International Painters and Allied Trades Industry Pension Plan

2019 Annual Report to Participating Employers & Unions

TABLE OF CONTENTS

INTRODUCTION 1
PARTICIPANTS 2
Eligible Employees 2
Supplemental Participation Agreements 2
Participant Totals 3
Withdrawn Employees 3
Plan Benefit Formula 5
Accrued Benefit for Work Before 2003 5
Pre-1988 Service 5
Service 1988-2002 5
Accrued Benefit for Work After 2002 6
Base Contribution Rate 6
Benefit Percentage at the Base Contribution Rate 6
Benefit Percentage Above the Base Contribution Rate 6
Benefit Percentage Below the Base Contribution Rate 6
Accrued Benefit for Work 2010 – 2011 7
Benefit Accrual 2010-2011 7
Pre-2012 Incentive 7
Modifications to Plan Benefits during 2019 8
Benefit Restrictions 8
Summary Plan Description 10
EMPLOYERS 11
Contributing Employers 11
Employer Contribution Agreements 11
Employer Participation - Union Employers 11
Employer Participation – Unions, Fund and Association Staff 11
Employer Participation – "Bargaining Unit Alumni" 11
Employer Participation – Non-IUPAT Staff 11
Related Businesses 11
Contribution Schedules 12
Modifications to the Contribution Schedules in 2014 12
Contributions as Plan Assets 12
Mistaken Contributions 12
Collection Remedies 13
Lawsuits and Other Proceedings 13
Courts, Arbitration and Agencies 13
Time Limits 14
Funding Status 15
Funded Percentage 16
Funding Relief 17
Funding Improvement Plan Implementation 20
INVESTMENTS 22
Investment Policy 22
Performance 22
Investment Allocation 22
WITHDRAWAL LIABILITY 24
Background 24
Withdrawal Liability Assessments 24
Withdrawal Liability Employers 25
Withdrawals 25
Free Look 26

TABLE OF CONTENTS

Withdrawal Liability Calculation ... 26
Initial Year Liability Charge ... 26
Initial Year Changes ... 27
Annual Change Charge ... 27
Reallocation Liability ... 28
Actuarial Assumptions ... 28
Withdrawal Liability Payments ... 29
PLAN INFORMATION ... 30
Where to Get More Information ... 30
Regular Funding Reports ... 30
Document Disclosure ... 30
Form 5500 ... 30
Plan Documents ... 31
Withdrawal Liability Rules ... 31
Other Reports ... 31

INTRODUCTION

November 2020

To All Participating Employers and Unions:

The Board of Trustees for the International Painters and Allied Trades Industry Pension Fund is pleased to provide you with this Annual Report on the International Painters and Allied Trades Industry Pension Plan -- which we call the IUPAT Industry Pension Plan in shorthand.

The IUPAT Industry Pension Plan is a defined benefit plan established to provide retirement benefits for employees covered under collective bargaining agreements between Employers and the International Union of Painters and Allied Trades (IUPAT). It is a multiemployer defined benefit pension plan for purposes of the Employee Retirement Income Security Act (ERISA).

This Annual Report is delivered in accordance with ERISA Section 104(d) as a summary of relevant information. We would like to stress that the operation of the Plan is governed by a formal written Trust Agreement and Pension Plan (Rules & Regulations) and that you and your employees cannot and should not rely on other documents. Only the Trustees or someone specifically authorized by the Trustees can speak for this Plan, or tell you about your rights or obligations under the Plan. There is a more detailed summary of Pension Plan benefits in the Pension Plan's Summary Plan Description (SPD), which is available on the Plan website along with other information on the Pension Plan.

The Trustees are also the plan sponsor for the IUPAT Industry Annuity Plan. This is a separate multiemployer defined contribution plan, which is not covered by this report.

This Pension Plan represents important protection for your employees and members and their families. The Board of Trustees thanks you for your involvement in the continued operation of this valuable program.

Sincerely,

THE BOARD OF TRUSTEES

PARTICIPANTS

Eligible Employees

An employee may be eligible to participate in the IUPAT Industry Pension Plan if he or she works for an employer who contributes to the Plan and satisfies at least one of the following requirements.

- An employee can participate if he or she is doing work covered by an IUPAT contract with a Contributing Employer.
- An employee can participate if he or she is a paid officer and/or employee of an IUPAT District Council or Local Union which is accepted by the Trustees to participate in the Plan.
- An employee can participate, even if he or she is not part of an IUPAT bargaining unit, as long as the employee is a member of another class of employees of a Contributing Employer (with an IUPAT collective bargaining agreement for other employees) which has been accepted for participation in the Plan by the Trustees.
- An employee can participate if he or she is an employee of a union-industry related organization, as defined in the Plan, which has been accepted for participation in the Plan by the Trustees. This group includes pension, welfare, apprentice and other benefit plans, employer associations, union affiliates and similar organizations that assist the IUPAT and its District Councils and Local Unions and the Contributing Employers in labor and industry matters.
- An employee can participate if he or she is an employee of an Employer that is incorporated and a member of the Finishing Contractors Association or a 100% union contractor.

The Plan does not cover people who are not employees: namely, self-employed individuals, a sole proprietor in an unincorporated business or a partner in an unincorporated business. This is due to limitations under federal labor law.

Supplemental Participation Agreements

Participation in the Pension Plan by anyone whose work is not covered by a current IUPAT collective bargaining agreement is subject to the Employer's execution of the Plan's current Supplemental Participation Agreement for Non-Unit Employees or a comparable agreement (including the IUPAT Constitution) acceptable to the Trustees. **An employer who is contributing for non-unit employees should make sure that it has signed the current supplemental agreement. The Plan will not pay benefits for managerial employees or other employees who are not covered by a current IUPAT collective bargaining agreement (at the time contributions are paid) in the absence of a signed current Supplemental Participation Agreement for Non-Unit Employees, regardless of the time that contributions have been paid.**

The Plan and the Supplemental Participation Agreement for Non-Unit Employees require compliance with additional tax rules on non-discrimination and other matters for non-bargained employees. The Plan also includes required tax limitations on benefits for highly-compensated

employees that may affect or restrict the payment of normal benefits under the Plan. An agreement for non-unit employees may exclude employees who are represented by their own union and make retirement benefits the subject of good faith bargaining.

Participant Totals

The total number of participants in the Plan as of the Plan's valuation date of January 1, 2019 was 87,126. The Plan's participant population on January 1 of the last three (3) calendar (plan) years has varied as follows.

Category	2017	2018	2019
Active Vested Participants	21,906	22,129	23,232
Active Non-Vested Participants	15,934	14,629	15,109
Vested Former Employees	17,708	17,998	18,598
Retirees, including surviving spouses and other beneficiaries	29,329	29,794	30,187
Totals	84,877	84,550	87,126

Withdrawn Employees

Employer withdrawals have an impact on the Plan's active employee population. To provide a consistent basis for presentation of a range of outcomes, the Plan has treated a contributing business (with a separate IRS Employer Identification Number or EIN) as a withdrawn employer if the business has been inactive and made no contributions for five (5) years. An employee who worked for such an employer in the last year with contributions is treated as no longer participating in the Plan due to the employer's withdrawal.

Using these inactivity tests, the number of participants who worked (in the last plan year with contributions) for employers who became inactive or withdrew in each year (after 5 years with no contributions) are as follows.

Plan Year (1/1 – 12/31)	Inactive Participants
2019	2,159
2018	2,403
2017	3,293

This chart reflects participants for accounts that were inactive for the current year (2019) and prior two (2) years, with the last contributions in 2014. These employees may have found work with other employers since the employer's last contributions.

PARTICIPANTS

The inactivity test of withdrawal in this report is different from the legal test of withdrawal for employers in the building and construction industry. The legal test is difficult to apply on a consistent basis. It allows a withdrawal to occur up to five (5) years after an actual cessation of contributions and does not include a liquidation or shutdown as a withdrawal. The number of withdrawn employees likely would be materially smaller if the legal test of withdrawal in the building and construction industry were applied.

BENEFITS

The IUPAT Industry Pension Plan is a multiemployer defined benefit pension plan. The plan document was restated effective January 1, 2015. The restated plan received a favorable determination letter on September 22, 2015. The Plan has subsequent amendments to make clarifying updates to the Plan document.

Plan Benefit Formula

The Plan's basic benefit is its "Accrued Benefit," which is payable as a monthly benefit for life at and after an employee's normal retirement age (usually, age 65). This benefit amount is protected against retroactive change ("cutback") under ERISA. Due to the anti-cutback rules and changes in the Plan's design and funding needs over the years, the Plan's Accrued Benefit is calculated as the sum of a number of pieces. The Trustees have adopted a number of dramatic changes in recent years, as they reacted quickly and proactively to adjust benefits to maintain the long-term stability of the Plan.

<u>Accrued Benefit for Work Before 2003</u>

An employee's Accrued Benefit for work before 2003 is the sum of two pieces.

- *Pre-1988 Service*. The first piece covers an employee's work before January 1, 1988. It equals an employee's units of pension credit earned before January 1, 1988 times the pre-1988 benefit rate for the employer's contribution rate.

- *Service 1988-2002*. The second piece covers an employee's work from January 1, 1988 to December 31, 2002. It equals an employee's units of pension credit earned from 1988 to 2002 times the post-1987 benefit rate for the employer's contribution rate.

Before 2003, one (1) unit of pension credit was earned for each 150 hours of service in contributory Covered Employment, with a maximum of 15 units in any year for 2,250 or more hours of service. The pre-1988 and post-1987 benefit rates for varying levels of employer contributions are listed in tables that are included in the Summary Plan Description (SPD) for the Pension Plan.

The Plan design had a maximum benefit rate (at $5 per hour in contributions) and a general cap of 360 units. An employee with more than 360 units of pension credit as of December 31, 2002 received a bonus on the pre-2003 Accrued Benefit for service up to December 31, 2002. The bonus increased the Accrued Benefit by 1% for each completed twelve (12) units in excess of 360 units earned prior to 2003.

Accrued Benefit for Work After 2002

The Plan was changed for work after 2002. The new formula paid a percentage of the contributions paid for an employee's work under the Plan. Under the new formula, the Pension Plan now gave pension benefit credit for every hour worked, with no limit on the number of eligible hours a participant could earn in a year or lifetime. With the elimination of the unit structure and credit for every hour, the Plan removed the additional 1% benefit for each 12 units in excess of 360 units, with no maximum benefit rate.

The percentage of contributions credited to the Accrued Benefit has varied with the sudden changes in the Plan's funding situation in the volatile investment markets of recent years.

Benefits 2003-2005 and 2008. The benefit earned for service from January 1, 2003 through December 31, 2005, and for 2008 is equal to two percent (2%) of Employer contributions for an Employee's work in those years.

Benefits 2006, 2007 and 2009. The benefit earned for service in calendar years 2006, 2007 and 2009 is a percentage of required contributions for an employee's work in those years.

- Base Contribution Rate. The amount of benefits earned depends on the contribution rate for work covered by the Plan that was in effect at January 1, 2006 – which the Plan calls the "Base Contribution Rate."

- Benefit Percentage at the Base Contribution Rate. If an Employer paid the Base Contribution Rate, the benefit earned equals one percent (1%) of the Contributing Employer's required contributions for the employee's work.

- Benefit Percentage Above the Base Contribution Rate. If an Employer paid more than the Base Contribution Rate, the benefit earned is one percent (1%) of the Base Contribution Rate plus two percent (2%) of the contributions above the Base Contribution Rate for contributory hours after an increase was effective, but not before January 1, 2006.

- Benefit Percentage Below the Base Contribution Rate If the contribution rate was less than the Base Contribution Rate, the benefit earned is one percent (1%) of the actual rate for contributory hours up to May 31, 2006. For work after May 31, 2006, additional benefits are only earned if the contribution rate for work is over 70% of the Base Contribution Rate.

New Contribution Level Effective After 5/31/06 as a % of the Base Contribution Rate	*Benefit Accrual Rate After Contribution Rate Change*
100%	1.00%
90%	0.67%
80%	0.33%
70%	0.00%

Rates between 71% and 100% of the Base Contribution Rate (rounded down to the nearest full percentage) earn a proportionally reduced benefit up to one percent (1%) on contributions after

May 31, 2006. The Plan may determine that a contribution rate has been reduced due to limitations on the hours or employees covered by a pension contribution agreement or other factors, even though the nominal dollar rate is the same as the Base Contribution Rate.

If the rate is less than 71% of the Base Contribution Rate but more than 30% of the Base Contribution Rate after May 31, 2006, no benefits are earned for the contribution, but service will still count for vesting and retirement eligibility.

If the rate goes below 30% of the Base Contribution Rate after May 31, 2006, the Trustees will refuse the contribution. Except as required by law, no service credit will be earned for any purpose under the Plan after contributions cease (either directly by the Employer or due to rejection of contributions by the Trustees). The employer may also be obligated to pay withdrawal liability.

The benefit earned during 2008 was a one-year move back to the target of two percent (2%) of Employer contributions. With adverse events in 2008, the Trustees returned to one percent (1%) of the contributions up to the Base Contribution Rate plus two percent (2%) of the contributions above the Base Contribution Rate for 2009.

Accrued Benefit for Work 2010 – 2011

Benefit Accrual 2010-2011. Effective January 1, 2010, the general accrual rate is one half percent (0.5%) of contributions up to the Base Contribution Rate and one percent (1%) on the amount of any contributions over the January 1, 2006 level. The other adjustments to benefits with contributions above or below the Base Contribution rate remain in effect, with a special interim adjustment through 2011 that is described below.

Pre-2012 Incentive. As an incentive under the Funding Improvement Plan, for parties who chose to elevate their contribution rates earlier than January 1, 2012, the Plan provided a benefit accrual of two percent (2%) of contributions for increases above the contribution rate as of March 1, 2009 up to the 35% supplemental contribution required by January 1, 2012. (At January 1, 2012, the 35% supplemental contribution requirement went into effect and any extra contribution was simply converted into the supplemental contribution with no further benefit accrual for the participant on the early increased amount).

Funding Improvement Plan (FIP) Benefit Rules – 2012-2018

The Plan benefit formula was changed to conform to the Funding Improvement Plan effective January 1, 2012. A Special Bulletin to participants describing the changes was sent in late 2011. After 2011, a participant's normal retirement benefit is his/her accrued benefit at December 31, 2011 (under the formulas described above), plus the benefits accrued for service on or after January 1, 2012.

The formula for computing benefits on or after January 1, 2012 is based on the percentage of an Employer's 2006 and 2009 contribution rates.

(1) One half percent (1/2%) of an Employer's required contributions at the 2006 Base Contribution Rate, plus

(2) One percent (1%) of an Employer's required contributions above the 2006 Base Contribution Rate but below the March 2009 Contribution Rate, plus

(3) Two percent (2%) of an Employer's required contributions above 135% of the March 2009 Contribution Rate for 2013 forward.

There is a "doughnut hole" after 2011. Contributions between the March 2009 Contribution Rate and 135% of that rate earn no benefits after 2011. In the current economic and investment climate, this money needs to be used to shore up the Plan's funding and protect the benefits earned in the past.

If an Employer was first required to make contributions after March 1, 2009, the March 2009 Contribution Rate is deemed to be 74% of the contribution rate at which an Employer initially was required to contribute to the Plan.

Modifications to Plan Benefits during 2017

Benefit Restrictions

The Plan is in seriously endangered status. Generally, for plans in this status, ERISA, the federal pension law, prohibits any Plan amendment that would increase the liabilities of the Plan by an increase in the benefit formula, a change in the accrual of benefits, or a change in the rate at which benefits become vested.

There are two exceptions to this general rule. One exception is for an increase that is required as a condition of tax-exempt status ("qualification") under the Internal Revenue Code or to comply with other applicable law. The other exception is for an improvement paid for with additional employer contributions that have not been previously allocated to the Plan. Under this exception, the Plan's actuary must also certify that the additional contributions exceed the cost of the additional benefit.

Early Retirement Reduction for Post- 2017 Benefits

The Plan changed the reduction for early retirement benefits for benefits earned on or after January 1, 2018. These changes did NOT affect early retirement benefits for an accrued monthly benefit as of December 31, 2017**.** That amount will be grandfathered and calculated under the prior rules which are described in the SPD and the following table, with an outline of the changes after 2017.

BENEFITS

Plan Provision	Pre-2018 Benefits	Post-2017 Benefits
Special Early Retirement (Unreduced)	Active Employee at any age with 60,000 Benefit Hours, Active Employee at age 55 with 54,000 Benefit Hours, or Active Employee at age 62 with 45,000 Benefit Hours	Active Employee at age 55 with 60,000 Benefit Hours Active Employee at age 60 with 54,000 Benefit Hours, or Active Employee at age 62 with 45,000 Benefit Hours
Regular Early Retirement (3% per year reduction from 65)	Active Employee at age 55 with 18,000 Benefit Hours	Active Employee with 60,000 Benefit Hours, or Active Employee at age 55 with 45,000 Benefit Hours who is not eligible for Special Early Retirement
Disability Retirement	Disability benefit equal to 110% of the early retirement benefit payable at retirement (or, if later, age 55), but not to exceed the full accrued benefit without reduction.	Disability benefit equal to 110% of the early retirement benefit payable at retirement (or, if later, age 55) with the 2018 changes, but not to exceed the full accrued benefit without reduction.

Although there is no change in the description of Disability Retirement benefits above, any changes in early retirement provisions for accruals after December 31, 2017 will also affect the benefits payable to Participants who satisfy the Plan's Disability eligibility requirements.

The Benefit Hours in the chart include all Benefit Hours before, in and after 2018. Benefit Hours for purposes of retirement eligibility and early retirement benefit reductions generally are the sum of work hours for which pension contributions are payable to the Plan or a reciprocal plan plus any military service credit. See the SPD for more details.

Benefit Accrual

Additional contribution rate increases were required as part of the 2017 update to the Funding Improvement Plan. By December 31, 2021, each Employer must have a contribution rate that is at least 50% higher than the contribution rate that was required on January 1, 2012. This required increase is limited to $4.00 per hour. These additional required contributions will earn a 2% benefit accrual rate.

The other change made in the 2017 update is that if the Plan experiences a calendar year where the Plan has a negative investment return, then for the second following year, no benefits will be accrued for that year. The Plan experienced a negative rate of return in the 2018 Plan Year, therefore this provision has been triggered and there will be no pension accruals in the 2020 Plan Year.

Summary Plan Description

The Pension Plan provides normal, special early, early, deferred vested normal, deferred vested early and disability pensions as well as pre-retirement surviving spouse benefits and death benefits. It also has vesting requirements, break-in-service rules, suspension of benefits during post-retirement work and other forfeiture rules and conditions for payment that may cause a loss of service credit or benefits. Please refer to the Summary Plan Description (SPD) and summaries of material modifications (Special Bulletins) for a more complete summary of the features of the Plan. Copies of the SPD and Special Bulletins are available at https://iupatpension.org/ under the "Resources" tab.

This explanatory material in this Annual Report and the SPD is not intended to change or interpret the Plan as adopted by the Board of Trustees. The full Plan document is available on request as explained in the section on **PLAN INFORMATION**.

Contributing Employers

The IUPAT Industry Pension Plan had 3,945 active contributing employers in 2019, based on separate IRS Employer Identification Numbers (EIN). The contribution base is diversified and no employer contributed more than five percent (5%) of total contributions to the Pension Plan during 2019. The total number of employers with Plan accounts is much larger, but not all employers are active and contribute in each plan year.

Contributions to the Plan are made by employers in accordance with Collective Bargaining Agreements between IUPAT affiliates and the employers and related participation agreements with the Trustees. The total employer contributions to the Plan were $367,029,734 in 2019, $332,230,765 in 2018, $306,162,345 in 2017, and $273,076,107 in 2016, excluding withdrawal liability payments.

Employer Contribution Agreements

The Plan has several options for employer participation

- Employer Participation - Union Employers. A "Contributing Employer" is a business with employees covered by an IUPAT union contract (also known as a "collective bargaining agreement") that agrees to make contributions to the IUPAT Industry Pension Plan in accordance with Plan rules and the Trust Agreement.

- Employer Participation – Unions, Fund and Association Staff. An "Affiliated Employer" is an organization with ties to the IUPAT that wishes to cover employees who are not covered by a current IUPAT collective bargaining agreement. These employers contribute to the Plan under a Supplemental Participation Agreement for Non-Unit Employees or similar agreement (such as the IUPAT Constitution). The affiliates to the IUPAT include Contributing Employers (for non-bargained employees), as well as pension, welfare, apprentice and other benefit plans, employer associations, union affiliates and similar organizations that assist the IUPAT and its District Councils and Local Unions and the Contributing Employers in labor and industry matters.

- Employer Participation – "Bargaining Unit Alumni." The Plan's Supplemental Participation Agreement for Non-Unit Employees allows an Affiliated Employer to contribute to the Pension Plan for management people who have left the employer's IUPAT bargaining unit covered by the Plan ("bargaining unit alumni"). This requires a separate signed Supplemental Participation Agreement with the Pension Fund. Credit will NOT be given without a signed Supplemental Participation, even if contributions are paid.

- Employer Participation – Non-IUPAT Staff. The Plan's Supplemental Participation Agreement also allows an employer to contribute more broadly for non-IUPAT employees, as long as contributions do not discriminate in favor of highly-compensated employees.

Related Businesses. The Pension Plan is a multiemployer plan. Companies or trades or businesses that are under common control with a Contributing Employer or "Affiliated Employer" are NOT

"employers" under the Pension Plan. Service with such companies or businesses does NOT count for any purpose under the Pension Plan.

Contribution Schedules

The contribution agreements generally provide that for contributions to the Pension Plan on the basis of a fixed rate per hour for all hours paid to an employee with wide variations in rates. In some instances, contributions are made on the basis of a percentage of the employee's pay.

The Trustees can reject contributions under contracts that do not conform to the rules and funding requirements established by the Trustees. In 2006, the Trustees resolved to reject any new agreement with a contribution rate that was less than 30% of the rate in effect for work in January 2006 (the "Base Contribution Rate").

Due to "endangered" status as of January 1, 2009, the Trustees also adopted a Funding Improvement Plan ("FIP") that requires increases in contributions from 2012 forward, as described below, and was subsequently updated in 2017 to require additional contribution increases. An employer who does not agree to pay the minimum required FIP contribution rate can be assessed for the difference as a statutory minimum funding charge or be terminated from the Plan and assessed withdrawal liability.

Modifications to the Contribution Schedules in 2019

Contribution rates are negotiated and can change from year to year. The lowest rate was $0.09 per hour and the highest rate was $27.20 per hour for Plan Year 2019.

Contributions as Plan Assets

When the federal pension law (ERISA) was passed, Congress recognized that pensions are the deferred component of compensation that is taken from the contractual package to transfer earnings during the working years into income for a decent living in the older years. ERISA and the Plan impose duties to enforce proper stewardship of Plan contributions.

Under the Pension Plan documents and Trust Agreement, a contribution to the Plan is a plan asset that must, under ERISA, be held in trust to pay employee pensions. The Employers have no right, title or interest in contributions paid to the Plan. The Trust Agreement for the Plan requires that employers treat Plan contributions in the same fashion as other items withheld from an employee's pay.

Thus, contributions owed to the Plan are considered plan assets from the time they are earned and should be set aside for timely transmittal to the Plan, like other withholdings. A person who fails to protect contributions in this fashion can be liable to the Plan for breach of fiduciary duty, a prohibited transaction or related claims for conversion of plan assets.

Mistaken Contributions

ERISA provides that the Plan may not extend credit to employers (or other parties in interest, such as participating unions and Plan trustees) nor allow Plan assets to "inure" (be used to benefit) the participating employers, unions or others at the expense of Plan participants. The Trustees are allowed to return amounts paid by an Employer due to a mistake of fact, payments conditioned on qualification of the Plan or deductibility of a payment and correct any excess contributions as provided by law.

Employers have a duty to review their records and seek correction of inaccurate reports or statements on a timely basis in order to allow the Plan and other participants and beneficiaries to rely on the accuracy of current records in funding and other matters. Thus, an employer claiming an erroneous payment must make a timely application for refund to the Trustees and cannot simply take a credit against future contributions on its own. **The Plan will only refund for a three (3) year period from the date of receipt of a written request from a contributing employer in the Fund Office, with verification of an error by an IUPAT District Council or Local Union or other means acceptable to the Trustees.**

Collection Remedies

ERISA and the Plan add special collection remedies for delinquent contributions to enforce the deferred compensation principle and safeguard Pension Plan contributions.

In a successful suit for delinquent contributions, the court must award the Plan:

- the unpaid contributions,
- interest on the unpaid contributions, at the rate for underpayment of federal income taxes,
- liquidated damages equal to the greater of the interest charged on the unpaid contributions ("double interest"), or twenty percent (20%) of the unpaid contributions, and
- reasonable attorneys' fees and costs of the lawsuit and subsequent collection efforts.

A contract or other rules may also impose audit costs. These remedies also apply to the collection of withdrawal liability.

The right or ability of the Plan and its Trustees to enforce a contribution obligation does not preclude other efforts by an IUPAT Local Union or District Council to enforce its contract. However, a union and employer do not have the right to eliminate or settle a Plan claim for contributions without the consent of the Plan and its Trustees. The Trustees can settle claims for delinquent contributions. Under ERISA, they can only do this prudently and based solely on the costs and risks of collection.

Lawsuits and Other Proceedings

The Plan has uniform rules on the time and location of any suit against the Plan.

Courts, Arbitration and Agencies. Any federal lawsuit by an employer for any amount claimed to be payable from the Plan may only be brought in the United States District Court for the District of Maryland or the United States District Court for the District of the District of Columbia. If a claim cannot be brought in federal court, an action against the Plan may be brought in the courts

of the State of Maryland or the District of Columbia. Any administrative proceedings, arbitration, agency proceedings or other legal action shall be brought in the office covering Hanover, Maryland.

Time Limits. Any administrative proceedings, arbitration, lawsuit or other legal action for any amount claimed to be payable from the Plan or its fiduciaries (without an express federal time limit, such as withdrawal liability review and arbitration) must be instituted against the Plan or its fiduciaries more than three (3) years after the earliest of:

- the date a claimant discovers or should have discovered the injury that forms the basis of his claim, regardless of whether the claimant has filed a formal claim with the Plan;
- the date of a clear repudiation of a claim by the Plan that is known, or should be known; to the claimant, regardless of whether the claimant has filed a formal claim with the Plan,
- the date of an initial written determination or response by the Plan to a written claim, or
- the last date for a timely initial determination or response by the Plan on a claim under ERISA and applicable regulations.

These rules do not extend the limitations period in ERISA Section 413, 29 U.S.C. §1113, for actions against the Trustees or other Plan fiduciaries. If it is shorter than the regular contractual limitations period, the limitations period in ERISA Section 413 is also the maximum period for an action against the Plan.

Funding Status

The Pension Protection Act of 2006 (the "PPA") amended federal pension law to place multiemployer defined benefit plans in funding categories with different funding rules, beginning in 2008. These categories are color-coded in jargon.

- A "GREEN ZONE" plan is at least 80% funded and in the short term does not have a funding deficiency or liquidity issues. These plans generally continue to operate under the minimum funding rules in ERISA that existed before the PPA.

- A "YELLOW ZONE" or "endangered" plan has *either*, but not both, a funded percentage below eighty percent (80%) *or* will have an accumulated funding deficiency for the current plan year or a projected funding deficiency in any of the next six (6) plan years, even with funding extensions that the IRS is permitted to grant. If a pension plan enters endangered status, the trustees of the plan are required to adopt a funding improvement plan and follow other rules that limit benefit increases and prohibit contribution decreases.

- An "ORANGE ZONE" or "seriously endangered" plan status has *both* a funded percentage below eighty percent (80%) *and* will have an accumulated funding deficiency for the current plan year or a projected funding deficiency in any of the next six (6) plan years. A seriously endangered plan must also adopt a funding improvement plan with additional rules to require quick action to avoid a funding deficiency.

- A plan can enter the "RED ZONE" or "critical" status in a variety of ways. "Critical" status can occur when a plan is less than 65% funded and has projected liquidity problems within six (6) years or a projected funding deficiency within the next four (4) years. A current funding deficiency (regardless of any IRS ability to extend the funding period) will trigger critical status. The "RED ZONE" also covers plans with projected liquidity problems from retiree overload or cash outflow for benefits and expenses that may exceed cash resources (from plan assets and contributions) in the next four (4) years. If a pension plan enters critical status, the trustees of the plan are required to adopt a rehabilitation plan to improve funding, with limits on benefit increases and contribution reductions like the endangered plans and additional rules allowing benefit reductions. A plan remains in the "RED ZONE" until it is projected to have ten (10) years with no funding deficiency.

- A Plan can enter "critical and declining" status if it meets the criteria for "RED ZONE" status and is projected to go insolvent in 15 years (or 20 years if the Plan's inactive to active ratio exceeds 2.0 and the funded percentage is less than 80%).

The Plan was in endangered status from 2009 to 2016. The Plan has been in seriously endangered status since 2017. In the 2018 actuarial certification, the Plan was projected to be in critical status within five (5) years and so notified PBGC. As of the date of the 2019 certification, the IUPAT Industry Pension Plan was not making the scheduled progress in meeting the requirements of its Funding Improvement Plan.

The fact that the Plan is in the "seriously endangered" category does not mean the Plan is failing or will fail to provide retirement benefits. It just means that the Plan is less than 80% funded and is projected to have a funding deficiency in the next six (6) years. The Plan has no liquidity issues and expects to continue paying promised benefits for the foreseeable horizon.

Funded Percentage

The Plan's funded percentage for the 2019 Plan Year and two (2) preceding plan years is set forth in the chart below, along with a statement of the value of the Plan's assets and liabilities for the same period.

	2017	2018	2019
Valuation Date	1/1/2017	1/1/2018	1/1/2019
Funded Percentage	62.2%	61.9%	62.1%
Value of Assets	$3,269,554,532	$3,326,181,666	$3,414,777,098
Value of Liabilities	$5,254,701,262	$5,377,511,693	$5,497,065,501

The asset values in the chart above are measured as of the Valuation Date for the plan year and are actuarial values.

A comparison using the fair market value of assets shows a plan's funded status in terms of its ability to settle all liabilities immediately through an annuity contract purchase with an insurance company. However, because daily market values can be volatile and not reflect long-term returns over the period in which pensions will be paid, federal pension law allows plans to use the "actuarial" value of assets (which is a longer-term average that "smooths" returns over a five (5) year period within a corridor of 80% to 120% of market value) for funding purposes. Actuarial values fluctuate less than market values.

The asset values below are market values and are measured as of the last day of the plan year, rather than as of the Valuation Date. The fair market value of the Plan's assets as of the last day of the 2019 Plan Year and each of the three (3) preceding plan years (which match closer to the January 1 actuarial valuation dates) was as follows.

	12/31/2019	12/31/2018	12/31/2017	12/31/2016
Fair Market Value of Assets	$3,610,439,628	$3,185,362,036	$3,378,001,336	$3,063,064,630

The changes in funding percentage are less volatile with the use of the actuarial value of assets. The Plan does not use the "shortfall" method of funding and did not seek an amortization extension under ERISA Section 304(d) or section 431(d) of the Internal Revenue Code for 2019. It did not have a merger or transfer of assets or liabilities in 2019.

Funding Relief

The Preservation of Access to Care of Medicare Beneficiaries and Pension Relief Act of 2011 (the "Pension Relief Act"), gives pension plans additional time to deal with investment losses that occurred from the collapse of investment markets in 2008. The Trustees elected this relief for the Plan.

The Pension Relief Act permits the Plan to adopt special funding rules, including a "special amortization rule" and a "special asset valuation rule." The Trustees elected to use both rules for the Plan's investment losses that occurred in the Plan Year beginning January 1, 2008 and ending December 31, 2008 (the "2008 Plan Year"). Both rules first applied during the Plan Year beginning January 1, 2009 and ending December 31, 2009.

Original Funding Improvement Plan

Endangered Status and Rules

The International Painters and Allied Trades Industry Pension Plan ("Plan") was in the "yellow" or "endangered" zone beginning in 2009. It had a current funding level that was less than 80%, but, there were no anticipated funding deficiencies within the next several years.

Once the pension plan was classified as endangered, the Trustees were legally obligated to develop what is known as a "Funding Improvement Plan," or "FIP," which had to reduce the Plan's underfunded status by one-third by the end of the funding improvement period and avoid a funding deficiency for the last plan year during the funding improvement period. The Plan's original funding improvement period began on January 1, 2012 and ended on December 31, 2021. In April 2009, the Plan filed an election under the Worker, Retiree and Employer Recovery Act of 2008 (WRERA) to use the 13-year period instead of the statutory 10-year period. As a result of this election, the plan's new funding improvement period began on January 1, 2012 and ended on December 31, 2024.

As of January 1, 2012, the Plan's funded percentage for monitoring the Plan's PPA status was 68.7%. Under the PPA, that means that the Plan was viewed as having a shortfall in funding of 31.3% (100% - 68.7% = 31.3%). The law required that one-third of that deficiency, or 10.4%, be eliminated by the end of the thirteen (13) year period beginning January 1, 2012 and ending December 31, 2024.

Original Options for Bargaining Parties

The law required two options for the bargaining parties. The Trustees adopted Option 1 as the original 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 deficiency, and assume no amendments reducing future benefit accruals under the plan.

Under Option 1, the Plan was expected, over a thirteen (13) year period running from 2012 to 2025, to increase the funded percentage for the Plan to a level of 82%**.** 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 had to increase by a supplemental contribution equal to 35% of that rate. Increases in contributions above the March 1, 2009 contribution rate are not subject to the new supplemental contribution.

- *Benefits.* The supplemental 35% contribution did not yield any additional benefit for the participant, and was used solely to offset the unfunded liability of the Pension Fund and to secure the objective of the FIP. Participants under the Option 1 contribution schedule continued to accrue benefits as provided in the Plan of Benefits and continued 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 (which are not protected under IRC [26 U.S.C.] §411(d) (6)) 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).

Under original Option 2, generally effective January 1, 2012, the signatory employer was 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%).

Participants working under a "default option" rate do 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 are not eligible for disability or death benefits (other than a legally mandated pre-retirement surviving spouse annuity) and 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 were no other contribution options.

A Notice of Funding Improvement Plan (FIP) was mailed to all participating employers and unions in April 2009. The original FIP formally took effect on January 1, 2012 and is available at https://iupat.org/wp-content/uploads/Funding-Improvement-Plan.pdf .

Updated Funding Improvement Plan

Seriously Endangered Status and Rules

From 2009 to 2016, the Plan actuary certified that the Plan was in the "yellow," or "endangered" zone, which meant that it had a current funding level that was less than 80%, but, there were no anticipated funding deficiencies within the next several years. On March 31, 2017, the Plan actuary

certified that the Plan was in the "orange" or "seriously endangered" zone, meaning that the Plan had both a funding level less than 80% and an anticipated funding deficiency within seven years.

The change from endangered to seriously endangered created new benchmarks for the Plan's situation. The two seriously endangered benchmarks are:

- The Plan must reduce the Plan's underfunded status by one-fifth over a period of not more than fifteen (15) years, and

- The Plan can have no accumulated funding deficiency for the last plan year during the funding improvement period.

The Plan was 68.7% funded on an actuarial value basis at 1/1/2012. Under the PPA, that means that the Plan is viewed as having a shortfall in funding of 31.3% (100% - 68.7% = 31.3%). The law requires that one-fifth of that deficiency, or 6.3%, be eliminated over a fifteen (15) year period beginning January 1, 2012 and ending December 31, 2026.

To satisfy the seriously endangered benchmarks, the Plan must have an actuarial funded percentage on January 1, 2027 greater than or equal to 74.97% and a positive credit balance on January 1, 2027 to pass the PPA test. The Funding Improvement Plan was modified to enable the plan to meet these benchmarks.

Updated Funding Improvement Plan

The Funding Improvement Plan was updated in 2017. The deadline ("Effective Date") to adopt an updated schedule is 180 days after the expiration of the applicable collective bargaining agreement in effect in 2017, but not later than December 31, 2021.

Option 1 - Funding Improvement Plan Preferred 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.

Under Option 1, the Plan is expected, over a fifteen (15) year period running from 2012 to the end of 2026, to increase the funded percentage for the Plan by more than 6.3%. In order to achieve this objective, Option 1 is that the contribution rate for each employer at December 31, 2021 must be 50% higher than the contribution rate in effect as of January 1, 2012, subject to a $4.00 per hour cap on the increase. Employers with salary-related contribution rates will have their required increase converted to an hourly rate equivalent.

The monthly pension accrual rate on the increased contributions will be at the 2% level. [For example, if annual contributions are increased by $2,000, then the increased pension will be $40.00, which equals 2% x $2,000.]

Option 2 - Funding Improvement Plan Default Schedule

By law, the default schedule must: (1) eliminate future benefit accruals, 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).

Generally, a signatory employer whose collective bargaining agreement is not amended to comply with Option 1 by the Effective Date 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 April 1, 2017 plus a supplemental contribution to this contribution rate in the amount of nine and one half percent (9.5%). Participants working under a “default schedule” rate will not receive any benefit accrual for such contributions on or after January 1st following the Effective Date. In other words, benefits are frozen and participants under the default schedule will not be eligible for disability or death benefits (other than a legally mandated pre-retirement surviving spouse annuity).

There are no other contribution options. The updated Funding Improvement Plan prohibits a direct or indirect reduction in contributions from now through 2026. An employer who fails to contribute in accordance with the PPA may also incur excise taxes for violation of minimum funding requirements or be deemed to have withdrawn and be assessed withdrawal liability.

A Notice of the updated Funding Improvement Plan (FIP) was mailed to all participating employers and unions in April 2017 and is available from the Fund office on written request.

Funding Improvement Plan Implementation

The Multiemployer Pension Reform Act of 2014 permanently extended the Pension Protection Act (PPA) provisions on “endangered” (yellow) and “critical” (red) zone plans that were scheduled to expire at the end of 2014. It also clarified the law to establish the following rules on contributions in the Plan.

- If the FIP contribution rate for an employer changes and an employer does not agree to a new FIP contribution rate (within 180 days) after expiration of a collective bargaining agreement, it will nonetheless be obligated to pay the new FIP contribution rate under ERISA. As allowed by the PPA, the Plan expects to seek payment of the new rate after the 180 days grace period, with assessment of charges in the same fashion as delinquent contributions

- If the collective bargaining agreement does not provide for payment at a contribution rate that complies with the FIP, the difference can be collected as a minimum funding charge under ERISA with the same additional remedies (interest, liquidated damages and legal fees) as a regular delinquency under a Collective Bargaining Agreement.

- The Trustees still may reject any Collective Bargaining Agreement or Participation Agreement that fails to conform to the FIP and assess any resultant withdrawal liability as provided in the FIP.

Participation agreements for non-bargained employees are treated as collective bargaining agreements for purposes of the default schedule rules. The participation agreement is deemed to expire with the main agreement for the employer's union employees or, if there is no such agreement, the end of the plan year in which notice of the updated FIP was given.

Investment Policy

The investments of the Plan are managed with a primary focus on preservation of capital. Emphasis is placed on participation with the fixed income and equity broad market averages during times of rising markets and preservation of capital during periods of market contraction. The Plan seeks to earn total returns (income plus capital gains) in excess of major indices of each asset class over a typical market cycle.

Performance

The Plan has adopted an actuarial assumption for funding purposes that assumes the Plan will receive returns on its investment portfolio at an average rate of 7.5% per year. Up to 1999, the Plan was 100% funded. Beginning in March 2000 and for more than two years thereafter, the stock market declined After the losses of 2001 and 2002, the Plan's investment portfolio earned 16.8%, 9.3%, 8.4%, 12.8% and 6.8% in 2003, 2004, 2005, 2006 and 2007, respectively, on a fair market value basis, before another large loss in 2008 of 23.2% (approximately $800 million). While favorable in comparison to a decline in the S&P 500 Index during 2008 of more than 37%, the decline dramatically affected the Plan's funded status and produced the need for the Funding Improvement Plan.

The Plan earned the following investment returns, net of fees, since 2008.

Plan Year	*Market Value Return*	*Actuarial Asset Value Return*
2019	14.8%	6.1%
2018	-3.5%	4.9%
2017	13.4%	4.5%
2016	7.29%	3.81%
2015	1.07%	2.81%
2014	5.83%	4.36%
2013	13.58%	4.28%
2012	11.32%	8.68%
2011	0.17%	-0.54%
2010	10.36%	9.54%
2009	8.54%	7.94%
2008	-23.15%	-8.43%

The Plan's investment consultant prepares a regular summary of the investments (by manager or fund) and their performance. A full listing of investments is included in the annual audit report, which is filed with Form 5500 and available on the Internet or by request.

Investment Allocation

The 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. The portfolio will be re-balanced on a regular basis to bring the asset allocation of the Plan in-line with the minimum and maximum ranges.

WITHDRAWAL LIABILITY

Background

A multiemployer defined benefit plan that is not fully funded for vested benefits must assess withdrawal liability if an employer withdraws from Plan participation under the amendments to ERISA in the Multiemployer Pension Plan Amendments Act of 1980 (MPPAA).

Under the special definition in Section 4001(a)(8) of ERISA for this purpose, a benefit is "nonforfeitable" or "vested" on satisfaction of the conditions for entitlement under the plan or ERISA (other than submission of a formal application, retirement, or completion of a required waiting period). An age requirement for a vested deferred benefit is a "waiting period," that is ignored and does not make a benefit "forfeitable."

Pension plan liabilities are funded over a period of years (traditionally 30 years, but now generally 15 years); a plan with unfunded liability is like that portion of a mortgage that has not yet been paid. Withdrawal liability seeks to prevent an employer from stopping contributions in the middle of the funding cycle and shifting the unpaid balance or cost of paying for employee's pension benefits that are not yet funded to other employers in the multiemployer plan. (In the construction industry, this shift traditionally occurs and liability generally is imposed only if the employer continues to work in the same area and trade without contributions.) Because multiemployer plans operate on a pooled basis and employees often move between employers so that no single employer has an easily identifiable liability for specific employees, an employer's share of the Plan's unfunded vested benefit "mortgage" or "withdrawal liability" is assessed in relation to its level of contributions to the Plan.

Withdrawal Liability Assessments

The Plan is a building and construction industry plan under Section 4203(b) of ERISA for withdrawal liability purposes. The Plan identified 24 employers who withdrew under the legal test of a withdrawal in the preceding plan year (1/1/2018 to 12/31/2018) to date. The withdrawal liability assessed or estimated to be assessed against the identified withdrawn employers is $8,483,159.

The Plan is unable to identify all actual withdrawals by the date of this report, due to the legal definition of a withdrawal and other due diligence issues in identifying potential withdrawals and verifying them. The number of withdrawn employers is to be based on the special legal definition of a withdrawal in the building and construction industry, which is difficult to apply on a consistent basis in an annual report as, among other things, a withdrawal may not occur until nearly five (5) years after a cessation of contributions. The Plan's assessment process can be delayed in checking the nature and amount of the employer's work in the building and construction industry, and confirming ongoing work to create a legal withdrawal, as well as contributions by affiliated employers that would prevent a withdrawal. A simple liquidation or cessation of contributions is of itself not a "withdrawal" for a building and construction trade employer. The amounts assessed, or estimated to be assessed, are also subject to a *de minimis* reduction and other adjustments. For these reasons, the actual number of withdrawn employers and assessed liability for 2018, as reported on the Form 5500, may change through and including 2022 or beyond.

To provide a consistent reporting basis for presentation of a range of outcomes on an annual basis, the Plan has treated an account as a withdrawn employer if the account has been inactive with no contributions for five (5) years. On this basis, after excluding previously identified withdrawals, 469 employer accounts with no contributions after 2013 would be treated as withdrawals in the preceding plan year (1/1/2018 to 12/31/2018) before the plan year for the current filing. As suggested by the comparison of identified withdrawals to inactive employers, the number of withdrawn employees likely will be materially smaller once the legal test of withdrawal in the building and construction industry is applied to inactive accounts.

Withdrawal Liability Employers

The "term" employer has a special definition for withdrawal liability purposes that includes a Contributing Employer and all trades or businesses under common control. The businesses under common control include those that could file a consolidated corporate federal income tax return with a Contributing Business, but also extend to unincorporated businesses, partnerships and trusts with similar common ownership. This special definition is used both to determine whether an employer has withdrawn and to collect withdrawal liability.

Withdrawals

The special building and construction industry rules for withdrawal liability apply to employers who have substantially all of their contributory work in the building and construction industry (as that term is used in federal labor law). A building and construction employer is considered to have withdrawn if:

- the employer ceases to be obligated to contribute to the Plan, and
- the employer continues operations of the type and within the area covered by a collective bargaining agreement, or resumes such activity within five (5) years, without contributing to the Plan.

A partial withdrawal may occur if the employer ceases to be obligated to contribute to the Plan for some of its units but not all and continues operations in those units of the type covered by a collective bargaining agreement.

The definition of a withdrawal under the Plan is different for other employers, who are subject to the general withdrawal liability rules. Under the general rules, an employer is considered to have withdrawn if:

- the employer permanently ceases to have an obligation to contribute under the Plan, or
- the employer permanently ceases all covered operations under the Plan.

For these tests, it does not matter whether the employer continues to do work previously covered by the Plan. Under the general rules, a partial withdrawal may occur for a cessation of contributions at a facility, a cessation of contributions under one or more but less than all of an employer's collective bargaining agreements or by a 70% decline in contributory hours over a three (3) year testing period.

Free Look

As allowed by the PPA, the Plan adopted a "free look" rule in 2007 to encourage new employers to join the Plan. By law -

- The "free look" can apply only once and only to a new control group employer in 2007 or later.
- The "free look" expires after five years in the Plan. (This matches the vesting period for new employees).
- The employer cannot contribute more than two percent (2%) of all employer contributions to the Plan for any of the five years of "free look" eligibility. (This is unlikely for any new employer in the IUPAT Industry Pension Plan. Total Plan contributions are listed below)

The "free look" rule cannot apply if the ratio of Plan assets to benefit payments is less than (eight) 8 to (one) 1 for the year before the employer first was required to contribute to the Plan. The ratio has been above 8 to 1 for all years from 2008 to 2019.

An employer who withdraws during the "free look" period has no withdrawal liability.

Withdrawal Liability Calculation

The "presumptive" method for calculating withdrawal liability is mandatory in a building and construction industry plan. Under the "presumptive" method, withdrawal liability is calculated as in annual charges which are allocated to employers in proportion to their contributions. The liability of an employer for complete withdrawal from the Plan under the "presumptive method" is the sum of the unamortized balances, at of the end of the Plan Year preceding withdrawal, of the employer's prorated shares of the following items:

- the Plan's adjusted unfunded liability for vested benefits as of the end of the initial plan liability year.
- the change in the Plan's adjusted unfunded liability for vested benefits as of the end of each subsequent year (up to the end of the year before a withdrawal); and
- charges for uncollectible amounts in years before the withdrawal.

Each charge (or, after the initial year, credit) is "amortized" at a fixed rate of 5% for each subsequent year. The sum of the charges (and credits) for each year before a withdrawal is the employer's gross withdrawal liability.

The gross withdrawal liability for a withdrawn employer is subject to a deductible, or *de minimis,* amount of $50,000 but not more than ¾ of 1% of the Plan's unfunded vested liability under ERISA Section 4209. This deductible amount is reduced, dollar for dollar, by the amount by which the gross withdrawal liability exceeds $100,000. There are also reductions for a partial (rather than complete) withdrawal (ERISA Section 4206), for limited net worth in a sale of assets or insolvency (ERISA Section 4225) and a 20-year cap on payments (except in cases of mass withdrawal).

Initial Year Liability Charge

The charge for the initial year (1980 or, as discussed below, a later year) is based on the Plan's unfunded vested benefits (UVB) as of the end of the year (December 31) before the initial year. Vested benefits for withdrawal liability purposes is generally the benefits which participants have accrued and are no longer conditioned on continuing work under the Plan; it includes items that are not considered vested for other purposes (such as disability benefits in pay status), but can also exclude other benefits that are considered vested for minimum funding purposes. Unfunded vested benefit liability is the amount of vested benefit liability (determined as a lump sum present value under actuarial standards) in excess of the fair market value of Plan assets.

The charge is "amortized" or goes down at a fixed rate of 5% for each year before a withdrawal and disappears after 20 years. (If the plan has not actually funded the liability in that time, it will become a new Annual Change Charge as described below.) In other words, there is no 1980 charge piece for a withdrawal in 2001 or later years and so on.

The UVB liability is divided among the employers in proportion to their required (not just actual) contributions in the 5-year period ending with the calculation year. For UVB in 1980, an employer's share would equal the UVB liability multiplied by a fraction, with the employer's contributions for 1976 to 1980 as the numerator and total contributions (for employers who had not withdrawn by 1980) for 1976 to 1980 as the denominator. In calculating the denominator for the Initial Charge, Annual Change Charge and Reallocation Liability, the Plan treats an account as a withdrawn employer if the account has been inactive with no contributions for five (5) years or has been identified earlier as a withdrawn employer.

Initial Year Changes

There are two modifications to the "initial year" liability that affect the IUPAT Industry Pension Plan. The net result is that the initial liability year for the Plan is 2002 followed by annual changes in later years.

First, there is no "initial year" liability until a plan actually has unfunded vested benefits. Until that time, UVB is just zero. (In other words, there is no credit for past overfunding. There is a credit for improved funding after the plan has UVB to reward increased funding.) The IUPAT Industry Pension Plan had no UVB from the inception of withdrawal liability in 1980 (i.e., as of December 31, 1979) to 2001 (December 31, 2000).

The second exception is in PBGC Regulation 4211.36(b), which authorizes the Plan to restart the unfunded liability for vested benefits in the first full calendar year following a merger. The Plan had a series of mergers that re-set its initial year liability for each year until 2002.

Annual Change Charge

For each year after the initial year (2002 for the Plan), the Plan calculates the change in UVB. The change is determined by comparing the UVB vested liability charges at the end (December 31) of the most recent year with the balance of the UVB charges or credits (after the 5% annual reductions) from the previous year or years. A positive change represents an adjusted unfunded

liability for vested benefits greater than the total of the unamortized balances and is, therefore, an additional charge to potential liability assessments for future withdrawals. A negative change represents an adjusted unfunded liability for vested benefits lower than the total of the unamortized balances and is, therefore, a credit against amounts that would otherwise determine potential liability assessments for future withdrawals. In the determination of an annual change, if the total of the unamortized balances is negative, it is treated as zero.

The change for the year is allocated to employers using the same contribution fraction as initial liability, but moved forward to the current year. In other words, an employer would get a charge (or credit) for the change in UVB liability for 2003 equal to the change in UVB liability multiplied by a fraction, with the employer's contributions for 1999 to 2003 as the numerator and total contributions (for employers who had not withdrawn by 2003) for the same year as the denominator. This process is then repeated each year with a new annual charge or credit, which then also goes down 5% for each year before a withdrawal.

Reallocation Liability

There is a separate annual charge for uncollectible liability – which is called "reallocation liability" in withdrawal liability jargon. This charge consists of the amounts found uncollectible for a year due to the *de minimis* rule, amounts not payable because of the 20-year limit on payments in ERISA Section 4219(c)(1), bankruptcy, insolvency or limited collectability (as in a settlement) and other limitations on withdrawal assessments specified in the law, such as the special rule limiting withdrawals and assessments for building and construction employers in the Plan. These non-collectible or non-assessable amounts for a year are reallocated among the remaining employers in proportion to contributions in the year and four (4) previous years, on the same basis as the annual UVB change liability for the year, and also are subject to a subsequent five percent (5%) annual write-down.

Due to the predominance of building and construction employers in the Plan, the Plan looks at withdrawals on an "exceptions" basis on the assumption that most employers are subject to the special rules on withdrawals by construction employers in Section 4203(b) of ERISA. The Plan treats an account as a withdrawn and/or uncollectible employer if the account has been inactive with no contributions for five (5) years for reallocation purposes, as well as the denominator of total employer contributions. The liability is calculated as if the employer withdrew in the first year with no contributions and is increased for assumed actuarial investment return until the reallocation date to reflect the value of unassessable liability. If withdrawal liability is collected with respect to a reallocated account, it will be reflected in increased assets or other appropriate credits.

Actuarial Assumptions

The determination of the value of vested benefits is based on a set of actuarial assumptions. The law prescribes that the assumptions and methods used must be reasonable in the aggregate and "offer the actuary's best estimate of anticipated experience under the plan." The IUPAT Industry Pension Plan actuary generally uses the actuarial assumptions that are used in the valuation for

minimum funding purposes, except that assets are valued at fair market value. These are detailed on Form 5500 and the Plan's actuarial valuation.

Withdrawal Liability Payments

The total amount of an employer's withdrawal liability is not ordinarily payable in a lump sum. The law fixes annual payment amounts to be paid in quarterly installments, unless the Plan has fixed some other schedule. The Trustees have adopted a rule for fixed equal monthly installments.

The amount of each monthly payment is 1/12 of the annual payment (for a complete withdrawal) that is specified by ERISA. (Unlike a home mortgage, the payment amount is calculated separately from the liability.) The annual payment is the product of multiplying -

- the employer's highest contribution rate during the year of withdrawal or the prior nine (9) Plan (calendar) years it participated in the Plan; by
- the employer's average hours ("contribution base units") in the three (3) consecutive Plan years (within the 10 years before the year of withdrawal) for which its contributory hours were highest.

(Generally, for increases after 2014, an increased contribution rate that is required or made in order to enable the plan to meet the requirement of the funding improvement plan may not be used in determining the payment amount or liability. However, an increase due to increased levels of work or that provides an increase in benefit accruals is not disregarded.)

An employer may prepay all or part of its withdrawal liability without penalty. Payments end when the total liability, with interest at the valuation rate, has been paid or, if shorter, after 20 years (except in cases of mass withdrawal).

PLAN INFORMATION

Where to Get More Information

For more information about the Plan, you may contact the Fund Office:

Tim D. Maitland, Fund Administrator
IUPAT Industry Pension Fund
7234 Parkway Drive
Hanover, MD 21076
410-564-5500
employers@iupat.org

For identification purposes, the official plan number for the Pension Plan is 001 and the employer identification number or "EIN" of the plan sponsor (Trustees) is 52-6073909.

Regular Funding Reports

As a Contributing Employer, Affiliated Employer or participating union in the Plan, you will receive certain annual reports automatically. The reports include an Annual Funding Notice for multiemployer defined benefit pension plans and an updated version of this report each year.

If the Plan is in endangered or critical status for a year, you will receive notice of that status. You will also receive a Notice of Funding Improvement Plan if the Plan is in endangered status and a Notice of Rehabilitation Plan if the Plan is in critical status. These notices will include information on contribution requirements on which you may rely in collective bargaining.

You have a right to copies of these notices or alternative disclosure (as on a website) for these notices and any Funding Improvement Plan or Rehabilitation Plan, and related actuarial and financial data that demonstrate any action taken by the Plan toward fiscal improvement on written request to the Fund Administrator. To the extent allowed by law, the Plan expects to make a reasonable charge for additional hard copies.

Document Disclosure

As a Contributing Employer, Affiliated Employer or participating union in the Plan, you have the right to certain Plan documents, in addition to or apart from the rights of your employees or members. Most disclosure requests are limited to one request for a document per calendar year and the Plan may assess a reasonable charge for a copy of documents.

Form 5500. The Plan is required to file an annual information return (called Form 5500) containing financial and other information about the plan, along with an audited financial statement. Copies of the annual report and audited financial statement are available from the US Department of Labor, Employee Benefits Security Administration's Public Disclosure Room at 200 Constitution Avenue, NW, Room N-1513, Washington, DC 20210, or by calling 202-693-8673. You may obtain a copy of the Plan's recent annual reports and audited financial statements by making a written request to the Fund Administrator, or as to basic information at the Plan's website at, https://iupat.org/wp-content/uploads/IUPAT-Pension-Form-5500.pdf and can also at www.efast.dol.gov after it is filed with the Department of Labor.

PLAN INFORMATION

Plan Documents. You may also receive copies, upon written request to the Fund Administrator, copies of documents governing the operation of the Plan. The available documents include the Plan's current Trust Agreement, current Pension Plan document (Rules and Regulations), most recent Summary Plan Description (SPD) and any Summary of Material Modifications relating to latest SPD and any participation agreement for an employer relating to the current year or five (5) preceding plan years. The Trust Agreement, and SPD are available on the Plan's website at https://iupat.org/member-information/pension/. The Pension Plan document and various Bulletins that act as the Plan's summaries of material modifications are also available on written request to the Fund Administrator.

Withdrawal Liability Rules. The Plan's Withdrawal Liability Rules are summarized in this report. The formal rules are in Article 11 of the Pension Plan document. You may obtain a full copy of the formal withdrawal liability rules and an estimate of withdrawal liability and related calculation and actuarial assumptions for the Plan upon written request to the Fund Administrator.

Other Reports. You may also receive copies, upon written request to the Fund Administrator, of recent reports, including periodic actuarial reports (including any sensitivity testing), any quarterly, semi-annual, or annual financial report prepared for the Plan by any plan investment manager or advisor or other fiduciary, and any application filed to extend funding periods under 29 U.S.C. §1084 or Section 431(d) of the Internal Revenue Code (26 U.S.C. §431(d)) and the IRS determination on any such application.