Industry And Local 338
Pension Fund

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Minutes of the Special Meeting of the Board of Trustees

Held on February 16, 2017
Via
Conference Call

The following Trustees were present:

UNION TRUSTEES
Roberta Dunker
Barry Russell
Mickey Smith

EMPLOYER TRUSTEES
Theresa Bresten
Chris Palmer

Also present were:

Alicia Cochran – Associated Administrators, LLC
Brian Davis – Associated Administrators, LLC
Mary Ann Dunleavy – Horizon Actuarial Services, LLC
Tony Ghabour – Horizon Actuarial Services, LLC
Stan Goldfarb – Horizon Actuarial Services, LLC
Elizabeth O'Leary, Esq. – Kauff McGuire & Margolis LLP

I. CALL TO ORDER

The meeting was called to order at 10:00 a.m.

II. ACTUARY REPORT

Ms. Dunleavy and Messrs. Ghabour and Goldfarb of Horizon Actuarial Services referred the Trustees to two presentations: (1) providing the preliminary results of the July 1, 2016 actuarial valuation, and (2) discussing alternatives for the design of the funding improvement plan required for the current Plan year and potential rehabilitation plan for the subsequent Plan year.

A. Preliminary July 1, 2016 Actuarial Valuation

Mr. Ghabour presented the preliminary results of the July 1, 2016 actuarial valuation. He reported that, as previously discussed, the Plan was certified in endangered / “yellow zone” status for the July 1, 2016 Plan year, and is projected to be in critical/”red zone” status within the next five Plan years. The Plan’s PPA funded percentage decreased from 85.9% as of 7/1/2015 to 83.8% as of July 1, 2016 based on the actuarial value of assets and is projected to have a funding deficiency in the Plan year beginning 7/1/2022 (assuming contribution rates included in current Collective Bargaining Agreements). He noted that the decrease in the funded percentage was driven by undesirable investment performance and that the Plan continues to have unfunded vested benefit liabilities for withdrawal liability purposes.

Mr. Ghabour reviewed historical summaries of the Fund’s demographic and investment experience, including participant counts by status, weeks worked, investment returns and asset values. He noted the valuation reflected a small gain on liabilities primarily due to more deaths than anticipated, which was partially offset by more retirements than assumed. There was a loss on assets due to the -1.58% investment loss lagging the 7.50% assumption.

Mr. Ghabour presented information on the weeks / hours reported in the July 1, 2016 census data, comparing it to anticipated experience based on information from the 7/1/2015 valuation. The Trustees discussed the significant change between the assumption of 12,600 weeks of work (265 active employees working 1,900 hours per year) used in the 7/1/2015 valuation and the 11,500 weeks of work (243 actives working approximately 1,900 hours per year) reported on the July 1, 2016 census data.

Mr. Ghabour reviewed detail on the key results of the July 1, 2016 valuation, noting that the valuation reflects the benefit accrual amendment effective July 1, 2016. The Plan has liabilities of $110.9 million against assets of $90.3 million at market and $92.9 million on a smoothed, actuarial basis. Measured as of July 1, 2016, the cost of benefits accruing for the Plan year is $1.169 million and expected operating expenses are $361,000, for a total normal cost of $1.530 million. Assuming an amortization period of 5 years, the Plan's contribution margin is -$262 per week; that is, as of July 1, 2016, the estimated cost of operating the Plan and eliminating the Plan's unfunded liabilities over the next 5 years is $262 more per week than the average weekly contribution rate of $250.

B. <u>Funding Improvement & Rehabilitation Plan Design</u>

Ms. Dunleavy reviewed the Pension Protection Act (PPA) zone certification for the Plan year beginning July 1, 2016, filed on September 28, 2016. The certification indicated that the Plan is in endangered status for the Plan year and projected to be in critical status within 5 years. She noted that it is likely, assuming the baseline assumptions shown in the presentation are met, that the Plan will also be certified in endangered status (and projected to be in critical status within 5 years) for the Plan year beginning July 1, 2017 and that the Trustees will have an opportunity to elect for the Plan to be in critical status early.

Ms. Dunleavy reviewed with the Trustees projections of the funding position of the Plan, reflecting the July 1, 2016 valuation results under two different assumptions for future work levels. One assumption is that work will remain level at the 11,500 weeks reported during the Plan year ended 6/30/2016. The alternative assumption is that work will decrease to 10,000 weeks per year, the approximate level of work if Culinart and the College of New Rochelle are excluded.

Ms. Dunleavy reviewed items requiring Trustee guidance for the development of the remediation plans required due to the Plan's PPA zone status. The presentation included data and detail on contract expiration dates and contribution rates, plan provisions, and several funding projection scenarios. In depth discussion on each of the following items ensued and the Trustees provided the guidelines for the development of possible remediation plan terms.

Ms. Dunleavy reported that a funding improvement plan must be adopted within 240 days of the certification due date, or by 5/25/2017, and that the funding improvement plan must be sent to the bargaining parties by no later than 6/24/2017. It was noted again that the Trustees will likely have the opportunity to elect early Critical Status for the Plan year beginning July 1, 2017, and the Trustees discussed the considerations relevant to an early election, including that tools to improve funding that are available for Critical Status plans may help to avoid the need for more draconian changes in the future. The Trustees reviewed a list of contract expiration dates and determined that early action would allow them to provide a Rehabilitation Plan (RP) to bargaining parties before any contract includes a schedule under the required Funding Improvement Plan (FIP). The Trustees directed Horizon Actuarial to develop terms for the FIP for the Plan year beginning July 1, 2016 as well as to draft the RP to be effective for the Plan year beginning July 1, 2017, upon the Trustee' election to be in critical status early.

The Trustees directed Horizon Actuarial to develop both draft remediation plans assuming that future investment earnings will be 7.50% per year and that future work levels will decrease to 10,000 weeks per Plan year beginning July 1, 2017 and remain level thereafter.

Ms. Dunleavy reviewed a summary of plan provisions and provided information on the estimated counts of active and inactive vested participants currently eligible for various subsidized benefits as of the valuation date. It was noted that only future benefit accruals could be changed in a FIP, but that RP terms may eliminate adjustable benefits for participants who are not yet in pay status. The Trustees considered making benefit changes in steps, first for future benefit accruals and then adjustable benefits, but decided that changing benefits once (without any grandfathering) would simplify communications, reduce administrative burdens, and be easier for participants to understand and accept. Consequently, the development of a valid FIP must rely solely on contribution rate increases to address the relevant funding requirements. For the development of the RP, the Trustees directed Horizon Actuarial to prioritize the benefit changes as follows: (1) subsidies for inactive vested participants, (2) death benefits for active participants, and (3) early retirement subsidies for active participants.

The Trustees noted that they believe contribution increases equivalent to 10% per year, compounded, are the maximum that the employers can bear. Further, Horizon Actuarial was directed to develop a contribution increase pattern that requires the same annual dollar increase for all employers (but allowed for contribution rate increases that vary by year).

The Trustees asked Horizon Actuarial to develop potential funding improvement plan and rehabilitation plan options for review at the next Trustees' meeting, scheduled for March 30, 2017. The representatives of Horizon Actuarial were thanked for their report.

III. ASSOCIATED ADMINISTRATORS, LLC REPORT

Ms. Cochran requested the Trustees' approval of three (3) pension applications. The pension applications, per the report of February 16, 2017, are annexed hereto as Exhibit "A."

MOTION was made, seconded and unanimously adopted to approve the three (3) pension applications listed on Exhibit "A."

IV. NEXT MEETING DATE/ADJOURNMENT

The next regular meeting of the Board of Trustees is scheduled for Thursday, March 30, 2017 at 10:00 a.m. With no further business to come before the Board, the meeting was adjourned at 12:30 p.m.

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Union Trustee	Employer Trustee
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Union Trustee	Employer Trustee
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Union Trustee	

Exhibits:

A – Approval Pension Applications