Automotive Machinists Pension Plan Update

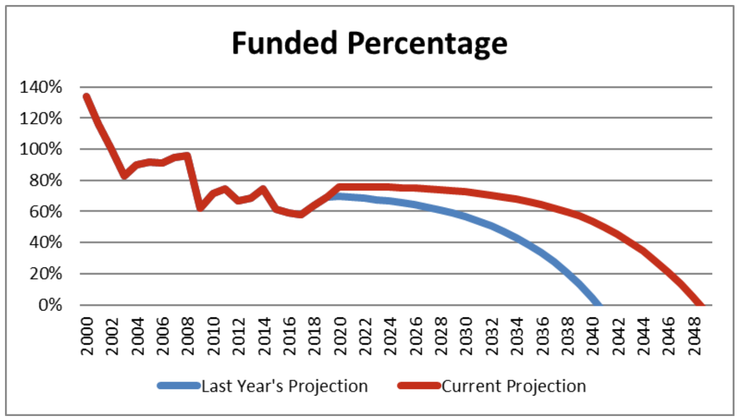
From the Board of Trustees
Automotive Machinists Pension Trust

The Plan Is in Better Shape Than Last Year, But the Future Is Uncertain

April 2020

It can feel like we're on a roller coaster with the Plan's annual investment return bouncing from 4.8%, to 17.3%, to negative 5.7%, to an estimated 14.5% for 2019. As we've shared over the last few years, the Plan is on the edge of critical and declining status where the retiree benefits can be reduced, and very sensitive to investment returns. What this investment roller coaster ride means for the Plan is that we keep flipping back and forth between good news and bad news.

As of January 1, 2020, the projection of the Plan's funded percentage has once again improved over last year's projection. However, the return was not good enough to stabilize the Plan's projection and keep the red line from going down. Instead, the excellent investment return for 2019 simply pushed out the date the Plan is expected to run out of money from 2040 to 2048.



As you've experienced over the last several years, the picture can change significantly from year to year. Each year's investment return can have a big impact on the Plan's outlook for the future. **In particular, COVID-19 and the resulting economic fallout we have seen in the first three months of 2020 will very likely speed up the 2048 timeline.**

The bottom line: the Plan still has enough money to pay benefits for years to come but we face some challenges.

The roller coaster: investment returns

- Last year, we reported 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.
- The estimated return for 2019 is 14.5% — good enough to buy us some time but not good enough to change the Plan's direction.
- We don't know how 2020 will end. The red line above assumes we will earn 6.5%. Based on only the first three months of 2020 the Plan could be critical and declining for the first time next year.

An uphill climb: negative cash flow

- The Plan pays out about $75 million in benefit payments each year but brings in only about $20 million in contributions and $4 million in withdrawal liability payments.
- That means we need to earn around $50 million on our investments just to stay even.
- However, every time we miss that target, we slip further behind. In addition, benefit payments are projected to go up to $90 million per year so the amount we have to earn continues to grow.
- Yet another challenge is that as assets continue to decline, the amount of money we can earn from investing that smaller pool of assets also shrinks.

Important for the long term: maintaining contributions

- We hear you. The contribution rate increases are painful. But, contributions are a vital piece of the equation.
- 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.

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 a retiree with a $2,000 monthly benefit earned over 25 years of service, the PBGC guaranteed benefit would be $893.75 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?

As we have seen over the last few years, things can change fast, both for the good and for the bad. So what's next?

- We wait and see. These are unusual times. 2020 is off to a very rocky start, but we don't know how it will end.
- We do everything we can. The Trustees are carefully monitoring the Trust's investments and 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.