

FRANK J. McGARR, Esq.
Arbitration and Mediation

February 23, 2011

The Honorable Milton I. Shadur
United States District Judge
United States District Court
Northern District of Illinois
Eastern Division
219 South Dearborn Street
Chicago, Illinois 60604

Via UPS Next Day

Re: Quarterly Report of Independent Special Counsel, Solis
v. Estate of Frank E. Fitzsimmons, et al., No. 78 C 342 (N.D.
Ill., E.D.); Solis v. Robbins, et al., No. 78 C 4075 (N.D. Ill.,
E.D.); and Solis v. Dorfman, et al., No. 82 C 7951 (N.D. Ill.,
E.D.)

Dear Judge Shadur:

This is to report on my activities during the fourth quarter of 2010 as Independent Special Counsel appointed pursuant to the Fitzsimmons (Pension Fund) and Robbins and Dorfman (Health and Welfare Fund) consent decrees.

I have attended full Board of Trustees meetings, now held every other month (with additional meetings as noted in my reports), and consulted regularly with Fund executives.

Employee Trustee Selection Boards

In early December 2010, the Funds' Staff sent ballots to the Teamster Local Unions eligible to vote for the members of the Central Trustee Selection Board ("CTSB") and the Southern Trustee Selection Board ("STSB"). Pursuant to the Statement of Procedures for the Selection of Employee Trustees ("Procedures"), these Trustee Selection Boards are responsible for selecting the Funds' Employee Trustees. The four year terms of all of the Trustee Selection Board members were set to expire on December 31, 2010. The results of the December voting were reviewed by the Employee Trustees at the January 2011 Board Meeting. Pursuant to the Procedures, the Employee Trustees confirmed the election of the following CTSB and STSB members to serve four year terms commencing on January 1, 2011:

CTSB Members

James W. Sheard, Jr.
Patrick M. Radzak
Gary Dunham
Jim Kabell
John T. Coli
David Reardon
Robert R. Warnock III
David Robinson
William Lichtenwald
Fred E. Zuckerman
William A. Moore

STSB Members

Kenneth W. Wood
Lendon Grisham
William K. Swon
Don Toney
David Negrotto
Timothy G. Nichols
W.C. (Willie) Smith
Donnie West
Brent Taylor

Audit

At the October 12, 2010 Meeting of the Board of Trustees, the Internal Audit Department presented a report concerning its audit of payroll processing. The overall conclusion of the audit was that the administrative and accounting controls surrounding payroll processing are operating in accordance with the Funds' policies and procedures and provide a basis for reliance on the propriety of transactions processed.

Pension Fund

Funding and PPA-Related Issues

As previously reported, in July 2005 the Internal Revenue Service approved the Fund's request for a 10-year extension for amortizing unfunded liabilities. This extension is likely to defer for the near term a statutory funding deficiency. The IRS granted the request subject to certain conditions. In general terms, these IRS conditions require the Pension Fund to maintain its existing ratio of assets to liabilities through 2011, and in subsequent years to show moderate annual improvements in that funding ratio.

To meet these IRS imposed conditions, the Board of Trustees determined based on actuarial and legal advice that the Pension Fund needed increased employer contributions. At their November 8, 2005 meeting, the Board accordingly amended the Pension Plan to require such increased contributions (at a rate the Board sets) in collective bargaining agreement renewals as a condition of continued participation, and approved specific rates reflecting 7% annual increases for contracts renewing by December 31, 2006. The Fund so notified all locals and employers participating in the Fund by special bulletin dated November 28, 2005 and held extensive meetings explaining the changes to local unions and employers.

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At their November 8, 2006 meeting, again as recommended by the Pension Fund's actuaries to enable the Fund to comply with the funding ratio conditions imposed by the IRS, the Board of Trustees approved 8% per year as the required contribution rate increase for all collective bargaining agreements expiring in 2007. Local unions and participating employers were notified of this rate increase in December 2006.

The Pension Fund's Board of Trustees also asked the negotiators of the United Parcel Service, National Master Freight Agreement and Carhaul agreements to allocate to the Pension Fund fringe benefit contribution increases which were scheduled for 2006. The negotiators agreed to that allocation. Allocations of increased fringe benefit contributions to the Pension Fund were also made in 2007.

As explained in previous reports, the multiemployer plan funding rules of the Pension Protection Act of 2006 ("PPA") became effective on January 1, 2008. On March 24, 2008, the Fund's actuary certified the Fund to be in "critical status" under the PPA for the 2008 plan year; on March 31, 2009, the actuary certified that the Fund remains in critical status for the 2009 plan year, and on March 31, 2010 the actuary made the same certification with respect to the 2010 plan year. As a result of the initial critical status certification, the Trustees adopted a "rehabilitation plan" as the PPA requires for critical status plans. The plan approved by the Trustees attempts to build upon and incorporate the funding improvement program instituted prior to the January 1, 2008 effective date of the PPA, and designed to ensure compliance with the conditions imposed by the pre-PPA amortization extension. In broad outline, the Rehabilitation Plan approved by the Trustees contains a "Primary Schedule," which requires each contributing employer to agree to five years of 8% annual contribution increases (7% if the increases began in 2006) in order to maintain current benefit levels for the affected bargaining unit. The PPA also requires that a rehabilitation plan contain a "Default Schedule," which must provide for the reduction in what the PPA terms "adjustable benefits." ("Adjustable benefits" under the PPA generally include all benefits other than a contribution based retirement benefit payable at age 65.) Accordingly, the Pension Fund's Rehabilitation Plan includes a Default Schedule providing for 4% annual contribution rate increases and for the loss or reduction of adjustable benefits for bargaining units electing that Schedule. The PPA also provides that if the bargaining parties have not chosen any of the schedules established by a rehabilitation plan (*i.e.*, the Primary or Default Schedule) within 180 days following the expiration of the parties' last labor agreement, the Default Schedule will be imposed as a matter of law.

Staff has reported to the Trustees that as of December 2010, a vast majority of the Fund's active members were covered by collective bargaining agreements that have come into compliance with the Fund's rehabilitation plan. Almost all of the compliant employers and bargaining units have agreed to adopt the rehabilitation plan's Primary Schedule (generally requiring 7-8% annual contribution increases for five years and maintaining current benefit levels). As of the Trustees' December 8, 2010 Meeting, only 13 bargaining units, comprising a total of 285 active participants, have agreed to adopt the rehabilitation plan's Default Schedule (4% annual increases and elimination of PPA adjustable benefits). As of December 2010, approximately 17 bargaining units, comprising approximately 121 participants, have had the Default Schedule imposed on them by operation of law under the PPA, due to their failure to agree to be bound by either Primary Schedule or the Default Schedule within 180 days of the expiration of the units' last collective bargaining agreement.

Contributing employers who have not agreed to be bound by one of the Schedules created by the Rehabilitation Plan are required under the PPA to pay a non-benefit bearing surcharge to the Fund on their contractual pension contribution obligation. Under the PPA, the surcharge was 5% of the pension contribution obligation during 2008, and was increased to 10% as of January 1, 2009. Staff has reported that (1) as noted, most employers are in compliance with the Rehabilitation Plan and are *not* incurring surcharges, and (2) as of December 2010, most of the employers who are incurring the surcharges are also voluntarily paying them; those few who have refused to pay the surcharges are being pursued under the Fund's delinquent account collection procedures. (It should be noted that surcharged employers - *i.e.*, those not compliant with the Rehabilitation Plan - are not necessarily subject to the Default Schedule under which the affected participants incur a loss of PPA adjustable benefits. Under the PPA, the Default Schedule is imposed on the bargaining parties only after the lapse of 180 days from the expiration of a non-compliant collective bargaining agreement. As reported above, only approximately 17 bargaining units, comprising approximately 121 participants, have so far incurred the Default Schedule through this PPA-mandated process.)

At the December 8, 2010 Board of Trustees Meeting, Staff also presented reports concerning certain employers and bargaining units who may have triggered "Rehabilitation Plan Withdrawals" from the Pension Fund. Under the Pension Fund's Rehabilitation Plan adopted pursuant to the PPA, a Rehabilitation Plan Withdrawal ("RPW") generally occurs where an employer ceases to have an obligation to contribute to the Fund at one or more of its locations or facilities, but continues to do the same type of work for which contributions

were previously required. The consequence for a bargaining unit incurring an RPW is the loss of PPA adjustable benefits (*i.e.*, the loss of all benefits other than a contribution-based benefit payable at age 65).

The PPA also contemplates that multiemployer plans in the critical zone will annually "update" their rehabilitation plans, which presumably includes annual consideration of changes to the rehabilitation plan schedules of contributions and benefits. The Trustees received reports concerning the update process at several Board meetings during 2010, and at their December 2010 meeting the Board approved an updated rehabilitation plan. The major changes introduced by this 2010 update, as compared to the original rehabilitation plan adopted by the Trustees in 2008, are as follows:

- Effective on July 1, 2011, no new retirements will be permitted unless the participant has reached a minimum of age 57.
- Effective on July 1, 2011, participants who incur a loss of adjustable (*i.e.*, pre-age 65) benefits under the Default Schedule or as a result of a Rehabilitation Plan Withdrawal will have the reductions in their age 65 benefits calculated in accordance with an actuarial equivalence table, rather than pursuant to the formula used in the past, which provided for a reduction in the age 65 benefit of a flat 6% per year for each year prior to age 65.

The Trustees also concluded that under the present economic conditions, attempting to specify *additional* employer contribution rate increases (*i.e.*, beyond the rate increases specified in the 2008 Rehabilitation Plan) in the rehabilitation plan schedules would risk irreparable harm to the financial condition of many of the Fund's contributing employers, and would therefore also imperil the Pension Fund and run counter to the PPA's funding improvement mandate. Moreover, the Trustees decided to establish a dollar limit on the contribution increases required by the Rehabilitation Plan. As of June 1, 2011, (1) with respect to the National Master Automobile Transporter Agreement, a contribution rate of \$348 per week for each full-time employee will be deemed to comply with the Rehabilitation Plan's Primary Schedule without the need for further contribution rate increases, and, (2) with respect to any other collective bargaining agreement (such as the National Master Freight Agreement), \$342 per week will be deemed sufficient to achieve Primary Schedule compliance.

The Trustees concluded that these changes to the rehabilitation plan were necessary to meet the PPA requirement that the Trustees

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take reasonable measures, in light of the Fund's experience, to improve pension funding.

Although it appears the Pension Fund has reported some progress in requiring increased employer contributions and controlling benefits as required of "critical status" plans under the PPA, the financial information presented below makes clear that the Fund suffered serious investment losses in the general stock market and economic downturn that commenced in 2008. During 2009 and 2010 the Pension Fund enjoyed a significant (but by no means complete) recovery of its 2008 investment losses. In addition, Staff has reported that, for plan year 2008, the Pension Fund was unable to satisfy the funding ratio targets that are a condition of the amortization extension granted to the Fund by the IRS in 2005 (described above, pp. 2-3). Staff has also reported that in 2009 the Pension Fund filed an application with the IRS requesting a waiver of the funding ratio targets established under the amortization extension, in view of the unexpected economic decline that has occurred; that application is still pending.

The Trustees have also directed Staff to continue to monitor and pursue additional regulatory or legislative initiatives that may assist the Pension Fund in addressing the funding problems created by recent conditions in the general economy and stock markets.

Financial Information - Investment Returns

The Pension Fund's investment return for the fourth quarter 2010 was 7.10%.

The Fund's financial group prepared for the Trustees a comparison of the Pension Fund's performance to the TUCS¹ universe results published for the fourth quarter of 2010. This comparison (showing percent returns on investment) is summarized in the following tables:

¹"TUCS" is the Trust Universe Comparison Service. Its Custom Large Funds Universe is composed of plans with assets exceeding \$3 billion.

Pension Fund's Composite Return

	<u>4th Quarter Ended</u> <u>Dec. 31, 2010</u>	<u>One Year Period Ending</u> <u>Dec. 31, 2010</u>	<u>Three Year Period Ending</u> <u>Dec. 31, 2010</u>
TUCS 1 st Quartile	6.60	14.07	1.02
TUCS Median	5.96	13.00	(0.01)
TUCS 3 rd Quartile	5.06	11.97	(0.95)
Fund's Composite Return	7.10	14.42	0.79

Pension Fund's Total Equity Return

	<u>4th Quarter Ended</u> <u>Dec. 31, 2010</u>	<u>One Year Period Ending</u> <u>Dec. 31, 2010</u>	<u>Three Year Period Ending</u> <u>Dec. 31, 2010</u>
TUCS 1 st Quartile	10.69	16.89	(1.70)
TUCS Median	9.94	15.80	(2.10)
TUCS 3 rd Quartile	9.56	14.57	(2.88)
Fund's Total Equity Return	10.29	16.16	(2.96)

Pension Fund's Fixed Income Return

	<u>4th Quarter Ended</u> <u>Dec. 31, 2010</u>	<u>One Year Period Ending</u> <u>Dec. 31, 2010</u>	<u>Three Year Period Ending</u> <u>Dec. 31, 2010</u>
TUCS 1 st Quartile	(0.35)	11.52	8.44
TUCS Median	(0.92)	9.69	7.52
TUCS 3 rd Quartile	(2.60)	8.53	6.35
Fund's Fixed Income Return	(0.50)	7.91	7.02

The Fund's named fiduciary (Northern Trust Global Advisors, Inc., which has been allocated 50% of the Fund's investment assets)

submits monthly investment reports to the Trustees, summarized below (showing percent returns on investment):

Northern Trust Global Advisors, Inc.

	<u>Year-to-Date as of</u> <u>Dec. 31, 2010</u>	<u>4th Quarter</u> <u>2010</u>	<u>Oct.</u> <u>2010</u>	<u>Nov.</u> <u>2010</u>	<u>Dec.</u> <u>2010</u>
Northern Trust's Composite Return	15.75	8.53	3.12	(0.38)	5.65
Benchmark Composite Return	14.16	8.36	3.24	(0.64)	5.63
Northern Trust's Total Fixed Income Return	11.06	1.41	1.44	(0.54)	0.50
Benchmark Fixed Income Return	7.70	0.68	1.13	(0.69)	0.24

Northern Trust's fourth quarter 2010 composite return included a 12.07% return on U.S. equities (11.16% large cap and 15.67% on small cap U.S. equities), 7.21% on international equities and 8.55% on real estate.

The Fund's financial group reported asset allocation of the Pension Fund as a whole as of December 31, 2010 as follows: 71% equity, 25% fixed income, 2% other and 2% cash.

The financial group also reported that for the fourth quarter of 2010 the returns on the Fund's passive indexed fixed income accounts were as follows:

<u>Account</u>	<u>Fourth Quarter 2010 Return</u>
Passive Indexed Equity (S & P 500) Income (25% of investment assets)	10.77%
Passive Indexed Fixed-Income (20% of investment assets)	(1.20%)
Passive EAFE Indexed (5% of investment assets)	6.93%

Financial Information - Net Assets

(Dollars shown in thousands and do not include final year end adjustments)

The financial report prepared by Fund staff for the twelve months ending December 31, 2010 (enclosed) shows net assets as of

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that date of \$19,852,163, compared to \$19,542,042 at December 31, 2009, an increase of \$310,121 compared to an increase of \$2,183,390 for the same period last year. The \$1,873,269 difference is due to \$1,762,086 less investment income combined with \$111,183 more net operating loss.

The enclosed Fund's staff report further notes that for the twelve months ended December 31, 2010, the Fund's net asset decrease from operations (before investment income) was \$2,213,715 compared to a decrease of \$2,102,532 for the same period in 2009, or a \$111,183 unfavorable change. This change in net assets from operations (before investment income) was attributable to:

- a) (\$46,940) less contribution revenue due to YRC termination and a decrease in FTEs offset by increases in contribution rates and W/L,
- b) (\$65,974) more benefits paid, and
- c) \$1,731 less general and administrative expenses.

During the twelve months ended December 31, 2010 and 2009, the Fund withdrew \$2,223,134 and \$2,148,019, respectively, from investment assets to fund the cash operating deficit.

Financial Information - Participant Population

The enclosed December 31, 2010 report prepared by Fund staff further notes that the eleven-month average number of Full-Time Equivalent (FTE) memberships decreased 20.27% from November 2009 to November 2010 (going from 73,073 to 58,260). During that period, the average number of retirees increased 0.89% (from 212,441 to 214,336).

Named Fiduciary

Officers of the Named Fiduciary, Northern Trust Global Advisors, Inc. met with the Board of Trustees during this quarter to discuss portfolio matters including asset allocation.

The Fund's financial group reported to the Board of Trustees at their December 8, 2010 meeting on investment expenses incurred through the third quarter of 2010. These investment expenses (fiduciary, custodial and investment management fees) totaled \$43,986,759 through the third quarter of 2010 compared to \$40,675,206 for the same period in 2009, an 8.1% increase. Fourth quarter investment expenses will be reported on at the upcoming March meeting.

Bankruptcies and Litigation

The Funds' Executive Director continued to report to the Trustees on employer bankruptcies, including interim recoveries collected in the Funds' ongoing pursuit of claims for contributions and withdrawal liability against Consolidated Freightways Corporation and related entities. Approximately \$86.9 million has been collected to date from Consolidated Freightways companies.

YRC

As previously reported, in recent years, YRC, Inc. and its affiliates ("YRC") have been among the largest contributing employers to both the Pension Fund and the Health and Welfare Fund.

As also previously reported, in May 2009 the Funds entered a Contribution Deferral Agreement ("Deferral Agreement") with YRC. Under the Deferral Agreement, the Pension Fund agreed to defer payment of YRC's pension contribution obligations accrued during January, March, April and May of 2009 (the "Deferral Period," representing a deferral of contributions totaling approximately \$83 million). The Fund's financial consultant indicated that absent deferral of these contribution obligations, YRC would be in default of loan covenants with its banks; Staff reported that such a default would risk triggering an insolvency and liquidation of YRC, which would destroy any chance of rehabilitating the employer as a healthy contributor to the Funds.

Some 25 other multiemployer pension plans in which YRC participates joined in the Deferral Agreement, but the Pension Fund is owed approximately 64% of the contributions deferred under the Agreement.

Repayment of the Deferral Period contributions was secured under the Deferral Agreement by first lien collateral on approximately 150 real estate parcels owned by YRC, plus additional second lien collateral.

The Deferral Agreement originally required repayment of the deferred contributions in 36 monthly installments commencing in January 2010. YRC was also scheduled under this Agreement to pay interest on the deferred contributions on a current basis commencing on July 15, 2009 and continuing on the 15th of each month thereafter.

However, the Pension Fund's Staff and financial consultants reported that YRC was both unable and unwilling to meet its on-going pension contribution payment obligations beyond the Deferral Period, i.e., contribution obligations accrued *after* May of 2009. As a

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result, at the Trustees' July 16, 2009 Meeting, the Board formalized action to *terminate* YRC's participation in the Pension Fund.

The Pension Fund's Staff also reported that in early July 2009, representatives of YRC and the Teamsters National Freight Negotiating Committee ("TNFNC") reached an agreement to amend YRC's then current labor agreement to eliminate the company's pension contribution obligation for the next 18 months, and to resume making those contributions in January 2011. In light of YRC's intention to return to the Pension Fund as a participating employer at a later date, and upon a recommendation from Staff, the Trustees decided at their July 16, 2009 Meeting that YRC's termination of participation in the Pension Fund should not at this time (and subject to certain conditions) be treated as a complete and permanent cessation of its obligation to contribute to the Pension Fund that would trigger withdrawal liability.

At the September 16, 2009 Board Meeting, the Trustees also approved treating YRC's delinquent contributions for the post-Deferral Period (*i.e.*, the contribution obligations accrued during June and July 2009, prior to the July 2009 termination of YRC's Pension Fund participation - approximately \$26 million) as additional deferrals subject to repayment under the Deferral Agreement.

The Pension Fund's Staff also reported that in mid-October 2009, YRC approached the Fund and requested the ability to postpone for at least one year the principal and interest payments that were scheduled to fall due under the Deferral Agreement commencing on January 15, 2010. YRC based this request upon its continuing cash flow difficulties, and the willingness of YRC's banks and other creditors to make comparable concessions and debt restructuring, including significant deferrals of interest and fees owed to the banks. As a result, in a phone conference held on October 26, 2009, the Trustees approved the requested postponement of the principal and interest payments previously scheduled to commence in January 2010 under the Deferral Agreement (contingent upon YRC's achievement of the planned debt restructuring), because the Trustees viewed a liquidation of YRC at this time as contrary to the interests of the Fund.

YRC reported that at year-end 2009, it substantially achieved the planned debt restructuring with its banks and many of its bondholders.

In late July 2010, YRC asked that the Pension Fund and the other Teamster plans participating in the Deferral Agreement consent (1) to YRC's sale of one of its affiliates, YRC Logistics, Inc., and (2) to an arrangement with YRC's banks which permitted YRC to retain a

significantly larger percentage of the proceeds from the sales of some of the company's real estate, in exchange for the banks' ability to reduce their commitments to loan additional funds to YRC in the future. At a special telephonic Board Meeting held on August 3, 2010, the Fund's Trustees approved this request. None of these asset sales involved collateral pledged to the Fund, and the sales promised to provide much needed cash to YRC.

On September 24, 2010, TNFNC and YRC executed an Agreement for the restructuring of the YRC Worldwide, Inc. Operating Companies ("Restructuring Agreement"). Under this Agreement YRC would resume contributions to the Pension Fund in June 2011 at a rate constituting a 75% reduction from its pre-termination (pre-July 2009) rate. The Fund's Staff advises that the Restructuring Agreement has now been ratified by the YRC bargaining unit. The Trustees reviewed this Agreement at their October 12, 2010 meeting. The Fund's Staff is now attempting to determine whether acceptance of the Restructuring Agreement is justified and in the Fund's best interest, and if so, what level of pension benefits should be associated with the proposed reduction in the pension contribution rate.

On December 15, 2010, YRC circulated a proposed Amendment 7 to the Deferral Agreement which requested that - by December 31, 2010 - a "supermajority" of the affected pension funds (funds representing 90% of the total deferred contributions) agree to a further deferral of the commencement of the contribution repayment schedule (from January 1, 2011 to June 1, 2011, subject to the ability of the company to meet certain goals marking its progress towards a restructuring). In view of YRC's continued financial distress and the fact that YRC's bank lenders had also agreed to continue to defer interest payments, the Trustees approved this request (along with the requisite number of the other funds) just prior to year-end 2010. This Trustee approval was obtained by means of telephone and e-mail polling of the Trustees.

The Pension Fund's Staff has reported that YRC made timely interest payments to the Fund of approximately \$2.2 million through December 15, 2009. In addition, Staff has reported that to date the Pension Fund has received approximately \$25 million as its share of the net proceeds from sales of collateralized assets as a pre-payment under the Deferral Agreement. The Fund's Staff also reports that the outstanding principal and interest balance currently owed by YRC under the Deferral Agreement is approximately \$92 million.

Health and Welfare Fund

Patient Protection Act and Affordable Care Act (PPACA)

As the Court is aware, in March of this year, President Obama signed into law both the PPACA and the Health Care and Education Affordability Reconciliation Act of 2010 (which amended the PPACA). In order to help ensure compliance with the PPACA, at their December 8, 2010 Meeting the Board of Trustees approved certain changes to the Health and Welfare Active Plan Document, including:

- Amendments providing for coverage for adult children of participants through age 26.
- Amendments increasing annual or lifetime limits on "essential benefits," as required by the PPACA (except with respect to benefit packages or plans for which a waiver is obtained).

**Health and Welfare Fund
Financial Information**

(Dollars shown in thousands and do not include final year end adjustments)

The Health and Welfare Fund's financial summary for the fourth quarter of 2010 is compared below with interim financial information for the same period of 2009:

	<u>4th Quarter Ended Dec. 31,</u> <u>2010</u>	<u>2009</u>
Contributions	293,857	285,759
Benefits	234,865	232,836
TeamCare administrative expenses	7,331	7,547
General and administrative expenses	<u>9,230</u>	<u>8,911</u>
Net operating income	42,431	36,465
Investment income (loss)	<u>28,565</u>	<u>20,697</u>

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Increase in net assets	70,996	57,162
Net assets, end of period	1,481,610	1,288,609
Eleven-month average participants (FTEs)	83,251	87,611

For the twelve months ended December 31, 2010, the Health and Welfare Fund's net asset increase from operations (before investment income) was \$99,190 compared to an increase of \$88,262 for the same period in 2009, or a \$10,928 favorable change:

- (a) (\$5,160) less contributions,
- (b) \$15,533 less benefits,
- (c) \$84 less TeamCare administrative fees, and
- (d) \$471 less general and administrative expenses.

During the twelve months ended December 31, 2010 and 2009, the Fund transferred \$110,353 and \$96,567, respectively, to investments (BNY Mellon) as the operations generated positive cash flows for those periods.

The enclosed report entitled "Central States Funds Financial and Analytical Information" prepared by the Fund's financial group as of December 31, 2010 shows the investment asset allocation as 75% fixed income and 25% equity.

This report also notes that the eleven-month average number of Full-Time Equivalent (FTE) memberships decreased by 4.98% from November 2009 to November 2010 (going from 87,611 to 83,251). During that period, the average number of retirees covered by the Health and Welfare Fund decreased by 4.90% (from 12,809 to 12,181).

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Article V (H)

As required by Article V(H) of the Health and Welfare Fund Consent Decree, the Health and Welfare Fund has paid during the fourth quarter of 2010 the following for professional services and expenses for the Independent Special Counsel:

October	\$ 684.25
November	\$ 0.00
December	\$ 0.00

I will be glad to provide additional details regarding any aspect of my activities as Independent Special Counsel. Should you have any questions or comments, please do not hesitate to contact me.

Sincerely,


FRANK J. MCGARR,

Enclosure

F:359597

cc: Ms. M. Patricia Smith (w/encl.) **Via UPS Next Day**
Mr. Michael A. Schloss (w/encl.) **Via UPS Next Day**
Mr. Thomas C. Nyhan