

# LOCAL 705

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## PENSION FUND

1645 WEST JACKSON BLVD • Telephone 312-738-2811 • CHICAGO, IL 60612-3227

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### LOCAL 705, INTERNATIONAL BROTHERHOOD OF TEAMSTERS PENSION PLAN

#### Dear Participant:

In 2004, the Federal Government enacted legislation that requires pension plans such as ours to provide participants and others related to the Plan with funding information about their plans. You will receive this annual funding notice in the mail shortly. This letter is an explanation of some of the important information contained in the notice.

#### How Our Plan Works

To help you understand the Plan's current funded status, it's helpful to understand how the Plan works.

Participants working today are earning benefits. Benefits accrue based on the number of pension credits you earn before retirement and the rate(s) for each period of accrual. Some of those benefits will not be paid until many years in the future. Other participants are already collecting benefits, and may continue collecting benefits for many years.

Employers contribute to the Plan on your behalf based on your collective bargaining agreement. Contributions are "pooled" and invested. Contributions and investment earnings accumulate; these are the assets of the Plan. These assets are then used to pay benefits to participants and other beneficiaries as well as pay administrative costs.

Since some of the benefits being accrued today will not be paid for many years, it is not necessary to have all of the money today. However, the goal is for the Plan to have enough money to pay retirement benefits both now and in the future. In addition, the Pension Benefit Guarantee Corporation (PBGC) guarantees certain pension benefits. The PBGC's maximum guarantee is \$1,072.50 per month if you have 30 years of credited service. This means that you will receive a pension regardless of the Plan's Funded Status.

#### Funded Percentage

The "*Funded Percentage*" is one measure of the Plan's progress towards the goal of having enough money to pay retirement benefits both now and in the future. It measures the assets the Plan has now against the current value of benefits already accrued. It does not take into account benefits that will accrue in the future, nor does it take into account income from future contributions.

Funding a pension plan is like buying a home. You likely take out a mortgage loan to pay for the home. As you make mortgage payments, your equity in your home (the portion of the home that is "yours") grows.

The "*Funded Percentage*" is like your equity in the home. While the goal is to ultimately own your home (a Funded Percentage of 100% or more), the amount of equity you have in your home today does not indicate your ability to meet that goal in the future.

## The Effect of Interest Rates

Whenever you save money to pay an obligation in the future, the interest rate that you earn on your savings is very important, and it becomes more important the longer you have to save. The higher the return on your savings, the less money you will need today to accumulate the same amount in the future. This is also true for a pension plan that invests money today to pay benefits far into the future.

The Pension Plan's actuary assumes (and Federal law allows the actuary to make this assumption) that, over the long-term, the Plan's investments will return 7.50% per year. The Pension Plan uses professional investment managers to invest Plan assets. These professionals consider the Pension Plan to be a long-term investor and they have advised the Trustees accordingly. Using this long-term interest return assumption of 7.50%, the Plan's funded percentage is 70.24%.

The "funded current liability percentage" which will be disclosed in the funding notice you, will be receiving shortly, is required by statute to be valued at a current market rate of return. This rate will be different each year, since it is based on recent bond rates. The required interest rate is currently 6.10%. On this basis, the Plan's funded percentage is 60.93%.

In making this comparison, we are not suggesting that the Plan actuary's 7.50% interest rate assumption is right and the 6.10% interest rate imposed by the statute is wrong. We are simply showing that, in calculating the cost of paying pensions in the future, the amount of earnings on the Plan's investments is critically important.

### PLEASE NOTE!

- **The Plan continues to meet minimum government funding regulations. As the Trustees of your Fund, we work with professional advisors (i.e., actuaries, consultants, investment advisors, and legal advisors) to develop and implement a sound funding policy, in accordance with government funding standards.**
- **Over the last few years, the market value of the Plan's assets has increased nearly \$180 million (from \$919 million on January 1, 2003 to \$1,099 million on January 1, 2006).**
- **We are committed to the financial stability of our Plan now, and in the future. We will continue to monitor the Plan's financial condition carefully to maintain the Plan's future stability.**

### In Closing

The Local 705, International Brotherhood of Teamsters Pension Plan is designed to provide you with retirement income to reward you for your service. Along with Social Security and personal savings, the Plan's pension benefits are an important part of helping you realize your retirement goals. We are committed to protecting the long-term financial stability of the Plan and the payment of pension benefits to all current and future pensioners.

If you have questions about this letter or the annual funding notice upon receipt, you can call or write to the Fund Administrator who will present your question to the Board of Trustees.

Sincerely,

Board of Trustees