

PACIFIC COAST SHIPYARDS PENSION FUND

July 2019

TO: Participants, Beneficiaries, Contributing Employers and Local Unions

FROM: Board of Trustees
Pacific Coast Shipyards Pension Plan

SUBJECT: Notice of Actuary's certification of Critical and Declining Status of the Pacific Coast Shipyards Pension Plan (the "Plan") for the 2019-2020 Plan Year

This is to inform you that on June 28, 2019, the Plan's actuary certified to the U.S. Department of Treasury, and also to the Plan's Board of Trustees, that for the Plan Year beginning April 1, 2019 and ending on March 31, 2020:

- (1) The Plan is in critical status (as defined under the Pension Protection Act of 2006 ("PPA") and also known as "Red Zone" status); and
- (2) The Plan is in critical and declining status (as defined under the Multiemployer Pension Reform Act of 2014 ("MPRA")).

Federal law—PPA and MPRA—requires that you receive this notice.

CRITICAL STATUS

In recent years, the Board of Trustees has taken steps to bring the Plan's liabilities into balance with its assets. Despite these efforts, there remains a shortfall that must be addressed through the Rehabilitation Plan during the Rehabilitation Period in order for the Plan to comply with the requirements of the PPA. The Plan was previously considered to be in critical status for the Plan Years that began April 1, 2008, and each subsequent Plan Year through March 31, 2017.

The Plan continues to be in critical status, but has also been certified to be in critical and declining status (see the next section of this notice) for the Plan Year beginning April 1, 2017 and subsequent Plan Years. The Plan is in critical status for the Plan Year beginning April 1, 2019, because the Plan's actuary has determined that:

- The Plan is projected to have an accumulated funding deficiency within four years.
- The sum of the Plan's normal cost and interest on the unfunded benefits for the current Plan Year exceeds the present value of all expected contributions for the current year; the present value of vested benefits of inactive Participants is greater than the present value of vested benefits of active Participants; and the Plan is projected to have an accumulated funding deficiency within five years.
- The Plan is projected to have an accumulated funding deficiency within five years, and the funded percentage is less than 65%.

- The Plan was in critical status the prior year, and is projected to have an accumulated funding deficiency within ten years.

Failure of any one of the preceding four tests would result in the Plan being considered in “critical status”. For the 2019-2020 Plan Year, the Plan fails all four of these tests.

CRITICAL AND DECLINING STATUS

The Plan is considered to be in “critical and declining status” for the Plan Year beginning April 1, 2019, because it has funding problems. More specifically, the Plan’s Actuary has determined that:

- The Plan is in critical status AND is projected to become insolvent within 15 years.
- The Plan is in critical status AND has a ratio of inactive to active participants that exceeds 2 to 1 AND is projected to become insolvent within twenty years.
- The Plan is in critical status AND has a funded percentage of less than 80% AND is projected to become insolvent within twenty years.

Failure of any one of the preceding three tests would result in the Plan being considered in “critical and declining status”. For the 2019-2020 Plan Year, the Plan fails all three of these tests.

REHABILITATION PLAN

Federal law requires pension plans in critical status or critical and declining status to adopt a rehabilitation plan aimed at restoring the financial health of the plan. This is the third year the Plan has been in critical and declining status. Prior to the 2017-2018 Plan Year, the Plan was in critical status for nine years.

The law permits pension plans to reduce, or even eliminate, benefits called “adjustable benefits” as part of a rehabilitation plan. On April 4, 2008, you were notified that the Plan reduced or eliminated certain adjustable benefits. In addition, please be aware that effective with the date that you were notified of the Plan’s critical status, the Plan has not been permitted to pay benefits under any payment form in excess of the monthly amount paid under a single lifetime annuity while it is in critical status. If the Board of Trustees of the Plan determines that further benefit reductions are necessary, you will receive a separate notice in the future identifying and explaining the effect of those reductions. Any reduction of adjustable benefits will not reduce the level of a Participant’s basic benefit payable at Normal Retirement Age. In addition, the reductions may only apply to Participants and Beneficiaries whose benefit commencement date is on or after April 4, 2008.

Under the Rehabilitation Plan as originally approved by the Trustees, the Plan was expected to emerge from critical status by the end of its rehabilitation period (March 31, 2022). In the Update of the Rehabilitation Plan, approved by the Trustees on February 15, 2017, the Plan’s expected date of emergence from critical status was deferred until 2028, or as late as 2040.

On June 29, 2018, the Plan’s actuary certified that the Plan was not making scheduled progress in meeting the requirements of the Rehabilitation Plan, and is currently not projected to emerge from critical status by 2040.

The Rehabilitation Plan, as most recently updated in February 2019, is now designed to forestall insolvency.

ADJUSTABLE BENEFITS

When the Plan was initially certified to be in critical status for the April 1, 2008 Plan Year, you were informed that the following adjustable benefits could be reduced or eliminated as some of the Schedules to the Rehabilitation Plan adopted by the Board of Trustees.

- Subsidy removed from the formula for Early Retirement Pension
- Elimination of the “Rule of 70” Special Unreduced Early Retirement Pension.
- Elimination of Disability Benefit
- Elimination of Alternate Pre-Retirement Death Benefit (36 monthly payments of accrued benefit to Beneficiary)
- Elimination of Three-Year Guarantee of Benefits for Life Annuity payment form

On April 1, 2008, the Board of Trustees adopted a Rehabilitation Plan and you were informed of the specific benefits that were subject to reduction or elimination under certain Schedules to the Rehabilitation Plan. Over time, required updates to the Rehabilitation Plan may require further increases in contributions and/or the further reduction or elimination of adjustable benefits. You will be notified of any such actions taken by the Board of Trustees.

The Rehabilitation Plan has been reviewed annually and updated as necessary. However, those updates relate to required contribution levels and no additional changes have been made to the Plan’s benefits as a result of these updates.

CRITICAL AND DECLINING STATUS – POSSIBLE ACTIONS: BENEFIT SUSPENSIONS AND PARTITION

Under MPRA, a plan that has been certified to be in critical and declining status and is projected to become insolvent may be able to adopt certain reductions to accrued benefits (“benefit suspensions”), subject to various requirements and limitations, if the plan has taken all other reasonable measures to avoid insolvency and the benefit suspensions are projected to prevent insolvency. Generally, in order for the plan sponsor of a critical and declining status plan to adopt any accrued benefit reductions, those reductions must be approved by the Department of the Treasury (“Treasury”) in consultation with the Department of Labor (“DOL”) and the Pension Benefit Guaranty Corporation (“PBGC”), and ratified by a vote of the plan’s participants and beneficiaries.

Because this Plan is in critical and declining status for the 2019-2020 plan year, the plan sponsor is eligible to apply to the Treasury for approval of benefit suspensions. In the event an application is made to the Treasury for approval of benefit suspensions, the plan must concurrently provide a notice to participants, beneficiaries, contributing employers and participating unions, containing information regarding the proposed benefit suspensions, including an individualized estimate of the effect of such benefit suspension on each participant and beneficiary.

MPRA also provides that a plan in critical and declining status that is not projected to avoid insolvency with benefit suspensions alone may be eligible to apply to the PBGC for a partition, subject to various requirements and limitations, if the partition (in addition to suspension) would be projected to prevent

insolvency. Partition is a process whereby a multiemployer plan that is in danger of becoming insolvent (the original plan) transfers the minimum amount of liabilities necessary for it to remain solvent to a newly created successor plan. No plan assets are transferred. While the same Board of Trustees will administer the original plan and the successor plan, PBGC will provide financial assistance to the successor plan to pay the transferred benefits.

EMPLOYER SURCHARGE

The law requires all Contributing Employers to pay to the Plan a surcharge to help correct the Plan's financial situation. The amount of the surcharge is equal to a percentage of the amount an Employer is otherwise required to contribute to the Plan under the applicable collective bargaining agreement or subscription agreement. With some exceptions, a 5% surcharge was applicable to the initial critical year (ended March 31, 2009) and a 10% surcharge applicable for each succeeding Plan Year thereafter when the Plan is in critical status. The imposition of surcharges ceases for a Contributing Employer when that Employer adopts or renews a collective bargaining agreement or subscription agreement containing terms consistent with a Schedule of the Rehabilitation Plan.

WHERE TO GET MORE INFORMATION

For more information about this Notice, you may contact:

Ms. Liz Jesinger, Fund Manager
Pacific Coast Shipyards Pension Fund
BeneSys, Inc.
1731 Technology Drive, Suite 570
San Jose, CA 95110
844-403-0031

By contacting the Fund Manager, you may receive a full copy of the Updated Rehabilitation Plan as previously adopted by the Board of Trustees.