

MPRA Benefit Suspension

IAM Motor City's Approval

April 12, 2018

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**United Actuarial
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Actuaries and Consultants

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

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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

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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

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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

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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

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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

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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

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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

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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