# Automotive Machinists Pension Trust

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**Administered by**
**Welfare & Pension Administration Service, Inc.**

**December 16, 2020**

**To:** **All Participating Employers, Plan Participants, and Unions**
**Automotive Machinists Pension Trust**

**Re:** **2020 Rehabilitation Plan Update**

The enclosed notice describes recent changes to the Rehabilitation Plan for the Automotive Machinists Pension Trust. This notice informs bargaining parties that the newly adopted contribution rate schedule reduces the maximum funding-only contribution rate to 100%. Such rate can be adopted by bargaining parties as early as January 1, 2021.

**Background About Development of the Current Rehabilitation Plan**

The 2020 update to the Rehabilitation Plan affects contribution rates only – participant benefits are not affected beyond changes already made in 2009 with the initial Rehabilitation Plan.

On April 22, 2016, participating employers, plan participants, and unions were advised that the Trustees had determined that “all reasonable measures” had been exhausted under the Rehabilitation Plan and the Automotive Machinists Pension Plan could not be expected to emerge from critical status during a ten-year period ending December 31, 2021. By formally designating the Rehabilitation Plan as reflecting “all reasonable measures,” no further contribution increases (beyond those communicated previously) were contemplated. Accordingly, the 2012 update to Schedule A of the Rehabilitation Plan has remained unchanged. Schedule A of the Rehabilitation Plan currently provides the following scheduled increase in contributions above the latest negotiated rate (prior to critical status):

| Rehab Plan Year | Funding-Only Contribution Rate |
|---|---|
| Year 1: | 25% |
| Year 2: | 50% |
| Year 3: | 75% |
| Year 4: | 100% |
| Year 5: | 112.5% |
| Year 6: | 125.0% |
| Year 7: | 137.5% |
| Year 8: | 150.0% |
| Year 9 and Later: | 162.5% |

**2020 Update Sets New 100% Maximum Funding Only Contribution Rate under the Rehabilitation Plan**

The Trustees have adopted a revised Schedule A of the Rehabilitation Plan that will implement a 100% maximum contribution rate beginning January 1, 2021. (The Pension Protection Act requires bargaining parties to affirmatively elect this new reduced funding-only contribution rate limit, and the Automotive Machinists Pension Trust will allow adoption of this new rate effective as of January 1, 2021 so long as the bargaining parties affirmatively adopt it by June 30, 2021).

This new contribution rate limit reflects the Trustees' determination that the prior Schedule A providing for a maximum contribution rate of 162.5% had surpassed "all reasonable measures" and a reduction in contribution rate was necessary to "forestall possible insolvency."

The revised Schedule A of the Rehabilitation Plan is as follows:

| Rehab Plan Year | Funding-Only Contribution Rate |
|---|---|
| Year 1: | 25% |
| Year 2: | 50% |
| Year 3: | 75% |
| Year 4: | 100% |
| Year 5: | 112.5% |
| Year 6: | 125.0% |
| Year 7: | 137.5% |
| Year 8: | 150.0% |
| Year 9: | 162.5% |
| 2021 and Later: | 100% |

The new 100% rate schedule will be effective as early as January 1, 2021 and must be affirmatively adopted by the bargaining parties through their collective bargaining process. The Trustees will allow bargaining parties to adopt the new 100% contribution rate retroactive to January 1, 2021, provided that such new rate schedule is adopted by the bargaining parties no later than June 30, 2021. Employers must still pay their current bargained rate pending adoption of the new Rehab Plan rate schedule but can elect to take either a credit or have a refund payment issued for the reduced rate if adopted retroactively.

**Trustee Deliberations in Setting New Rate Limit**

The Pension Protection Act of 2006 ("PPA") requires an annual actuarial certification of the Trust's funded status. The Trust was certified as being in critical status beginning in 2009. Accordingly, the Trustees developed and annually monitor a Rehabilitation Plan. The Rehabilitation Plan sets forth the benefit changes and contribution rates that, when combined with anticipated investment returns, are projected to restore the financial health of the Plan. Since the original Rehabilitation Plan was developed in 2009, subsequent updates in 2010 and 2012 required additional contribution increases. These changes were required because contributory hours worked and interim investment returns were below the initial projections used to develop the Rehabilitation Plan. Accordingly, the Rehabilitation Plan in place since 2012 has required a schedule of contribution rate increases – four annual increases of 25% up to 100%, followed by subsequent increases of 12.5% until a 162.5% contribution rate increase is achieved.

During 2015, the Trust was certified as not making "scheduled progress" on its Rehabilitation Plan. Accordingly, the Board of Trustees reviewed the potential additional contribution rate increases that would enable the Plan to emerge from critical status by the end of the Rehabilitation Plan period (December 31, 2021). At that time, the Trustees concluded that they had taken "all reasonable measures" with respect to the Rehabilitation Plan. By formally designating the Rehabilitation Plan as reflecting "all reasonable measures," no further contribution increases were contemplated.

At its October 2020 Board meeting, the Trustees determined that it was necessary to revise Schedule A to provide a 100% maximum contribution rate because the prior Schedule A appeared to have become too onerous for participating employers and Plan participants and surpassed "all reasonable measures." When the Trustees adopted its Rehabilitation Plan in 2009, the intent was to provide a short-term aggressive approach to restoring the Trust's financial health that had been impacted by the 2008 market decline.

The Trustees did not contemplate that the Rehabilitation Plan contributions would be a permanent feature of the industries' wage package. In the intervening time period between when the Board had declared that it taken "all reasonable measures" with respect to the Rehabilitation Plan and the present, it has observed an increase in the number of employers that have withdrawn from the Trust, further economic pressure experienced by employers that remain in the Trust, and a decline in contributory hours. The average age of bargaining units that contribute to the Trust is rising and the attractiveness to new hires of participating in the Trust makes hiring newer employees more difficult based, in large part, on the disproportionate share of the total wage package that is allocated to the Trust (consisting of a lower accrual rate and significant funding-only contributions). Thus, in order to relieve these economic pressures, the Board has decided to adjust the maximum contribution rate in Schedule A from 162.5% to 100% effective January 1, 2021. Again, the PPA governance provisions do not allow the Trustees to unilaterally adjust the bargaining contribution rates, and bargaining parties must affirmatively adopt this relief through their collective bargaining process.

## How Participating Employers Are Affected / Action Steps Needed

All bargaining agreements remaining that require contributions to the Trust that have adopted the Rehabilitation Plan have chosen Schedule A. Any existing bargaining agreement will be unaffected by the new schedule until it expires or is renegotiated. When an existing bargaining agreement expires or is renegotiated, the new agreement will either continue on the Schedule A contribution schedule until it reaches the 100% maximum contribution rate or will be reduced to the 100% contribution rate if the prior bargaining agreement had already surpassed the 100% contribution rate in Schedule A. Again, the Trustees expect that most bargaining agreements will be opened to take advantage of the contribution rate relief afforded under this updated schedule.

## Many Additional Factors, in Addition to Contributions, Will Impact the Trust's Future

Adopting the less onerous "all reasonable measures" Rehabilitation Plan contribution rate schedule does not guarantee future solvency for the Trust and/or prevent the Trust from seeking relief under the Multiemployer Pension Reform Act of 2014, should it be certified as critical and declining by the Trust's actuaries. There are a wide range of factors – industry hours, collection of withdrawal liability, and future market returns – that will influence the financial future of the Trust. Ultimately, the Trustees have concluded that a more modest funding-only contribution rate is beneficial and more equitable to active participants.

The Trustees will continue to monitor the situation and update the Rehabilitation Plan annually as required under the Pension Protection Act. Regular communications regarding the Plan's funded status will be provided in the spring of 2021. As always, information about the Plan can be found at www.AutomotiveMachinistsPension.com.

**Board of Trustees**
**Automotive Machinists Pension Trust**

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