# MCASF Local 725 Pension Trust Fund

MCASF Withdrawal Liability Workshop

January 30, 2025

**Bill Cumming, Esq**

**Ben Ablin, ASA, EA**

HORIZON actuarial

Hessian & McKasy P.A. Attorneys at Law

# Today's Discussion

- **Where Does Withdrawal Liability (WL) Come From?**
- **When Does WL come into play?**
- **What Triggers WL?**
  - First does the Plan have an unfunded liability?
  - Ceasing Operations
  - Selling the business
  - Reducing your work force
  - Going non-union
- **How is WL Calculated?**
- **Thinking About Selling?  Resources:**
  - Communicating About Selling
  - Size Matters
  - What have the Trustees Done?

# Laying The Groundwork

# Where Withdrawal Liability Comes From

- **Let's set the table:**
  - First, the Taft-Hartley Act in 1947 imposed a requirement that any money under a labor contract that is not paid to the employee must be paid to a Trust administered by representatives of employers and the union.
  - Abuses occurring in single employer plans filing bankruptcy… led to Congress adopting ERISA (Employee Retirement Income Security Act of 1974)
  - ERISA was enacted to curb abuses and protect employee benefits.
  - ERISA was amended in 1980 by the Multiemployer Pension Plan Amendments Act, which added Withdrawal Liability.
- **ERISA and court decisions have extended ERISA to most all "Employee Benefits".**

# MPPAA Introduced Withdrawal Liability

- **Employers participating in pension plans funded through contributions required by a collective bargaining agreement can be subject to withdrawal liability if their contribution obligation ends**
- **While there are some exceptions/exemptions, most liability is triggered by:**
  - Closing the business;
  - Terminating the Union contract requiring contributions;
  - Moving all covered operations out of the jurisdiction of the Union contract;
  - Terminating a majority of the covered employees;
  - Selling the business in an asset sale.
- **Purpose is to ensure employers who stop contributing pay their share of the benefits that have not yet been paid for**
- **Fully understanding this requires looking at how we pay for future pensions**

# About Paying for Pensions

- If you pay $4 or $5 per hour into a pension plan for an employee's career, would that generate enough income to pay for a life time pension?

- $5 per hour, approximately $10,000 a year, paid by an employer would generate total contributions of $250,000-$300,000 over 25 to 30 years

- Consider a pensioner receiving a benefit of $3,500 a month / $42,000 a year. In 6-7 years, the total pension benefit payment would be $250,000-$300,000

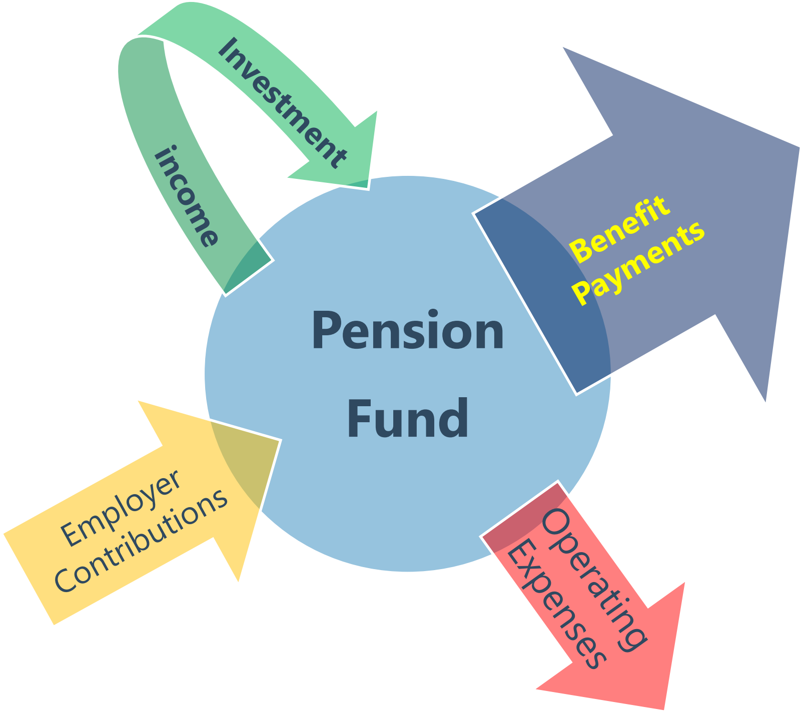
- But pensions are paid for the participant's lifetime, which can be as much as 20-30 years after retirement

- So, we need to consider some pension funding basics

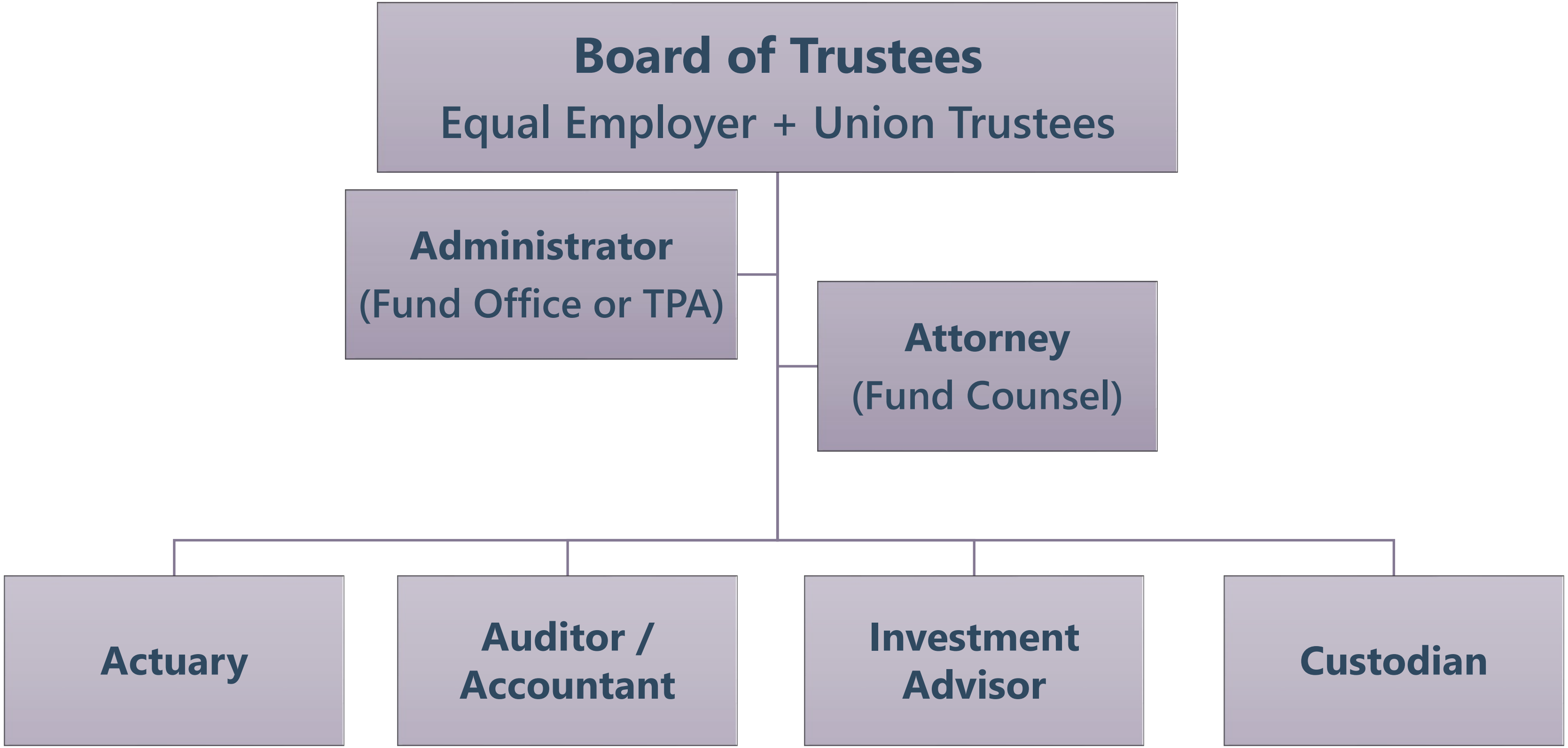
# Pension/Multiemployer Plan Basics

# Basic Concept of a Defined Benefit Pension Plan

- **How much do the benefits "cost"?**
  - When will participants retire?
  - How big will participants' benefit be?
  - How long will participants live after retiring?
- **What contributions will be made to the Pension Fund?**
- **What will Pension Fund assets earn in the future?**
- **How much does it cost to operate the Pension Fund?**



# Multiemployer Plan Governance



# What Triggers Withdrawal Liability

- **Only Multiemployer plans that are not fully funded or have an amount due for reduced benefit options when in the red zone have withdrawal liability**
- **When that is the case an employer stops having to make contributions to the plan (or reducing the amount) because:**
  - The employer ceases operations
  - Goes non-union so contributions cease
  - Stop doing the work covered by the CBA
  - Sells the assets of the business
- **In such a case, the plan determines if a withdrawal has occurred**
- **The plan then calculates the amount due and sends notice to the employer**

# MCASF Local 725 Plan Overview

# Who Does the Plan Cover?

| Measurement Date | | January 1, 2024 |
|---|---|---|
| **A. Active Participants** | | |
| 1. Count | | 982 |
| 2. Average Annual Accrued Benefit | $ | 16,985 |
| **B. Inactive Vested Participants** | | |
| 1. Count | | 426 |
| 2. Average Annual Accrued Benefit | $ | 14,391 |
| **C. Retired Participants and Beneficiaries** | | |
| 1. Count | | 706 |
| 2. Average Annual Benefit | $ | 15,171 |
| 3. Total Annual Benefits | $ | 10,710,823 |
| **Total Participants** | | **2,114** |

# How Are the Contribution Rates Determined?

## Contribution rates are determined through Collective Bargaining

| Classification | 7/16/2024 | 7/16/2023 | 7/16/2022 |
|---|---|---|---|
| General Foreman, Foreman, R1, R5, MESJ Journeymen | $ 4.90 | $ 4.80 | $ 4.75 |
| R2, MES2 Journeymen | $ 4.65 | $ 4.55 | $ 4.50 |
| R3, MES3 Journeymen | $ 4.15 | $ 4.05 | $ 4.00 |
| *Total Pension Recovery for all classifications above* | *$ 0.75* | *$ 0.95* | *$ 0.65* |
| *Non-FBRC Portion* | *$ 0.55* | *$ 0.55* | *$ 0.55* |
| *FBRC Portion* | *$ 0.20* | *$ 0.40* | *$ 0.10* |

# How are Plan Benefits Determined?

## Plan Benefits are Determined by the Board of Trustees

| 1. Employer Contributions | |
|---|---|
| Hours Worked | 2,080 |
| x Contribution Rate (Benefit) | $ 4.90 |
| = Total Contributions | $ 10,192 |

| 2. Benefit Accrued During Year | |
|---|---|
| Total Contributions | $ 10,192 |
| x Benefit Multiplier | 2.0% |
| = Benefit Accrued | $ 204 |

| 3. Benefit Over 30-Year Career | | |
|---|---|---|
| One-Year Benefit Accrual | $ | 204 |
| x 30 Years | | 30 |
| = Total Career Benefit (Monthly) | $ | 6,115 |
| Note: Annual Benefit | $ | 73,382 |

# How are Plan Benefits Determined?  Key Points

## Plan Benefits are Determined by the Board of Trustees

- Many funds offer multipliers of only 1.0% to 1.5%.
- Many funds have higher contribution rates, but these amounts do not fund current benefits.
- Rather, they pay off unfunded liability for benefits earned in the past.
- These amounts can be large and mean a smaller paycheck for many workers.
- Comparatively, we have a small pension preservation contribution, which has benefitted the health of the Plan over time.

# Additional Information on Plan Benefits

## Plan Benefits are Determined by the Board of Trustees

| Benefit or Feature | Description |
|---|---|
| Benefit Formula | 2.0% of credited contributions |
| Form of Payment | Monthly Annuity Payable for Life (single members)<br>Reduced Monthly Annuity Payable for Joint Lives (married) |
| Normal Retirement Age | Age 65 |
| Vesting Requirement | 5 Years of Vesting Service |
| Early Retirement Age | Age 55 with 10 Vesting Credits |
| Early Retirement Benefit | Normal Pension Reduced by 5% per Year Prior to Age 65 (a lower benefit applies for deferred vested participants) |

# Additional Information on Plan Benefits

## Plan Benefits are Determined by the Board of Trustees

| Benefit or Feature | Description |
|---|---|
| Disability Eligibility | 10 Vesting Credits, Total & Permanent Disability, 400 Hours within 18 months of Disability |
| Disability Benefit | Vested Accrued Retirement Benefit |
| Death Benefits<br>(Pre-Retirement) | Married: Lifetime Annuity for Spouse<br>Single: Return of 55% of Contributions |

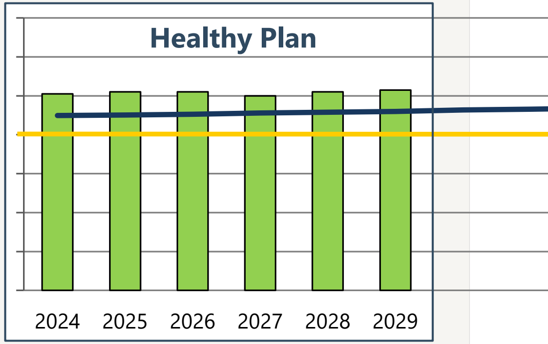
# How Well-Funded is the Plan?

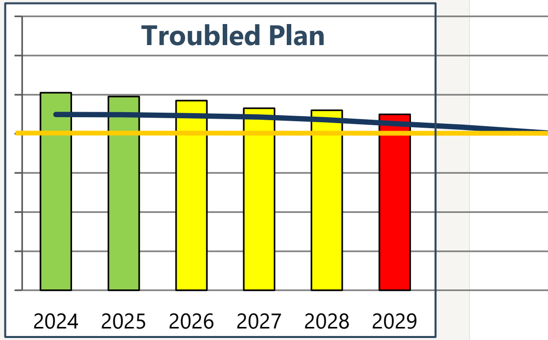
| Measurement Date | January 1, 2024 | January 1, 2023 | January 1, 2022 |
|---|---|---|---|
| **A. Actuarial Accrued Liability** | | | |
| 1. Active Participants | $ 85,634,850 | $ 83,251,756 | $ 78,187,957 |
| 2. Inactive Vested Participants | 35,713,709 | 35,129,603 | 33,879,753 |
| 3. Retired Participants and Beneficiaries | 97,216,208 | 92,751,966 | 89,698,295 |
| 4. Total | $ 218,564,767 | $ 211,133,325 | $ 201,766,005 |
| **B. Assets** | | | |
| 1. Market Value of Assets | $ 219,805,742 | $ 198,724,550 | $ 217,984,708 |
| Prior Year Net Investment Return | 11.7% | -7.9% | 13.5% |
| **C. Funded Percentages** | | | |
| 1. Market Value Funded Percentage (B.1. / A.4.) | 100.5% | 94.1% | 108.0% |

- **Key Points**
  - The Plan is very well-funded.
  - Funding levels can change quickly based on investment returns, low or high..

# Projected Funding - Key Metrics

- **Funded Percentage (Bar Graph)**
  - Assets/Liabilities
  - Goal is 100% or more
  - Why more?  Cushion for adverse experience
- **Credit Balance (Line Graph)**
  - Are we meeting the minimum contribution rate under the law
  - Goal is positive, with a cushion for adverse experience
  - If projections show less than 100% funding, credit balance will eventually become negative
- **Zone Status (Color)**
  - Green, Yellow, Red, etc.



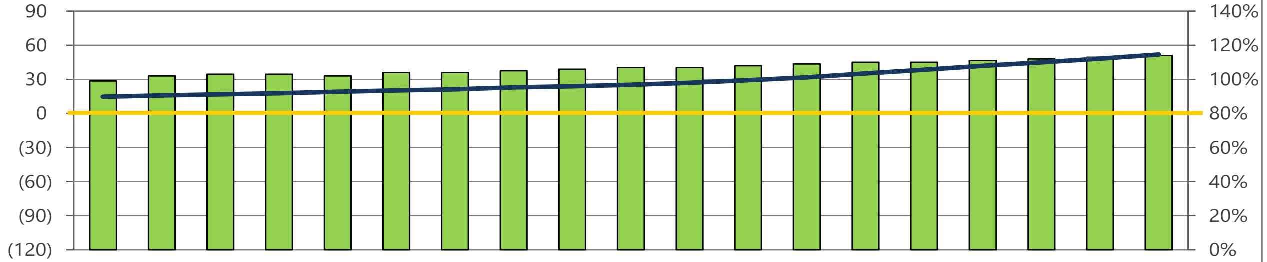
# Scenario 1: Current Baseline Projection

## Investment Returns: 6.75% in 2024 | 6.75% each year thereafter

## Hours Worked: 1.96 million per year

**MCASF Local 725 Pension Trust Fund**

Key Assumptions
Contribution Rates
Key Results




| 1) Plan Year Beginning 1/1 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 | 2031 | 2032 | 2033 | 2034 | 2035 | 2036 | 2037 | 2038 | 2039 | 2040 | 2041 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 2) Investment Return (%) | 11.72 | 6.75 | 6.75 | 6.75 | 6.75 | 6.75 | 6.75 | 6.75 | 6.75 | 6.75 | 6.75 | 6.75 | 6.75 | 6.75 | 6.75 | 6.75 | 6.75 | 6.75 | 6.75 |
| 3) Hours Worked (M) | 1.98 | 1.96 | 1.96 | 1.96 | 1.96 | 1.96 | 1.96 | 1.96 | 1.96 | 1.96 | 1.96 | 1.96 | 1.96 | 1.96 | 1.96 | 1.96 | 1.96 | 1.96 | 1.96 |
| 4) Avg. Contrib Rate (Benefit) | 4.01 | 3.98 | 4.02 | 4.02 | 4.02 | 4.02 | 4.02 | 4.02 | 4.02 | 4.02 | 4.02 | 4.02 | 4.02 | 4.02 | 4.02 | 4.02 | 4.02 | 4.02 | 4.02 |
| 5) Avg. Conbrig Rate (Total) | 4.65 | 4.66 | 4.54 | 4.46 | 4.46 | 4.46 | 4.46 | 4.46 | 4.46 | 4.46 | 4.46 | 4.46 | 4.46 | 4.46 | 4.46 | 4.46 | 4.46 | 4.46 | 4.46 |
| 6) Actuarial Value of Assets ($M) | 209 | 224 | 234 | 242 | 247 | 259 | 269 | 278 | 288 | 298 | 308 | 317 | 327 | 338 | 348 | 358 | 369 | 380 | 391 |
| 7) Zone Status Liability ($M) | 211 | 219 | 226 | 234 | 241 | 249 | 256 | 263 | 270 | 278 | 285 | 292 | 299 | 307 | 314 | 321 | 328 | 335 | 342 |
| 8) Credit Balance ($M) | 15 | 16 | 17 | 18 | 19 | 20 | 21 | 23 | 24 | 25 | 27 | 29 | 32 | 35 | 38 | 42 | 45 | 48 | 52 |
| 9) Zone Status Funded Percentage | 99% | 102% | 103% | 103% | 102% | 104% | 104% | 105% | 106% | 107% | 107% | 108% | 109% | 110% | 110% | 111% | 112% | 113% | 114% |

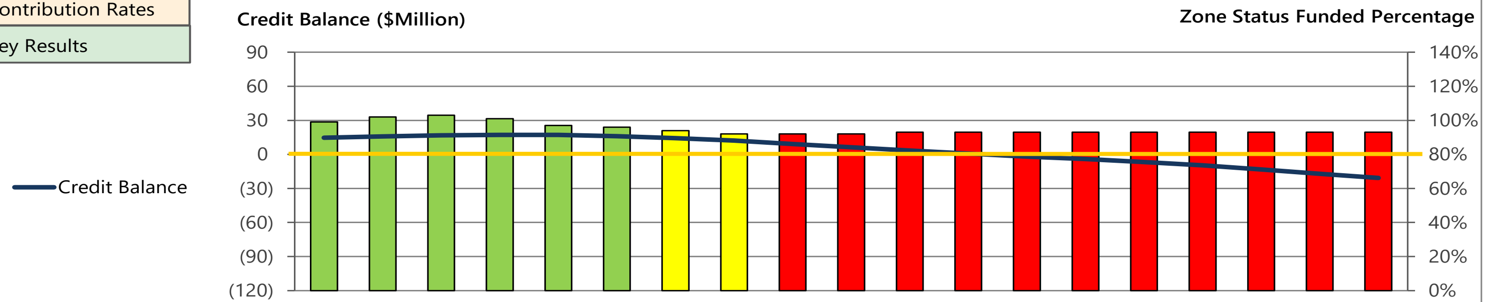
# Scenario 2: Lower 2025 Return

## Investment Returns: -5.00% in 2025 | 6.75% each year thereafter
## Hours Worked: 1.96 million per year beginning January 1, 2024

**Key Point:**
**Investment risk is biggest risk we face.**

### MCASF Local 725 Pension Trust Fund

- Key Assumptions
- Contribution Rates
- Key Results




| 1) Plan Year Beginning 1/1 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 | 2031 | 2032 | 2033 | 2034 | 2035 | 2036 | 2037 | 2038 | 2039 | 2040 | 2041 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 2) Investment Return (%) | 11.72 | 6.75 | (5.00) | 6.75 | 6.75 | 6.75 | 6.75 | 6.75 | 6.75 | 6.75 | 6.75 | 6.75 | 6.75 | 6.75 | 6.75 | 6.75 | 6.75 | 6.75 | 6.75 |
| 3) Hours Worked (M) | 1.98 | 1.96 | 1.96 | 1.96 | 1.96 | 1.96 | 1.96 | 1.96 | 1.96 | 1.96 | 1.96 | 1.96 | 1.96 | 1.96 | 1.96 | 1.96 | 1.96 | 1.96 | 1.96 |
| 4) Avg. Contrib Rate (Benefit) | 4.01 | 3.98 | 4.02 | 4.02 | 4.02 | 4.02 | 4.02 | 4.02 | 4.02 | 4.02 | 4.02 | 4.02 | 4.02 | 4.02 | 4.02 | 4.02 | 4.02 | 4.02 | 4.02 |
| 5) Avg. Conbrig Rate (Total) | 4.65 | 4.66 | 4.54 | 4.46 | 4.46 | 4.46 | 4.46 | 4.46 | 4.46 | 4.46 | 4.46 | 4.46 | 4.46 | 4.46 | 4.46 | 4.46 | 4.46 | 4.46 | 4.46 |
| 6) Actuarial Value of Assets ($M) | 209 | 224 | 234 | 237 | 235 | 239 | 241 | 244 | 251 | 258 | 265 | 272 | 279 | 286 | 293 | 300 | 307 | 313 | 319 |
| 7) Zone Status Liability ($M) | 211 | 219 | 226 | 234 | 241 | 249 | 256 | 263 | 270 | 278 | 285 | 292 | 299 | 307 | 314 | 321 | 328 | 335 | 342 |
| 8) Credit Balance ($M) | 15 | 16 | 17 | 17 | 17 | 16 | 14 | 12 | 9 | 6 | 3 | 1 | (2) | (4) | (7) | (10) | (13) | (17) | (21) |
| 9) Zone Status Funded Percentage | 99% | 102% | 103% | 101% | 97% | 96% | 94% | 92% | 92% | 92% | 93% | 93% | 93% | 93% | 93% | 93% | 93% | 93% | 93% |

# How We Address Investment Risk

- **Pension Preservation Fund (PPF)**
  - Negotiated during collective bargaining
  - Depends on financial status of pension plan at the time of bargaining
  - Bargaining generally every 3 years
  - Provides some flexibility for when investment returns are bad
- **Fringe Benefit Reserve Contribution (FBRC)**
  - Total amount negotiated during collective bargaining
  - Allocated between funds each year
  - Amount to pension depends on pension fund return in prior year
  - Provides additional flexibility between rounds of bargaining
- **PPF and FBRC help to:**
  - Minimize the need to make adjustments to benefits
  - Minimize the chances of the need for a large increase in non-benefitting contributions (which would lower take-home wages)

# How Withdrawal Liability is Calculated

# How is WL Calculated?

- **Employer's share of Unfunded Vested Benefits ("UVB")**
- **Underfunding (UVBs) = Plan Liabilities – Plan Assets**

$$\text{Underfunding (UVBs)} \times \frac{\text{Employer Contributions (5 Years)}}{\text{Total Plan Contributions (5 Years)}} =$$


- **Plan assets**
  - Market value of assets as shown on the Plan's audited financial statements
- **Plan liabilities**
  - Estimate of current value of benefits that will be paid in the future
  - Based on assumptions (Interest rate, retirement, withdrawal, disability, mortality)

# Simplified Example of Withdrawal Calculation

## Hypothetical – Not Actual Numbers for MCASF Local 725

**For Withdrawals During 2025**

| Measurement Date | 12/31/2024 |
|---|---|
| **A. Calculation of Plan's Unfunded Vested Benefits** | |
| 1. Vested Benefits | $ 100,000,000 |
| 2. Asset Value | 90,000,000 |
| 3. Unfunded Vested Benefits (1. - 2.) | $ 10,000,000 |
| **B. Calculation of Employer's Share** | |
| 4. Employer 5-Year Total Contributions | $ 500,000 |
| 5. Entire Plan 5-Year Total Contributions | 10,000,000 |
| 6. Employer % of Total (4. / 5.) | 5% |
| **C. Hypothetical Withdrawal Liability (3. x 6.)** | **$ 500,000** |

# Actual Calculations Are More Complex

- **Presumptive Method**
  - Otherwise known as the 20-pool method
  - Rather than one pool as shown in the simplified example, there are up to 20 pools that are allocated
  - Based on changes in UVBs each year and 5-year contributions leading up to each year
- **Additional Liability to Allocate**
  - Some plans have additional liability to allocate even if current UVBs are $0
  - These liabilities are generally paid down over a period of 15 years and then go to $0
  - The MCASF 725 Plan currently has about $7.2 million of these liabilities
  - These will be fully paid off effective December 31, 2031

# Payment of Withdrawal Liability (WL)

- **Generally paid quarterly, can be paid in a lump sum**
- **Payment is calculated independent of withdrawal liability amount**
  - Calculation is the opposite of a mortgage calculation
- **Annual payment =**
  - Highest contribution rate over last 10 years, times
  - Highest consecutive 3-year average CBUs over last 10 years
    CBU = contribution base unit (typically hours)
- **Example**
  - Highest Rate = $5.00 per hour | Highest 3-year Hours: 10,000
  - Annual Payment= $5 x 10,000 hours = $50,000 | Quarterly = $50,000/4 = $12,500
- **Payments continue until WL is paid off (subject to 20-year maximum)**
- **Pay first, contest later**
  - Payments begin within 60 days of demand

# Business Size Impacts Withdrawal Liability

- **Having one or two bargained employees can often result in minimal withdrawal liability**
  - De minimis reduction if the liability is under $100,000, and partial credit if up to $150,000.
- **More employees (even in the recent past) will typically result in more liability**
- **Reducing your workforce can trigger a partial withdrawal**
  - 70% reduction over three years

# Types of Withdrawals

- **Complete Withdrawal Liability**
  - When the employer permanently ceases to have an obligation to contribute to the plan, or
  - Permanently ceases all covered operations under the plan.
- **Partial Withdrawal Liability**
  - Ceases to have an obligation to contribute under one or more but fewer than all of its collective bargaining agreements (CBAs), but continues to perform such work in the jurisdiction of the CBA, or moves such work to another location, or
  - Ceases to have an obligation to contribute at one or more but fewer than all of its facilities, but continues to perform such work at the facility, or
  - 70% decline in CBUs maintained over a three-year testing period

# Withdrawal Liability Exemption

- **Construction Industry Exemption**
  - Withdrawal only occurs if an employer performs CBA covered work on a non-union basis in the jurisdiction of the plan within 5 years of ceasing to have an obligation to contribute
  - Plan must be a construction industry plan and substantially all employees of the employer must perform work in the construction industry (generally 85%)
- **What constitutes work in the "Building and Construction Industry"?**
  - Usually involves combining materials and constituent parts on a construction site to form, make, or build a structure
  - Service work generally doesn't qualify

# Withdrawal Liability Estimates

- **Upon written request, an employer may receive an estimate of their withdrawal liability**
- **Estimate assumes the employer withdrew on the last day of the plan year prior to the request**
  - That is, the estimate is generally a year old because it does not assume withdrawal in the current plan year
- **The Plan is required to provide the estimate**
  - Within 180 days of the request
  - No more than once during any 12-month period
- **The Plan may make a reasonable charge to cover the cost of furnishing the estimate**
  - Usually $1,000-$2,500, but MCASF Local 725 currently does not charge

# Withdrawal Liability Estimates

## Estimates can change, sometimes significantly, from year to year

- **Example, the Plan is 100% funded and has no withdrawal liability in Year 1**
- **There is a -5% investment return that results in unfunded vested benefits in Year 2**

| | Year 1 | Year 2 |
|---|---|---|
| **A. Calculation of Plan's Unfunded Vested Benefits** | | |
| 1. Vested Benefits | $ 100,000,000 | $ 104,000,000 |
| 2. Asset Value | 100,000,000 | 95,000,000 |
| 3. Unfunded Vested Benefits (1. - 2.) | $ 0 | $ 9,000,000 |
| **B. Calculation of Employer's Share** | | |
| 4. Employer 5-Year Total Contributions | $ 500,000 | $ 500,000 |
| 5. Entire Plan 5-Year Total Contributions | 10,000,000 | 10,000,000 |
| 6. Employer % of Total (4. / 5.) | 5% | 5% |
| **C. Simplified Hypothetical Withdrawal Liability (3. x 6.)** | **$ 0** | **$ 450,000** |

# When an Employer is Thinking About Selling the Business

# When Considering a Sale or Change of Ownership

- **You should get competent advice in advance of framing or finalizing a sale agreement.**
  - CPA recommendations
  - Attorney advice (are they familiar with these issues?)
  - Business broker advice
- **We encourage you to contact the Association's exec in confidence, if considering a sale, and she can connect you to us to offer comment on the proposed structure of your agreement**
  - Even if you are told it is perfect, we can let you know if you may have withdrawal liability exposure
- **There are different approaches to a sale where there is withdrawal liability**

# Types of Sales and Withdrawal Liability

- **There are several approaches to a sale with different implications for withdrawal liability:**

  - Stock sale: subject to an exception, does not trigger withdrawal liability.

  - Straight asset sale will trigger withdrawal liability.

  - Qualified Asset Sale if properly completed will be exempt from a current withdrawal assessment:

    Details matter, and need to document and follow completely

    Requires secondary liability by Seller, and potential bonding for 5 years

# Construction Industry Exception

- **If the pension plan is deemed a Construction Industry Plan, there is a near blanket exemption from withdrawal liability.**
- **After ceasing work under the CBA, cannot resume work in the Union's jurisdiction for 5 years.**
- **Also must be certain that your business was deemed to be in the construction industry.**
    - This means at least 85% of the work of the business must be construction on real property.
    - Service work is typically not going to qualify as construction.

# Notice of ownership change

- **The CBA (11.01g) requires an employer that has sold its business to notify the Service Corporation of the sale and provide sale documents.**
- **Notice to the Employer Association**
- **Notice to the Union**

**G. Notice of Ownership Change.** Any Employer subject to this agreement shall notify the Service Corporation promptly upon any sale of the Employer's business (whether of assets or ownership interests), transfer of any ownership interests, or change to the form of business entity of the Employer. Notice shall be provided voluntarily within thirty (30) calendar days of the sale, transfer or change. If, after the initial thirty (30) days the Service Corporation is required to ask for information on a sale of all or a part of the business, transfer of any ownership interest, or change in form of the business entity, the Employer shall be assessed $500 to cover the costs associated with having to make the request. If, after the initialt hirty (30) days the Service Corporation is required to ask for information on a sale of all or a part of the business, transfer of any ownership interest, or change in form of the business entity a second or more times, then the Employer will be assessed $2,500 for the costs and effort required to pursue multiple requests.

# Other Notices

- **Notice to the Employer Association**
  - Can be a resource
  - Often may have ideas you have not considered

- **Notice to the Union**
  - A resource
  - Successor if they are going to be Union benefits from an introduction

# Pension Fund and Employer Responsibilities

# What Is the Fund Responsible For?

- **Monitoring Employer Activity**
  - Changes in ownership structure, company sales, going out-of-business, going non-union, terminating the CBA, etc.
- **Calculating Amount of Withdrawal Liability**
  - Determine amount of withdrawal liability, payment amount and schedule
- **Notifying Employer of Assessment**
- **Collecting Withdrawal Liability from Withdrawn Employers**
  - Protects the other employers as well as employee benefits
- **Providing Estimates of Withdrawal Liability Upon Request**
- **Keeping the Plan Well Funded**

# What Have the Trustees Done to Limit Potential WL?

- **The Pension Plan Trustees have taken action over the years to limit potential withdrawal liability**
- **Vigilant in choosing quality professional investment advice, and investing for the long-term future of the Plan**
- **Thoughtful approach to plan design; focus on long-term stability**
- **Adoption of the Pension Recovery Contribution**
  - A contribution that does not produce a participant benefit accrual, but is intended to increase the stability of the Pension Fund
- **Adoption of the Fringe Benefit Reserve Contribution (FBRC)**
  - Contribution allocated each year by the bargaining parties
  - Does not add to participant benefit accruals, but increases reserves
  - Labor contract includes allocation schedule, tied to investment performance.  A unique approach

# What Is the Employer Responsible For?

- **Consulting Legal Counsel When:**
  - Considering an asset sale
  - Considering any change in ownership structure
  - Be sure legal counsel is well-versed in ERISA/Withdrawal Liability
- **Requesting Estimates From the Fund if Desired**
  - It is generally not advisable to try to make the calculations on your own
  - The calculations are complex and can change significantly from year-to-year
- **In the Event of an Assessment**
  - Making payments even if contesting the assessment
  - Requesting review within 90 days
- **Complying with Financial Accounting Standards Board (FASB) Disclosures**
  - The Fund can help make sure you have the correct information

# Employer's Financial Disclosure Requirements

## What are the disclosure requirements under FASB?

- The amount of employer contributions made to each significant plan and to all plans in the aggregate
- Whether the employer's contributions represent more than five percent of total contributions to the plan
- Which plans, if any, are subject to a funding improvement plan (yellow zone) or rehabilitation plan (red zone).
- The expiration date(s) of the collective bargaining agreement(s) and any minimum funding arrangements
- The most recent certified zone status under the Pension Protection Act of 2006 (PPA)

# Employer's Financial Disclosure Requirements

## Where can this information be found?

- **Employer's own records**
  - E.g., amounts of contributions to the Fund for the last couple of years, and
  - The ending date of their collective bargaining agreement
- **Notices that the multiemployer plans were required to send to the employer**
  - The Annual Funding Notice (generally sent in April)
  - The ERISA 104(d) Notice (generally sent in November)
- **Complying with the new requirement will hopefully not pose a significant burden for most employers**

# Closing Thoughts

# Closing Thoughts

- **Withdrawal Liability is a *Contingent* Liability**
    - Assessment of withdrawal liability only occurs if the employer withdraws from the plan or sells their company
    - Even in these cases, withdrawal liability may not apply
        - For Example: No Unfunded Vested Benefits (UVBs), Construction Industry Exemption, ERISA 4204 Sale of Assets, De Minimis, Etc.
- **The MCASF Local 725 Pension Plan is Well-Funded and Well-Managed**
    - However, plan assets are subject to investment risk which could increase employer withdrawal liability

# Closing Thoughts

- **The Trustees are Committed to Keeping the Plan Well-Funded**
  - Including a commitment to limiting employers' exposure to withdrawal liability
- **Selling Your Company?**
  - You are strongly encouraged to consult legal counsel that is well-versed in Multiemployer plan withdrawal liability rules and regulations
  - The CBA requires an employer that has sold its business to notify :
    - The Employer Association
    - The Union

# Questions?

# Appendix

# Summary of Assumptions & Methods

| Assumption | Description | Comments |
|---|---|---|
| **Interest Rate** | Valuation: Results shown using 6.75%<br>The valuation interest rate was chosen in consideration of the purpose of the measurement (long-term contribution budgeting), current and historical investment data, and the Plan's asset allocation as set by the Plan Sponsor. As a part of the analysis, we considered the results of the current and prior editions of our Survey of Capital Market Assumptions and the expectations of the Plan's investment advisor. | No Change |
| **Mortality** | Non-Disabled Participants and Beneficiaries: The sex-distinct Pri-2012 Blue Collar Mortality Tables, with separate rates for employee and annuitants, with generational projection from 2012 using Scale MP-2021<br><br>Disabled Participants: The sex-distinct Pri-2012 Disabled Mortality Tables, with separate rates for employee and annuitants, with generational projection from 2012 using Scale MP-2021 | **Tables Changed** |
| **Active Retirement Rates** | Age / Rate:<br>55 — 10%<br>56-59 — 3%<br>60-61 — 10%<br>62 — 25%<br>63 — 20%<br>64 — 20%<br>65 and greater — 100% | No Change |

# Summary of Assumptions & Methods (cont.)

| Assumption | Description | Comments |
|---|---|---|
| **Inactive Vested Retirement Rates** | Inactive Vested Participants with at least 10 years of service are assumed to retire at the later of their age on the valuation date or age 62. Inactive Vested Participants with less than 10 years of service are assumed to retire at the later of their age on the valuation date or age 65. | No Change |
| **Withdrawal Rates** | Rates of withdrawal are based on service and are the same for males and females. For example, at 3 years of service, the rate is 8.0%. At 25 years of service the rate is 3.0%. | No Change |
| **Disability Rates** | Rates of disablement are based on age and gender. For example, at age 25, the rate for males is 0.03% and 0.05% for females. At age 60 the rate for males is 0.9% and 1.21% for females. | No Change |
| **Marriage** | 80% of participants are assumed to be married. Male spouses are assumed to be 4 years older than female spouses. | No Change |
| **Form of Payment** | Single participants are assumed to elect a single life annuity with no guarantee and married participants are assumed to elect the 100% joint and survivor annuity with subsidized pop-up. | No Change |

# Summary of Assumptions & Methods (cont.)

| Assumption | Description | Comments |
|---|---|---|
| **Future Hours** | Future hours for each Active Participant are assumed to be equal to the actual hours worked by such Participant during the prior year. | No Change |
| **Future Contributions** | Contributions for future years for benefit accrual purposes have been assumed to be equal to those actually reported for the previous plan year for each active participant. | **Contribution Rate Schedule Changed** |
| **Operating Expenses** | Operating expenses were assumed to be assumed to be the average of the prior two year's expenses increased by 3% per year and adjusted to the beginning of the year. | No Change |
| **Actuarial Cost Method** | The traditional unit credit cost method. | No Change |
| **Asset Method** | 20% phase in of past 5 year's gains/losses (10% phase in of loss incurred during 2008), with a maximum deviation of 20% away from the market value of assets. | No Change |
| **Financial Information** | Assets were supplied by Plante Moran as of the valuation date. | No Change |

# Summary of Assumptions & Methods (cont.)

| Assumption | Description | Comments |
|---|---|---|
| **Participant Data** | This valuation was based on participant data furnished by the Fund Office. | No Change |
| **Missing Data** | Participants missing a date of birth were assigned a date of birth based on the average entry age for participants with complete data. If not specified in the data, participants were assumed to be male. There were zero participants missing a date of birth, and zero participants were missing a gender. | No Change |
| **Selection of Certain Assumptions** | The selection of the assumptions for mortality, retirement, withdrawal, and disability was based on our analysis of actual vs. expected experience as well as liability gains and losses resulting from deviations from expected experience over the past several years.<br><br>The hours worked assumption is based on actual prior and anticipated future experience, adjusted to reflect information provided in good faith by the Plan Sponsor as appropriate.<br><br>The operating expenses assumption was developed based on actual prior and anticipated future experience. | None |

# Summary of Plan Provisions

| Provision | Description | Comments |
|---|---|---|
| Normal Retirement Age | Age 65 and 5th anniversary of participation. | No Change |
| Normal Retirement Benefit | 2% of credited contributions from 1/1/2006 (credited contributions exclude all applicable Pension Preservation Contributions). See valuation report for pre 2006 benefits. | No Change |
| Normal Form of Payment | Single life annuity with no guarantee for single participants and 100% joint and survivor annuity with subsidized pop-up for married participants. | No Change |
| Credited Service Accrual | Past Service Credits: Each year or portion of a year in which the participant was actively employed in the trade prior to May 1, 1958 (maximum of 3.75 credits).<br><br>Paid Benefit Credits: The benefit level is determined by the total contributions required to be paid on the participant's behalf times the Benefit Credit Factor. No benefits shall be credited unless at least 400 hour are worked in a plan year. | No Change |

# Summary of Plan Provisions (cont.)

| Provision | Description | | Comments |
|---|---|---|---|
| **Vesting Service Accrual** | Past Service Credits: Each year or portion of year of vesting service is given for each plan year prior to May 1, 1958 (maximum of 3.75 credits).<br><br>Paid Vesting Credits: A plan year in which the participant works 1,000 or more hours. Partial credit is granted for plan years in which the participant works 400 or more hours but less than 1,000 hours. | | No Change |
| **Break-in-service** | A break-in-service occurs during any plan year which a participant fails to earn 400 hours of service. | | No Change |
| **Early Retirement** | *Eligibility:*<br><br>*Benefit:* | Age 55 with 10 Vesting Credits.<br><br>The normal retirement benefit reduced by 5% per year prior to age 65 for active participants, or reduced actuarially for inactive vested participants. | No Change |
| **Vested Pension** | *Eligibility:*<br><br>*Benefit:* | 5 Vesting Credits.<br><br>The normal retirement benefit at age 65, or reduced for early commencement if applicable. | No Change |

# Summary of Plan Provisions (cont.)

| Provision | Description | Comments |
|---|---|---|
| Disability Pension | *Eligibility:* 10 Vesting Credits and Total and Permanent Disability as determined by either the Social Security Administration or certification from 2 medical doctors. In addition, has not at any time after becoming a Participant performed any employment in the jurisdiction of the Plan that was not covered by a Collective Bargaining Agreement between the Union and a Contributing Employer. And, at least 400 hours of service within 18 months of disability.<br><br>*Benefit:* The vested accrued benefit without adjustment payable after the Plan defined waiting period. | No Change |
| Death Benefits | *Married Participants*: A monthly benefit equal to the amount that would have been paid had the Participant separated from service immediately prior to his death and retired at his earliest retirement date with a 100% Joint and Survivor form of payment, adjusted for that form of payment and early retirement (if applicable).<br><br>*Single Participants*: A single lump-sum benefit equal to $350 times years of Future Credited Service earned from May 1, 1962 to April 30, 1975, plus $1,000 times years of Future Credited Service earned from May 1, 1975 to April 30, 1978, plus 55% of the contributions credited on the participant's behalf after April 30, 1978. | No Change |

# Actuarial Certification

We have prepared this actuarial report for use by the **MCASF Local 725 Pension Trust Fund** (the "Fund" or "Plan"). This report has been prepared solely for the benefit of the Plan, and it is not complete without the accompanying discussion with a representative of Horizon Actuarial Services, LLC. This report should not be distributed to others not affiliated with the Plan or relied upon by any other person without prior written consent from Horizon Actuarial Services, LLC.

In preparing this report, we have relied on all the information and data provided by the Plan, including plan provisions and asset information, as being complete and accurate. We have not independently verified the accuracy or completeness of the data or information provided, but we have reviewed the data for reasonableness to the extent that we believe appropriate based on the purpose for which it has been used.

The valuation summarized in this report involves actuarial calculations that require assumptions about future events. These calculations are performed using actuarial models, the intended purpose of which is the estimation and projection of the Plan's liabilities, assets, zone status, and other related information summarized herein. We believe that the assumptions and methods used in this report are reasonable individually, and in the aggregate, and are appropriate for the purposes for which they have been used. However, other assumptions and methods could also be reasonable and could generate materially different results. We have relied on the input of experts in developing certain assumptions, such as mortality and the valuation interest rate. We have not performed a detailed analysis of the potential effects of risk on the Plan's future financial condition but have included a discussion of some risks that may significantly affect the Plan. A more detailed assessment of the risks could provide the Trustees with a better understanding of the risks inherent in the Plan and may include additional scenario testing, sensitivity testing, stress testing, and stochastic modeling.

Future events and actual experience will vary from the assumptions we have used, and calculations prepared with actual data will vary from estimates or summaries used for modeling purposes. Actual future results will differ from our projections. As these differences arise, contributions and/or benefits may need to be adjusted to take these changes into account.

In our opinion, all methods, assumptions, and calculations are in accordance with the applicable provisions of the Internal Revenue Code and ERISA, and the procedures followed and presentation of results conform with generally accepted actuarial principles and practices. The undersigned consultants of Horizon Actuarial Services, LLC with actuarial credentials meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinions contained herein. There is no relationship between the Plan and Horizon Actuarial Services, LLC that affects our objectivity.

Benjamin P. Ablin, ASA, EA
Senior Consulting Actuary

Rebecca Shaak, ASA
Actuary