Automotive Machinists Pension Plan Update

From the Board of Trustees
Automotive Machinists Pension Trust

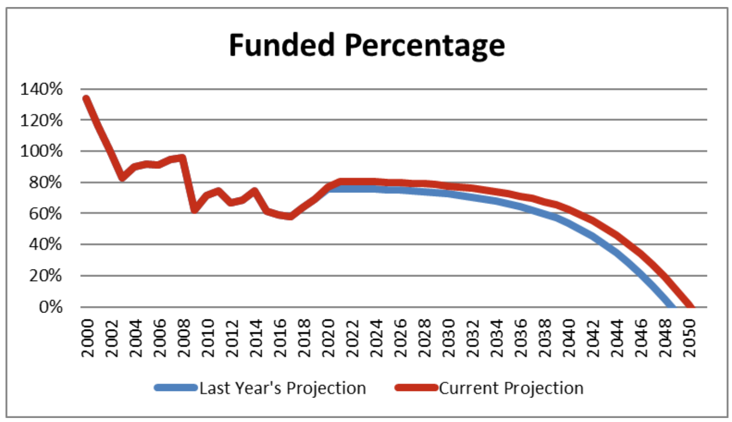
Despite COVID, Investment Results Were Strong in 2020; But the Future Remains Uncertain

April 2021

As we've shared over the last few years, the Plan is on the edge of critical and declining status and very sensitive to investment returns. Unfortunately, investment returns have continued to be very volatile. The Plan's annual investment return the last several years has bounced from 4.8%, to 17.3%, to negative 5.7%, to 15.8%. Then, following a huge drop in early 2020, the year ended on a high note at an estimated 11% return. What this means for the Plan is that we keep flipping back and forth between good news and bad news.

You may have heard there was financial assistance for pension plans tucked into the COVID-19 Relief Bill signed into law this March. Unfortunately, it was designed to help plans in worse shape than ours and is not likely to help us, as described on the next page.

As of January 1, 2021, the projection of the Plan's funded percentage has improved over last year's projection. Even with the rehabilitation plan contributions being lowered from 162.5% to 100% of the base contribution rate, the date the Plan is expected to run out of money was pushed back from 2048 to 2050.



The strong 11% return for 2020 was enough to more than make up for the lower expected contribution income from the decreased contributions required under the rehabilitation plan. We can't roll back other parts of the rehabilitation plan – the Plan is clearly not in good shape – but, we recognize that the level of contributions in the rehabilitation plan were not sustainable for the industry.

Volatility: investment returns

- The first 3 months of 2020 were terrible for the Plan's investments – down 10% at the end of March when last year's newsletter was mailed.
- However, investments rallied and the estimated return for 2020 is 11%. That's good enough to buy us some time but not good enough to change the Plan's direction.
- The red line in the chart above assumes we will earn 6.5% each year in the future. Depending on the twists and turns of the investment market, the Plan could stay critical for some time, or slide into critical and declining status.

An uphill climb: negative cash flow

- The Plan pays out about $75 million in benefit payments each year but will bring in only about $15 million in contributions plus almost $5 million in withdrawal liability payments.
- That means we need to earn around $55 million on our investments just to stay even. 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.
- Even excellent investment returns don't have as much impact as we'd like.

Important for the long term: sustainable contributions

- We heard you. The contribution rate increases have been too much for employers and employees.
- When the rehabilitation plan contributions were first put in place, they were not meant to be long-term. But, fixing the Plan's funding has become a long-term and very difficult challenge.
- It's important to find the right balance to help the Plan without crippling the industry. As a result, in the updated rehabilitation plan, contributions are dropping back down to 100% from 162.5%.
- We will keep pursuing withdrawal liability payments wherever possible to replace lost income from any further declines in hours.

Does the New Pension Relief in the COVID-19 Law Help Us?

The American Rescue Plan Act of 2021 (ARPA) signed into law in March 2021 was mainly designed to help plans that are even worse off than ours. In fact, the estimated $86 billion of financial assistance under ARPA is essentially intended to get plans back to where we are now – running out of money in 2051. Our Plan is currently projected to run out of money in 2050.

In addition, our Plan is not currently eligible under any of the four criteria in the law. One of the eligibility criteria is for the plan to be in critical and declining status in any plan year beginning in 2020 through 2022. Unless our investment return for 2021 puts the Plan in critical and declining status in 2022, we are unlikely to be eligible for financial assistance under ARPA. We estimate it would take a 2021 return of approximately negative 4.5% (or lower) to push us into critical and declining status for 2022. If that happens, ARPA is essentially designed to get the Plan back to where it is right now.

The bottom line: We don't expect ARPA will help us, but we will continue to monitor this very closely.

Will more pension relief legislation be coming? We simply don't know. However, we continue to keep a close eye on proposed legislation and will keep advocating for solutions.

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?

- The Plan continues to operate as usual. We do not expect further changes to benefits or contribution levels for the time being.
- 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.
- We will vigorously pursue financial assistance that the Plan becomes eligible for, whether through ARPA or any other future legislation.
- Short of that, if the Plan does reach 'critical and declining' (currently projected to occur in 2031) and we make the decision to apply for a reduction in benefits, due to the government's application process, it generally takes over a year before benefits actually change.
- Remember the Plan is not 'critical and declining' this year. Though things can change very quickly: it is possible, though perhaps unlikely, that the Plan will be 'critical and declining' in 2022. Also, if the Plan did become 'critical and declining' in 2022, it would be eligible for the special financial assistance in ARPA.

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.

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