INTERNATIONAL PAINTERS AND ALLIED TRADES INDUSTRY PENSION PLAN
FUNDING IMPROVEMENT PLAN

FREQUENTLY ASKED QUESTIONS AND ANSWERS

This is a summary describing the current funded status of the IUPAT Industry Pension Plan and the Funding Improvement Plan (FIP) that was recently approved by the Board of Trustees. Because of the importance of this subject matter, we will attempt to provide answers to frequently asked questions such as why the Funding Improvement Plan is needed at this time, how did we get here and what actions are being taken by the Board of Trustees to assure that our important retirement and disability benefits remain secure for all of our active and retired members and their beneficiaries.

1. What happened that caused the Board of Trustees to take action?

The short answer is: the economy, the bond market and the stock market. All of our members, as well as every union leader and all of our signatory contractors are aware of what has happened to our economy and the economies of the industrialized countries in the world during the past year. Since January 1, 2008, the key measurements in the stock market have fallen more than 40%. In the fixed income market, the issuance of debt and commercial paper and the ability to get funding from banks have virtually ceased. These declines have been accompanied by deterioration in almost all other investment classes that are available for investment of Pension Plan assets, including investments in real estate, infrastructure and private equity.

As a result of this poor investment climate, the investment portfolios of virtually every pension fund, endowment fund, charitable trust and other large investment portfolios have declined significantly. Simply stated, there was no place to hide in this investment climate and, as a result, the IUPAT Industry Pension Plan suffered losses in its portfolio.

2. What is the current status of the Pension Plan?

As of January 1, 2008, the Pension Plan was considered to be in "GREEN" status under the provisions in the Pension Protection Act of 2006 (PPA). This meant that the Plan was 82.9% funded and was in the highest status in which pension funds are categorized under the Pension Protection Act. As a result of the stock market decline in 2008, our Pension Plan suffered losses in its investment portfolio of 23.6% (approximately $800 million). This compares to a decline in the S&P 500 Index during 2008 of more than 37%. Thus, although the Pension Plan's portfolio performed much better than the stock market generally, these investment losses need to be considered and taken into account as a basis for future action by the Board of Trustees. As of December 31, 2008, the Pension Plan had assets of $2.478 billion dollars.

Because of the investment losses during 2008, the Pension Plan moved from a "GREEN" status under the PPA to a "YELLOW" status. The funded percentage of our Pension Plan, as a result of the losses sustained in the investment portfolio, is now 72.1%, compared with 82.9% one year earlier. The movement of the funded percentage below 80% is what has caused the change in the Pension Plan status under the provisions of the Pension Protection Act.

3. *Was the problem solely the result of the investment markets?*

Yes. The Pension Plan employs a number of professional investment managers to assist the Board of Trustees in wisely investing the plan assets. The Pension Plan assets are well diversified, spread among various classes of investments; including stocks, bonds, real estate, international equities, infrastructure, private equity and other recommended investment vehicles. Unfortunately, during 2008 and continuing into the first quarter of 2009, virtually every class of investments suitable and appropriate for our Pension Plan declined.

4. *Are the benefits that I have accumulated in the Pension Plan secure?*

Yes. Promised benefits to active members, retirees and their beneficiaries are secure. No participant's benefit that has been accumulated to date will be reduced.

However, as a result of the declines in the investment portfolio that have occurred and because of the near term economic outlook, the Board of Trustees has been required to take action to ensure that the future funded status of the Pension Plan does not deteriorate to the point where more serious problems could result. The Board of Trustees has decided to be proactive in its approach to assuring the financial integrity of the Pension Plan.

5. *Instead of taking action now, why not simply wait for the stock market to go higher and cure the problem?*

Because it would be irresponsible to wait. While we all hope that the stock market will recover from its recent significant losses, no one knows for sure whether that will happen in the near term or, even if it does happen, what the extent of a stock market recovery will be. The Board of Trustees is charged with the responsibility of securing the promised pension benefits for all participants. This important responsibility requires that the Trustees, after receiving extensive reports and analysis from their professional advisors, take action now to recognize the possibility that things could get worse before they get better.

Remember, the stock market declined more than 37% as measured by the S & P 500 Index in 2008 *and* it continued its significant slump well into the first quarter of 2009, with a result that the S & P 500 Index is down more than 40% from its previous highs. Although the Trustees hope that the stock market will recover promptly, no one has an accurate crystal ball that will tell us when the recovery will occur and how great the recovery will be. The Trustees are required to take action based upon recognition of the current losses in the investment portfolio and a realistic approach to what the future may hold. The asset losses that occurred in 2008 are unprecedented and restoring the funding position of the Plan cannot be accomplished by relying on future asset returns alone. It is important to start on the road to recovery as soon as possible. Waiting to act will only make the challenge greater.

6. *What is the Funding Improvement Plan?*

As a result of being in the "YELLOW" status, the Board of Trustees is required to adopt a Funding Improvement Plan or FIP under the Pension Protection Act of 2006 (or "PPA"). The Funding Improvement Plan must be designed to increase the funded percentage for the Pension Plan to a level of 82% over a thirteen (13) year period from 2012 to 2024 by increased contributions, reductions in benefits or both.

The law requires the Trustees to adopt and notify the bargaining parties of two basic options. The Trustees have adopted Option 1 as the Funding Improvement Plan (FIP) for the Plan.

Option 1 - Funding Improvement Plan Schedule. By law, one option must propose increases in contributions under the plan necessary to achieve the funding target and avoid a funding deficiency, and assume no amendments reducing future benefit accruals under the plan. In order to achieve this objective, the Trustees adopted the following plan for Option 1.

- *Contributions*. Effective January 1, 2012, each employer's hourly contribution rate in effect as of March 1, 2009 must be increased by a supplemental contribution equal to 35% of that rate.
- *Benefits*. The supplemental 35% contribution will not yield any additional benefit for the participant, but will be used solely to offset the unfunded liability of the Pension Plan and to secure the objective of the FIP. Participants under the Option 1 contribution schedule will, in addition to the benefit accrual provided in the Plan of Benefits, continue to be eligible for existing disability retirement benefits, early retirement credits and death benefits under the Plan of Benefits.

Option 2 - Default Schedule. The default schedule is the other option. By law, the default schedule must: (1) eliminate future benefit accruals and other benefits to the maximum extent permitted by law, and (2) assume that there are no increases in contributions under the plan (other than the increases necessary to meet the funding target and avoid a funding deficiency after benefits are frozen).

- *Contributions*. Under Option 2, generally effective January 1, 2012, the signatory employer will be required to continue to make contributions to the Plan in an amount not less than the hourly contribution rate in effect as of March 1, 2009 plus a surcharge to this contribution rate in the amount of fifteen percent (15%).
- *Benefits*. In addition, participants working under a "default option" rate will not receive any benefit accrual for such contributions on or after January 1, 2012 or a later default schedule date (in other words, benefits are frozen) and will not be eligible for disability or death benefits (other than a legally mandated pre-retirement surviving spouse annuity). Early retirement benefits (reduced and unreduced) will also be frozen at the amount earned through the default schedule effective date and will not be increased for future service.

There are no other contribution options. The PPA prohibits a direct or indirect reduction in contributions from now through 2024 and assesses an excise tax to the IRS for any difference between actual contributions and the rate required by a FIP after 2011. An employer who fails to contribute in accordance with the PPA may also be deemed to have withdrawn and be assessed withdrawal liability.

7. ***My collective bargaining agreements are being renegotiated this year or next year – what happens if I increase our contributions by 35% earlier than January 1, 2012?***

The Board of Trustees anticipated that many District Councils, Local Unions and signatory employers will need to plan ahead and increase contribution levels, in order to satisfy the FIP, ahead of time. The Trustees will allow, and encourage, District Councils, Local Unions and signatory contractors to elevate their contribution rates early in order to get the contributions to the Pension Plan for the supplemental contribution as promptly as possible. For those parties that choose to elevate their contribution rates earlier than January 1, 2012, the Plan will provide a benefit accrual of two percent (2%) of contributions for increases up to the 35% supplemental contribution that is received prior to January 1, 2012. Then, as of January 1, 2012, when the 35% supplemental contribution goes into effect, this extra contribution will simply be converted into the supplemental contribution (and no further benefits for the participant will be received on that extra 35%). In this manner, no party need be concerned about modifying its collective bargaining agreement early in order to get the extra 35% percent built into its contribution rate – the members and participants will benefit from that extra money paid early by accumulating a 2% benefit on it.

8. Is it possible to take money out of the hourly contribution to the Annuity Plan to pay for the supplemental contribution?

Yes, as long as the contract permits it or the bargaining parties agree to make the change.

9. Is there any hope that things will improve and the goals of this Plan can be achieved in less than 13 years?

Yes. The IUPAT Industry Pension Plan has adopted an actuarial assumption that assumes the Plan will receive returns on its investment portfolio at an average rate of 7.5% per year. If the investment climate improves significantly and the Plan returns to achieving greater than an average 7.5% return on its investments, it is possible that the goals of the Funding Improvement Plan can be satisfied at a much earlier date. The Board of Trustees will be reviewing the Plan's investment returns and the objectives of the FIP on at least an annual basis. Decisions will be made along the way to reflect changes in the funding position of the Plan. The FIP goals and supplemental contribution requirements could be modified accordingly. However, the Board of Trustees cannot, in planning ahead, rely on hope alone – future decisions will depend upon real improvement in the investment climate and the Plan's investment portfolio.

10. What is the track record of our Pension Plan in achieving better than anticipated investment returns on our investment portfolio?

As recently as 1999, our Pension Plan was 100% funded. Everyone knows what happened after that. Beginning in March 2000 and for more than two years thereafter, the stock market crashed. This was in part due to the impact of the terrorist attack on the United States on September 11, 2001 and the resulting recession that occurred thereafter. Virtually every pension fund in the country, as well as most other substantial investment portfolios involving foundations, charities and the like suffered substantial losses. Our Pension Plan was affected as well. Nevertheless, in 2003, 2004, 2005, 2006 and 2007, our Pension Plan investment portfolio improved by 16.8%, 9.3%, 8.4%, 12.3% and 7% in each respective year. This produced average returns that were well above the Plan's actuarial assumption of 7.5%. The result was that, as of December 31, 2007, our Pension Plan was in the "GREEN" zone and more than 80% funded. We hope that these returns can be achieved again and the objectives of the Funding Improvement Plan can be satisfied much earlier

11. Once the objectives of the Funding Improvement Plan are achieved, can our benefits be improved?

Yes. Once the objectives of the Funding Improvement Plan are achieved, the Board of Trustees can consider improving benefits for all Plan participants. However, it is important to note that the Board of Trustees will always consider the financial integrity of the Pension Plan and the need for planning ahead in making any benefit decisions. There are no promises that can be made at this time, looking ahead, concerning benefit improvements. The Board of Trustees has always sought to maintain one of the highest and best benefit programs for our participants based upon the dollars that each participant contributes to the plan. Few other pension plans provide a similar bang for the buck. At the present time, the average retiree in our Pension Plan receives back in retirement benefits all of the money he or she contributed to the Plan within approximately three years following retirement – after which all of the continuing benefits that the participant receives throughout his/her lifetime represent a profit on the contributions to the Plan. This is an outstanding benefit level that few pension funds can match. The Board of Trustees will continue to seek to achieve the best benefits for our entire membership and their beneficiaries once this crisis in the investment markets is resolved and the objectives of the Funding Improvement Plan are achieved.

12. How are we doing compared to other pension funds of similar size and design in our industry?

Many others are in much worse position. Although the records of every other pension fund in the building trades industry are not available to us, we can determine from public information and from other information provided to us that our Pension Plan, comparatively, appears to be doing much better than many others.

13. How does this situation affect my pension?

Current retirees and beneficiaries are not affected by this Funding Improvement Plan. They will continue to receive their benefit checks as usual.

For active members, the benefits you have already earned are fully protected and will not be reduced.

14. If we are a comparatively healthy fund, why are we taking the steps of adopting a Funding Improvement Plan?

For two reasons: first, under the provisions in the Pension Protection Act of 2006, when a pension plan is in "YELLOW" status, it is required to adopt and file a Funding Improvement Plan; second, the Board of Trustees has decided to be proactive in these circumstances and take action early in order to assure, to the extent possible, that the vitally important pension and retirement benefits for our membership remain secure. The Trustees, like our members and participants, want our Pension Plan to be prosperous and in a position to improve benefits in the future. The only way to achieve this goal responsibly is to act now, in the face of the reality of the investment climate, to assure that our membership does not suffer what other pension funds in our industry and outside of our industry have suffered.

15. Under the Funding Improvement Plan, my contributions will go up by 35% as of January 1, 2012 and I will not receive any additional benefit for this extra money. Why should I be willing to pay more when my benefit will not increase?

This question can be answered in several ways. First, in the more than forty year history in which our Pension Plan has existed, it has *never* asked any member to pay more in his/her contribution rate without receiving additional benefits from the Plan. *Never*. However, at this time, as a result of this economic climate in which we are living, the price of the benefit that you will receive from the Pension Plan must go up. We simply have no choice. It is unfortunate that we are in such circumstances at the present time, but it would be irresponsible not to recognize it.

Second, throughout the forty plus years in which the Pension Plan has provided excellent and secure benefits on behalf of our membership, the Board of Trustees has periodically increased the amount of benefits that our members have received in return for the same contribution rate. Retirement and disability benefits throughout the years have increased significantly, even though the member was not required to increase his/her hourly contribution rate to receive such benefits. It is not unreasonable to expect that these benefits may now cost more.

Finally, each of us needs only to look around and witness what is happening in other trades and in other industries. Many of our colleagues in other building trades are participants in pension funds that have required increases in contribution rates of 50%, 100% or more simply in order to maintain their present level of benefits or, in some cases, to support a reduced level of benefits. This present investment climate has resulted, for the first time in our history, in a need for our members to support the Pension Plan by increasing their contribution rates by the amount of the supplemental contribution in the Funding Improvement Plan. The proposed increase in these contribution rates is relatively modest when compared to the benefits that all of our members receive from the Pension Plan. It is clearly modest when compared to contribution rates in other pension funds and it is realistic and necessary in view of the present investment climate.

16. ***What happens to the extra money from the 35% supplemental contribution when the Funding Improvement Plan is no longer needed to secure the Pension Plan?***

Once the Board of Trustees rules that the goals of the FIP are met and the funding level of the Plan has reached a point that satisfies federal and self-implemented minimums, the 35% supplemental contribution undergoes one of two scenarios.

1) Through no action of the membership, the 35% supplemental contribution is considered part of the base contribution to the Pension Plan. That full amount would receive full benefit accrual going forward.

Remember, when the Funding Improvement Plan has satisfied its goals, the various collective bargaining agreements throughout the country will have the supplemental contribution amounts designated for the Pension Plan. Thus, the Board of Trustees cannot simply tell everyone no longer to contribute the supplemental contribution amounts. That would require a modification of each specific collective bargaining agreement. Instead, the Board of Trustees will provide a notice to everyone, that these extra contributions will, from that moment forward, receive benefit accrual on the amounts received.

2) The membership votes to reallocate the 35% supplement contribution between hourly wages and pension contributions.

Once the amount is in the hourly wage package, the members may be free, following satisfaction of the FIP and an announcement by the Board of Trustees to that effect, to reallocate their hourly package and place the extra money into their wages. This depends on the specific collective bargaining agreement.