Southwest Ohio Carpenters Pension Fund

Understanding the Pension Recovery Plan

March 16, 2017

Today's Meeting

- Overview
- How We Got Here
- Multiemployer Pension Reform Act of 2014
- Our Proposed Pension Recovery Plan
- What Happens Next

Overview

- The Southwest Ohio Carpenters Pension Fund is facing very serious troubles because it is seriously underfunded
- If we do not take action, **the Pension Plan will become insolvent and run out of money in 15 years or less**
- At that point, our Plan will have zero assets and will not be able to pay benefits to current and future retirees
- While the Trustees have taken many steps to address this issue, the situation now requires a Pension Recovery Plan

How We Got Here: Short-Sighted Government Regulations

1974: ERISA passes, establishes anti-cutback rule

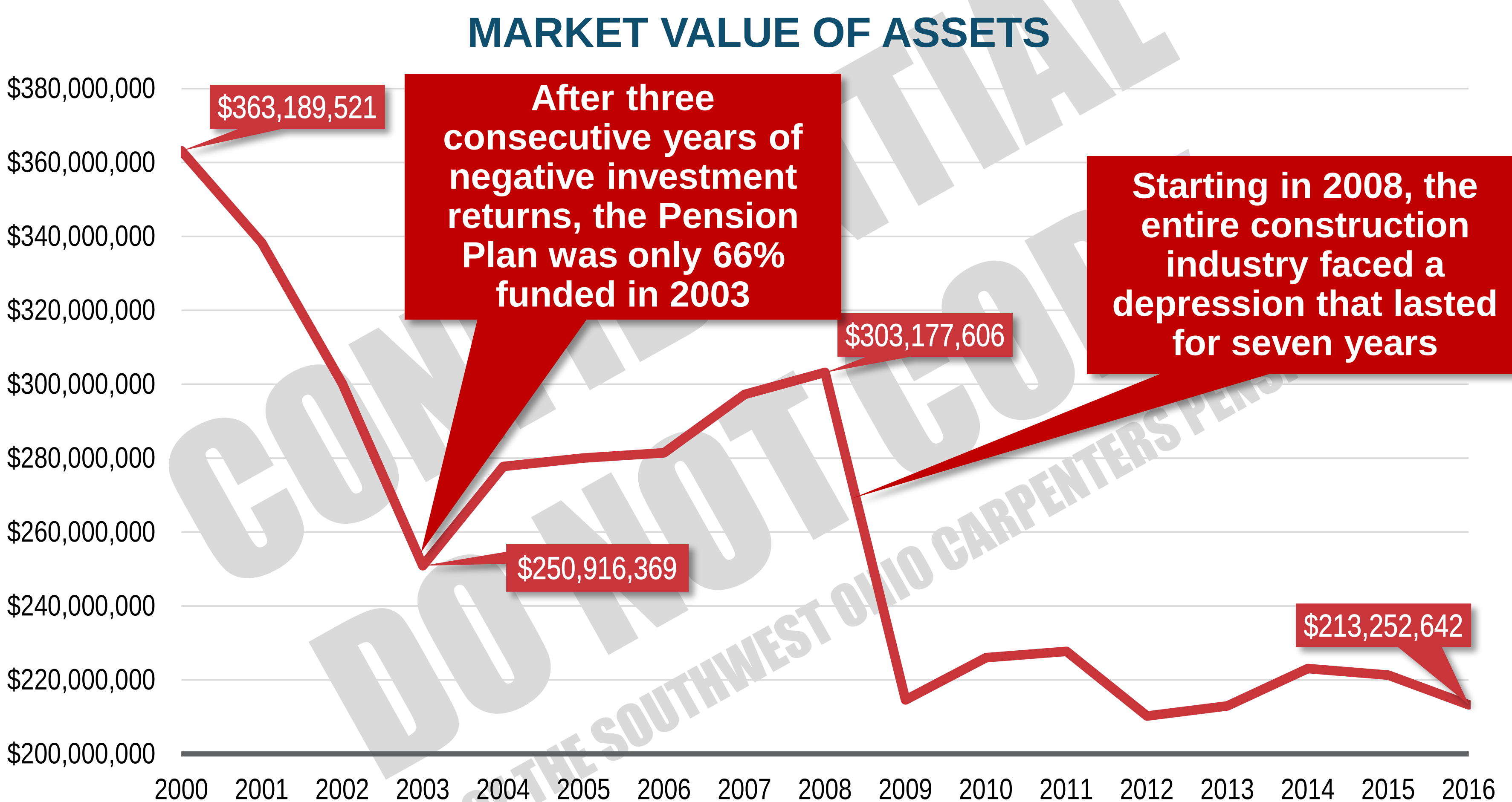
1980: Multiemployer Pension Plan Amendments Act passes, requiring plans to turn surpluses into benefit increases

1970s | 1980s | 1990s | 2000s

1998: Our Pension Plan became more than 100% funded, and we were forced to increase benefits rather than maintain a "rainy day fund"

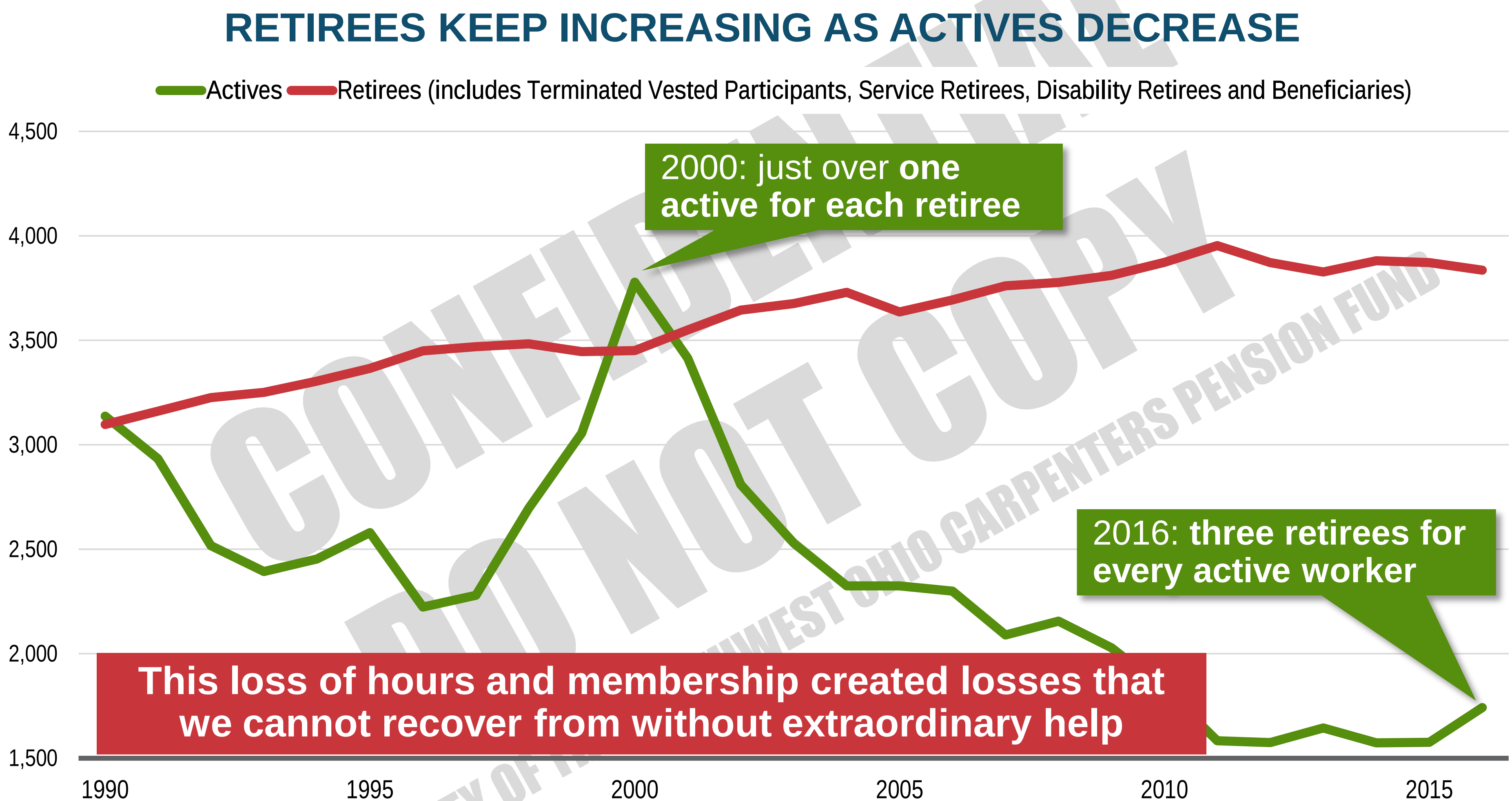
These short-sighted regulations left us unable to cope with severe economic downturns

How We Got Here: Stock Market Crashes



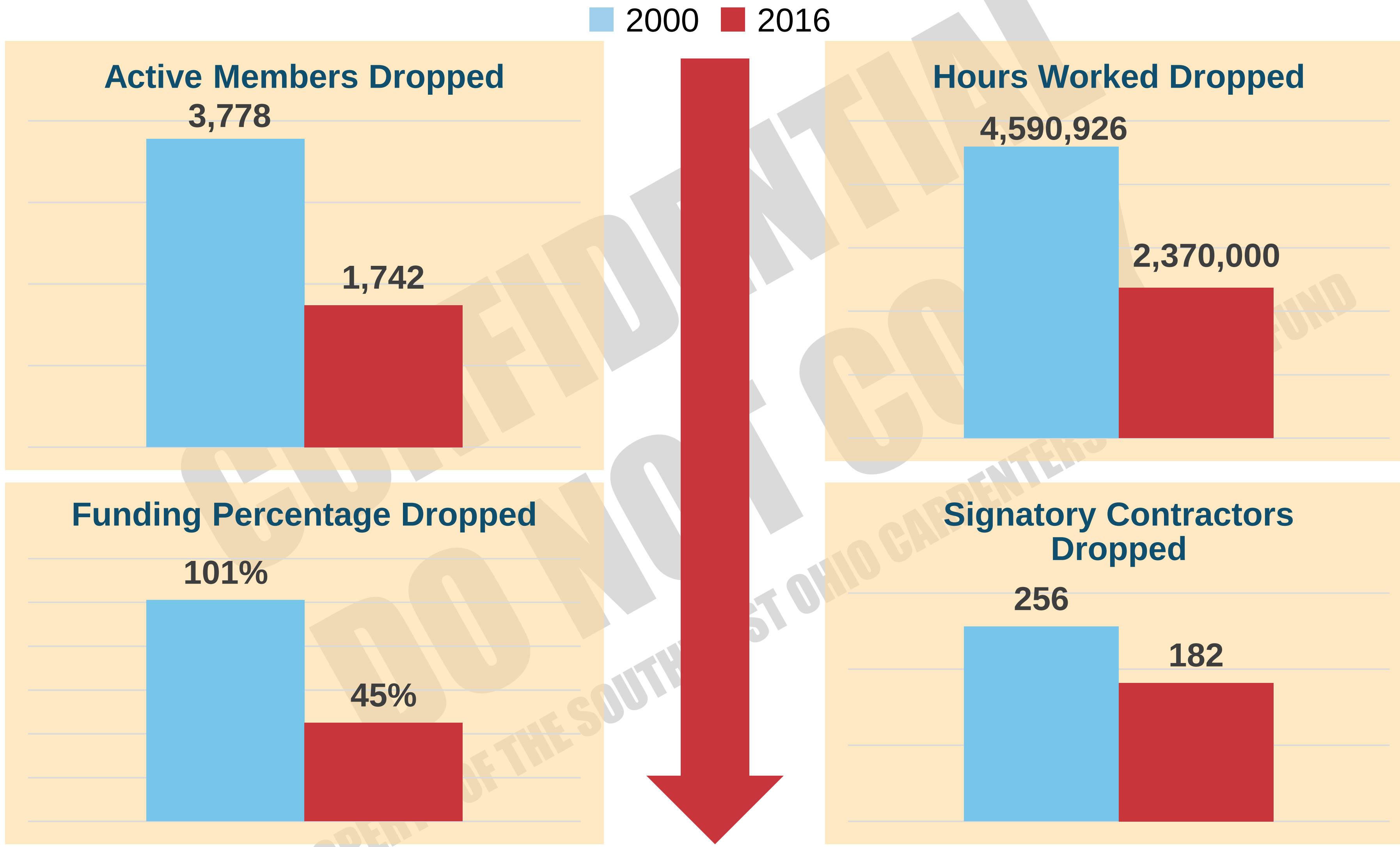
The Pension Plan's funding levels dropped to 45% after these two historic crashes and faced huge setbacks

How We Got Here:
More Members Retiring & A Decrease In Actives



The effect of losing income and members was compounded by many Plan members retiring—the Plan became too reliant on market returns and vulnerable to crashes

How We Got Here:
Changes That Hurt Our Pension Plan



Attempts To Fix The Pension Plan

- Over the last 15-20 years, the Trustees took the actions we needed to keep the Pension Plan on course based on historical factors and legal regulations
  - Increased Contribution Rate
    - 1999: $2.40 per hour
    - 2003: $2.90 per hour
    - 2010: $5.70 per hour
    - 2012: $6.20 per hour
    - 2015: $6.95 per hour
  - 2002: Reduced the credit service benefit to $80
  - 2003: Reduced the credit service benefit to $50
  - Removed all additional adjustable benefits from the Pension Plan
    - 2010: Changes to Early Retirement, Disability and Death Benefits; No lump sums; Changes to suspension of benefit rules
    - 2012: Further changes to Early Retirement Benefit; Rule of 80 went to Rule of 85
    - 2013: Eliminated unreduced Early Retirement Benefit; Removed the "Rule of 85" Benefit

Despite these steps to try to fix this problem, the funding shortage has become worse

Plan Benefits Today

- **Benefit Credit**
  - $50 per year of Credited Service effective June 1, 2003
- **Credited Service**
  - One year for each Plan Year in which 1,500 Hours of Service are earned at the base journeyman rate (pro-rated for hours other than 1,500)
- **Base Journeymen Rate**
  - Hourly contribution rate effective June 1, 2015 is $6.95
- **When Can You Retire?**
  - Age 62 with 5 Years of Participation
  - Age 55 with 5 Years of Service
    - Actuarially reduced from age 62 (49.8% reduction at age 55)

What Is The Multiemployer Pension Reform Act Of 2014?

In December 2014, the Multiemployer Pension Reform Act of 2014 (MPRA) was enacted and signed into law

MPRA allows trustees of severely underfunded multiemployer pension funds to develop benefit suspension plans that include benefit reductions for ***both*** active workers and retirees, in order to save the funds and continue paying benefits for years to come

Under MPRA provisions, there can be no benefit changes for retirees 80 years of age and older or those participants receiving a disability benefit from a multiemployer plan

Any proposed benefit reductions for retirees ages 75-80 would be done on a sliding scale to minimize impact

Why A MPRA Benefit Suspension?

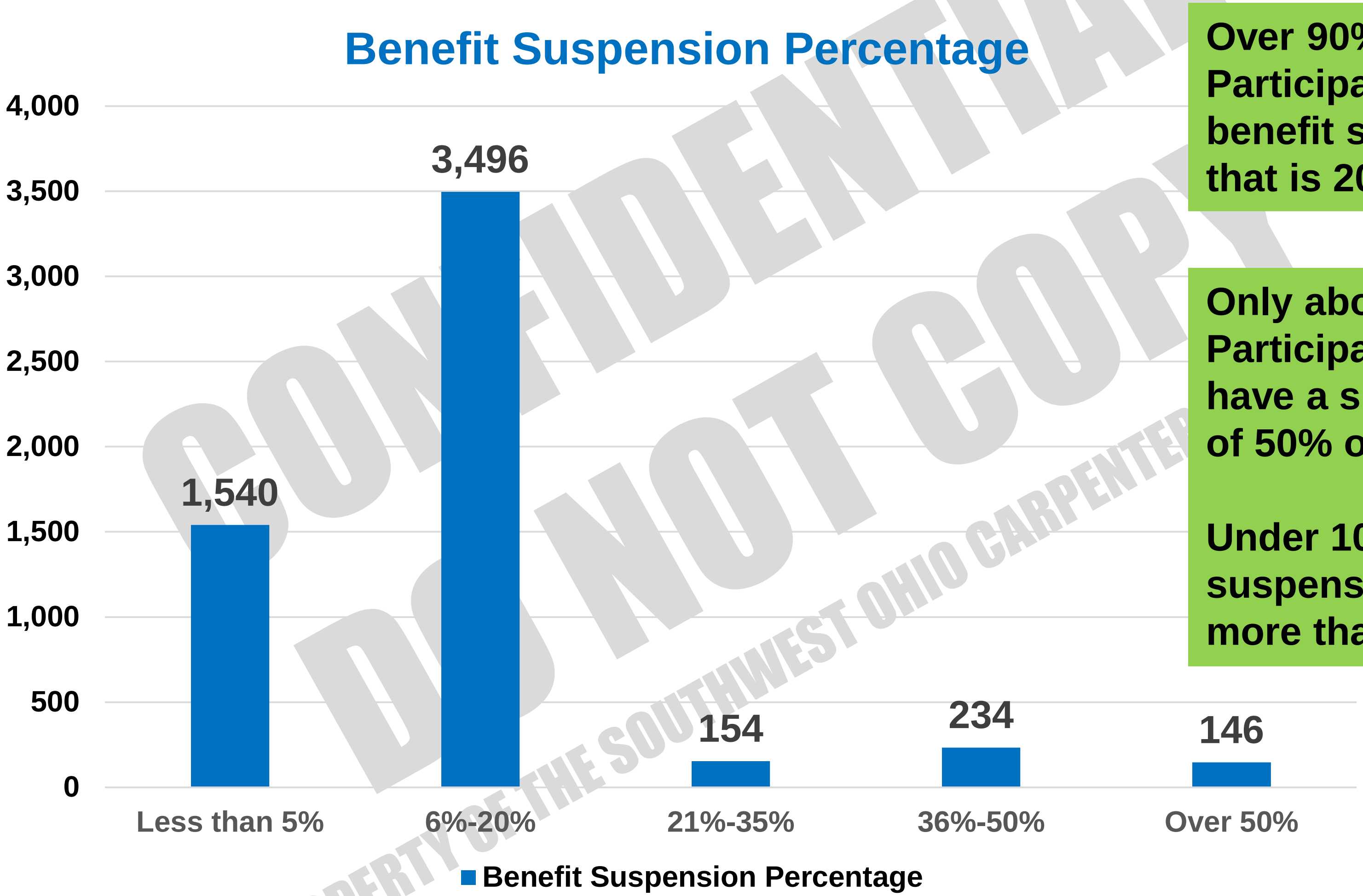
- The Pension Plan has been certified as in “critical and declining” status with the Department of Labor so it qualifies to use MPRA
- This is the only way we can keep our Pension Plan from becoming insolvent—so that you won’t have more cuts in the foreseeable future
- This Pension Recovery Plan is designed to stabilize the Pension Fund’s finances and allow it to continue to pay benefits indefinitely
- **This is a one-time reduction**
- This allows the Pension Plan to preserve the greatest benefit amount to all participants

If circumstances improve sufficiently—more active members, more contributions, stronger investment performance—we may be able to restore the suspensions we are making now

How Will Pensions Be Suspended?

- We have worked very hard to create reductions that are equitably distributed between all of the groups of participants and beneficiaries in the Pension Plan
- Because of the way the Pension Plan works, the percentage by which benefits will be reduced will differ based on whether a participant retired before or after age 62, when they retired and if they have started receiving benefits yet
- **Active Members or Any Member Not Yet Receiving Benefits**
  - You're facing an accrued benefit suspension of 17%
- **Retired After Age 62 (Normal)**
  - You're facing an accrued benefit suspension of 17%
- **Retired Before Age 62 (Early)**
  - You're facing a benefit suspension based on your age when you retired and what reductions you took when you began receiving benefits
    - **If you retired during or after 2013,** your suspension will be 17%
    - **If you retired before 2013,** your suspension calculation will include first applying reductions for Early Retirement based on your age at retirement as they exist today, and then applying the 17% suspension; the current reductions for retiring before age 62 take into account the extra payments you are expected to receive by taking the benefit before age 62

How Are Benefit Suspensions Distributed?



Over 90% of Participants have a benefit suspension that is 20% or less

Only about 150 Participants (2.62%) have a suspension of 50% or more

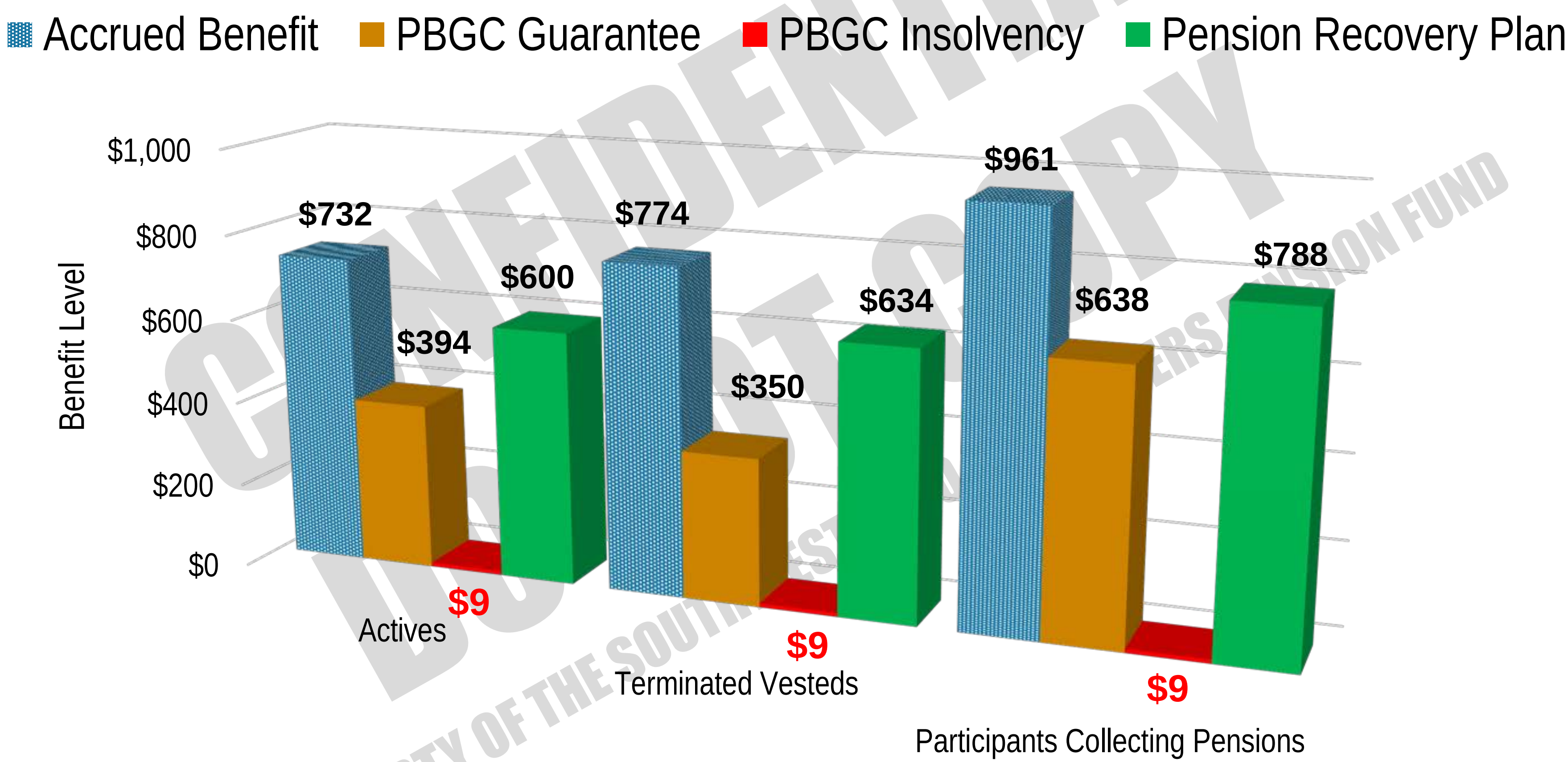
Under 10% have a suspension that is more than 20%

What About The PBGC?

- The Pension Benefit Guaranty Corporation's (PBGC's) multiemployer program protects over 10 million workers and retirees in about 1,400 pension plans
- Without MPRA benefit suspensions, our Pension Plan would become insolvent and go to the PBGC
- If that happens, all participants would face pension cuts that average 36% per person, regardless of age, active or retired status, or disability
- If our Pension Plan goes to the PBGC, it is essentially dead and cannot be changed
- And the PBGC is expected to become insolvent in 2025—so even these reduced benefits might disappear and our participants will be left with almost nothing

What's At Stake?

MPRA BENEFIT SUSPENSIONS ARE BETTER THAN PBGC PENSION CUTS



**If the PBGC runs out of money,
your benefits will be reduced to almost NOTHING**

The Vote

- The vote takes place within 30 days of the Pension Recovery Plan's approval by Treasury, and the voting period runs for 21 days
- The Treasury Department has sole responsibility for the voting process, which will be conducted by a third-party administrator that they select
- Voting will be completed online, by mail ballot or by phone
- If participants vote to support the Pension Recovery Plan, it will go into effect around January 1, 2018
- If participants do not vote to support the Pension Recovery Plan, it does not mean that the Pension Plan can simply continue the way it is today
- Without the suspensions, the Pension Plan will become insolvent and participants will face far greater reductions

What Will Happen If The Proposed Pension Recovery Plan Is Rejected?

- The Board of Trustees, in consultation with the Pension Plan's Actuary, has determined that the Pension Plan will become insolvent around 2032 or sooner if the proposed Pension Recovery Plan is not implemented in 2018
- When the Pension Plan becomes insolvent, the PBGC will step in and provide the Pension Plan with financial assistance to continue paying a portion of your monthly retirement benefit
- When that happens, the PBGC will make cuts that apply to ***ALL*** participants; disabled participants and participants over age 75 will also be cut to the PBGC-guaranteed level
- The PBGC has projected that it may run out of funds within 10 years; if this happens, participants and beneficiaries in pay status would be at risk of receiving benefits that would be dramatically lower than the maximum PBGC guaranteed amount
- *Your benefits could be reduced to almost nothing*

The Trustees can refile the MPRA Pension Recovery Plan, but this will result in deeper cuts

Resources Available

- We want to share as much information with you as we can in as many ways as possible

Meetings **Mail** **Website** **Call Center** **Video**

Conclusion

- **This is not a case of mismanagement:** A combination of external factors caused this situation
- Over the last 15-20 years, **the Trustees took the actions we needed to keep the Pension Plan on course** based on historical factors and legal regulations
- **While we are not happy at having to suspend some benefits; our Pension Recovery Plan is far better than the alternative**—running out of money by 2032 and having to rely on a shaky PBGC for an even lesser benefit—or possibly nothing at all if the PBGC runs out of money
- **We need you to vote for the MPRA Pension Recovery Plan:** If it fails, all participants will face much larger cuts

Questions?

If you have questions or want more information after today's meeting:

- **Call the Pension Recovery Plan Hotline: (330) 779-8862**
- **Visit our Pension Recovery Plan Website: www.SORCCPensionRecovery.org**