New York State Teamsters Benefit Funds Newsletter

Fall 2014

News and information from your Trustees and Staff

Important News for Members

Pension & Retirement Fund Benefit Update

Last year at this time, we provided a review of the financial condition of the New York State Teamsters Conference Pension and Retirement Fund (“Fund”). One year later, we thought it important to provide an update on the Fund’s status, reiterate the challenges we continue to face and outline the ongoing steps being taken to ensure the long term financial stability of the Fund.

As we told you last year, this review is not intended to present information that is different from the Annual Funding Notice or Notice of Critical Status that all Fund participants and beneficiaries received in April 2014. Those legally-required notices provide valuable information about the financial condition and overall health of the Fund. However, they sometimes can be misleading and not tell the entire story. This is because the Fund is required to present information in the notices based on mandated actuarial calculations and in a standardized format. In addition, the Fund is not permitted to give any additional explanations or details in the notices.

Presenting such complex pension information in the standardized way can sometimes make the Fund’s status appear worse than it is. For instance, the Fund reports itself as “Critical Status” again this year. As discussed further below, under current pension law, “Critical Status” is determined by a very one-size-fits-all government test. If a pension fund falls below certain financial and actuarial benchmarks, it must be designated in “Critical Status.” But not all “Critical Status” pension plans are the same. In fact, unlike many “Critical Status” pension plans that will run out of money before paying all promised benefits, the Fund’s actuaries continue to project ongoing financial solvency.

This is not meant to suggest that the Fund is in great shape. Like most multiemployer pension funds in the country, the Fund continues to be severely underfunded and faces serious headwinds. The information below is provided to explain the many factors affecting the Fund’s financial health as well as the Trustees’ ongoing efforts to ensure your pension will be there for you when you retire.

Why is the Fund Still In Critical Status?

Despite a number of steps taken to improve the financial condition of the Fund and encouraging progress on some fronts, it remains in “Critical Status.” Why is this? The short answer is that the economic and market situation since 2000 put the Fund in a very deep hole. After two catastrophic market upheavals – one in the early 2000’s and then the “Great Recession” that began in 2008 – the Fund went from fully funded in 2000 to 46% funded this Plan year. The Fund’s assets went from $2.244 billion to $1.485 billion.

Because of these enormous losses, the Fund was certified in “Critical Status” beginning in 2010. While the Fund has averaged an impressive 11.96% rate of investment return over the past five years (see chart below), several critical factors continue to hold back our efforts to dig out of the hole and return the asset base to at least pre-2008 levels.

<table>
<thead>
<tr>
<th>Year End</th>
<th>Annual Increase (Decrease) in Net Assets</th>
<th>Year End Value of Assets</th>
<th>Asset Return</th>
</tr>
</thead>
<tbody>
<tr>
<td>12/31/2007</td>
<td>$29,780,144</td>
<td>$2.244 billion</td>
<td>7.83%</td>
</tr>
<tr>
<td>12/31/2008</td>
<td>($822,182,343)</td>
<td>$1.488 billion</td>
<td>(29.59%)</td>
</tr>
<tr>
<td>12/31/2009</td>
<td>$184,651,023</td>
<td>$1.641 billion</td>
<td>23.57%</td>
</tr>
<tr>
<td>12/31/2010</td>
<td>$12,549,489</td>
<td>$1.653 billion</td>
<td>12.27%</td>
</tr>
<tr>
<td>12/31/2011</td>
<td>($169,433,048)</td>
<td>$1.489 billion</td>
<td>1.67%</td>
</tr>
<tr>
<td>12/31/2012</td>
<td>$36,737,769</td>
<td>$1.525 billion</td>
<td>13.78%</td>
</tr>
<tr>
<td>12/31/2013</td>
<td>($39,748,871)</td>
<td>$1.485 billion</td>
<td>8.50%</td>
</tr>
</tbody>
</table>

Active vs. Retired Demographics

It is no secret that there has been a decline in the number of unionized workers in the United States (from approximately 27% in 1977 to approximately 13% in 2011). The trucking industry has been particularly hard hit since deregulation in 1980, which caused hundreds of unionized companies to go out of business. Even among the companies that remain, they simply are not replacing those who retire with new hires on anything close to a one-to-one basis. And, there are virtually no new unionized companies entering the Fund. Instead, as discussed more below, we have had a steady stream of employers withdrawing from the Fund, often without paying their full unfunded liability. These trends, which are being felt by almost every other multi-employer pension plan, have resulted in a dramatic shift in the ratio of Active to Retired Participants throughout history as shown on page 2.

Continued on page 2
In addition, with more Retirees receiving benefits than Actives bringing in contributions, there continues to be a greater gap in the money taken in by the Fund each year versus the money paid out for benefits, as shown on the chart below:

<table>
<thead>
<tr>
<th>YEAR END</th>
<th>ACTIVES</th>
<th>RETIREES</th>
<th>DIFFERENCE</th>
</tr>
</thead>
<tbody>
<tr>
<td>12/31/1976</td>
<td>23,204</td>
<td>3,657</td>
<td>19,547</td>
</tr>
<tr>
<td>12/31/1990</td>
<td>22,732</td>
<td>10,571</td>
<td>12,161</td>
</tr>
<tr>
<td>12/31/2000</td>
<td>16,760</td>
<td>14,380</td>
<td>2,380</td>
</tr>
<tr>
<td>12/31/2010</td>
<td>12,813</td>
<td>16,627</td>
<td>-(3,814)</td>
</tr>
<tr>
<td>12/31/2013</td>
<td>11,896</td>
<td>16,197</td>
<td>-(4,301)</td>
</tr>
</tbody>
</table>

Investment Return

With the Fund now being forced to pay out over two and half times what it receives in contributions, it has become increasingly dependent on investment income to cover the difference. Despite an impressive nearly 12% average annual return over the last five years, it is difficult to build up the asset base when the Fund is required to cover the large difference between the contributions received and benefits paid out.

Think of your personal savings accounts or 401(k)’s. Many are almost fully recovered following the Great Recession in 2008, even though everyone’s investment losses were huge. The difference between the Fund and your personal investments is that you probably haven’t been taking huge withdrawals. The Fund’s positive investment returns from the past five years are helping cover the difference between the contributions received and benefits being paid, but it hasn’t been enough. This is the primary and ongoing struggle in attempting to restore the asset base to at least pre-2008 levels.

As we have informed you in the past, the Trustees rely on very experienced investment professionals who provide expert advice and recommendations on where to invest the Fund’s assets. These professionals attend each Trustees meeting, reporting on the performance of each investment and providing the most updated market information.

In addition, nearly a decade ago, the Trustees realized that a more sophisticated investment strategy would be necessary if the Fund was going to meet its long-term funding requirements. With the guidance of these professional consultants, the Trustees started a sophisticated private placement portfolio with the oversight of professional investment managers. This strategy, not generally available to pension funds of smaller size, provides for direct, long-term investments that are expected to result in greater returns over time. In fact, this investment approach has allowed the Trustees to continue its higher interest rate assumption, which is unavailable to other plans that have had to cut deeper into benefits.

Employer Withdrawals

Under current law, when an employer withdraws from the Fund, it is generally required to pay its share of the Plan’s unfunded liability. This is known as withdrawal liability. Over the past several years, the Fund has seen an increase in the number of employers withdrawing from the Fund. This has occurred because of various reasons, including employers going out of business, filing bankruptcy or negotiating out of the Fund. The trend however is continuing. Unfortunately when a withdrawal occurs, employers often do not pay their full share of the unfunded liability, because they have filed bankruptcy or have no assets to satisfy the liability. The Fund however takes an aggressive approach to recover all of the liability owed by a withdrawn employer.

Even in cases where the employer pays its “full” withdrawal liability, it is not enough to cover their share of the unfunded liability. This is because of certain restrictions placed on the amount the Fund can collect from a withdrawn employer under federal law. These restrictions only hurt the Fund and participants and beneficiaries in the Plan.

How is the Fund’s Rehabilitation Plan Helping?

The Trustees were required by law to develop a Rehabilitation Plan when the actuaries certified the Fund as being in “Critical Status” in 2010. The Rehabilitation Plan, which became effective January 1, 2011, is comprised of a Default Schedule and seven (7) Alternative Schedules. Each Schedule provides for the elimination of certain benefits, modification of others and the implementation of mandatory required annual increases in the contribution rate.

Increased Contributions

As seen from the chart above, the Rehabilitation Plan has caused a significant increase in annual contributions from $85,925,231 in 2009 to $108,206,048 in 2013. Naturally, increased contributions have a positive impact on the Fund. However, the answer cannot be simply increasing contributions. Raising contributions too high can cause employers to withdraw from the Fund or jeopardize the financial health of contributing employers, possibly putting them out of business. The Trustees continue to balance the need for higher contributions with the need to keep employers in business, and they remain conscious of not further jeopardizing contributing employers.

Benefits Paid

As we are all aware, the Rehabilitation Plan Schedules made significant changes to the Fund’s benefits. As painful as these changes were, the Rehabilitation Plan did what it was designed to do. The number of people beginning to draw benefits has decreased significantly. In prior years, approximately 600 new retirements were processed annually. After the Rehabilitation Plan was implemented, approximately 347 retirements are processed each year. As shown in the above chart, this has prevented the Benefit Paid expense from further increasing and, in fact, the Fund has realized a reduction in Benefits Paid since 2011.

Although restoring benefits to pre-Rehabilitation Plan levels is a good goal, current law restricts the Trustees from even considering benefit improvements while in “Critical Status.” As shown above, improving the funding levels will take time to be realized, and future funding levels will be affected by an array of different factors, including investment returns, interest rates and mortality experience.

Does the Fund Have Enough Assets to Pay Pensions?

Every year, the question participants and beneficiaries ask the most is whether there will be sufficient money to pay pension benefits that have been earned and promised. The simple answer remains: Yes! Based on the best information and advice from the Fund’s actuarial and investment professionals, the Trustees have taken the necessary steps to ensure that there will be sufficient assets to pay pensions. The Rehabilitation Plan and the strong investment program should continue to position the Fund to pay all the pension benefits into the future, despite the headwinds the Fund continues to face.

Are these Challenges Unique to the Fund?

The challenges being faced by the Fund are being dealt with by almost every other multiemployer pension plan. A recent government study reported that over a million employees were in severely under-funded pension plans, and many of those plans were so poorly funded that they probably could not be saved.

Unlike many of these other pension plans, however, the Trustees of the Fund have taken a number of actions to reduce the risk of financial insolvency. Although there is nothing any pension fund can do to fully avoid the consequences of the 2008 economic collapse or other market conditions, the Trustees have done everything they could do...
The Fund’s Trustees are doing everything in their power to keep it on track and toward re-establishing its long-term financial health. Possible Legislative Changes to Address Multiemployer Pension Plans

The problem among multiemployer pension plans is so bad that it has finally received the attention of Congress and other policy-makers in Washington. It is now widely believed that Congress will have to act soon to prevent many pension funds from becoming insolvent and leaving participants without the retirements they were promised. The National Coordinating Committee for Multiemployer Plans (NCCMP), a group that speaks in Washington on behalf of plans like the Fund, is pressing for pension changes that will strengthen the current system, provide tools for the trustees of deeply troubled plans, and foster innovation and new plan designs. The Trustees continue to monitor legislative efforts that could provide assistance and ensure retirement security to Fund participants and beneficiaries.

Market Performance – Investment Portfolio

The Fund’s investment returns of 8.5% in 2013 may look like under-performance when compared with the United States equity market. The US equity market reported mid to high teen investment returns in 2013. It is very important, however, not to try to compare the Fund’s returns against any one asset class during any single year or other time period.

A diversified portfolio is prudent and the Trustees are required by law to diversify Fund assets. The Fund has a globally diversified portfolio across all major asset classes in the US and internationally with no over-reliance on any one asset class. This diversification provides for downside protection if an asset class underperforms significantly in any given year or period. In 2011, for example, when the majority of the investment markets had a negative performance, the Fund was able to return a modest 1.67% return, close to 4 – 5% higher than the average return for the year.

The Fund has an allocation in International Developed stocks along with Emerging Market stocks. For 2013 the International Developed stocks trailed the US stocks by almost 10%, but in prior years (2003, 2004, 2005, 2006, 2007, 2009, and 2012) they were positive outperformers. In 2013, the Emerging Market stocks had a negative return and trailed the US market by more than 35%. However, Emerging Market stocks have outperformed the US stocks in 8 of the 10 prior years. For this period, Emerging Market stocks have returned a little more than 11% per year while the US stocks have returned 7.4%. Emerging Markets have an expected return of 4% greater than the US stocks going forward.

The Fund also has an allocation to US Bonds, Emerging Market bonds and Treasury Inflation Protected Securities. These investments are critical to a diversified portfolio, but for 2013 these investments had negative performances which dragged down the overall return.

Additionally, as previously discussed, the Trustees have invested in private placement portfolios, a strategy not generally available to pension funds of smaller size. With the advice and oversight of very experienced investment professionals, these investments provide for direct, long-term investment that is expected to result in greater returns over time.

The investment focus is for the long term and under-performing certain sectors in the US market will occasionally occur. It is the old investment adage that you “don’t put all your eggs in one basket.”
Funds Comply with Same-Sex Marriage Rulings

The U.S. Supreme Court recently ruled that parts of the Defense of Marriage Act (DOMA) – which essentially barred federal recognition of same sex marriages – was unconstitutional. Based on DOMA, many retirement plans previously limited spousal rights to opposite-sex spouse couples only. The Supreme Court’s decision, however, stopped that limitation and effectively requires these plans to extend most spousal rights to same-sex spouses.

Following the Supreme Court’s ruling, the Internal Revenue Service (“IRS”) clarified the extension of same-sex marriage rights. Under the IRS guidance, a same-sex marriage must be viewed as a valid marriage if it is recognized by the state of celebration (the state where the marriage ceremony occurred). Further, the IRS clarified that a retirement plan must recognize same-sex marriage and extend spousal rights to same-sex spouses.

The Trustees have amended the Health Fund and Pension Fund to implement this change in federal law and have extended certain spousal rights and benefits to same-sex spouses in accordance with federal law. The Funds now recognize same-sex marriages and extend spousal rights to couples who are legally married.

Specifically, the Pension Fund now recognizes a same-sex spouse as a beneficiary of a qualified joint and survivor annuity if a participant dies before normal retirement age, and similarly, offers a joint and survivor option for a same-sex spouse at the time of a participant’s retirement. Additionally, the Pension Fund will also recognize a qualified domestic relations order (QDRO) upon the dissolution of a legally recognized same-sex marriage.

Similarly, under the Health Fund, a spouse in a same-sex marriage is able to enroll for health benefits, which will be determined by the employer's participation in the Fund.

Please direct all enrollment requests to the Fund Office for processing. If you have any questions on this matter, do not hesitate to contact the Office at (315) 455-9790.