United Furniture Workers Partition Case Study

Deva Kyle and Julie Cameron

NCCMP ANNUAL CONFERENCE

HOLLYWOOD, FL

SEPTEMBER 25-27, 2017

The opinions of Ms. Kyle and Ms. Cameron do not necessarily represent the views of PBGC.

Outline

- Legal Standard: Statutory and Regulatory
- Background and Review of the UFW Application
- Coordination with Treasury Suspension Application
- Practical Implementation Concerns
- Helpful Hints for Future Applicants
- Informal Partition Analysis
- Questions

Legal Standard

- **PBGC must conclude that**:
  - The Plan is in critical and declining status, as certified by the Plan's actuary;
  - After consultation with the Participant and Plan Sponsor Advocate, the Plan Sponsor has taken all reasonable measures to avoid insolvency ((ERISA § 4233(b)(2));
  - A partition of the Plan is necessary for the Plan to remain solvent (ERISA § 4233(b)(3)(B));
  - The partition would reduce PBGC's expected long-term loss with respect to the Plan as of the effective date (ERISA § 4233(b)(3)(A));
  - The partition would not impair PBGC's ability to meet existing financial assistance obligations to other Plans (ERISA § 4233(b)(4)); and
  - Financial assistance to the successor Plan would be paid exclusively from the multiemployer insurance fund (ERISA § 4233(b)(5));
  - Benefit suspensions must be implemented such that no benefit, excluding those protected under the law, may be more than 110% of the monthly benefit that is guaranteed by PBGC on the date of the suspension

UFW Application: Background

- The United Furniture Workers Fund (UFW) was established in 1962 through collective bargaining between the United Furniture Workers of America International Union (now the Communications Workers of America, AFL-CIO) and various employers in the furniture, piano, bedding, and allied trades
- Nearly 10,000 participants
- Over 50% are in pay status
- 11% are active participants
- Was projected to become insolvent in the Plan Year beginning March 1, 2021

UFW Application: Partition Details

- Resubmitted in February 28, 2017
- Effective September 1, 2017
- Projected transfer of $189 million in PBGC-valued liabilities to the successor Plan

Partition Breakdown

Based on Census as of March 1, 2016	Successor Plan (Partitioned Plan)	
	Total Number	Percent of Liability
Actives	0	0%
Terminated Vested	3,365	100%
Retirees, Disabled, and Beneficiaries	3,118	56%

- Projected transfer of $189 million in PBGC-valued liabilities to the successor Plan

- 20% of participants will receive a reduced benefit under the proposed partition and suspension applications. On average the benefit reduction for those affected is 12.7%
- The accrued benefits for the remaining 72% of participants are not affected either because their accrued benefit is less than 110% of the PBGC-guaranteed benefit or are excluded under the MPRA limitations of age or disability

UFW Application: Benefit Cuts

- On average, affected participants will see a 12.7% reduction in benefits

Revenue Procedure 2016-27, Section 4.04(1)(a) and (1)(b)
Demonstration that Benefit Suspensions are Distributed Equitably

The following information was prepared solely for the United Furniture Workers Pension Fund A for the purpose described. Other users of this information are not intended users as defined in the Actuarial Standards of Practice, and Cheiron assumes no duty or liability to such other users.

	Active	Terminated Vested	Retiree	Disabled	Beneficiary	Alternate Payee	Total
Count (as of March 1, 2016)	1,076	3,311	4,408	314	765	22	9,896
Average Monthly Benefit							
Before Suspension	$458.26	$233.22	$210.65	$361.36	$100.84	$168.10	$241.32
After Suspension	$392.95	$209.95	$203.51	$361.36	$100.48	$139.77	$223.16
% Change (all)	-14.3%	-10.0%	-3.4%	0.0%	-0.4%	-16.9%	-7.5%
% Change (only those impacted)	-15.0%	-13.8%	-8.4%	0.0%	-2.9%	-19.6%	-12.7%
Present Value of Future Benefits (valued as of March 1, 2016 based on the Funding Assumptions)							
Before Suspension	$36,119,012	$45,478,814	$95,351,082	$12,371,956	$7,363,550	$513,337	$197,197,751
After Suspension	$32,946,715	$43,212,436	$91,728,026	$12,371,956	$7,329,803	$424,882	$188,013,817
Impact of Suspension	($3,172,297)	($2,266,378)	($3,623,057)	$0	($33,747)	($88,455)	($9,183,934)
Distribution of % Reduction in Monthly Benefit							
Not Reduced	279	1,897	3,837	314	742	9	7,078
Reduction 0% to 10%	625	1,079	495	0	23	7	2,229
Reduction 10% to 20%	99	141	50	0	0	4	294
Reduction 20% to 30%	33	72	17	0	0	0	122
Reduction 30% to 40%	25	61	7	0	0	0	93
Reduction 40% to 50%	9	52	2	0	0	2	65
Reduction 50% to 60%	5	9	0	0	0	0	14
Reduction 60% to 70%	1	0	0	0	0	0	1
Total	1,076	3,311	4,408	314	765	22	9,896

PBGC's Review of Application

- **Assumptions**:
  - Investment Return
  - Future Contributions/Contribution Base Units (CBUs)
  - Mortality
  - Demographic Assumptions (Joint and Survivor Take Up Rate, Marriage Assumption, Retirement Rates, New Entrants)
- **Census Data**
- **Programming Related to Projected Benefits**

PBGC's Review of Application: Solvency, Long Term Loss, Impairment

- **Solvency** – Partition is necessary for the Plan to remain solvent
- **Minimum Liability Partitioned** – Determined proposed partition was the minimum liability necessary for the Plan to remain solvent
- **PBGC Net Savings** – Determined partition would save PBGC money in the future financial assistance payments
- **Impairment** – Determined the partition of the Plan would not impair PBGC's current financial obligations

PBGC's Review of Application: Solvency, Long Term Loss, Impairment Results

- **Results in Partition Order** (see www.PBGC.gov):
  - Minimum Liability – Successor Plan contains 100% of the terminated vested and 56% of the liability pertaining to those in payment status as of March 1, 2016
  - UFW partition saves PBGC $68 million on a net present value basis
  - UFW partition does not impair PBGC's ability to provide financial assistance since the partition shortens PBGC's estimated date of insolvency by 5 days

Coordination with Treasury

- **Participant Notices**
  - Partition regulations require notices within 30 days of application
  - Suspension application require notices upon notification of complete application (2 days)
- **Application Review**
  - Both agencies coordinate information necessary for each agency’s independent review (i.e. data analysis, info supporting demographic assumptions, etc.)
- **Approval**
  - Conditional approval of partition before Treasury can conditionally approve suspension application

Practical Implementation Concerns: Application

- **Effective Date** – Interplay of statutory 225 day deadline of suspension application with selected effective date of partition and suspension
- **Tentative Approval of Application(s)** – Generally needs to be determined 2 months before the effective date to allow for participant vote
- **Application Review is Detailed** –
  - Requires all information requested to be provided ASAP, generally prepare info in advance if possible (i.e. census data, test lives, support for assumptions)
  - Refer to Treasury's revised revenue procedure 2017-43 that must be followed for all applications submitted after September 1, 2017

Practical Implementation Concerns: Timing Example

Assets for quarter ending **September 30, 2017**

December 1, 2017 Formal partition application submitted to PBGC

Within 14 days PBGC determines application is complete **December 15, 2017**

December 31, 2017 LAST DAY to submit suspension application using September 30, 2017 assets

Assuming suspension application found complete, joint Notices must go out by **January 2, 2018**

August 13, 2018 Treasury suspension application decision DUE (Conditional approval of partition is necessary)

Vote Process (Aug 20 – Sept 10) and prepare Successor plan data and info

October 1, 2018 *or LATER* IDEAL Effective Date

Pension Benefit Guaranty Corporation

Practical Implementation Concerns: Post Approval

- **Coordination with PBGC's multiemployer financial assistance division** – Successor Plan participant information and PBGC notices to those participants
- **Premiums** – For 10 year period following the partition date, the original Plan pays premiums on behalf of participants in the successor Plan
- **Partition withdrawal liability rule** – If the withdrawal is in the first 10 years after the partition order date, then withdrawal liability is computed with respect to both Plans; after 10 years just the original Plan for calculation

Helpful Hints

- Prepare census data used to develop projected benefits in the solvency projections available immediately and in Excel
- Prepare software output (“test lives”) used in combination with the census data to develop the projected benefits in the solvency projections
- Do not use estimation techniques to develop the projected benefits
- Program exact form of benefits outline in assumptions, not actuarial equivalence

Helpful Hints

- Be aware of how the 110% PBGC guaranteed benefit interacts with the future benefits
- Identify adjustments made to software output, if any
- Determine participants in the Successor Plan – During preparation of application or after conditional approval of order?

Informal Partition Review

- Amount of liability to be transferred in a partition
- Information PBGC requests (e.g., most recent actuarial valuation report, zone certification, audited or unaudited financials, baseline cash flow projections of Plan level benefits without suspension or partition to expected date of insolvency)
- Statutory constraints on partition (e.g., reduces PBGC's long-term loss with respect to the Plan; will not impair PBGC's ability to meet existing financial assistance obligations to other Plans)

Questions?