FUND UPDATE

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Pension Fund Announces Necessary Plan Changes

INSIDE THIS ISSUE

Please note that there is important information about your rights under the Plan in this issue. Please read and retain for future use.

This summary of the Pension Plan modifications provides an overview of the most significant changes that are effective January 1, 2005.

Summary Outline of Pension Modifications
Effective January 1, 2005

➢ **No Change to Pension Service and/or Accrued Benefits Before January 1, 2005**

The Pension changes protect everything you have earned up until January 1, 2005. The formula used for calculating service prior to January 1, 2005 has not changed, and the value of any pension benefit accrued through the end of 2004 will remain the same. The modifications only affect the way your pension benefit is earned after December 31, 2004.

➢ **Accruing Your Pension in the Future**

Effective January 1, 2005, all future pension benefits will be calculated using a formula based on a percentage of employer contributions made on your behalf. This is how many other Teamster funds accrue pension service.

✓ For NMFA, the percentage will be 1% of the contribution rate of $4.3975 (the hourly pension contribution rate effective July 31, 2004).

✓ For non-NMFA, the percentage will be 1% of the contribution rate in effect on December 31, 2004.

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Accompanying this Update is a notice of change of benefits ("Notice"), which is required by federal law. This Notice gives you a detailed explanation of each of the changes to the Fund. You should rely upon the Notice, not this Update or any other document, for information about the specific modifications to the Pension Fund.

Summary Outline of Pension Modifications
Effective January 1, 2005
(continued)

- **Preserve the 25-Year Service Pension**

  You will still be able to retire with the 25-year service pension at any age. However, those who retire on a 25-year service pension before turning age 55 will have the portion of their pension earned after December 31, 2004 reduced by 1/2% per month (6% a year).

- **Enhanced Bridge Benefit**

  For those with 25 years of service who defer their retirement until age 55, the Bridge Benefit will double from the current $100/month to $200/month, paid 12 times a year. In addition, this enhanced Bridge Benefit will pay an additional $100 per month for each additional full pension credit you earn after each January 1st following your initial eligibility for the Bridge Benefit on or after January 1, 2005. The Bridge Benefits are payable 12 times per year and are paid up until age 65. For those participants who have earned 30 years of service, the new $200/month Bridge Benefit will be paid regardless of age. That amount will go up an additional $100/monthly for each additional full service credit you earned after each January 1st following your initial eligibility for the Bridge Benefit on or after January 1, 2005. The Bridge Benefits are paid 12 times per year and are paid up to age 65.

PENSION FUND MODIFICATIONS
FREQUENTLY ASKED QUESTIONS (FAQs)

Q: What happens to the Pension Credits that I've earned up until now?

A:. The Pension Credits that you have earned through December 31, 2004 are not affected by the recently announced Pension Fund changes. Everything you've earned up through December 31, 2004 will be used to calculate your pension benefit when you retire, and the value of the accrued pension benefits you've earned through December 31, 2004 remains the same.

Q: I used to get credit based on the number of hours I worked, regardless of how many hours were contributed on my behalf. How will I earn credit now?

A: There is a distinction between the way you earn Pension Credit and the way you accrue pension benefits. There is no change in the way you earn Pension Credit, which generally determines pension eligibility. Pension Credit continues to be earned based on the number of hours you work. Starting January 1, 2005, however, the way you accrue pension benefits (the amount of your pension when you retire) will be based on a percentage of your employer's contributions on your behalf.

PENSION FUND MODIFICATIONS
FREQUENTLY ASKED QUESTIONS (FAQs) *(continued)*

Q: Will I still be able to retire at any age once I have earned 25 Pension Credits?

A: Yes, but starting January 1, 2005, if you retire with 25 Pension Credits and you are less than age 55, the portion of your pension benefit accrued after January 1, 2005, will be reduced.

Q: If I'm under age 55 when I retire on a 25-Year Service Pension, how much will my pension benefit be reduced?

A: Starting January 1, 2005, if you retire with 25 Pension Credits, but before reaching age 55, the benefits you accrued starting January 1, 2005 will be reduced by ½% for each full month that you retire before age 55.

Q: If I have 24-1/2 Service Credits by December 31, 2004, when can I qualify for a 25-Year Service Pension?

A: As in the past, you will qualify for a 25-Year Service Pension when you earn another ½ Pension Credit based on the hours you work. The value of that credit, however, will not be based on the current $115 per credit, but rather based on a percentage of your employer's contributions made on your behalf. Additionally, remember that to avoid a reduction in the 25-Year Service Pension, you must be at least 55 years old when you retire.

Q: How do I qualify for a "Bridge Benefit"?

A: Starting January 1, 2005, there are two ways to qualify for the "Bridge Benefit." First, you qualify for a "Bridge Benefit" if you retire with at least 25 Pension Credits (18 of which must be with the Road Carriers – Local 707 Pension Plan) and are at least age 55. Secondly, you qualify for a "Bridge Benefit" when you retire with at least 30 Pension Credits regardless of your age. Under the changes to the Fund, you no longer qualify for any "Bridge Benefit" prior to age 55, unless you have 30 years of service (30 Pension Credits).

Q: How has the "Bridge Benefit" Changed?

A: Prior to January 1, 2005, the "Bridge Benefit" was $100 per month payable up until your 65th birthday. Starting January 1, 2005, the "Bridge Benefit" will be equal to $200 per month, plus an additional $100 per month for each additional full pension credit you earn after each January 1st following your initial eligibility for the Bridge Benefit on or after January 1, 2005. Like before, the new "Bridge Benefit" is paid monthly (12 times per year) and thus is not included in the 13th check, and is payable only up to your 65th birthday.

Q: How often will the "Bridge Benefit" be paid?

A: The "Bridge Benefit" is payable once per month (12 times per year) up until your 65th birthday.

MODIFICATION EXPLANATIONS

Why are the benefit changes necessary now?

The Trustees were forced to take action at this time to ensure the 707 Fund's long-term financial health and to remain in compliance with the federal laws governing the funding of pension funds. The negative markets from 2000-2002 have had an impact not only on our Fund, but have resulted in a national pension funding crisis. Pension plans throughout the country were hurt by the unprecedented three years of bear market returns, and many funds – including many other Teamster pension funds – now have had to make changes to shore up their ability to pay future benefits. For example, the Western Conference of Teamsters Pension Trust, the Central States Teamsters Pension Fund and the New York State Fund all have been forced to reduce future accruals by half.

Strong investment returns through 1999 enabled the 707 Pension Fund assets to remain stable. However, in the relatively short 2000-2002 period, the nation's private and public sector pension plans plunged from surplus to deficit—precipitating a national pension crisis that demands urgent and real solutions. Our situation has been made worse because of the negative impact caused by deregulation in the trucking industry, multiple employer bankruptcies, the rising proportion of retirees to active participants, and the trends of people retiring earlier and living longer.

As fiduciaries responsible for protecting the benefits of participants over the long-term, the Fund's Trustees retain some of the country's most respected actuarial experts and investment firms. The actuaries and the professional investment managers agreed that likely investment returns on remaining assets combined with future employer contributions would be insufficient to pay ongoing benefit costs. They told the Trustees that it was absolutely necessary to slow down the growth of future liabilities. In order to do that, and protect participant benefits into the future, the changes were required.

What dangers to the future of the Fund led Trustees to make modifications?

In formulating a plan to deal with the funding crisis, 707 Pension Fund Trustees focused on the three immediate dangers faced by the Fund:

- Its funding status—which puts the Fund in danger of violating legally required federal minimum pension funding requirements.
- Its deteriorating funding ratio—now down to an estimated 72%—which puts it indanger of being unable to keep up its benefit promises. The Fund is in a similar position to a family that must slow down spending on its credit cards until it pays down the outstanding balance.
- The loss of active participants—since year-end 2000 the Pension Fund lost 766 participants. The loss of major employers like Consolidated Freightways and Howards seriously hurt the Fund. Losing active participants reduces contribution revenue and the Fund's ability to finance benefit payments.

Large funds and small funds alike are in crisis, and many union plans facing funding deficits have responded by reducing benefit accruals. And more of the same is likely. A leading actuarial firm projects that nearly 40% of the union pension plans are in danger of falling below federal minimum funding standards in the upcoming years.

What could happen if these changes were not made now?

The goal of the pension changes is not only to protect all the benefits already earned and future pensions, it is also to start the process of recouping the losses and keep the Fund from going below the legal minimum required funding. A funding deficit would have serious consequences for the Fund and could result in Pension Benefit Guarantee Corporation (PBGC) involvement—an act that could likely result in even more drastic cuts in participant benefits.

The PBGC, the federal agency charged with protecting America's pensions, only takes over a pension as a last resort. The PBGC's maximum payment for a multi-employer pension, such as 707's, is $35.75/month for each year of credited service. That equals $12,870 per year for a person with 30-years of service. This is a situation the Trustees want to avoid. Before it gets to that point, the PBGC looks to the Fund's trustees to take appropriate actions to remedy the situation at hand and shore up the Fund's long term prospects.

The growth in under-funding of US pension plans and the number of company-sponsored plans turned over to the PBGC has gotten so bad that the Government Accountability Offices—the Congressional watchdog agency—placed the Pension Benefit Guaranty Corporation itself on the list of federal programs in danger of failing. The PBGC is estimated to have an $11 billion deficit.

What does Local 707 Fund's Action Plan Do?

After extensive study and discussion, Fund Trustees decided on plan modifications that will:

- Protect past credits and benefit accruals.
- Preserve 25-Year Service pension.
- Preserve 13 checks per year.
- Provide maximum pensions without endangering future benefits.
- Include ways to earn higher pensions if you work more hours and/or retire a little later.
- Protect and enhance the Bridge Benefit.
- Not affect the accrued benefits of those already retired.

The Trustees' Goals

When the Fund's Actuary and other professionals advised the Trustees that action was needed to solve the funding problems, the Trustees explored various measures, including contribution levels, future investment returns and the current levels of benefits provided.

As you will see, the benefit modifications attempt to reward participants with a level of employer contribution directly related to the number of hours actually worked during the year. They also provide an incentive for participants to retire later by increasing benefits they get if they delay their retirement. These new benefits can be offered because longer active service of participants before retirement helps by adding more contributions to the Fund. This is beneficial both to the Fund and to participants.

The Trustees Will Continue to Monitor the Fund

The Trustees believe that this strategy is sound. The Trustees are always reluctant to reduce benefits, but the measures are far less drastic than the cuts experienced by many other funds, and provide some enhanced benefits not previously available. As funding improves, the Trustees will seek to return the Fund to previous benefit level. The Trustees, advised by the Fund's Actuary and other professionals will continue to monitor the situation closely, and take every necessary measure to assure that your present and future benefits are protected.

EXAMPLES

Below are examples of how retirement benefits may be affected by the changes to the Pension Fund. The effect of the changes will vary for each participant, depending on age, marital status at retirement and/or spouse's age. These are a few examples of how the changes might affect some participants.

EXAMPLE 1:
Background:

Participant Working Under NMFA	Planned Retirement Age: **55**
Participant's age at 1/1/05: **47**	Pension Credits at Retirement: **25**
Pension Service Credit at 1/1/05: **17**	Hours Worked Annually through Retirement: **2,000 hours**

CALCULATION OF ACCRUED PENSION BENEFIT

Pre-2005 Portion:
$115 (per credit) x 17 credits accrued as of 12/31/04 = $1,955

+

Post-2005 Portion:
1% x $4.3975 x 2,000 hrs./yr. = $88 x 8 years accrued between 1/1/05 and retirement = $704

+

Bridge Benefit
$200 Bridge for 55/25

Total Approx. Monthly Pension at Retirement Until Age 65:
$1,955 + $704 + $200 = $2,859

Total Approx. Monthly Pension on and after Age 65:
$1,955 + $704 = $2,659

Thirteenth Check: $2,659

EXAMPLE 2:
Background:

Participant Working Under NMFA
Participant's age at 1/1/05: **55**
Pension Service Credit at 1/1/05: **25**
Planned Retirement Age: **56**
Pension Credits at Retirement: **26**
Hours Worked Annually through Retirement: **2,000 hours**

CALCULATION OF ACCRUED PENSION BENEFIT

Pre-2005 Portion:
$115 (per credit) x 25 credits accrued as of 12/31/04 = $2,875

+

Post-2005 Portion:
1% x $4.3975 x 2,000 hrs./yr. = $88 x 1 year accrued between 1/1/05 and retirement = $88

+

Bridge Benefit
$200 Bridge for 55/25 +$100 Bridge for 1 Additional credit* = $300

Total Approx. Monthly Pension at Retirement Until Age 65:
$2,875 + $88 + $300 = $3,263

Total Approx. Monthly Pension on and after Age 65:
$2,875 + $88 = $2,963

Thirteenth Check: $2,963

**This example assumes a retirement effective date of January 1, 2006 or later.*

EXAMPLE 3:
Background:

Participant Working Under NMFA
Participant's age at 1/1/05: **49**
Pension Service Credit at 1/1/05: **24**
Planned Retirement Age: **50**
Pension Credits at Retirement: **25**
Hours Worked Annually through Retirement: **2,000 hours**

CALCULATION OF ACCRUED PENSION BENEFIT

Pre-2005 Portion:
$115 (per credit) x 24 credits accrued as of 12/31/04 = $2,760

+

Post-2005 Portion:
1% x $4.3975 x 2,000 hrs./yr. = $88 x 1 year accrued between 1/1/05 and retirement = $88, minus 30% reduction for retiring before age 55 (5 years x 6%) = $62

+

Bridge Benefit
Not Applicable = -0-

Total Approx. Monthly Pension at Retirement Until Age 65:
$2,760 + $62 = $2,822

Total Approx. Monthly Pension on and after Age 65:
$2,760 = $62 = $2,822

Thirteenth Check: $2,822

EXAMPLE 4:
Background:

Participant Working Under NMFA
Participant's age at 1/1/05: **48**
Pension Service Credit at 1/1/05: **20**
Planned Retirement Age: **53**
Pension Credits at Retirement: **25**
Hours Worked Annually through Retirement: **2,000 hours**

CALCULATION OF ACCRUED PENSION BENEFIT

Pre-2005 Portion:
$115 (per credit) x 20 credits accrued as of 12/31/04 = $2,300

+

Post-2005 Portion:
1% x $4.3975 x 2,000 hrs./yr. = $88 x 5 years accrued between 1/1/05 and retirement = $440, minus 12% reduction for retiring before age 55 (2 years x 6% = $387

+

Bridge Benefit
Not Applicable = $0

Total Approx. Monthly Pension at Retirement Until Age 65:
$2,300 + $387 = $2,687

Total Approx. Monthly Pension on and after Age 65:
$2,300 + $387 = $2,687

Thirteenth Check: $2,687

**This example assumes a retirement effective date of January 1, 2009 or later.*

EXAMPLE 5:
Background:

Participant Working Under NMFA
Participant's age at 1/1/05: **55**
Pension Service Credit at 1/1/05: **25**
Planned Retirement Age: **59**
Pension Credits at Retirement: **29**
Hours Worked Annually through Retirement: **2,000 hours**

CALCULATION OF ACCRUED PENSION BENEFIT

Pre-2005 Portion:
$115 (per credit) x 25 credits accrued as of 12/31/04 = $2,875

+

Post-2005 Portion:
1% x $4.3975 x 2,000 hrs./yr. = $88 x 4 years accrued between 1/1/05 and retirement = $352

+

Bridge Benefit
$200 Bridge for 55/25 + $400 Bridge for 4 additional credits* + $600

Total Approx. Monthly Pension at Retirement Until Age 65:
$2,875 + $352 + $600 = $3,827

Total Approx. Monthly Pension on and after Age 65:
$2,875 + $352 = $3,227

Thirteenth Check: $3,227

TEMPORARY CHANGE IN SUSPENSION OF BENEFIT RULES

Under the current Suspension of Benefit rules, retirees' pension benefits are suspended if they return to work in "disqualifying employment," with the limitation varying depending on whether the participant is pre-65 or 65 years old and older. However, effective January 1, 2005 and continuing through December 31, 2006, a participant who is retired and receiving benefits may work up to two (2) days per week for a contributing employer while receiving his benefit payments from the Fund. If you are a retired participant receiving benefits from the Fund, you will continue to earn pension credit and benefits from the Fund, however, the additional benefit you earn will be offset by the actuarial value of the pension payments you receive while you are working. In most cases, this means you will not earn additional benefits for time when you both work and receive a pension. This is because the value of the continued benefit payments is greater than the value of the additional benefits you accrue.

Please note that this temporary change in the Fund's suspension of benefit rules only applies to current retirees and does not affect, change or apply to any future benefit accruals earned by active participants.

Phone (516) 486-7100 ~ 1-800-366-3707

Road Carriers Local 707 Welfare and Pension Plans ~ 14 Front Street
Hempstead, New York 11550