Recent Trends in Pension Bargaining

T&T Conference Workshop

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Agenda

- Overview of Different Plan Types
- Recent Trends in Pensions
- “De-Risking” Strategies at Telecom Employers
- Conclusion and Bargaining Implications
- Questions/Discussion

Different Types of Retirement Plans

Retirement Plan Designs

	Traditional Pension	Cash Balance	401k
Benefit design	Set percent of final wages, or pre-set dollar amount by title.	Set pay credit, plus set interest credit on annual balance.	Benefit determined solely by annual contributions and interest.
Amount of money in retirement	Determined in plan description, based on title/wage and years of service.	Determined in plan description, based on annual accruals and interest credits.	Determined solely by annual contributions and interest.
Lifetime income	Monthly income stream is the default. Lump sum may be available.	Monthly income stream is the default, but lump sum is usually taken.	In-plan annuities are possible as investment options, but uncommon.
Contributions	Employer makes all contributions.		Employees make contributions. Employer often provides a match.
Investment decisions	Professional investment manager with fiduciary responsibility to the plan.		Employees choose from menu of options within plan.
Benefit guarantee	Normal retirement benefits are guaranteed up to the PBGC maximum.		Benefits are not guaranteed.

Who Bears the Risk?

	Traditional Pension	Cash Balance	401k
Funding Risk	**Employer.** If the plan becomes underfunded, employer must make up the difference.	**Shared.** Employer covers downside risk but also reaps the gains of upside risk.	**Employee.** Employer bears no additional cost if account is "underfunded."
Investment Risk	**Employer.** Pension benefits are guaranteed despite investment performance.	**Shared.** Benefits are guaranteed despite investment performance, but employer reaps gains from high returns.	**Employee.** If investments perform well, account balance increases; if poorly, balance decreases.
Inflation Risk	**Employee,** unless COLA is provided (rare).	**Employee.** There is no COLA.	
Longevity Risk	**Employer,** but may be shared if lump sum option is provided.	Generally, **employee,** as most take the lump sum.	**Employee.**

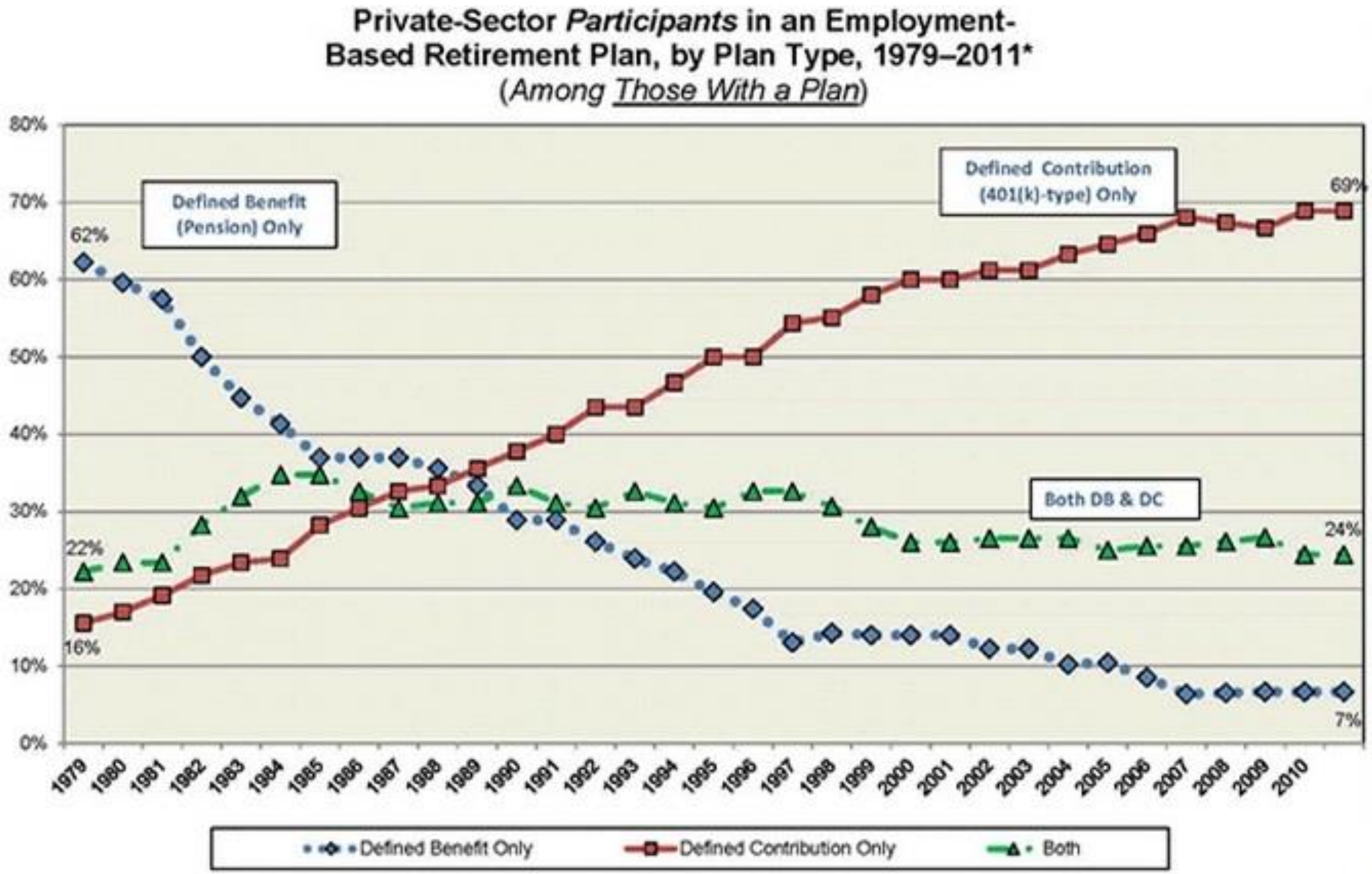
What if a Pension is Underfunded?

- If the plan becomes underfunded:
  - The company is on the hook to bring it up to full funding.
  - Contributions increase until the plan regains full funding.
  - Accrued benefits are still guaranteed, but there could be limits on benefits such as future accruals and lump sum payouts.

- If the company enters bankruptcy:
  - The PBGC may take over the plan.
  - PBGC benefits are guaranteed up to $57,000 per year.
  - There may be reductions in ancillary benefits such as early retirement provisions and/or disability benefits.

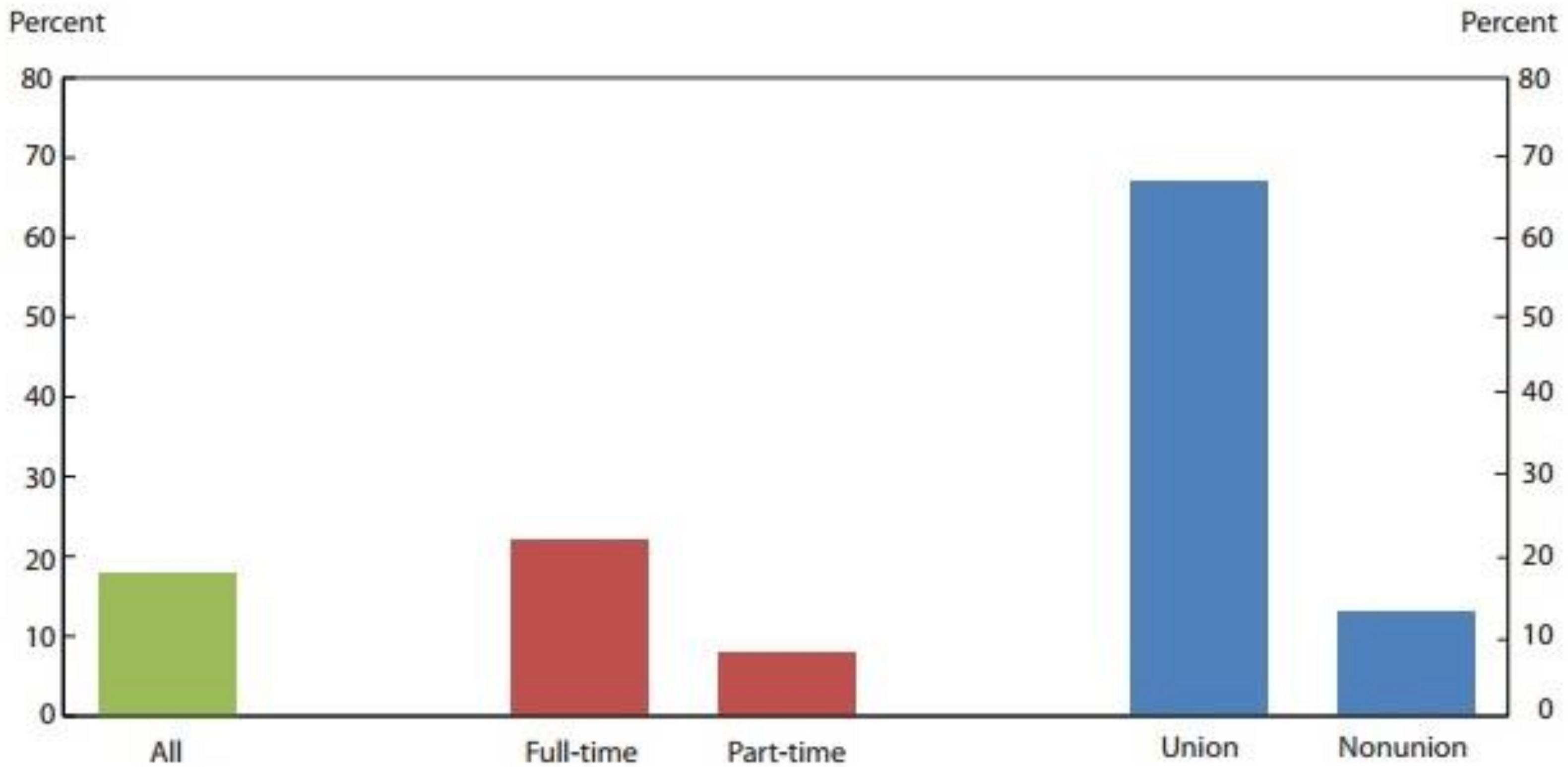
Recent Trends in Pensions

Background: Fewer with Pensions, More with 401ks



Union Workers Still More Likely to Have Pensions

Percentage of employees participating in defined benefit pension plans, by selected characteristics, private industry, 2011



Why Are Employers Dumping Pensions?

1) Technical Reasons:

- Employers are closing plans due to:
  1. Stricter funding rules, which lead to contribution volatility
  2. Balance sheet liability
  3. Industry changes
  4. PBGC premium increases

- The PPA of 2006 increased funding volatility.
  - 2004: 7% of Fortune 1000 plans were frozen
  - 2011: 41% were frozen
  - 26% would consider a new DB plan if funding were more predictable and less volatile

Since the PPA....

- The PPA went into effect in 2008, the same year that the financial crisis hit.
- Since then, pension funding relief legislation has passed every two years:
  - Pension Relief Act of 2010
  - MAP-21 of 2012
  - HAFTA of 2014
- These laws temporarily reduce the funding burden of the PPA, but are not permanent.
- PBGC premiums also increased.

Why Are Employers Dumping Pensions?

2) The Political Economy has Changed:

- Corporate Power and Greed:
  - Less and less to compensation to rank and file workers (wage stagnation, higher health care cost, no pensions).
  - More and more to “shareholder value” and CEO compensation packages.

- Unions Losing Power:
  - With 6.7% density in the private sector, more difficult to hold onto quality retirement benefits (18% of workers).
  - Public sector density is higher (35.3%), and pension coverage is higher (78%).

Why Does It Matter?

- Traditional pensions are still the best way to achieve financial security in retirement
  - Guaranteed benefit that cannot be cut
  - Regular, monthly income that cannot be outlived
  - Pooled, professional investing
  - Ability to retire at own discretion, not whim of stock market
- 401ks put all the risk on employees
  - Must be your own financial planner
  - Must be your own investment manager
  - Must figure out how to spend down money

Multiemployer Pension Reform Act of 2014

- Trustees of certain “deeply troubled” multi-employer plans given unprecedented ability to cut retiree benefits:
  - Ability to cut benefits up to 110% of PBGC max ($13,000)
  - Restricted cuts over age 75, no cuts over age 80
  - Cuts overseen by Treasury department
  - Large plans must hold participant vote on cuts
- Only “deeply troubled” multi-employer plans.
  - Must be projected to go insolvent in 10-20 years despite all other efforts to improve funding.
  - Does not affect single-employer plans.

“De-Risking” Strategies Taken at Telecom Employers

Reduction in Benefits Reduce Liability and Risk

	Previous Benefit	New Contract	New Hires
AT&T	• Banded pension or cash balance pension • BCB2 since 2009	• 1% increase in pension bands each year • Legacy T lump sums into CB account, floor credit	Same since 2009
Verizon	• Banded pension (NYNE and MidAtlantic) • Final average pay pension (SW and West)	• Bands and wages frozen • Years of service accrue • Generous lump remains	• No pension • 401k increased to 100% match up to 6% of pay, plus discretionary 0-3%
Century Link	Final average pay or banded pension plan	• Bands and wages frozen • Years of service accrue	• No pension • 401k increased to 58% match up to 6% of pay
Windstream (NY, PA, OH, NC, MS, KY, FL)	Final average pay	No change	• No pension • 401k increased to 100% match up to 6% of pay, plus discretionary 0-3%
Frontier (NY, NE)	Final average pay	• No change • Option to freeze pension for 401k match	• No pension • 401k increased to 50% match up to 8% of pay

AT&T Equity Transfer

- Fall 2012, AT&T announced it wanted to infuse $9.5 billion worth of Mobility stock into the pension, to bring to full funding.
- Needed approval from the DOL to put this much company equity into the company pension.
- CWA supported—shows commitment to fully funding the pension as well as Mobility growth.
- DOL granted approval with $700 million in cash payments over four years, and additional cash if the plan becomes underfunded.

Verizon Annuity Purchase

- Fall 2012, Verizon announced transfer of pension liabilities of some 41,000 management retirees to Prudential Insurance.
- Removes 25% of total pension liabilities from the company's books.
- Transfer is costly – up to 110% of liability.
- Retirees receive the same benefit, but lose PBGC benefit protection; guarantees from state associations are lower.

Additional De-Risking Strategy: Lump Sum Offers

- When employees take a lump sum:
  1. The pension obligation comes off the books.
  2. The company no longer has to pay PBGC premiums.
  3. The employee is responsible for managing their money through retirement. There is no guarantee.

- Is a lump sum offer worthwhile?
  - The value of the lump varies based on interest rates: when interest rates are low, the lump sum is higher.
  - Decisions are complex: should be made based on total finances, health status, family situation, etc.

De-Risking Strategy: Adjustable Pension Plan (APP)

- The APP is designed to stabilize contributions:
  1. Target contribution rate is set first, with corresponding target benefit level
  2. Conservative assumptions are used
  3. Conservative asset allocation is targeted
- Each year, benefits can be adjusted:
  - Investments better – higher accrual that year
  - Investments worse – lower accrual that year
  - Can never be cut below the floor benefit – employer must kick in more to make up difference.
- Risk shared between employer and employees.

Who Bears the Risk?

	Traditional Pension	APP	401k
Funding Risk	**Employer.** If the plan becomes underfunded, employer must make up the difference.	**Shared.** Employers guarantee a minimal floor benefit and must fund up to that level.	**Employee.** Employer bears no additional cost if account is "underfunded."
Investment Risk	**Employer.** Pension benefits are guaranteed despite investment performance.	**Shared.** Employers guarantee a floor benefit, and must make up the difference if returns do not meet this floor.	**Employee.** If investments perform well, account balance increases; if poorly, balance decreases.
Inflation Risk	**Employee,** unless COLA is provided.	**Employee,** unless COLA is provided.	**Employee.**
Longevity Risk	**Employer,** but may be shared if lump sum option is provided.	**Shared,** as benefit accruals depend partially on longevity factors.	**Employee.**

Conclusions / Bargaining Implications

Conclusion: More and More Companies are De-Risking

- More and more companies are seeking to de-risk their plans:
  - Frozen accruals.
  - No pensions for new hires.
  - Annuity transfers and lump sum offers.
  - AT&T’s equity infusion.
- With less union density and more pension liability, keeping quality benefits is more difficult.

Bargaining Talking Points

- Pension funding relief legislation continues to save employers money on contributions.
- Pensions are more cost-effective retirement plans than 401ks—Every dollar going to fund a pension nets a higher retirement benefit.
- Pensions are better for recruiting and retaining a quality workforce.
- Plan designs such as the APP can reduce volatility while providing a quality benefit.

Mobilization is Necessary

- Pensions are a major subject of bargaining, with large financial implications for both sides.
  - Mobilization is necessary to keep quality benefits.
  - We must align with other organizations dedicated to retirement security: Social Security and retiree groups.

Retiree Advocacy Groups Include CWA RMCs and

- Alliance for Retired Americans
- Social Security Works
- Caring Across Generations
- National Domestic Workers Alliance
- National Committee to Protect and Preserve Medicare and Social Security
- Retirement Security for All
- PICO
- Gray Panthers
- Center for Community Change
- Progress Now
- Alliance for a Just Society
- National Public Pension Coalition

Questions & Comments