

Rules of Thumb for Pension Bargaining

I. Pension Financials

	What Is the Issue?	Where to Find It	Notes
Funded Status	<p>Funded status is a quick way to assess the pension's financial health. When the pension is less than 100% funded, annual contributions are higher. This is because the contribution rate consists of the cost of benefit accruals for the year, plus the amortized cost to pay down any underfunding.</p>	<ul style="list-style-type: none"> • Form 5500: Schedule SB, line 14 (Funding Target Attainment Percentage) • Annual Funding Notice • Pension Valuation. <p>Generally look for the "funding target attainment percentage."</p>	<p>Quick rules of thumb on funded status:</p> <ul style="list-style-type: none"> • 100% + : Completely funded • 90 – 99%: Relatively well funded. • 80 – 89%: Not terribly underfunded, but not great. • 61 – 80%: Certain benefit restrictions required by law. • 60% or less: Even more benefit restrictions.
Employer Contributions	<p>The contribution rate is a relative measure – can be compared to the employer's overall financial health, employee total compensation, etc.</p> <p>The contribution rate by itself can be useful to assess any changes in the rates in the last few years:</p> <p>-- Have contribution rates fluctuated in the last few years? (Does the pension burden seem to be increasing or decreasing?)</p> <p>-- Has the employer contributed more than the minimum required contribution? (If so, is there a sense why?)</p>	<ul style="list-style-type: none"> • Form 5500: Schedule SB, line 18, also Schedule H, line 2a • Also can be found in the Pension Valuation. 	<p>Recent legislation (MAP-21 in 2012) and (HATFA in 2014) have increased the allowable interest rates for pension valuations, which has resulted in a <i>reduction</i> in the pension liability and minimum required employer contribution rates.</p> <p>If the employer has contributed above the minimum required, it may be simply to reduce contributions in future years, but it also may be because the company is eventually looking to terminate the pension plan. (The plan cannot be terminated unless it is 100% funded.)</p>

II. Employee Benefits

	What Is the Issue?	Where to Find It	Notes
What is the Benefit Structure?	<p>Different pension plans have different structures. The most common at CWA are:</p> <ul style="list-style-type: none"> • Banded Plan: Flat dollar amount x years of service • Multiplier Plan: Percent of final pay x years of service • Cash Balance Plan: Percent of pay added to “virtual account” + annual interest credit on account balance 	<ul style="list-style-type: none"> • Pension SPD will have the basics laid out in lay terms. • Plan Document will have all specifics laid out in technical language. • Pension Valuation and 5500 (toward the back) should have basic descriptions of the plan design. • Collective Bargaining Agreement may have details specific to the bargaining unit. 	<p>Bargaining considerations:</p> <ul style="list-style-type: none"> • Banded Plan: If the flat dollar amount is not negotiated upward, the accrual rate will not keep up with inflation over time. • Cash Balance Plan: Often accrue far lower benefits than more traditional designs. This can be improved by increasing the pay credit, interest credit, or both.
Who is Accruing Benefits?	<p>Unfortunately, pension benefits are “frozen” more and more often.</p> <p>It is helpful to know who is still accruing benefits in the plan, and at what rate, to help assess what the company’s bargaining goals may be. (For example, are managers still covered? Other bargaining units? New hires?)</p>	<ul style="list-style-type: none"> • Form 5500: Towards the back of the document, there may be a section listing which employees accrue benefits. • Pension Valuation • Summary Plan Description (SPD) • Plan Document 	<p>Pension freezes can take many forms, including:</p> <ul style="list-style-type: none"> • No employees receive further benefit accruals at all. • Only BU members receive accruals, management does not. • Only active employees receive accruals, new hires do not. • Benefit is partially frozen (for example, a cap on band amount, but employees can accrue years of service.)

III. Proposed Pension Changes

	How to Calculate It	Notes
<p>How the Proposed Change Affects Pension Contributions</p> <p><i>What is the Issue?</i></p> <p>When the union proposes a pension increase, the employer's contribution requirements will most likely rise.</p> <p>Likewise, when the employer proposes a pension cut, pension contributions will likely decrease.</p>	<p>If you know (or can estimate) the percentage increase/decrease in the pension <i>benefit</i> that will result, you can apply that same percentage to the <i>contribution</i> for a very "quick and dirty" estimate of the change in contribution.</p> <p>You must use the <i>annual accrual cost for the bargaining unit ONLY</i>. This will not be found in the pension valuation or 5500, but could be found in the CREEP sheet, or else a specific data request from the company.</p> <p>For example:</p> <p>2014 pension cost of \$1 million. Suggested increase of 2% increase to pension bands. Increase in pension cost = \$1m x 2% = \$20,000</p>	<p>It's often best to enlist the help of an actuary to calculate this more accurately.</p> <p>As noted above, pension contribution requirements fluctuate from year to year, sometimes quite dramatically. Because any pension changes will happen prospectively only, but you are basing your estimates on last year's cost, this number can be somewhat inaccurate.</p>
<p>How the Proposed Change Affects Pension Expense (ie, Liability)</p> <p><i>What is the Issue?</i></p> <p>When the union proposes a pension increase, the pension liability will rise.</p> <p>Likewise, when the employer proposes a pension cut, the pension liability will decline.</p>	<p>If you know (or can estimate) the percentage increase/decrease in the pension <i>benefit</i> that will result, you can estimate the change in pension liability via the formula below.</p> <p>You must use the <i>annual service, interest, and liability costs for the bargaining unit ONLY</i>. This will not be found in the pension valuation or 5500, but could be found in the CREEP sheet, or else a specific data request from the company.</p> <p>Formula:</p> $\begin{aligned} & \% \text{ change} * \text{service cost} \\ & \quad + \\ & \% \text{ change} * \text{interest rate} * \text{total liability} \\ & \quad + \\ & (\% \text{ change} * \text{total liability}) / \text{amortization} \\ & \quad \text{factor (ex, 12)} \end{aligned}$	<p>It's often best to enlist the help of an actuary to calculate this more accurately.</p>

IV. Where to Find the Documents Listed Above

5500 Forms for single and multiemployer private pension plans are publicly available through a search function at: <https://www.efast.dol.gov/portal/app/disseminate?execution=e2s1>

Those posted by the DOL are generally delayed by 1-2 years (for example, in April 2015, the most current 5500 will probably be from plan year 2013). A more recent 5500 may be available through a data request to the employer.

Pension Valuations are available only through a data request to the employer.

Pension SPD and Plan Document are available only through a data request to the employer.

The **Annual Funding Notice** is a mandatory notice sent to all plan participants in April. So, you may have access to it if a plan participant has received one. It can be directly requested from the employer.