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March 23, 2009

The Honorable James B. Moran
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, Chao v. Estate of Frank E. Fitzsimmons, et al., No. 78 C 342 (N.D. Ill., E.D.); Chao v. Robbins, et al., No. 78 C 4075 (N.D. Ill., E.D.); and Chao v. Dorfman, et al., No. 82 C 7951 (N.D. Ill., E.D.)

Dear Judge Moran:

This is to report on my activities during the fourth quarter of 2008 as Independent Special Counsel appointed pursuant to the Fitzimmons (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.

Trustee Selection/Board Composition

As reported at the November 12, 2008 Meeting of the Board of Trustees, on October 9, 2008 Trustee election ballots and explanatory materials were mailed by the Funds to the 12 member Central Trustee Selection Board ("CTSB"). This mailing, in accordance with the Funds' Statement of Procedures for Selection and Monitoring of Employee Trustees, related to filling the Employee Trustee position for both Funds held by Fred Gegare, whose current term expires on March 31, 2009. The results of this CTSB voting process, as reported at the November 12, 2008 Board Meeting and confirmed by the Employee Trustees (with Fred Gegare abstaining), was the re-election of Mr. Gegare for a new term of office (from April 1, 2009 through March 31, 2014) as an Employee

Trustee of both Funds. With Mr. Gegare's re-election, the composition of the Board of Trustees remains as follows:

Audit

At the November 12, 2008 Meeting of the Board of Trustees, the Funds' Internal Audit Department presented a report concerning its audit of the Funds' Accounts Payable/Purchasing Processing activities. The overall conclusion of the audit was that the administrative and internal accounting controls 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 believed 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 needs 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.

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. Shortly thereafter, 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 will require 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 January 1, 2009, 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 January 1, 2009, only 5 bargaining units, comprising a total of 40 active participants, have agreed to adopt the rehabilitation plan's Default Schedule (4% annual increases and elimination of PPA adjustable benefits). Approximately 20 bargaining units, comprising approximately 140 participants, have so far 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 jumped to 10% as of January 1, 2009. Staff has reported that as of January 1, 2009, the contributing employers of approximately 9,700 active members were incurring PPA surcharge obligations due to the failure of these employers and the corresponding bargaining units to agree to one of the Fund's rehabilitation plan Schedules. The vast majority of these "non-compliant" employers are paying the PPA surcharges, and the remainder are being pursued under the Fund's delinquent account collection procedures, including litigation where necessary. (It should be noted the non-compliant employers 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 20 bargaining units, comprising approximately 140 participants, have so far incurred the Default Schedule through this PPA-mandated process.)

At the November 12, 2008 and January 13, 2009 Board of Trustees Meetings, 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).

Although it thus appears the Pension Fund has reported progress in securing increased employer contributions and controlling benefits as required of "critical status" plans under the PPA, the financial information presented below also makes clear that the Fund has suffered serious investment losses in the general stock market and economic downturn that occurred during 2008. Although final financial results for year-end 2008 were not available at the January 13, 2009 Board Meeting, Staff has informed the Trustees that it is likely that, for plan year 2008, the Pension Fund will be 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, p. 2). Staff has also reported, with the concurrence of the Trustees, that the Pension Fund plans to file an application with the IRS requesting a waiver of the funding ratio targets for 2008, in view of the unexpected economic decline that has occurred. 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 full year 2008 was (29.82)% as reported to the Trustees at their January 2009 Board meeting by the Fund's chief financial officer.

The Fund's financial group prepared for the Trustees a comparison of the Pension Fund's performance to the TUCS[1] universe results published for the third quarter of 2008. This comparison

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

(showing percent returns on investment) is summarized in the following tables:

Pension Fund's Composite Return

	3rd Quarter Ended Sept. 30, 2008	One Year Period Ending Sept. 30, 2008	Three Year Period Ending Sept. 30, 2008
TUCS 1st Quartile	(7.80)	(13.00)	3.98
TUCS Median	(8.95)	(14.90)	3.10
TUCS 3rd Quartile	(9.94)	(16.27)	2.30
Fund's Composite Return	(9.08)	(18.01)	1.52

Pension Fund's Total Equity Return

	3rd Quarter Ended Sept. 30, 2008	One Year Period Ending Sept. 30, 2008	Three Year Period Ending Sept. 30, 2008
TUCS 1st Quartile	(10.86)	(22.93)	1.51
TUCS Median	(12.89)	(24.98)	0.92
TUCS 3rd Quartile	(14.42)	(25.81)	0.21
Fund's Total Equity Return	(12.09)	(25.81)	0.20

Pension Fund's Fixed Income Return

	3rd Quarter Ended Sept. 30, 2008	One Year Period Ending Sept. 30, 2008	Three Year Period Ending Sept. 30, 2008
TUCS 1st Quartile	(1.93)	2.15	4.00
TUCS Median	(2.45)	1.34	3.47
TUCS 3rd Quartile	(3.56)	(0.43)	3.22

Fund's Fixed Income Return	(1.38)	2.67	4.15

The Fund's named fiduciaries (Goldman Sachs Asset Management and Northern Trust Global Advisors, Inc.) submit monthly investment reports to the Trustees, summarized below (showing percent returns on investment, with the full year 2008 results reported as final):

Goldman Sachs Asset Management

	Year Ended Dec. 31, 2008	Fourth Quarter 2008	Oct. 2008	Nov. 2008	Dec. 2008
Goldman Sach's Composite Return	(36.99)	(20.78)	(18.03)	(7.86)	4.88
Benchmark Composite Return	(33.44)	(18.72)	(16.86)	(6.48)	4.54
Goldman Sach's Total Fixed Income Return	(5.32)	(2.89)	(5.86)	(1.16)	4.35
Benchmark Fixed Income Return	(4.53)	(2.22)	(6.37)	(0.25)	4.70

Goldman Sach's fourth quarter 2008 composite return included a (25.42)% return on U.S. equities ((23.15)% large cap and (26.52)% on small cap U.S. equities), (18.78)% on international equities and (42.03)% on real estate.

Northern Trust Global Advisors, Inc.

	Year Ended Dec. 31, 2008	Fourth Quarter 2008	Oct. 2008	Nov. 2008	Dec. 2008
Northern Trust's Composite Return	(38.02)	(21.52)	(17.42)	(8.06)	3.35
Benchmark Composite Return	(35.32)	(20.08)	(16.99)	(6.77)	3.27
Northern Trust's Total Fixed Income Return	(16.49)	(8.21)	(7.47)	(3.84)	3.15

Northern Trust's fourth quarter 2008 composite return included a (24.63)% return on U.S. equities ((24.79)% large cap and (26.14)% on small cap U.S. equities), (20.77)% on international equities and (34.28)% on real estate.

The Fund's financial group reported asset allocation of the Pension Fund's investments as of December 31, 2008 as follows: 64% equity, 32% fixed income, 2% other and 2% cash. The financial group also reported that for the fourth quarter of 2008 the return on the indexed fixed income account was 4.94%, and 5.70% for the full year ended December 31, 2008. For the fourth quarter of 2008 the passive equity account had a return of(21.96)%, and (36.05) for the full year ended December 31, 2008.

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, 2008 shows net assets as of that date of $17,342,175, compared to $26,805,847 at December 31, 2007, a decrease of $9,463,672 compared to an increase of $6,133,099 for the same period last year. The $15,596,771 difference is due to $8,864,244 less investment income combined with $6,732,527 less net operating gain.

The Fund's staff report further notes that for the twelve months ended December 31, 2008, the Fund's net asset decrease from operations (before investment income) was $1,781,840 compared to an increase of $4,950,687 for the same period in 2007, or a $6,732,527 unfavorable change. This change in net assets from operations (before investment income) was attributable to:

a)($6,686,476) less contributions, primarily due to UPS withdrawal liability settlement received in December 2007, combined with lost UPS contributions in 2008,

b)($46,292) more benefits paid, primarily an increase in average monthly benefits and

c) $241 less general and administrative expenses.

During the twelve months ended December 31, 2008 and 2007, the Fund withdrew $1,714,842 and $1,148,676 (not including UPS funds), respectively, from investment assets to fund the cash operating deficit.

Financial Information - Participant Population

The December 31, 2008 report prepared by Fund staff further notes that the eleven-month average number of Full-Time Equivalent (FTE) memberships decreased 35.84% from November 2007 to November 2008 (going from 145,599 to 93,411). During that period, the average number of retirees increased by 0.03% (from 212,181 to 212,247).

Named Fiduciary

Officers of the Named Fiduciaries, Goldman Sachs Asset Management and 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 November 12, 2008 meeting on investment expenses incurred through the third quarter of 2008. These investment expenses (fiduciary, custodial and investment management fees) totaled $57,850,431 through the third quarter of 2008 compared to $57,694,527 for the same period in 2007, a 0.3% increase.

Bankruptcies and Litigation

The Fund's 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 $68 million has been collected to date from Consolidated Freightways companies.

Health and Welfare Fund

Financial Information
(Dollars in thousands and do not include final year end adjustments.)

The Health and Welfare Fund's financial summary for the fourth quarter of 2008 is compared below with interim financial information for the same periods of 2007:

	4th Quarter Ended Dec. 31, 2008	2007
Contributions	$305,128	302,252
Benefits	(256,404)	(245,055)
TeamCare administrative expenses	(7,651)	(7,499)
General and administrative expenses	(9,487)	(10,131)
Net operating income (loss)	31,586	39,567
Investment income (loss)	(29,218)	12,017
Increase (Decrease) in net assets	$2,368	51,584
Net assets, end of period	$1,096,845	1,083,559
Eleven-month average participants (FTEs)	95,707	96,828

For the twelve months ended December 31, 2008, the Health and Welfare Fund's net asset increase from operations (before investment income) was $92,554 compared to an increase of $104,826 for the same period in 2007, or a $12,272 unfavorable change:

(a) $21,414 more contributions, primarily due to increased contribution rates offset by decrease FTEs,

(b) ($33,120) more benefits,

(c) ($563) more TeamCare administrative fees and

(d) ($3) more general and administrative expenses.

Net investment income for the twelve months ended December 31, 2008 was $150,022 less than for the same period last year. This decrease resulted primarily from $149,671 unfavorable change in realized/unrealized gain (loss) combined with $334 less interest and dividend income.

During the twelve months ended December 31, 2008 and 2007, the Fund transferred $104,485 and $88,924, respectively, to investments (Mellon Bank) 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, 2008 shows the investment asset allocation as 74% fixed income and 26% equity.

This report also notes that the eleven month average number of Full-Time Equivalents (FTE) memberships decreased 1.16% from 2007 to 2008 (going from 96,828 to 95,707). During that period, the average number of retirees covered by the Health and Welfare Fund decreased by 12.23% (from 16,115 to 14,144).

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 2008 the following for professional services and expenses for the Independent Special Counsel:

October	$ 0.00
November	$ 0.00
December	$310.50

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

FRANK J. McGARR,

Enclosure

cc: Ms. Carol A. De Deo (w/encl.) **Via UPS Next Day**
Mr. Michael Schloss (w/encl.) **Via UPS Next Day**
Mr. Thomas Nyhan
Mr. William Nellis