MPRA Benefit Suspension

IAM Motor City’s Approval
April 12, 2018

Paul Bullock—United Actuarial Services, Inc.
IAM Motor City Suspension
Overview

• The suspension application for IAM Motor City Pension
  • Filed on 3/29/17
  • Approved by Treasury on 11/6/17, 3 days before deadline
  • Notification of participant vote results provided on 12/13/17
  • Suspension became effective 1/1/18
  • Fourth suspension application approved by Treasury
  • First application to be approved without a resubmission
IAM Motor City Suspension

Why Was a Suspension Needed?

• Didn’t recover from losses in early 2000’s
  • Mature plan with 3-to-1 inactive to active ratio
  • Only 75% funded in 2007 with a projected insolvency

• Entered Critical status 7/1/2008
  • Reduced virtually all adjustable benefits
  • Added 10.3% non-credited increases for 5 years
  • Exhausted all reasonable measures with 21-year rehab period

• Return of -20% for 2009 PYE reestablished the projected insolvency
IAM Motor City Suspension

Efforts Prior to MPRA Application

- Efforts with well-funded IAM National Pension
  - Tried to merge in 2007, 2011 and 2015
  - Tried to set up affiliation in 2012
- Considered a pre-MPRA partition in 2014
  - Worked for plan
  - Not in best financial interest of the PBGC
- Mass withdrawal considered in 2016
  - Would have “clawback” of large employer withdrawing in 2014
  - Only pushed back insolvency 3 years
IAM Motor City Suspension
MPRA Suspension Development

• First considered a maximum multiplier
  • Would address benefit inequality in plan
  • Multiplier as high as 3.5%, currently 0.5%
  • With non-credited money, effective multiplier only 0.2%-0.3%
• Switched to flat percent reduction
  • Concern of poor history from closed fund office in late 90’s
  • Impact also was not big
    • Everyone at max reduction (110% of guarantee) or near it
    • If not at max reduction, facing a big reduction regardless
• Ended with max reduction, 110% of PBGC guarantee, without partition after adding all “required” items
IAM Motor City Suspension
Experience with Review Process

- Did not have a lot of correspondence
  - PBGC initially asked for standard census data and samples
  - Most PBGC questions two months after submission
    - Assets
      - Breakdown by categories
      - Capital market assumptions
      - How were the liquidity needs reflected and their impact
      - How were 6.60% short-term, 7.50% long-term returns justified?
    - Demographic assumptions – experience studies in past 10 years
    - Liability gain/loss – provide analysis from last 10 years
    - Census data – resolve count changes from last valuation
- We took nearly a month to respond to these questions
IAM Motor City Suspension
Experience with Review Process

• Correspondence late in review process
  • Joint & survivor percentage
    • Confirm it was properly weighted for active and inactive vested
    • Beneficiaries have more of their benefit guaranteed
  • Walk through projections from valuation to suspension payout
  • Treasury asked about future work 1½ months before deadline
    • This was the one assumption we weren’t sure what would be
      deemed by the Treasury to be reasonable
    • We assumed future work would hold at 2016 work levels
  • 10-year trend
    • -11% per year for all employers
    • -1.9% per year on current employers
  • Flat work based on +2.25%/year in last 5 years
  • Our response provided 2017 PYE work, which was much higher
IAM Motor City Suspension

Keys to Success on First Try

- We learned from previous applications
  - We summarized the reasons others rejected and how we addressed
  - We had a withdrawn submission that gave us additional insight
- Main changes we made for suspension
  - Cash flow needs and assumed return
    - We always had at least 2 mos. of negative net cash flow in cash equivalents
    - We prorated down non-alternative investments to satisfy cash needs
    - The median return each year can then be determined
    - We used Horizon capital market assumptions in short and long-term
    - We rounded the median return down to next lowest 0.05% for assumption
  - Special mortality adjustments removed, not credible enough
  - Extra expenses in year of application and year of effective date added
  - Dropped assumption that inactive vested over age 70 deceased
IAM Motor City Suspension

Keys to Success on First Try

• Main changes we made for suspension (continued)
  • Added open group projections and age distribution for new entrants
  • Added a distribution of form of benefit elected
  • Updated percent married based on experience at retirement
  • Weighted the continuation percent on J&S form for PBGC guarantee
  • Decrements – updated retirement and termination rates

• Changes considered but ultimately not made
  • Retirement rates
    • Left the single assumed age for inactive vested; maybe unreasonable now?
    • Made no changes for possible pattern change with PBGC guarantee
  • Future work
    • Besides adding six months of actual work experience for 2017 PYE, did not change future work; assumed it would remain constant from 2016 PYE level
    • Depends on recent history, future work expectations and economic factors
IAM Motor City Suspension

Keys to Success on First Try

- Additional resources
  - The February 2017 MPRA discussion notes are invaluable
  - Pre-suspension application meeting with Treasury
    - Ability to have such a meeting was announced in November 2017
    - Can identify any obvious issues or oversights with a proposed suspension
    - They may not always be able to say what is a reasonable assumption or equitable suspension because the details can impact this
    - The meeting can only improve your chances for success!
  - Requests for meeting can be e-mailed to MPRAinbox@treasury.gov