

CHANGES TO THE BENEFIT ACCRUAL RATE EFFECTIVE JULY 1, 2006

Effective July 1, 2006 (the beginning of Plan Year 2007) the Alaska Teamster-Employer Pension Plan benefit accrual rate will be lowered (going forward only) from 1.25% to 1%. For hours worked and contributions made after June 30, 2006, your benefit amount will be determined with this new accrual rate. This change does not affect your benefits accrued prior to July 1, 2006. Your monthly benefit will continue to grow as you continue to work in covered employment under the Plan; however, it will grow at a slower rate.



The Perfect Storm

In Plan Years 1998, 1999 and 2000, the fund had excess earnings on investments of approximately \$127 million. During those three years, the fund was over funded and risked losing its tax favored status if liabilities were not increased (i.e., improvements to benefits were not made).

Shortly after the Trustees made significant benefit improvements, the stock market experienced the largest bear market in history and the fund experienced excess losses in Plan Years 2001, 2002 and 2003 of over \$196 million. Like other pension plans, between the combination of the IRS rules governing the funding status of pension plans and the fluctuating stock markets, a perfect storm arose.

Funding Requirements of Defined Benefit Pension Plans

Your Plan is a “defined benefit” pension plan. In a defined benefit plan, the plan “defines” the benefit accrual rate so that a participant can expect

a certain monthly income at retirement. The benefit is defined based on various assumptions, including the average age of participants in the Plan, the age they will retire and the expected rate of return on the Plan's investments.

Under a defined benefit plan investment earnings are used to fund the benefits for all participants. The Plan relies on an average annual investment return of 7.25% (the assumed rate) to fund the accumulated benefits.

The federal government regulates qualified pension plans in several ways, including funding requirements. One of those regulations requires that defined benefit pension plans maintain an under-funded position. If a pension plan's assets increase and surpass the liabilities, the Plan risks losing its tax favored status if benefit improvements are not made. In Plan Years 1998, 1999 and 2000, the Plan was over-funded by an average of 115%. The Trustees had no choice but to make the benefit improvements that were made in Plan Year 2000.

The current level of funding of the Plan is 82% and while the funding level of the Plan has been improving since Plan Year 2001, the federal funding regulations require that the current pace of the funding improvements needs to be accelerated.



The Market

The United States stock markets experienced one of the largest bear markets in history beginning in 2000 and sustaining until July 2002. A “bear market” is defined as a decline of 15% or more in each of the three important stock averages – the Dow Jones, the NASDAQ and the S&P 500.

Since that time the markets have improved and while the Plan has had positive returns, they have not been enough to overcome the stock market decline between 2000 and 2002.

Benefits Earned to Date

The benefits you have already earned are protected by law. Therefore, the benefits earned to date cannot be reduced. There are only two methods by which the liabilities of the fund may be reduced in a manner which will have a significant impact on plan funding. Those two methods are reducing the accrual rate or increasing retirement ages. The Trustees examined both methods and decided that lowering the accrual rate impacted everyone equally whereas increasing the retirement ages would have impacted only some participants. To improve funding, the retirement ages would have had to have been raised by five years.

Impact of a 1% Accrual Rate

Between July 1, 2003 and June 30, 2006, your accrual rate has been 1.25%. For each \$1,000 of contributions, you earn a monthly benefit of \$12.50. Beginning July 1, 2006, for each \$1,000 of contributions, you will earn a monthly benefit of \$10.00.

The new accrual rate of 1% will continue to apply until modified by the Board of Trustees of the Plan. The Trustees will continue to monitor the funding of the Plan and will consider benefit improvements when financial conditions permit.

