



Heat & Frost Insulators and Allied Workers Local 25 Fringe Benefit Funds

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April 30, 2012

NOTICE OF PENSION PLAN STATUS (FOR THE PLAN YEAR BEGINNING JANUARY 1, 2012)

To: All Participants and Beneficiaries of the International Association of Heat and Frost Insulators and Allied Workers Local No. 25 Pension Plan, Contributing Employers and Employer Associations, Pension Benefit Guaranty Corporation and Secretary of Labor.

As required by law, this notice is being provided to you to update you on the funding status of the International Association of Heat and Frost Insulators and Allied Workers Local No. 25 Pension Plan (“the Plan”). The Plan’s actuary has certified that the Plan is in “seriously endangered” status (so-called orange zone) for the plan year beginning January 1, 2012, as explained below. As a result, certain steps have to be taken by the Plan, which include providing you with this Notice and the continued compliance with the Funding Improvement Plan discussed later.

• **Plan’s Funding Status**

The Pension Protection Act (“PPA”) imposed new funding requirements upon multiemployer pension plans like yours, to ensure that they are well-funded in future years. Each plan is required to conduct an annual study to determine the plan’s funding level. Unless the plan is well-funded (80% or better), it is required to adopt a process to improve its funding level – so called Funding Improvement Plan. Based on the results of this study, it has been determined that the funded percentage of the Plan is 68.4% as of January 1, 2012. For comparison purposes, plans that are 80% or better funded are generally deemed to be in the “green” zone, or are considered well funded.

The determination that the Plan in the orange zone was made by the actuary for two reasons:

(1) *The Plan had a funded percentage less than 80%* based on the ratio of the value of the Plan’s assets as of January 1, 2012, as compared to the present value of all accrued benefit liabilities to participants and beneficiaries, as of that date. Such valuations of the Plan’s benefit liabilities are made using various actuarial assumptions developed by the actuary and will be done on an annual basis going forward.

(2) *The Plan is also projected to have an accumulated funding deficiency* for the plan year beginning January 1, 2018. This means that projected contributions will not be enough to satisfy certain federal rules regarding the Plan’s accounting for credits and charges each year. However, it does not mean that the Plan will run out of money, become insolvent, or bankrupt. Contribution increases may only be projected through the expiration of the current collective bargaining agreement on May 31, 2013, adversely impacting the accumulated funding deficiency calculation. Upon negotiation and adoption of a new CBA after May 31, 2013, projected contributions are expected to be sufficient to avoid further accumulated funding deficiencies.

- **Adoption of Funding Improvement Plan**

The PPA requires pension plans in the endangered zone to adopt a Funding Improvement Plan, designed to restore the financial health of the plan, over a 10 year period. To meet the requirements of a Funding Improvement Plan, either additional contributions must be made to the Plan, and/or **future** (but not past) benefit options must be changed. Based on its endangered status, the Plan's trustees adopted a Funding Improvement Plan on November 10, 2008 designed to improve the Plan's funded percentage. Employers have agreed to sufficient contribution increases such that there has been no need to reduce the benefit accrual rate to date. The Funding Improvement Period will last through December 31, 2018.

- **Operational Restrictions During Funding Improvement Period**

Beginning on January 1, 2009, through the end of the ten year Funding Improvement Period, the Plan is also subject to a number of legal restrictions and rules. During this time, employer contribution rates cannot be lowered, or suspended, and young or new employees cannot be excluded from participating in the Plan. The Plan is also generally prohibited from increasing benefit rates during this time.

- **Where to Get More Information**

For more information about this Notice, you may contact the Plan at 248-641-4925 or 1-800-864-1115. You have a right to receive a copy of the Funding Improvement Plan from the administrator. The Department of Labor also publishes information regarding this process at: <http://www.dol.gov/ebsa/criticalstatusnotices.html>.

- **Frequently Asked Questions**

Q1 Why did I receive this notice?

The PPA became effective in 2008 and requires you to receive this notice. The PPA also requires that the Plan adopt certain procedures to improve its funding condition (as described in the Funding Improvement Plan) to ensure that the financial health of the plan is restored over the next ten years, or sooner.

Q2 What does funded percentage mean?

The calculations mentioned in this notice compare the cost of providing promised pension benefits versus the current value of the assets held by the Plan. Based on past experience and anticipated future experience, the Plan estimates the present value of the amount of retirement benefits that will need to be paid in the future and compares this present value estimate to the current value of plan assets. The result is the funded percentage that is used for compliance with this new law – 68.4% for this Plan Year.

Q3 Will my benefits be reduced?

The amount of your current accrued retirement benefits will **not** change. No benefit reductions are contemplated by the Funding Improvement Plan. In fact, the very reason that your Plan is required to adopt a Funding Improvement Plan is to prevent that from happening. Only the factors used to calculate future benefits may be adjusted prospectively (not retroactively). It does not appear as though such an adjustment will be necessary.

Q4 Why is this process necessary?

Even though the Plan has been proactive in addressing its funding level, the PPA established new rules that now require faster funding of plans than under prior law. Like most pension plans, the Plan suffered losses during the downturn in the stock market. In addition, the Plan's funding level was further eroded due to the downturn in Michigan's economy, which adversely affected the Plan's work hours.

Q5 What is the Funding Improvement Plan?

The Funding Improvement Plan contains legally mandated schedules, designed to improve the funded percentage of the Plan. Ideally, improvements will be made by using a combination of increased contributions and Plan earnings. It is anticipated that the employers' hourly contribution rate will be increased each year by \$0.90 through June 1, 2017; such contribution increases will improve the Plan's funded percentage.

Q6 Will the Funding Improvement Plan work?

The Plan has a number of professional advisors that have been working on the Funding Improvement Plan. Although there are no guaranties, the Funding Improvement Plan is expected to place the Plan in the "green zone" by the end of the Funding Improvement Period. It will be reviewed each year, to make sure it stays on track.