fix the problem of underfunded multiemployer pension funds like ours, which is only 32% funded today and projected to be insolvent in 8 years.

Under MPRA, trustees of severely underfunded multiemployer pension funds are allowed to develop relief plans that include benefit reductions for active workers, terminated vested participants, retirees and beneficiaries, in order to reduce the plan costs and continue paying benefits in the future. The relief offered by MPRA is only for funds that are in very dire situations.

We are taking action now because, the longer we wait, the larger the benefit reductions will have to be. If we wait too long, no amount of benefit reductions will be able to save the Pension Fund from running out of money. If that happens, the Pension Benefit Guaranty Corporation (PBGC) will be responsible for paying out your pension, and your payments will be reduced significantly more than under our proposed changes. The PBGC is projecting that its own fund will run out of money. If this occurs, then the pension payments the PBGC makes would be reduced even further and possibly to zero. Additionally, in the event this Pension Fund does become insolvent, the PBGC does not follow the same rules with regard to exempt participants. The **PBGC guaranteed levels will apply regardless of your age or status as a disabled participant.**

We realize that these changes are big and will impact you and your family. This has been a very difficult decision for the Board. Reducing pensions for current retirees and beneficiaries is not something we ever thought we’d have to do. But it’s come to that point where we have to take drastic steps. We have worked very hard to create a series of benefit reductions that are equitably distributed between all of the groups of participants and beneficiaries in this Pension Fund. There are certain groups which will not be impacted including participants over age 80 and those that retired on a disability pension. The only reason we are attempting to make these changes to the remaining participants and beneficiaries is to prevent the Pension Fund from going bankrupt, and your pension payments from being cut even more at insolvency. Our proposed benefit reductions are not designed to be a band-aid or a short-term solution; it is designed to keep your Pension Fund solvent for the future, but is not guaranteed.

**STATEMENT OF OPPOSITION TO THE PROPOSED REDUCTIONS**

Eighteen public comments on the Pension Fund’s application were received from ten different persons over two comment periods during 2016. Of the total comments, 17 were in opposition to the proposed benefit reductions, and 1 was in support. Fourteen of the comments were from participants or beneficiaries, while 4 were from other interested parties (2 from institutional
Some commenters said the application does not demonstrate that the proposed cuts will ensure that the Pension Fund will remain solvent for 30 years. The application projects that the proposed benefit cuts will make it possible for the Pension Fund to survive for 30 years. However, the projections do not reflect the fact that the International Iron Workers Union has negotiated collective bargaining agreements that permit contractors who work in the area covered by Local 17 to opt out of contributing to the Pension Fund. The survival of the Pension Fund depends on new contractors joining it as currently contributing contractors move to jobs in other areas or file for bankruptcy. If contractors opt out of contributing to the Pension Fund, it may become insolvent in less than 30 years, resulting in a further reduction of benefits.

Some commenters said the application fails to show that the Board of Trustees have taken all reasonable steps to avoid insolvency. The application details the Trustees’ past actions to reduce benefits and suggests that the proposed reductions are the only remaining option short of a managed mass withdrawal of employers. However, there is nothing in the application to indicate that the Trustees made any efforts to pursue other options. Possible options were mergers with other Ironworker plans and adoption of arrangements, such as those adopted in other industries, that would relieve firms that join the Pension Fund in the future from responsibility for the accumulated withdrawal liability of former contributing employers. In addition, some other commenters expressed concern about whether Pension Fund assets had been prudently invested, and called for an independent audit of the Fund.

Some commenters said the proposed benefit reductions are not equitably distributed across the participant and beneficiary population. The proposed benefit reductions target retirees who were encouraged by the Pension Fund to take early retirement. The application proposes reducing the benefits of early retirees in three different ways that result in cuts to some participants of as much as 50 to 60 percent. Many of these retirees have medical conditions that would make it impossible for them to go back to work. In addition, a retiree commented that he cannot change the financial decisions that were made based on the Pension Fund’s promises. At the same time, the application proposes to provide greater protection to current workers, deferred vested employees and those participants who retired on or after age 62. These cuts fail to take account of the fact that earnings of current workers are considerably higher than the wages of retirees who worked ten or fifteen years ago, making it possible for current workers to save for retirement in other ways. One commenter also stated that the approach used to calculate the reduction for participants who had received a partial lump sum was effectively reducing the benefit twice.

Some commenters stated that they would prefer an equal across-the-board cut for all participants, rather than the complicated formula reflected in the proposed reductions, and suggested that the cuts are unnecessarily deep and apply unequally depending on the facts and circumstances. One commenter stated that the only factor that should be considered is the benefit accrual rate. Others stated that the benefit reductions take away credits for working extra hours and should be denied. One commenter wanted no reduction to his pension now, but was willing to deal with a reduction if he was still alive when the plan becomes insolvent. Another commenter stated that the liabilities of retirees whose benefits are being cut are short-term insofar as such retirees may not live until the date projected for the Pension Fund’s insolvency.

Some commenters said the notice provided to participants was not written in a manner so as to be understood by the average plan participant. The notice provided to participants is filled with technical terms, including “benefit accrual rate,” “benefit credit,” “early retirement factor,” “subsidy,” etc. The average retired iron worker is not familiar with these terms. He knows the amount of his current monthly pension, and that there is a proposal to reduce it. But these terms do not help him understand how the reduction in his benefit was calculated or why the reduction is necessary – other than an unsubstantiated statement that without the reduction the Pension Fund will become insolvent in 2024.

WHAT WOULD HAPPEN IF THE PROPOSED BENEFIT REDUCTIONS WERE REJECTED?

The Board of Trustees, in consultation with the Pension Fund’s actuary, have predicted that the Pension Fund will become insolvent in 2024 if the proposed benefit reduction is not implemented. This means that, if the prediction is accurate, the Pension Fund would no longer have enough money to make the monthly pension benefit payments when due beginning in 2024. This prediction of the Pension Fund’s insolvent is based on certain assumptions about events that are reasonably likely to occur in the future, but are not certain. For example, if the Pension Fund’s investments perform better than expected and the Pension Fund earns more than a 6.5% return for several years, the insolvency date could be later than 2024. On the other hand, if the Pension Fund’s investments perform worse than expected, the insolvency date could be earlier than 2024.
The monthly benefit payment you would receive from PBGC if the Pension Fund becomes insolvent may be less than the monthly benefit payment you would receive under the proposed benefit reductions described above. If the Pension Fund becomes insolvent, the PBGC will provide the Pension Fund with financial assistance that will allow it to continue paying a portion of your monthly retirement benefit. The amount that will be paid, however, is capped at a maximum guaranteed amount that is significantly less than the current benefit for most participants in this Pension Fund. For example, a participant with 30 years of service and a $3,000 per month benefit, would receive less than $1,100 per month from the PBGC. Additionally, the PBGC does not take into account your age or status as a disabled participant in making these adjustments to your benefits.

The ability of the Pension Fund to receive financial assistance from the PBGC upon insolvency is also based upon the financial stability of the PBGC. In a recent report, the PBGC projected that its Multiemployer Plan Program could fully exhaust its own assets within ten years, possibly becoming insolvent shortly after the Pension Fund is projected to become insolvent.

If the Pension Fund and the PBGC Multiemployer Plan Program both became insolvent, participants and beneficiaries receiving benefits would be at risk of receiving benefits that would be dramatically lower than the benefits they would receive if only the Pension Fund became insolvent. If both the Pension Fund and the PBGC Multiemployer Plan Program became insolvent, your benefits could be reduced to almost zero.

THE PENSION FUND IS PROJECTED TO AVOID INSOLVENCY IF THE PROPOSED BENEFIT REDUCTIONS ARE IMPLEMENTED

The Pension Fund's actuary has certified as part of the application process that the Pension Fund will avoid insolvency if the proposed benefit reductions are implemented. This projection requires the use of certain assumptions, so the determination is subject to some uncertainty.

IMPORTANT INFORMATION ABOUT WHAT WILL HAPPEN NOW THAT THE PROPOSED BENEFIT REDUCTION HAS BEEN DETERMINED TO SATISFY THE STATUTORY CONDITIONS

Now that Treasury has determined that the proposed benefit reduction satisfies the conditions set out in MPRA, all participants and beneficiaries have the ability to vote on whether to reject the reduction. The vote will determine whether the proposed benefit reduction goes into effect. The effect of not voting by the deadline is the same as voting to approve the proposed benefit reduction. MPRA was written to allow a proposed benefit reduction to go into effect UNLESS a majority of the participants and beneficiaries vote against the benefit reduction.

If the majority of the participants and beneficiaries vote against this proposed benefit reduction, it will not go into effect. The Board of Trustees will have the ability to prepare a new application with a different proposed reduction, but it is unknown whether the Board of Trustees would submit a new application. Accordingly, if the proposed benefit reduction is rejected by majority vote, then it is possible that the Pension Fund will become insolvent in 2024 as projected.