# LIUNA NATIONAL (INDUSTRIAL) PENSION FUND

## ZONE TRANSITION NOTICE

April 2020

### PENSION FUND RETURNS TO "GREEN" FUNDING ZONE IN 2020 BUT PLANNED BENEFIT IMPROVEMENTS PUT ON HOLD WHILE INVESTMENT MARKETS AND ECONOMY DEAL WITH CORONAVIRUS PANDEMIC

**To All Participants, Participating Unions, and Contributing Employers**:

We are pleased to report that the Funding Rehabilitation Plan ("FRP") has succeeded in returning the Pension Fund to the "Green Zone" funding status starting March 30, 2020. This transition to the "Green Zone" from the "Red Zone" is three years earlier than expected when the FRP was adopted in July 2010.

Your cooperation and patience with the FRP over the past nine years made this achievement possible. Under the FRP, the Pension Fund maintained its participation base, increased contribution income, and fairly adjusted benefit liabilities to reflect the available resources. Improvements in the investment markets also helped the Fund fill the financial hole created by the investment markets crash of 2008 and the Great Recession that followed. Before those historic troubles, the Fund had been soundly funded for decades.

Once the Fund's actuary indicated that it expected the Fund to have certified Green Zone status for 2020, the Board of Trustees directed the Fund's staff and its actuarial, legal and benefit consulting professionals to develop a zone transition plan. A plan was designed to reward the vast majority of participants with prospective increases in benefit accruals, while keeping the Fund on a sound funding track for decades to come. The transition plan was scheduled for implementation starting March 30, 2020.

However, our Nation's situation has suddenly and shockingly changed in the past month. The COVID-19 (coronavirus disease) pandemic hit. It is a national and global health emergency not experienced in more than 100 years. It has caused a widespread economic crisis that may become worse than the Great Recession of 2008 or even the Great Depression of the 1930s, according to public reports. Unemployment has surged and is expected to worsen as businesses are closed by government orders to prevent the disease from spreading. Investment markets are in turmoil, and values have steeply declined. The future of the markets is uncertain. No one knows how bad conditions will become or when they will improve.

In light of this shocking and tragic situation, the Board of Trustees has decided that it would be imprudent to improve benefits at this time. The full transition plan cannot be implemented now. The Fund needs to conserve assets while the health and economic crises work out and the path ahead becomes clear. The Board has adopted a modified transition plan which recognizes that the Fund is in the Green Zone as of March 30, 2020, but defers a decision on prospective benefit improvements until the impact on the Fund of the economic chaos caused by the COVID-19 pandemic can be responsibly assessed. The modified plan is described below.

**Please note that there will be no interruption in the payment of benefits to current pensioners who receive their benefits by direct deposit into their bank accounts. As for pensioners who have not chosen direct deposit and receive their benefits by check, the Fund will do its best to issue checks on time. But that effort may be delayed by government "stay at home" orders during the health emergency. For the same reason, the processing of pension applications by the Fund Office may be delayed.**

## MODIFIED TRANSITION PLAN

### A. Termination of the FRP

The FRP terminates as of March 30, 2020. In general, this means:

1. The normal Rules & Regulations of the Pension Fund ("Fund"), rather than the FRP, will govern rights and obligations after March 30, 2020. The Rules & Regulations have been amended in ways described in this notice to implement the transition from the FRP.

2. The FRP will not apply to pension credits earned after March 30, 2020.

3. Employers joining the Fund will no longer be required to adopt a FRP Schedule (Preferred or Default).

4. Pensioners will no longer be at risk of having their benefits recalculated due to the withdrawal of their former employer from the Fund.

### B. Collectively Bargained Contributions

The FRP's Preferred Schedule, as amended a few years ago, required 9 annual contribution rate increases of 10%. The Default Schedule required 10 annual contributions of 8%. Most Employers have made 7 or more of the required increases.

No further contribution rate increases will be required by the FRP as of March 30, 2020, even if an Employer increased its contribution rate fewer times than the applicable Schedule required. The current contribution rate can continue in effect, unless voluntarily changed by the collective bargaining parties to increase the applicable accrual rate.

### C. Benefit Accruals

1. Benefit accruals for pension credits earned by a Participant before he or she became covered by the FRP Preferred or Default Schedule remain unchanged.

2. For periods covered by the Preferred or Default Schedule, Participants accrued benefits at the rates set in the Schedule by which they were covered. Those accrual rates will continue to apply for pension credits earned by a Participant under that Schedule while it was in effect.

3. For pension credits earned for covered employment on and after March 30, 2020 through at least December 31, 2020, the current accrual rates will remain in effect. The current accrual rates will remain in effect after December 31, 2020 unless and until the Board of Trustees decides on changes.

   However, if an Employer's contribution rate is reduced, the accrual rate will be reduced in accordance with the Fund actuary's determination as to what accrual rate the lower contribution rate will fund. If an Employer's contribution rate is increased, the accrual rate will be increased in accordance with the Fund actuary's determination as to what higher accrual rate the higher contribution rate will fund.

## D. Benefit Adjustments Made Under the Default Schedule

### 1. Background

Participants became covered by the FRP's Default Schedule in various ways:

(a) They terminated employment covered by the Pension Fund before the FRP was adopted in 2010 and were deemed to be Inactive Participants subject to the Default Schedule.

(b) Their Employers elected the Default Schedule and paid lower contribution rates than under the Preferred Schedule.

(c) The Default Schedule was imposed on their Employers by law because they failed to elect a Schedule.

(d) Their Employer ceased to have an obligation to contribute to the Pension Fund and withdrew before the FRP was adopted in 2010 or when the FRP was in effect.

Participants covered by the Default Schedule have been subjected to "Benefit Adjustments" with regard to pension credits they earned before and while covered by the Default Schedule. These Benefit Adjustments include ineligibility for "subsidized" early retirement pensions, ineligibility for a Disability Pension, ineligibility for payment of Death Benefits to beneficiaries, and ineligibility for certain forms of survivor options including the pension guarantee.

*For example, a Participant who retired before age 65 under the Default Schedule received a substantially reduced pension compared to the normal retirement age pension payable at age 65.*

### 2. What Happens to the Benefit Adjustments After March 30, 2020

(a) For Participants who terminated employment covered by the Fund before the FRP was adopted in 2010, and have been treated as Inactive Participants, the Benefit Adjustments made under the Default Schedule will continue to apply to them.

(b) For Participants whose employers withdrew from the Fund, the Benefit Adjustments will generally continue to apply to them, with an exception described in paragraph E, below.

(c) For Participants who remain in employment covered by the Fund, no Benefit Adjustments will apply to pension credits earned on or after March 30, 2020, but the Benefit Adjustments will apply to pension credits earned for employment before that date.

*For example, if a Participant retires on an Early Retirement Pension, the portion of his or her pension based on pension credits earned after March 30, 2020 will be subsidized by the Fund, and the portion based on credits earned before March 30, 2020 will not be subsidized.*

(d) For pensions first payable after March 30, 2020, all forms of pension payment (including the 60-month guarantee) will be available for all pension credits, including pension credits earned before and during coverage by the Default Schedule.

(1) This rule does not apply to Participants who terminated employment covered by the Fund before the FRP was adopted in 2010 and were deemed to be Inactive Participants unless an exception from treatment as an Inactive Participant applied under the FRP.

(2) This rule does not apply to Participants whose employer withdrew from the Fund before March 30, 2020 unless an exception from treatment as an Inactive Participant applied under the FRP.

(e) For purposes of the Disability Pension, pension credits earned by a Participant before, on and after March 30, 2020 will be considered in determining eligibility for a Disability Pension, but the amount of benefits will be determined based only on credits for employment on and after March 30, 2020.

(f) Beneficiaries of an unmarried Participant who dies on or after March 30, 2020 will be eligible for Death Benefits.

(1) This rule does not apply to Participants who terminated employment covered by the Fund before the FRP was adopted in 2010 and were deemed to be Inactive Participants unless an exception from treatment as an Inactive Participant applied under the FRP.

(2) This rule does not apply to Participants whose employer withdrew from the Fund before March 30, 2020 unless an exception from treatment as an Inactive Participant applied under the FRP.

(g) Examples:

*Example #1: A Participant earned 5 years of pension credit from 2006-2010, then earned 9 years of pension credits for employment covered by the Default Schedule through March 30, 2020, then earned an additional 10 years of pension credit after March 30, 2020 for a total of 24 years of pension credits. The Participant applies for an Early Retirement Pension. The portion of his pension based on his first 14 years of pension credit (2006 - March 30, 2020) will not be subsidized (that is, will be reduced actuarially for each month that his age at retirement is less than his normal retirement age). The portion of his pension based on the pension credits he earned after March 30, 2020 will be subsidized by the Fund (that is, reduced at a lower rate for each month that his age is less than his normal retirement age). The value of each pension credit will be based on the benefit accrual rate in effect when the credit was earned.*

*Example #2: Assume that the Participant in Example #1 is only 48 years old and he applies for a Disability Pension. He has become totally and permanently disabled under the Fund's Rules & Regulations. He meets the 10 years of pension credits eligibility requirement for a Disability Pension because he has 24 years of pension credits and is otherwise eligible. The amount of his Disability Pension is based only on the 10 years of pension credits he earned after March 30, 2020.*

**E. Treatment of Participants Whose Employer Withdrew From The Pension Fund Before March 30, 2020**

1. Generally, Participants whose Employers withdrew from the Pension Fund while the FRP was in effect were automatically covered by the Default Schedule, including Benefit Adjustments and cancellation of any Past Service Credits for their employment before the Employer became obligated to contribute to the Fund.

   These Participants will generally remain subject to the Benefit Adjustments made by the Default Schedule. These Benefit Adjustments became the permanent plan of benefits for Participants whose Employers withdrew from the Fund during the period when the FRP was in effect.

2. However, Participants who were employed by Qualifying Employers will no longer be subject to the Benefit Adjustments prospectively, as described below:

   (a) Qualifying Employers are Employers that: withdrew from the Pension Fund while the FRP was in effect due to a cessation of their business; had adopted the Preferred Schedule before the withdrawal; had made at least 7 of the 9 annual contribution rate increases required by the Preferred Schedule of the FRP; and had contributed to the Fund for at least 30 years.

   (b) Participants (including pensioners) covered by this provision will have their pension amounts recalculated as though they were earned under the Preferred Schedule with the following conditions:

      (i) the recalculation will apply only prospectively; that is, to benefits payable on or after March 30, 2020; and

      (ii) any benefits attributable to Past Service Credit will continue to be cancelled and will not be restored, prospectively or retrospectively.

**F. Forms of Pension: Optional Lump Sums Eliminated**

1. The primary objective of the Fund is to pay pension benefits in the form of an annuity: monthly benefits for a pensioner's life and thereafter for the life of his or her surviving spouse. Payment of benefits in the form of a single lump sum is inconsistent with that objective. Moreover, lump sum payments drain assets from the Fund that would otherwise be invested and generate investment earnings to help fund pensions.

2. Accordingly, the Fund's rules have been amended to eliminate all optional lump sum forms of pension, except for the small benefit cash-out requirement, the retroactive annuity starting date lump sum payment, the lump sum death benefit under the Employee Financed Program provisions, and the $5,000 Death Benefit. The Social Security Option has also been ended.

**G. Employer Withdrawals**

1. Although the Fund has regained the Green Zone funding status, and its unfunded vested liabilities ("UVL") were reduced significantly under the FRP, the Fund continues to have UVLs for employer withdrawal liability ("EWL") purposes. Accordingly, any Employer that withdraws

from the Fund will be assessed EWL if the Fund's independent actuary determines, in accordance with law and the Fund's rules, that EWL is owed.

Of course, EWL is imposed only on Employers that cease to have an obligation to contribute to the Pension Fund and withdraw. Employers that continue to contribute to the Fund do not incur withdrawal liability. New Employers are entitled to a "5-year Free Look" exemption from EWL, and in any event do not "inherit" UVL that developed before they became obligated to contribute to the Fund.

2. The Fund will continue to cancel Past Service Credits for all active Participants and inactive vested Participants, but not for Pensioners in pay status (or spouses or other beneficiaries claiming through them). If an Employer withdraws, the loss of contribution income detracts from the Fund's ability to fund benefits based on employment for which no contributions were owed or received. Credits will be limited to Future Service (service for which contributions are owed).

**Questions**

Any questions regarding this notice should be directed to Fund Administrator Adam M. Downs at the Fund Office, 905 16th Street, N.W., Washington, D.C. 20006. Written questions are preferred.

Thank you for your attention to this notice, and for your support for the Pension Fund. More than a hundred thousand Pensioners, Surviving Spouses and Beneficiaries have received more than $1.6 billion in benefits from the Fund since it was established in 1967. We expect that our Nation will weather the current health and economic crises, and that Participants will continue to earn and receive pensions that they and their surviving spouses cannot outlive for many decades to come.

We wish you and your families all the best during these difficult days.

**THE BOARD OF TRUSTEES OF THE**
**LIUNA NATIONAL (INDUSTRIAL) PENSION FUND**