

Automotive Machinists Pension Plan Update



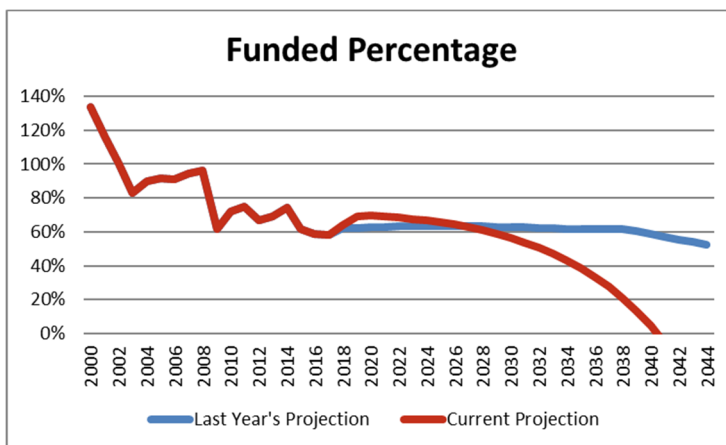
From the Board of Trustees
Automotive Machinists Pension Trust

Back Where We Were

April 2019

Last year we were hopeful that the Automotive Machinists Pension Plan had stabilized — still in the critical zone, but able to hang on there for some time.

Unfortunately, 2018 was a very tough year for investment returns. The preliminary estimate is a negative 5% return for the Plan. (It's little comfort, but this was a typical return for multiemployer pension plans in 2018.) We are back to where we were the year before last — meaning there is a good chance of the Plan being in critical and declining status in the near future. When a plan is in critical and declining status there is a process by which benefits can be reduced in order to give it a better chance of survival.



Technically for our Plan, critical and declining will happen when it is projected to run out of assets in 20 years. Currently, the Plan is projected to run out of money in 2040 — 21 years from now.

Last year (as shown in the blue line), the high investment return in 2017 and Daimler's expected withdrawal liability payments for 20 years appeared to be the boost we needed for the funding to level out. However, that was based on the Plan earning 6.5% returns each year.

This chart shows how quickly the picture can change and what a big impact each year's investment return can have on the Plan's outlook for the future.

Biggest impact: the investment return

- 2018 brought a negative 5% (preliminary) investment return vs. a positive 6.5% assumption in last year's projection.
- That's an 11.5% miss. This represents approximately \$90 million less in assets than expected.
- It would take a return of about 25% in 2019 to put the funded percentage on a path where it is not projected to go down.

Important for the long term: maintaining contributions

- Contributory hours continue to decrease, as additional employers have withdrawn or reduced employment.
- Recent hours decreases are somewhat offset by expected withdrawal liability income.
- We will keep pursuing withdrawal liability payments wherever possible to replace lost income from any further declines in hours.

Temporary boost: settlement payment

- Daimler paid a lump-sum settlement to the Plan of \$155 million to cover the next 20 years' worth of payments they owed for their portion of the Plan's liability.
- You may notice the bump up in the red, current projection line in the Funded Percentage chart above. That is due to the Daimler settlement. That large infusion of cash improved the Plan's funded status in spite of the negative return for the year, but only for a brief time.

What Happens if the Plan Runs Out of Money?

If the Plan runs out of money, benefits would drop across-the-board for everyone (no protected groups) to the level guaranteed by the Pension Benefit Guaranty Corporation (PBGC). And the reduction would be permanent.

The PBGC-guaranteed benefit is significantly lower for most members. For example:

For an average retiree, age 72, with a \$1,300 monthly benefit earned over 19 years of service, the PBGC guaranteed benefit would be \$679 per month.

And, there's concern about the financial health of the PBGC itself. If the PBGC runs out of money, benefits would be a small fraction of the PBGC-guaranteed amount.

Are There Other Options?

If the Plan becomes critical and declining, we could reduce benefits that have already been earned – for retirees as well as active participants to improve the Plan’s chances of survival.

Why would we even consider reducing benefits?

- Reducing benefits may be our best chance to keep paying as much as we can in benefits and keep paying them for many years to come.
- Investment earnings pay for a lot of benefits. By keeping the Plan’s assets at a higher level we can earn more money to pay more benefits.
- Benefits would **not be reduced** for retirees 80 or older, and reductions would be less for those between 75 and 80. Disability benefits would not be reduced.
- If the Plan runs out of money, the Pension Benefit Guaranty Corporation (PBGC) would pay benefits – but, for almost everyone, the PBGC benefit would be lower than what a reduced benefit would be if we did it ourselves.
- There’s concern about the PBGC itself running out of money. In that case, benefits would be even smaller.
- If we reduced benefits ourselves, the reduction would not be as dramatic.
- Reducing benefits could save the Plan and make it viable going forward, and most participants would be better off than the alternative. We wouldn’t even be looking at it otherwise.

Nothing Is Happening to Benefits Now

Nothing is happening to benefits now. The Plan is not critical and declining, so benefits cannot be reduced at this time. And even when we get to that point, if we decide that a benefit reduction is best for the Plan, it will take time. The government requires a specific process we would need to go through before benefits could be reduced. It could take close to a year from that point and you would get a chance to comment and vote.

What’s Next?

It looks like the Plan could become ‘critical and declining’ next year or soon after that. If that happens, there will be difficult decisions about how to provide the best benefits for future generations of automotive machinists. However, as we have seen in the last two years, things can change fast, both for the good and for the bad.

So what’s next?

- We wait and see. The Plan is not ‘critical and declining’, so benefit reductions aren’t possible now.
- We do everything we can. The Trustees are carefully investing and monitoring the Trust’s assets and are actively pursuing withdrawal liability payments from withdrawing employers.
- Nothing is happening right away. If the Plan does reach ‘critical and declining’ and we make the decision to apply for a reduction in benefits, it takes quite a long time due to the government’s process before benefits actually change – perhaps close to a year.

We are working hard to keep the Plan from running out of money and will continue to do all we can to protect your benefits.

Automotive Machinists Pension Trust

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