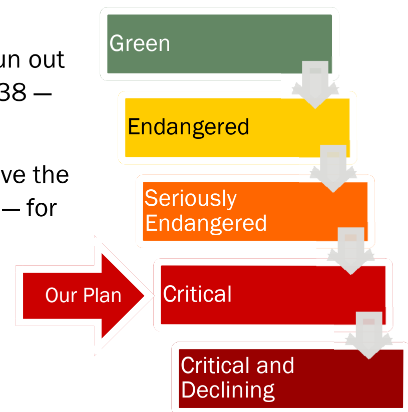
Automotive Machinists Pension Plan Update

From the Board of Trustees
Automotive Machinists Pension Trust

No Longer 'If' but 'When'

Unfortunately, the financial health of the Automotive Machinists Pension Plan has further declined during this past year. The Plan is still in the 'critical' zone now but it looks even more likely that it will drop down to 'critical and declining' soon. At this point, it's not a matter of 'if,' it's a matter of 'when.'



Technically, for our Plan critical and declining happens when it is projected to run out of assets in 20 years. Currently, the Plan is projected to run out of money in 2038 — 21 years from now.

At this point, we need to start seriously looking at the options we have left to save the Plan. One of those options is to reduce benefits that have already been earned — for retirees as well as active participants.

Why would we even consider reducing benefits?

- Reducing benefits may be our best chance to keep paying as much as we can in benefits and keep paying them for many years to come.
- Benefits would **not be reduced** for retirees 80 or older, and reductions would be less for those between 75 and 80. Disability benefits would not be reduced.
- If the Plan runs out of money, the Pension Benefit Guaranty Corporation (PBGC) would pay benefits — but, for almost everyone, the PBGC benefit would be lower than what a reduced benefit would be if we did it ourselves. (See page 2 for an example.)
- There's concern about the PBGC itself running out of money. In that case, benefits would be even smaller.
- Reducing benefits could save the Plan and make it viable going forward, and most participants would be better off than the alternative. We wouldn't even be looking at it otherwise.

As we reported in last year's update, we've taken a number of steps to turn the situation around over the years but have continued to face significant challenges — including an unexpected and significant reduction in hours by the Plan's largest employer in July of 2016.

Nothing Is Happening to Benefits Yet

Nothing is happening to benefits yet. The Plan is not critical and declining yet, so benefits cannot be reduced at this time. And even when we get to that point, if we decide that a benefit reduction is best for the Plan, it will take time. The government requires a specific process we would need to go through before benefits could be reduced. It could take close to a year from that point and you would get a chance to comment and vote.

More Challenges for the Plan

In the last update, we talked about why we couldn't just raise contributions again — further contribution increases would negatively affect both employers and members, and ultimately, the Plan. Even if we could increase them, there would be no way to raise them high enough to offset the headwinds the Plan is facing.

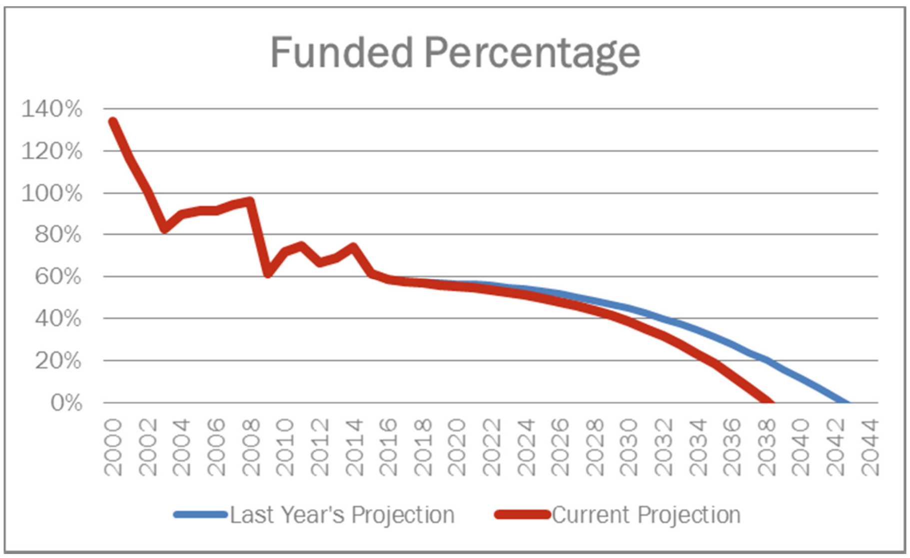
Since then, the situation has gotten worse.

The number of hours members worked in 2016 and the hours we anticipate in the future are lower:

- We had an unexpected and significant reduction in hours by the Plan's largest employer in July of 2016 and these hours haven't been restored
- We continue to see a handful of groups each year ratify contracts that take them out of the Pension Plan and move them to a 401(k) — meaning even fewer hours for the Plan.

Also, the Plan's investment return for 2016 was better than last year, but still lower than the assumption. The Plan earned 4.5% instead of the 6.5% that was assumed.

Last year, we told you that the funding level was projected to continue to go down for the foreseeable future (the blue line in the chart below). Now, the funding level is projected to fall even faster (the red line in the chart below).



This graph shows a short history of the Plan's funded percentage and a future projection based on 6.5% investment returns in all future years and assumed levels of contributory hours.

What Happens if the Plan Runs Out of Money?

If the Plan runs out of money, benefits would drop across-the-board for everyone (no protected groups) to the level guaranteed by the Pension Benefit Guaranty Corporation (PBGC). And the reduction would be permanent. If we reduced benefits ourselves, the reduction would not be as dramatic, and eventually benefits would go back up when the Plan was no longer projected to run out of money.

The PBGC-guaranteed benefit is significantly lower for most members. For example:

For an average retiree, age 72, with a $1,300 monthly benefit earned over 19 years of service, the PBGC guaranteed benefit would be $679 per month.

And, there's concern about the financial health of the PBGC itself. If the PBGC runs out of money, benefits would be a small fraction of the PBGC-guaranteed amount.

If we were to reduce benefits ourselves, benefits would be higher than if we let the Plan fail and go to the PBGC. If we have to reduce benefits, we will work hard to make sure it's done in the most equitable way possible.

If we keep the Plan going, we have a better chance of maintaining a strong contribution base — increasing our odds of being able to pay benefits for the long haul — and active participants have a better chance of earning meaningful benefits in the future.

What's Next?

It looks like the Plan is headed toward 'critical and declining' — if not next year, then soon after that. If it comes to that, we will all be better off if the Plan takes action to steer back toward sustainability and has a chance to continue to provide benefits for future generations of automotive machinists.

So what's next?

- We wait and see. The Plan is not 'critical and declining' yet, so benefit reductions aren't possible yet. But, even if we have some great results, it's on the horizon. For example, if the Plan's investments earned 15% this year, that would only push the date the Plan is projected to run out of money from 2038 to 2042.
- In the meantime, the Trustees are getting prepared: assessing how much of a reduction in benefits might be needed and what the most fair approach would be.
- Nothing is happening right away. After the Plan does reach 'critical and declining' and we make the decision to apply for a reduction in benefits, it takes quite a long time due to the government's process before benefits actually change — perhaps close to a year.

We are working to avoid insolvency and will continue to do all we can to protect your benefits.

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