

**Western States Office &  
Professional Employees Pension Fund**

**UNDERSTANDING THE PROPOSED  
Pension Benefit Reduction and  
Recovery Plan**

**Town Hall Session**

**February / March 2017**



# Today's Meeting

**The Board is proposing a benefit reduction for most participants—designed to keep the Pension Plan from becoming insolvent.**

**Today we will discuss:**

- What caused the Pension Plan's problems
- MPRA Financial Relief: What it is and how it impacts our Pension Plan and our participants
- Our Proposed Pension Benefit Reduction and Recovery Plan
- Your Questions



# Difficult Choices, But There Is A Path Forward

**Our Pension Plan faces very serious trouble because it is severely underfunded—it is projected to be insolvent during 2035**

## **NO ACTION: Insolvent Pension Plan**

- At insolvency, the Pension Plan runs out of money and can no longer meet its benefit payment obligation to all participants.
- The PBGC provides financial assistance to the Plan so it can pay PBGC-guaranteed benefit amounts—which are much less than accrued benefits.
- The PBGC itself may run out of money within 10 years—reducing benefits even further.

## **ACTION: Pension Benefit Reduction and Recovery Plan**

- The Pension Benefit Reduction and Recovery Plan reduces pensions for most participants—but provides protections for older retirees and disabled pensioners.
- The benefit reductions are much less severe than under the PBGC; they will preserve the Plan and provide the best benefits to participants in the future.

# Pension Plan Funding “101”

## Plan Liabilities

- Benefits earned by active participants and terminated vested participants — for payment in the future
- Benefits being paid to retirees and their beneficiaries

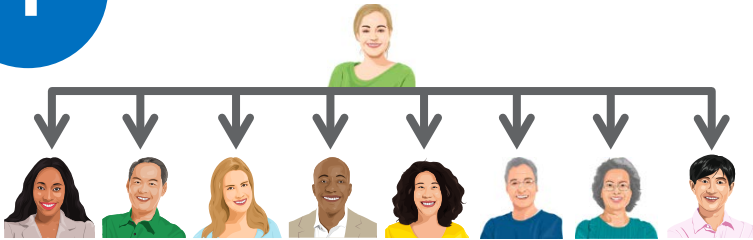
## Plan Assets

- Used to pay benefits and Plan expenses — now and in the future
- Funded by employer contributions made on behalf of Plan participants (including withdrawal liability contributions and rehabilitation plan payments) and investment earnings

**As of January 1, 2016, our liability to participants stood at \$535 million. The value of our assets was \$334 million. This means our plan is just 62.5% funded.**

# How We Got Here

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Retirees and terminated vested participants far outnumber active participants—by 8 to 1

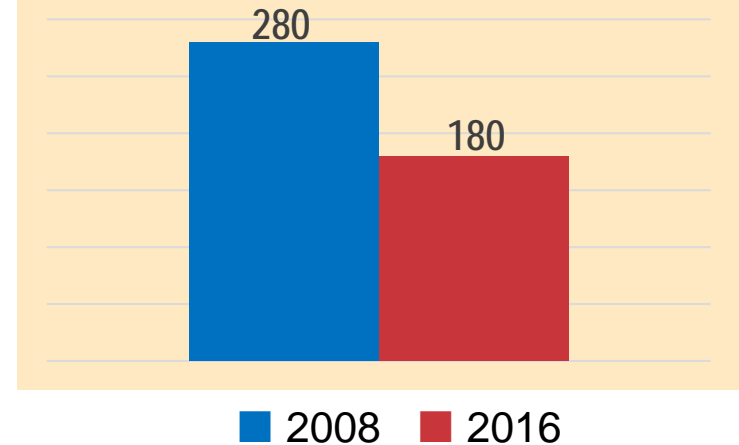
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## INVESTMENT RETURNS

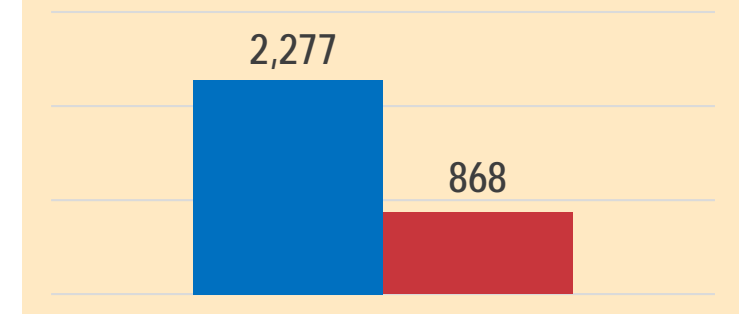
- -32% in 2008
- 8.4% average returns from 2009 - 2016

2

### Contributory Employers Dropped



### Number of Active Participants Dropped by 62%

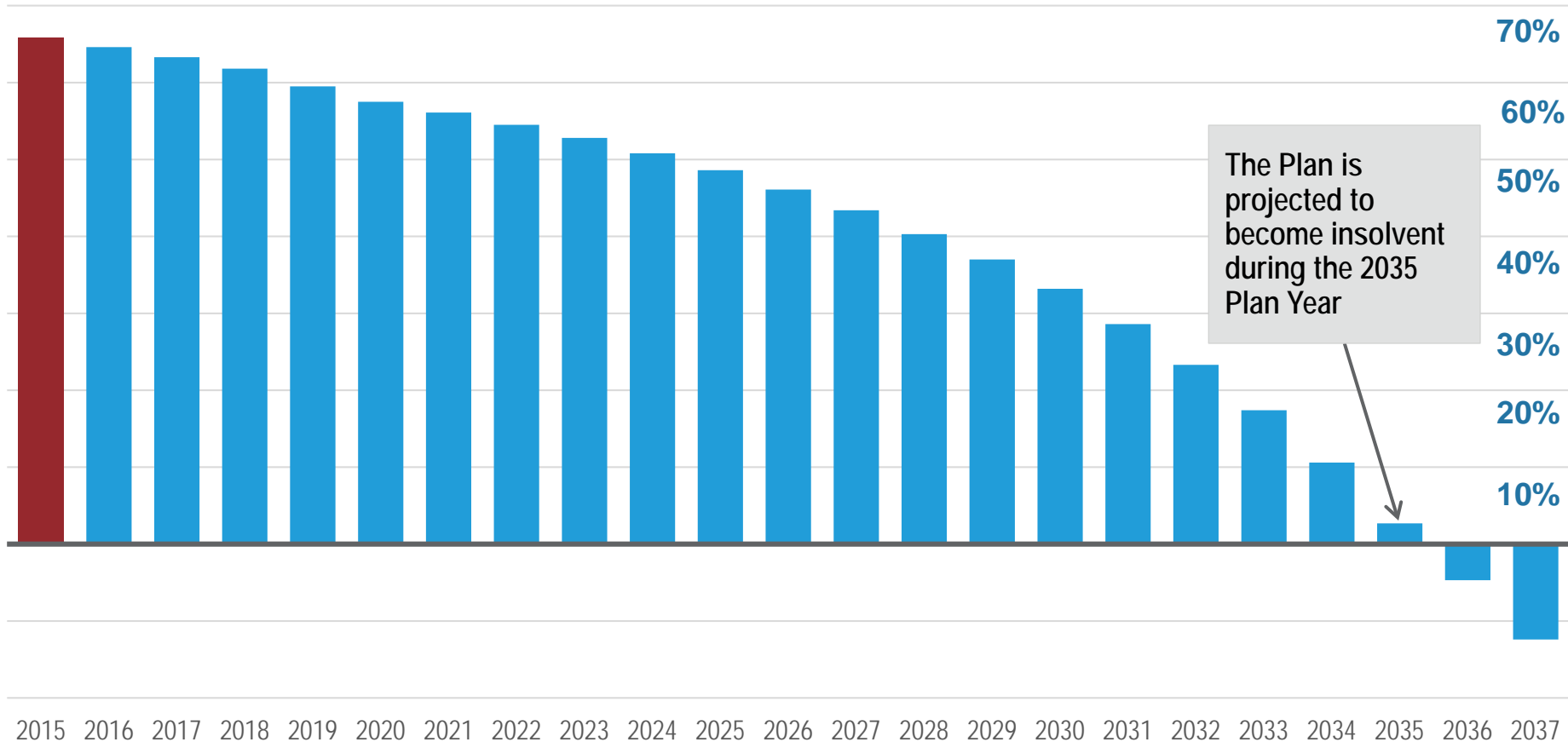




# The Plan is Projected to Run Out of Money During 2035

- Insolvency is the point at which the Pension Plan runs out of money and is unable to pay current benefits and expenses.

Plan Funding Status – Percentage of Assets Against Liabilities





# A Potential Solution: The Multiemployer Pension Reform Act of 2014 (MPRA)

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

MPRA allows severely underfunded multiemployer pension funds to develop a Pension Benefit Reduction and Recovery Plan—designed to preserve the pension plan, continue paying benefits, and keep the plan in operation.

However, a shared sacrifice is required, as a Pension Benefit Reduction and Recovery Plan under MPRA reduces benefits for actives, most retirees and beneficiaries, and terminated vested participants.



# How MPRA Works

- The Board worked with the Pension Plan's actuary to develop a Pension Benefit Reduction and Recovery Plan.
- MPRA includes several protections for participants:
  - Benefit reductions cannot be more than what is needed to avoid insolvency
  - There can be no benefit changes for retirees age 80 and older or those receiving a disability benefit
  - Proposed benefit reductions for participants between ages 75 to 80 must be done on a sliding scale to minimize impact
  - The proposed benefit reduction cannot take benefits for any participant below 110% of the PBGC's guaranteed benefit



## How MPRA Works *continued*

- The Pension Benefit Reduction and Recovery Plan must be submitted to the U.S. Treasury Department for review and approval.
  - We submitted our application with Treasury on February 15, 2017; it was accepted by Treasury for review on February 22, 2017
  - Treasury's job is to verify we followed the rules noted on the previous slide
  - On acceptance, Treasury has **up to 225 days** to complete its review and approve or reject our application
- If approved by Treasury, all participants will have the opportunity to vote yes or no on the Pension Benefit Reduction and Recovery Plan.

To date, several multiemployer pension plans have submitted a Pension Benefit Reduction and Recovery Plan application with the U.S. Treasury Department, including the Automotive Industries Pension Fund and New York State Teamsters Conference Pension & Retirement Fund. Thus far, one application has been approved.

You can follow progress at [www.treasury.gov](http://www.treasury.gov).



# About the Vote

- Plan participants must vote to adopt the proposed benefit reductions under the Pension Benefit Reduction and Recovery Plan.
- All participants are eligible to vote (current retirees, surviving spouses, terminated vesteds, actively employed participants, etc.).
- The vote takes place within 30 days of the Pension Benefit Reduction and Recovery Plan's approval by Treasury, and the voting period runs for 21 days.
- The Pension Benefit Reduction and Recovery Plan can be rejected **ONLY** if a majority of the total number of the Pension Plan's participants vote against it.
- The Treasury Department has sole responsibility for the voting process, which will be conducted by phone or online by a third-party administrator—you will receive more information following the Treasury review period.



# How the Benefit Reductions Will Work

- The reduction amount is based on your age at the time the Pension Benefit Reduction and Recovery Plan takes effect.
- It will stay at that rate for as long as you continue collecting a pension.

Type of Participant	Benefit Reduction
Active Participant	29%
Terminated Vested Participant	29%
Retiree Under Age 75	29%
Retiree Age 75 to 80	See sliding scale on next slide
Retiree Age 80 or older	No change to current benefit
Disability Retirement (any age)	No change to current benefit

# How Will Pensions Be Reduced?

## ■ Retirees Age 75 – 80

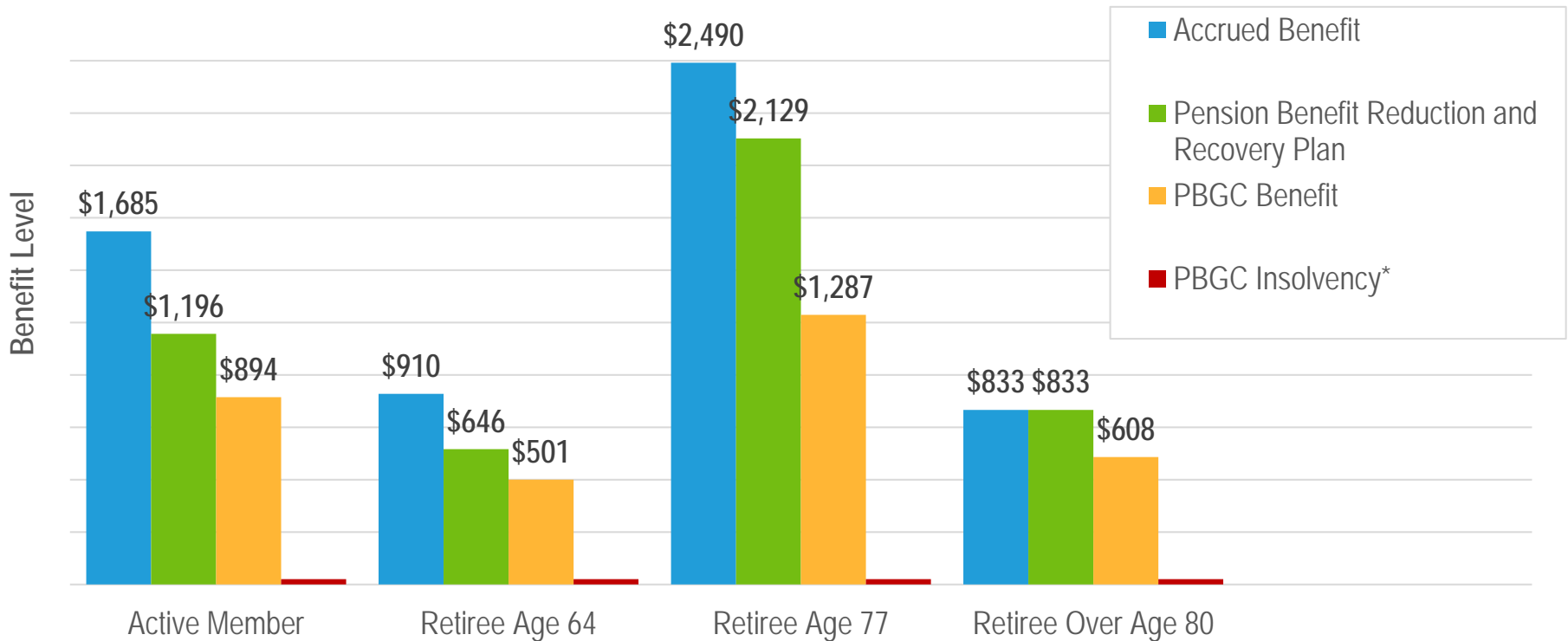
- The closer you are to age 80 when the reductions take effect, the smaller the reduction will be.

Your Age When Reductions Take Effect	Benefit Reduction Allowed Under MPRA
75	Up to 100% of the reduction amount
76	Up to 80% of the reduction amount
77	Up to 60% of the reduction amount
78	Up to 40% of the reduction amount
79	Up to 20% of the reduction amount
80	No benefit reduction

- **If you're age 80 or older, or disabled, your benefit will not be reduced**

# What's At Stake

## PROPOSED PENSION BENEFIT REDUCTION AND RECOVERY PLAN IS BETTER THAN PBGC PENSION CUTS



**\*If the PBGC runs out of money, your benefits may be reduced to almost NOTHING. Currently there are no proposals in Congress to fix multiemployer pension plans or to shore up the PBGC.**



# Personalized Benefit Estimates

- Participants will receive a personalized benefit estimate, titled “*How Your Monthly Payments Will Be Affected.*”
- This document shows each individual’s accrued benefit and how it may change under the proposed Pension Benefit Reduction and Recovery Plan.
- It also shows the benefit amount covered by the PBGC if the Pension Benefit Reduction and Recovery Plan is not approved and the Pension Plan becomes insolvent.
- If you believe the information used to calculate your benefit estimate is incorrect (e.g., the years of credited service is inaccurate), contact the Trust Office:
  - **Phone:** (503) 222-7694 or (800) 413-4928
  - **Mail:** Western States Office and Professional Employees Pension Fund, 1220 S.W. Morrison Street, Suite 300, Portland, Oregon, 97205-2222
  - **Email:** [wsope@aibpa.com](mailto:wsope@aibpa.com)



## A Word 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 the Pension Benefit Reduction and Recovery Plan, the PBGC would provide financial assistance once the Pension Plan runs out of money.
  - **All participants** would face pension benefit reductions regardless of age, active or retired status, or disability.
  - The guaranteed benefit amount is set by the PBGC; an example is included on the following slide.
  - PBGC benefit amounts are lower than the benefits proposed under the Pension Benefit Reduction and Recovery Plan.
- If our Pension Plan needs assistance from the PBGC, it is essentially ended and cannot be changed.
- And, there is a 50% likelihood that the PBGC will become insolvent itself in 2025—leaving our participants with even less.



# PBGC Example: Your Accrued Benefit Is Worth Much Less

**EXAMPLE:** Your accrued monthly pension benefit is \$1,200, and you have 15 years of credited service

**Step One: Determine your Pension Plan benefit rate. (It's your monthly pension benefit divided by your years of service. In this case, \$80.00.)**

**Step Two: Apply the PBGC formula to your benefit rate.**

First \$11.00	x	100%	=	\$11.00
Next \$33.00	x	75%	=	\$24.75
Excess \$36.00	x	0%	=	\$0 (the PBGC does not pay a benefit for any amount over the limit)
<b>Monthly PBGC benefit rate</b>			<b>=</b>	<b>\$35.75</b>

**Step Three: Determine your PBGC Guaranteed Benefit. (It's your PBGC benefit rate times your years of credited service.)**

15 years of credited service x \$35.75

**PBGC Guaranteed Benefit = \$536.25 (45% of your plan benefit)**

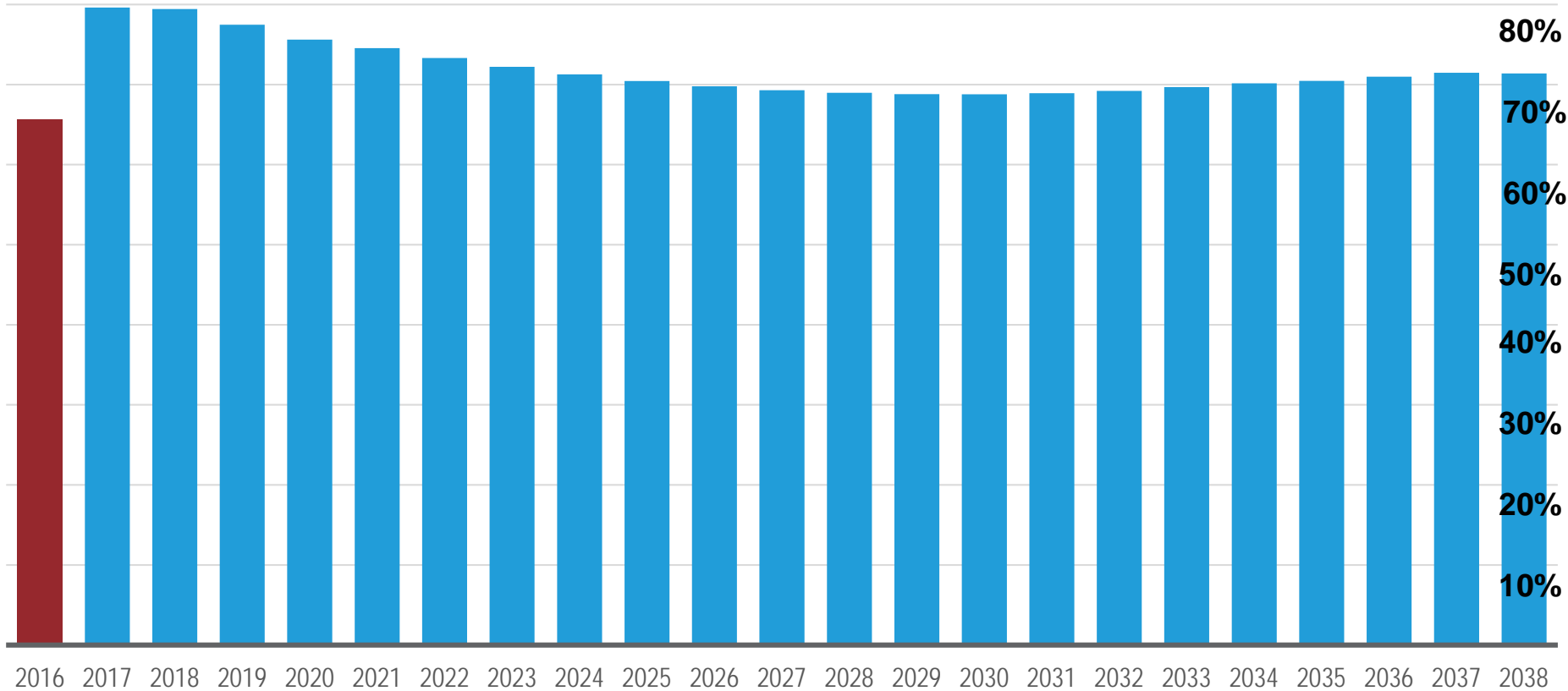
**Reminder: The maximum cut under the Pension Benefit Reduction and Recovery Plan is 29%**





# With the Pension Benefit Reduction and Recovery Plan, We Continue to Pay Plan Benefits

## Plan Funding Status – Percentage of Assets Against Liabilities





# Resources Available

- We know it is important to share information with participants. Therefore, we will be communicating with you in multiple ways.



## Meetings

- Portland
- Denver
- Tukwila
- Pasadena
- San Leandro
- Phoenix
- Tuscon



## Call Center

1-888-999-4089  
Mon – Fri  
9:00am to 5:00 pm



## Website

[www.wspensionrecovery.com](http://www.wspensionrecovery.com)



## Mail



Questions?

# Important Information Regarding the Pension Benefit Reduction and Recovery Plan

The Board's decision to propose the Pension Benefit Reduction and Recovery Plan, the contents of the Pension Benefit Reduction and Recovery Plan, the information provided in this presentation, the Notice of Application and your personalized benefit estimate are all based on the following factors: the best information available to the Board; current actuarial projections; and current legal and regulatory requirements. Any or all of these factors may change during the Treasury review process.

The Board reserves the right to modify, revise and/or withdraw the Pension Benefit Reduction and Recovery Plan at any time, as allowed under the current law. This presentation is provided only to describe the Pension Benefit Reduction and Recovery Plan and how the plan may affect your benefits, and not as legal advice.

Benefit estimates are not final until confirmed by the Trust Office and the Pension Plan's actuary.