AUTOMOTIVE INDUSTRIES PENSION FUND

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To: Participants and Beneficiaries
Contributing Employers
Local Unions

From: Board of Trustees of the Automotive Industries Pension Plan

Re: Application for Reduction of Benefits Under The Multiemployer Pension Reform Act of 2014

Introduction

The Automotive Industries Pension Plan continues to experience significant financial difficulties. The Plan's Annual Funding Notice and the Notice of Critical and Declining Status sent to all participants and beneficiaries in April 2016 describe the Plan's current financial situation in greater detail.

The Board of Trustees of the Automotive Industries Pension Plan is sending this notice to provide you further explanation of the Plan's financial difficulties, past measures taken by the Board of Trustees to address the Plan's financial difficulties and future measures under consideration.

Sources Of The Plan's Financial Difficulties

A number of factors have contributed to the financial decline of the Plan. The economic recessions of 2001 and 2008 hit the automotive industry particularly hard. The recessions, including the General Motors and Chrysler bankruptcies, resulted in the closing, bankruptcy or sale of many automotive dealerships, automotive parts retail shops and other automotive related businesses in the Bay Area. For example, in 2000, among the Plan's contributing employers were approximately sixteen Ford dealerships and ten Chrysler dealerships in the East Bay. In 2015, only two Ford and one Chrysler dealerships remain as contributing employers to the Plan. The Union formerly represented a large retail automotive parts industry but many of those employers have gone out of business.

To illustrate the decline in contributing employers, the Plan had 450 contributing employers in 2000; today there are only 155 contributing employers. The Plan's active participant population (those participants currently working for a contributing employer) has declined by 53% over the last 15 years. The loss in contributions to the Plan has meant that there is less money available to pay for retirees' benefits. In 2015, benefit payments to retirees ($134 million) greatly exceeded the contributions coming into the Plan ($23 million) on behalf of active (working) participants. The Plan is currently paying out almost $6 for every dollar it receives in contributions.

Additionally, the Plan's investments have not recovered from the market declines of 2000-2002 and the market crash of 2008. The Plan lost 28% of its investment value in the 2008 market crash alone. Plan investments have performed well in recent years on a percentage basis, but because those gains were made on a smaller amount of assets, these gains have been insufficient to undo the significant losses since 2000. To illustrate, the market value of the Plan's assets was $1.3 billion as of December 31, 2000, rising to $1.6 billion as of December 31, 2007 and falling to $1.2 billion as of December 31, 2015.

Past Measures Taken By The Board of Trustees To Help Preserve The Plan

Over the past 15 years, the Trustees have been sensitive to the Plan's deteriorating funding status due to declining participation and economic recessions and took a series of actions to strengthen the Plan's financial situation. These actions helped, but were unable to completely restore the Plan's financial situation.

The Trustees initial efforts to strengthen the Plan's financial situation were to reduce the benefit accrual rates for active (working) participants. The benefit accrual rate, which reached 5% in 1999, was reduced to 3% in 2003, was further reduced in 2005 and has been at 1% since the 2008 Rehabilitation Plan was implemented.

The 2008 Rehabilitation Plan imposed the following additional benefit reductions for active (working) participants and inactive vested participants:[1]

- Eliminated subsidized early retirement benefits and subsidized joint and survivor benefit;
- Eliminated the "Rule of 85" unreduced early retirement benefit;
- Eliminated disability retirements;
- Eliminated the 36 month pre-retirement death benefit; and
- Eliminated optional benefit payment forms other than the life annuity or 50% / 75% Joint and Survivor Option

In 2012, in an update to the Rehabilitation Plan, the Board eliminated the Early Retirement Benefit option for inactive vested participants.

Employers are also sharing the financial burden. The 2012 update to the Rehabilitation Plan imposed a 5% cumulative supplemental contribution on employers. This means that all contributing employers have to pay an additional 5% on the total contributions paid to the Plan by that employer. The supplemental contributions do not grant Participants additional benefits but instead help to strengthen the Plan's funding status. Employers began paying the 5% supplemental contributions in 2013 and will continue paying the supplemental contributions through 2019. In 2019, employers will pay 40.7% on every dollar that they are otherwise required to contribute to the Plan because the 5% supplemental contribution is cumulative (i.e., employers paid an additional 5% in 2013, 10.3% in 2014, 15.8% in 2015, etc.).

The Board considered other options, such as Pension Benefit Guarantee Corporation (the "PBGC") assistance for Plan Partitions and merging with other pension plans. Unfortunately, the PBGC assistance would have been insufficient to solve the problem, and the Board was unable to locate another pension plan willing to merge with the Plan in its current state.

The Current Situation

Despite the Board's actions, the Plan remains in a difficult financial position. ***The Plan is currently scheduled to become insolvent, or run out of money to pay benefits, in 2030. Until it runs out of money, you will continue to receive your pension from the Plan.***

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[1] The 2008 Rehabilitation Plan became effective for active (working) participants upon the expiration or renewal of the employer's collective bargaining agreement after April 27, 2008, which resulted in different implementation dates. The 2008 Rehabilitation Plan became effective for terminated vested participants (those participants who had not yet retired and incurred a one-year break in service prior to January 1, 2008, and did not have a sufficient number of months of employer contributions in 2008) on July 1, 2008.

Even if the Plan runs out of money, the PBGC could step in to pay a portion of your pension benefits. The PBGC is a federal agency created to protect private sector pension plans. If the Plan ends without sufficient money to pay all benefits, PBGC's insurance program will pay the benefit provided by the Plan up to the PBGC's legal limit. In general, the maximum benefit currently guaranteed by the PBGC is $35.75 per month, multiplied by the participant's years of credited service. The PBGC's rules are complicated and your specific benefit will depend on your individual situation. Should you wish to obtain additional information about the PBGC, you may go to http://www.pbgc.gov/. Also, the PBGC has projected that it will run out of money in its own Multiemployer Program to pay the PBGC guaranteed benefit in 2025, five years before the Plan is scheduled to run out of money.

Future Measures And The Multiemployer Pension Reform Act Of 2014

The benefit reductions summarized above have not been retroactive and did not take any benefits away from participants that had already earned them, such as retirees. Until Congress passed the Multiemployer Pension Reform Act of 2014, discussed below, the Plan could not impose any reductions on benefits already earned. But with only 4,026 active (working) participants and 21,770 retirees and inactive vested participants in 2015, it is not realistic to shore up the Plan's finances solely by benefit reductions to active (working) participants.

Reducing the Plan's administrative expenses would not remedy the Plan's financial difficulties either. In fact, only a small portion of the Plan's overall expenses goes towards administrative costs. In 2014, for example, the Board spent over $132 million in benefit payments to participants and $2.4 million in administrative expenses, less than 2% of the amount of benefit payments. These administrative expenses include a variety of day-to-day expenses, such as tracking employer contributions, calculating your pension amounts, mailing out benefit checks and answering questions from participants. These also cover costs from professionals, such as our actuaries and attorneys. The Board prudently monitors the Plan's administrative expenses but reductions in administrative expenses will not be enough to restore the Plan to a solid financial status.

Accordingly, the Board is in the process of considering and evaluating filing an application for reduction of benefits with the U.S. Treasury Department under the Multiemployer Pension Reform Act of 2014 ("MPRA"). MPRA allows multiemployer plans who have been certified to be in "critical and declining status," such as this Plan, to apply for benefit reductions. These reductions will impact many Plan participants, including participants currently receiving payments from the Plan. However, ***certain participants will not be affected at all, including:***

- Participants receiving a disability benefit from the Plan (this exemption does not apply to a participant receiving a Social Security Disability benefit and a non-disability benefit from the Plan);
- Retirees age 80 and older (retirees between the ages of 75 and 80 will be impacted by the proposed benefit reductions to a lesser degree)

Additionally, if the Plan's application under MPRA is approved, no participant's benefit may be reduced to less than 110% of the benefit level guaranteed by the PBGC. In other words, if the Plan's MPRA application is approved by the Treasury Department, the benefits paid by the Plan will be greater than the benefits paid by the PBGC, even if the PBGC is able to make its payments.

The Board is reviewing various options in designing its proposed benefit reductions. It is important to note that the Treasury Department will only approve the proposed benefit reductions if the Plan's actuary can demonstrate that the reductions will keep the Plan from ever running out of money. Fortunately, based on the actuary's work, it appears the Plan can make this demonstration. The Board has been working closely with the Plan actuary to come up with a proposal to reduce benefits the least amount possible while also leading the Plan back on the path to solvency, but no final numbers have yet been determined. The Board is also reviewing MPRA applications filed by other multiemployer plans along with the Treasury Department's responses to those applications. The Board welcomes your input and thoughts during this process.

MPRA Application Process

The Plan is considering filing the MPRA application for benefit reductions by the end of 2016 with the benefit reductions to become effective July 1, 2017. When the Plan applies, you will receive detailed information regarding the Plan's application, including an individualized statement showing how your benefits will be affected by the proposed benefit reductions.

Once the Plan submits its MPRA application, the Treasury Department will have 225 days from the filing date to approve or deny it. You will be able to comment on the Plan's application during the Treasury Department's review. If the Treasury Department approves the application, all participants and beneficiaries will be given an opportunity to vote on the benefit reduction.

Information About How To Contact The Board

If you have any questions or would like information on how to submit your input on the benefit reductions contemplated by the Board of Trustees, you may contact the Plan at:

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