

**Congress of the United States**  
**Washington, DC 20515**

June 20, 2016

The Honorable Gene Dodaro  
Comptroller General  
U.S. Government Accountability Office  
441 G Street, NW  
Washington, DC 20548

Dear Mr. Dodaro:

We write to request the Government Accountability Office (GAO) conduct a review of the investment decisions of the Central States, Southeast and Southwest Areas Pension Fund (the Fund) for the period it has operated under a 1982 federal court ordered consent decree.

In the 1980's, the GAO published three reports regarding the management of the Fund; however, GAO has not published a review of the management or investment practices since these reports. GAO's acceptance to update analysis from the 1980s and review the Department of Labor's (DOL) oversight of Central States Pension Fund is appreciated. To complement that analysis, this request is meant to review the internal decision-making of the Fund. As you are aware, the Central States Pension Fund operates in a unique circumstance where all the discretionary investment decisions are made by financial firms rather than by the Fund's Board of Trustees. The Board still maintained a fiduciary duty to monitor the investment decisions. This is a result of the 1982 consent decree obtained by DOL, under which it still operates.

In December 2014, Congress passed the Multiemployer Pension Reform Act (MPRA) to address the growing crisis as a result of the impending insolvency of several multiemployer pension funds and the Pension Benefit Guaranty Corporation. MPRA's enactment allows certain multiemployer pension plans that are in critical and declining status to cut already earned retiree pension benefits while a plan is still solvent; this is the most significant change to pension benefits in the 41 year history of the Employee Retirement Income Security Act (ERISA). Under MPRA, in September 2015, the Central States Pension Fund submitted an application to the Treasury Department to restructure benefits. Although the Treasury Department denied this application on May 6, 2016 and the Central States has decided not to submit an amended application, the Fund faces dire solvency concerns and is expected to become insolvent within a decade.

Given the exceptional management and control structure and dire financial circumstances of the Fund and the impact a future insolvency would have on retirees, we believe a thorough assessment of the Fund's investment and internal decisions as well as a review of how those decisions impacted the Fund's long-term solvency is warranted.

We are particularly interested in the following topics/questions, though the questions below are not intended to limit or otherwise constrain the areas for GAO's review:

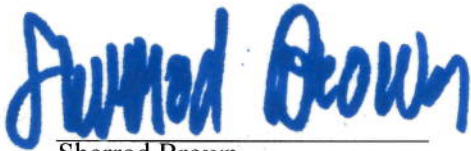
- How did the named fiduciaries, the Independent Special Counsel (ISC), and other relevant parties ensure compliance with the consent decree and Title I of ERISA, ensure the Fund received conflict-free investment advice with reasonable fees, and the Fund operated to protect the interests of participants and beneficiaries? Are there instances where behavior was inadequate or

in violation of responsibilities? Were investment decisions free of conflict of interest? If not, please identify such investments, the particular conflict(s) of interest and individuals who participated in these decisions.

- For each year from 1997 to 2015, what was the Central States Pension Fund's investment strategy, how was this strategy set, who implemented the strategy (including any contracted investment managers), and how did the average annual return on investment under this strategy compare to similarly situated pension funds by asset class? How did the rate of return for each asset compare to standard benchmark indices?
- What was the annual asset allocation of Fund by asset class by year from 1982 through 2015 (in both dollars and as a percent)? Was the overall asset allocation of the Fund altered in 2008? 2009? 2010-2015? What positions were sold during 2008 and 2009? How were the proceeds from these sales reinvested?
- What was the assumed rate of return on future investments by year and by asset class for the Fund from 1982 through 2015? How was the discount rate used to calculate future liabilities adjusted to reflect the historically low interest rates seen in the past ten years?
- Experts believe factors such as stock market losses, industry deregulation, and employer withdrawals contributed to the current critical and declining financial status of the Central States Pension Fund. How and when did the Fund's investment strategy respond to these factors and were these actions timely and appropriate given fiduciary responsibilities?
- At any point did the Fund's investment strategy reflect a greater than appropriate level of reliance on aggressive or alternative investments in violation of Title I of ERISA? For example, the Fund invested \$1.4 billion in single-A-rated bonds at the height of the 2008 economic meltdown. If so, what was the purpose of such investments and who directed these investment decisions.
- How much of the Fund's overall portfolio were invested in credit default swaps, collateralized debt obligations, mortgage-backed securities, insured variable rate bonds or other instruments or asset classes in 2005-2010, by year, by instrument or asset class?
- To what extent have the interests of board members of the Fund's investment advisors been a factor in the investment strategies or decisions made by the Fund? To what extent have the interests of the Fund's investment committee been a factor in the investment strategies or decisions made by the Fund? Did these decisions expose fund assets to greater than appropriate levels of risk or volatility?
- The management of the Fund's investments was delegated to private sector financial firms. Please provide a review and summary of the investment management fee agreements. Please also provide the investment management fees paid to each private sector financial firm by year. If the fee structure differs by asset class, please provide a separate review and summary of each fee structure and annual investment management fees paid by financial firm broken down by asset class.

Thank you for your attention and assistance with this matter. If you have any questions, please do not hesitate to contact Gideon Bragin ([gideon\\_bragin@brown.senate.gov](mailto:gideon_bragin@brown.senate.gov)).

Sincerely,



Sherrod Brown  
United States Senator



Tammy Baldwin  
United States Senator




Joe Donnelly  
United States Senator



Richard J. Durbin  
United States Senator



Al Franken  
United States Senator



Heidi Heitkamp  
United States Senator



Amy Klobuchar  
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Claire McCaskill  
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Gary C. Peters  
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