**State of the Teamster Members Retirement Plan**

**June 2023**

Despite vigorous efforts to increase active membership and earn the highest investment income possible while keeping assets safe, the number of retired members receiving benefits in the Teamster Members Retirement Plan (TMRP or Plan) far surpasses the number of active members making contributions. When this imbalance is coupled with an 80% or lower funding level and the fact that retirees and their spouses are living longer, considerably more money goes out of the Plan annually than comes into the Plan, even when the Plan has a good year of performance with its investments.

The Board of Trustees of the Plan has been advised by the Plan’s professional advisors that the TMRP’s assets are projected to equal the total member contributions in the year 2030. In order to ensure that the Plan is able to meet its benefit obligations, the Plan will have to terminate on or before the year 2030 unless courageous steps to fix the Plan’s funding imbalance are taken **now**. This action is necessary because unlike the multiemployer pension plans that you may be familiar with, the TMRP, as an IRC Section 501(c)(18) plan, did not receive financial assistance from the federal government and is not insured by the PBGC, despite the Trustees’ efforts to get legislation passed on both of those matters.

In the coming months, you'll receive important information about proposed changes to the Plan to avoid having to terminate and cease all benefit payments. This update explains our current situation, summarizes the necessary changes, and describes our next steps.

**OUR CURRENT SITUATION**

Over the past 17 years, the Plan’s financial situation has declined requiring us to reduce benefits:

* In 2006, in response to the stock market plunge after 9/11.
* In 2014, due to the 2007/2008 financial crisis.
* In 2018, due to decline in membership and continued weak overall investment returns.

Each time, we worked with professional advisors to determine what changes to make to keep the Plan solvent and able to continue paying monthly retiree benefits for life to members and their spouses. In each instance, the Plan changes improved the Plan's financing but the financial challenges facing the Plan continue.

**Fewer Active Members**

Over the long-term, the TMRP has fewer active TMRP members, which means lower contribution income to the Plan. As shown in the table below, the Plan now has more than **7 times the number of non-contributing members entitled to current or future benefits as it has active contributing members**. Last year, our active members paid $10.5 million in contributions into the Plan, but the Plan paid out $88.1 million in pension and death benefits. That represents a cash flow shortfall of over $79 million, and it is projected to grow in each of the next several years as more members retire. This situation is not sustainable, even if investment returns far surpass the Plan’s assumed return rate. Consequently, every year the Plan’s total assets will decline.

**Active Members vs. Non-Contributing Members Entitled to Current or Future Benefits (Retirees, Beneficiaries and Terminated Vested Members)**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **July 1** | **2018** | **2019** | **2020** | **2021** | **2022** | ***Estimated***  **2023** |
| **Active members** | 5,990 | 4,691 | 4,230 | 3,807 | 4,105 | 3,779 |
| **Terminated vested members** | 12,432 | 13,468 | 13,599 | 13,625 | 13,509 | 12,659 |
| **Retirees** | 15,036 | 14,645 | 14,200 | 13,733 | 13,378 | 14,240 |
| **Beneficiaries** | 3,093 | 3,058 | 3,045 | 3,068 | 3,049 | 3,144 |
| **Non-Active / Active Ratio** | 5.10 / 1 | 6.64 / 1 | 7.29 / 1 | 7.99 / 1 | 7.29 / 1 | 7.95 / 1 |

**Lower Investment Returns**

To make up for the annual cash flow shortfall, the Plan's investments would have to earn over 13.1% each year, which is not attainable. For comparison, over the last ten years, our average annual investment return has been about 7%. If significant changes are not made now, the Plan will have to terminate in less than ten years. If the Plan is unable to earn the assumed investment rate of return, the TMRP could have to terminate even sooner.

**NECESSARY BENEFIT CHANGES - PROPOSED**

The Trustees have worked with our actuaries, auditors, and investment advisors to develop a solution for saving our lifetime pension benefits that has the smallest possible impact on our members while ensuring the future of the Plan. All members - active, terminated vested, disability pensioners, retirees, and spouses receiving benefits will share in the cost of saving our Plan. The solution is designed to result in a **100% funding level**.

Why are we proposing reducing benefits to bring the Plan to a 100% funding level? A 100% funding level means that total projected benefit payments are equal to Plan assets and investment return. 100% funding is therefore the best course of action to continue paying lifetime benefits without having to make benefit reductions in the future. Bringing the Plan to a 100% funding level also takes the need to grow the Plan’s active member base out of the equation. At a 100% funding level, the Plan will be able to make all promised lifetime benefit payments without making further benefit cuts provided the Plan’s invested assets earn the Plan’s assumed rate of return (even with no new members). If new members join the Plan, that will further improve the Plan’s funding. In order to bring the Plan to a 100% funding level and give the Plan its best chance to continue lifetime benefit payments without additional benefit cuts, however, the benefits need to be significantly reduced effective January 1, 2024.

We propose the following changes starting January 1, 2024:

**Active Members**

* Reduced Past Accrual Rate: The accrual rate for active members **on contributions made through 2023** will be reduced by 30%. This results in an accrual rate of 1.225% on contributions made through December 31, 2023.
* No Change to Future Accrual Rate: There is **no change** to the accrual rate for contributions made on or after January 1, 2024. The accrual rate will remain at **1.75% for these contributions.**

With this change, the number of months it will require to recoup all of your contributions will depend on your personal circumstances. **All retirees, however, will continue to receive a lifetime pension (with spousal protection, if applicable and desired). And, if a member should die before the Plan returns 100% of their contributions, a Death Benefit equal to the remainder of his or her contributions will be paid to the named beneficiary.**

As described above, the TMRP expresses accrual rates as a percentage of contributions. As a point of reference, the majority of other union defined benefit plans – in particular, multiemployer pension plans – that also express their accrual rates as a percentage of contributions have accrual rates of between 1% and 1.24% of contributions. In fact, for plans facing the kind of funding challenges facing the TMRP, **73%** have between a 1% and a 1.24% accrual rate. The reduction of past contributions to 1.225% brings the TMRP into line with those other plans. Keeping the future accrual rate at 1.75% places the TMRP’s accrual rate well above the average multiemployer pension plan.

* Increased Reduction for Early Retirement Benefits: Effective for retirements on or after January 1, 2024, the adjustment for retirement before age 65 will change. Currently, the TMRP subsidizes the pension of anyone who retires before age 65. That is, the lifetime value of the pension for those who retire before age 65 is greater than the value of a pension for those retiring after attainment of age 65, all else being equal. In other words, the additional value for early retirement before age 65 is paid for by the Plan through “subsidized” early retirement factors. The proposed change will change the early retirement adjustment so that the value of a pension for those who retire before age 65 **is equal** (on an actuarial basis) to the value of a pension for those who retire at age 65. Further, under the proposed early retirement factors, there is no difference for those pensioners retiring with 25 or more years of service.

**Retirees**

Benefits for retired members will be reduced by 40%.[[1]](#footnote-1) For example, a retiree receiving $500.00 per month will begin receiving $300.00 per month as of January 1, 2024.

Important Note: Over 85% of our retired members have already recouped their entire investment in the Plan (their contributions). For those retirees, although the proposal represents a benefit reduction, they will continue to receive a monthly pension benefit over and above the amount they contributed to the Plan for the rest of their lifetime and their spouse’s lifetime.

For those retirees who have not yet recouped their contributions, even with the benefit cuts, they will recoup their contributions within a reasonable period and again, after the recoupment period, members will receive a pension benefit for the remainder of their lifetime.

**Terminated Vested Members**

Benefits for terminated vested members will be reduced by 50%.[[2]](#footnote-2)

**Trustees' Authority to Adjust Benefits**

The Trustees are authorized under the terms of the Plan’s Trust Indenture to adjust benefits in any Plan year if necessary to bring the Plan’s funding level to 100% **provided** that any benefit adjustments are approved by referendum conducted among active and retired members.

**ALTERNATIVES TO PROPOSED BENEFIT ADJUSTMENTS**

**1. Repayment of Contributions if Necessary – Trigger Point**

Under the terms of the Trust Indenture, if the TMRP has only enough money left to repay members at least all of their contributions (reduced by the benefits they have received), the Plan will be terminated, and members will receive their total contributions minus benefits received. **This means that any retiree who has already collected the value of their contributions (currently 85% of retirees) will receive no further benefits – all pension payments will immediately cease.** At present, the Plan is projected to hit this “Trigger Point” in 2030. That is, if no benefit adjustments are approved, the Plan will terminate in 2030 and remaining contributions not already paid out will be returned. Pension benefits will cease for any retiree who has already received the value of their contributions in the form of pension payments, and no further pension benefits will be paid in the future. This is not a proposed change and will not be voted on since the Plan already provides for this contingency under the terms of the Plan.

**2. Purchase of Annuities**

If the benefit adjustments set forth above for active, retired and terminated vested members are not approved by our membership, the Trustees will likely decide that it is in the members’ best interest to terminate the Plan and purchase annuities for members in the marketplace, rather than waiting until the Plan reaches its “Trigger Point” as described above. This means that whatever the Plan’s assets will pay for at the time of the annuity purchase is what our members will get. Further, due to daily investment market fluctuations, Plan members will not have advance notice or a vote on any specific benefit reductions applicable to annuity purchases. Due to the demands of the annuity purchase market, the Trustees will have a window of only 4 to 8 hours to commit to specific benefit reductions.

The numbers today are bleak – benefits for active members will have to be reduced by *at least* 37% (with a cessation of future contributions), retirees will incur a benefit reduction of *at least* 49%, and terminated vested members will have their benefits reduced at *least by* 62%. That is the nature of annuity purchases – they are expensive because the insurance company that sells the annuities must ensure that the Plan’s assets will cover members’ lifetime annuities. The level of benefit reductions could get worse between now and the time of annuity purchase, depending on factors such as investment returns and market interest rates.

Following are factors that contribute to the significant expense of annuity purchases:

| **Cost Factor** | **Annuity Providers** | **The TMRP** |
| --- | --- | --- |
| Long-term interest rate assumption | Very conservative (low) and based on bond market | More optimistic and based on the Plan’s balanced portfolio which, over the long-term, has earned an average return of 7% over the past 10 years. |
| Profit | Annuity providers are beholden to shareholders and must imbed a profit margin on the cost of annuities | No profit motive. All assets are dedicated to the payment of benefits for members and beneficiaries and the payment of reasonable administrative fees. |
| Risk | By taking on plan liabilities, the annuity providers are assuming the risk and must build in a significant “cushion” to hedge against poor experience. | The Plan does not have to build in a cushion and can therefore assume risk without such a high cost. |
| Administrative Expense | The annuity provider has administrative expenses *over and above* the cost of providing the annuities such as advertising expenses and state insurance taxes. | The only administrative expenses the Plan has are the cost of running the Plan and providing benefits to members. |

If we continue the TMRP, the Plan absorbs the cost of providing benefits and we do not have to impose such severe reductions as a result. **The proposed reductions increase our projected funding level to 100%.**  That funding level projection is based on the assumption that no new groups will join the TMRP and that the Plan’s assets will earn a reasonable investment return of 7% beginning in 2024.

**NEXT STEP**

A referendum must take place to approve the proposed changes:

* Two-thirds of all voting active and retired members of the Plan must approve the changes in a referendum vote. Referendum packets including ballots will be mailed in October, 2023, and ballots will be due in November, 2023.

**A REALISTIC SOLUTION FOR THE FUTURE**

These Plan changes are a far better solution to sustain stability for the future of the Plan, for these reasons:

* Benefit obligations are reduced to equal assumed assets meaning that more money will not be paid out in benefits annually than the Plan can afford.
* The changes are not based on any increased membership assumptions, although we do fully intend to continue trying to grow our membership base.
* They are based on the reasonable annual investment return assumption of 7%. Over the past 10 years, the average annual investment return has been 7%.
* Every Plan member will continue to receive all of his or her contributions back. This will take the form of a lifetime pension benefit for the member and his or her spouse (or a Death Benefit if a member should die while active) and amounts received will exceed contributions paid into the Plan after a reasonable amount of time in retirement.

The benefit adjustments described above bring the Plan’s funding level up to **100%** (all benefits are fully funded) which ensures the continuation of the Plan into the future.

If the changes are approved, they will be effective January 1, 2024.

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We will offer a number of communications and events in the coming months where you can get additional details, including:

* Mailings with additional information and reminders.
* Regional meetings where you can hear about the changes first-hand and get answers to your questions.
* You can always call your Local Union, District Council, or the Plan Office with your questions.

Be sure to watch your mail for information on the timing of these communications and events.

We hope we can count on you for your support of this critical action to save our Plan and continue paying pension and other benefits to our members.

Sincerely,

*The Board of Trustees*

1. There needs to be a smaller benefit cut for active members in order to encourage continued contributions to the Plan which will help the Plan pay lifetime pension benefits to all current and future retirees and spouses. [↑](#footnote-ref-1)
2. Terminated vested members will have a slightly larger benefit cut because these members, who are no longer contributing, have not yet retired and can increase their retirement income through other means. [↑](#footnote-ref-2)