



Central Pennsylvania Teamsters Retirement Plans



Funding Improvement Plan Educational Seminar

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because *confidence* is a benefit

Purpose

- The following is meant to serve only as an overview and summary that guides discussion around the topics presented.
- Some of the information contained may be misleading and/or confusing when not accompanied by an in-depth explanation provided by The Savitz Organization.
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Agenda

- Pension Protection Act of 2006 Overview
 - Actuarial Certification
- Funding Improvement Plan
 - Overview, Structure, Benchmarks
 - Central PA Teamsters Adopted Schedules
 - Default Schedule
 - Endangered Status vs. Critical Status
 - General Requirements
- Questions and Answers

Pension Protection Act of 2006

Certification Notice Requirement

- Plan actuary has 90 days from the start of the plan year to certify plan's status
- Notification to stakeholders required if not "green" status
- Key elements in determining status
 - Funded percentage
 - Projection of funding deficiency
 - Contributions, benefit payments
 - Active/inactive liability, normal cost

Pension Protection Act of 2006

Multiemployer Plan Classifications

Safe Status
<p style="text-align: center;">Endangered Status</p> <p style="text-align: center;">Funding ratio less than 80%</p> <hr/> <p style="text-align: center;">Projected minimum funding deficiency within 7 years</p>
<p style="text-align: center;">Seriously Endangered Status</p> <p style="text-align: center;">Funding ratio less than 80%, and Projected minimum funding deficiency within 7 years</p>
<p style="text-align: center;">Critical Status</p> <p style="text-align: center;">Funding ratio less than 65%, and Projected minimum funding deficiency within 5 years</p> <hr/> <p style="text-align: center;">Funding ratio less than 65%, and Plan assets expected to run out in 7 years</p> <hr/> <p style="text-align: center;">Projected minimum funding deficiency within 4 years</p> <hr/> <p style="text-align: center;">Plan assets expected to run out in 5 years</p> <hr/> <p style="text-align: center;">Liability for inactives > actives, and Contributions less than normal cost / interest on unfunded liability, and Projected minimum funding deficiency within 5 years</p>

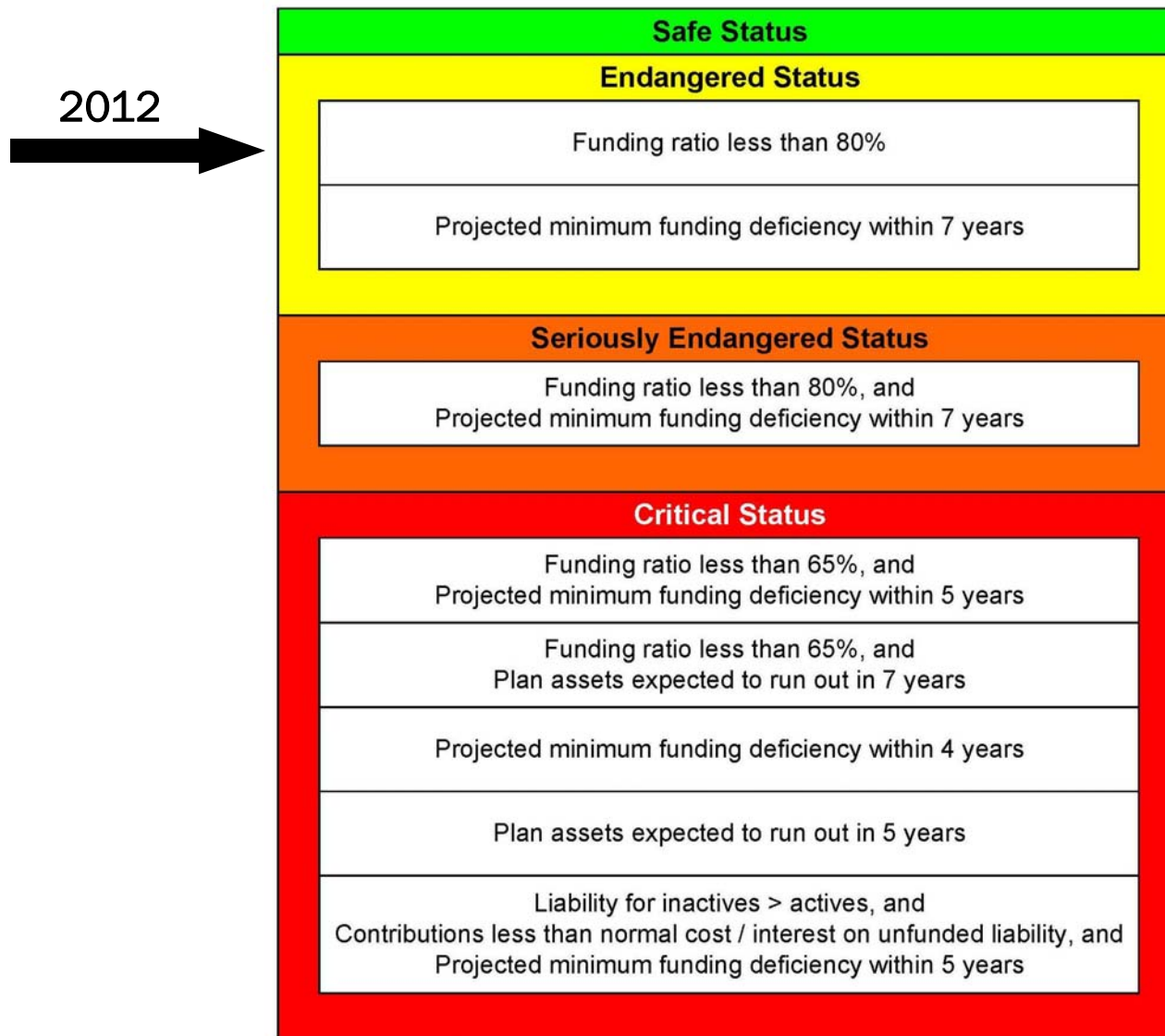
Pension Protection Act of 2006

CPAT Defined Benefit Plan History

- 2008: Certified in Green Status ($\approx 85\%$)
 - Funding Improvement Plan not required
- 2009: Certified in Endangered Status ($\approx 73\%$)
 - Funding Improvement Plan adopted but no changes to contributions or benefits required
- 2010: Certified in Endangered Status ($\approx 78\%$)
 - Recertified in Green Status after PRA 2010 elections ($\approx 83\%$)
 - Funding Improvement Plan not required after recertification
- 2011: Certified in Green Status ($\approx 84\%$)
 - Funding Improvement Plan not required

Pension Protection Act of 2006

Multiemployer Plan Classifications



Funding Improvement Plan

Funding Improvement Plan

Required for Yellow Zone/ Endangered Status Plans

- Trustees must adopt Funding Improvement Plan (FIP) to improve funding within 240 days of certification
 - (adopted 11/14/2012)
- Communicated to bargaining parties within 30 days of adoption
 - (anticipated 12/12/2012)
- Improvement Period begins first day of plan year after earlier of:
 - Second anniversary of adopting FIP
 - Expiration of collective bargaining agreements in effect when certification was due that cover at least 75% of active participants
 - (January 1, 2015 through December 31, 2024)
- Reduce underfunding by 33% in 10 years and avoid minimum funding deficiency
- Updated and filed annually

Funding Improvement Plan

Example

- Must reduce underfunding by 33% in 10 years
- Assume the funding ratio is 79%
- The Plan is 21% underfunded (100% - 79%)
- 33% of the underfunding is 7% (33% x 21%)
- Target funding ratio = 79% + 7% = 86%
 - Note that 86% is greater than 80%

Funding Improvement Plan

The Letter of the Law

- One or more schedules showing revised benefit structures, revised contribution structures, or both, which, if adopted, may reasonably be expected to enable the multiemployer plan to meet the applicable benchmarks in accordance with the funding improvement plan, including
 - One proposal for reductions in the amount of future benefit accruals necessary to achieve the applicable benchmarks, assuming no amendments increasing contributions under the plan (other than amendments increasing contributions necessary to achieve the applicable benchmarks after amendments have reduced future benefit accruals to the maximum extent permitted by law), and
 - One proposal for increases in contributions under the plan necessary to achieve the applicable benchmarks, assuming no amendments reducing future benefit accruals under the plan, and
 - May, if the plan sponsor deems appropriate, prepare and provide the bargaining parties with additional information relating to contribution rates or benefit reductions, alternative schedules, or other information relevant to achieving the applicable benchmarks in accordance with the funding improvement plan.

Funding Improvement Plan

The Short Story

- Adopt one schedule with only reductions in future benefit accruals (increase contributions only as needed)
 - “Default Schedule”
 - **Benefit Reduction Schedule**
- Adopt one schedule with only contribution increases
 - **Contributions Schedule**
- Adopt any number of combination/alternative schedules
 - **Alternative Schedule One**

Central PA Teamsters Funding Implement Plan

Benefit Reduction Schedule

- Benefits
 - The Future Service Monthly Benefit is equal to 0.70% of aggregate Contributing Employer contributions made for Plan Years beginning on or after January 1, 2014.
 - Monthly benefit accrual still subject to \$140 maximum unless otherwise specified in the future.
- Contributions
 - There are no contribution increases under the Benefit Reduction Schedule.

Central PA Teamsters Funding Implement Plan

Contributions Schedule

- Benefits
 - There are no benefit adjustments under the Contributions Schedule.
- Contributions
 - Contributions rates under the Contributions Schedule require a 9.6% increase.

Central PA Teamsters Funding Implement Plan

Alternative Schedule One

- Benefits
 - The Future Service Monthly Benefit is equal to 1.00% of aggregate Contributing Employer contributions made for Plan Years beginning on or after January 1, 2014.
 - Monthly benefit accrual still subject to \$140 maximum unless otherwise specified in the future.
- Contributions
 - Three consecutive annual contribution rate increases of 5.66%, 1.1%, and 1.1% are required.

Funding Improvement Plan

Default Schedule

- Default Schedule implemented due to failure to adopt a Funding Improvement Plan schedule when
 - Collective bargaining agreement in effect at the time the plan entered endangered status expires, and
 - After receiving one or more schedules from the plan sponsor, the bargaining parties fail to adopt a schedule consistent with the Funding Improvement Plan
- Default Schedule implemented 180 days after the date the collective bargaining agreement expires (if the Plan is still in Endangered Status)

Funding Improvement Plan

General Requirements

- During Funding Improvement Adoption Period may not
 - Accept a collective bargaining or participation agreement that provides
 - A reduction in the level of contributions for any participants
 - A suspension of contributions with respect to any period of service, or
 - Any new direct or indirect exclusion of younger/newly hired employees from participation
 - Amend Plan to increase liabilities (including any change in the accrual of benefits, or any change in the rate at which benefits become nonforfeitable) unless required as a condition of Plan qualification

Funding Improvement Plan

General Requirements

- After Funding Improvement Adoption
 - Plan amendments not consistent with Funding Improvement Plan are prohibited
 - Plan amendments increasing benefits (including future benefit accruals) are prohibited unless paid for with additional contributions
 - May not accept a collective bargaining or participation agreement that provides
 - A reduction in the level of contributions for any participants
 - A suspension of contributions with respect to any period of service, or
 - Any new direct or indirect exclusion of younger/newly hired employees from participation

Funding Improvement Plan

General Requirements

- A Funding Improvement Plan must
 - Provide annual standards for meeting the requirements of such Funding Improvement Plan
 - Include the schedules required to be provided
- Updates to Funding Improvement Plan and schedules
 - The Plan Sponsor shall annually update the Funding Improvement Plan and shall file the update with the Plan's Form 5500
 - The Plan Sponsor shall annually update any schedule of contribution rates to reflect the experience of the Plan
 - A schedule of contribution rates provided by the Plan Sponsor and relied upon by bargaining parties in negotiating a collective bargaining agreement shall remain in effect for the duration of that collective bargaining agreement

Central Pennsylvania Teamsters Defined Benefit Plan

Key Differences Between Critical and Endangered Status

	Endangered Status	Critical Status
PPA Color Status Certification	“Yellow Zone”	“Red Zone”
Improvement Plan Name	Funding Improvement	Rehabilitation
Accelerated Distributions Suspended	Not required	Required
5% Employer Surcharges	Not required	Required
Non-Protected Adjustable Benefits	Not part of “Default Schedule”	Part of “Default Schedule”
Protected Adjustable Benefits	Not changeable	Changeable
1% Future Service Accrual Floor	Not part of “Default Schedule”	Part of “Default Schedule”