Automotive Industries Pension Plan
Checklist Item #18

Does the application include information on past and current measures taken to avoid insolvency?

See section 5.01.

Yes. The documentation is attached as Document No. 18.1.

Document No. 18.1

The Trustees have taken numerous measures to avoid insolvency over the past 10 plan years. These measures have included elimination of adjustable benefits, accrual rate reductions, adoption of a Rehabilitation Plan and consideration of merger, PBGC approved managed mass withdrawal and plan partition.

The Trustees began these measures over 10 years ago in response to lower than expected investment returns and a declining contribution base, when it reduced the accrual rate from 5% of contributions to 3% effective July 1, 2003. The Trustees further reduced the accrual rate from 0.50% of contributions made for the first $250 of monthly contributions, 1% for the second $250 of monthly contributions and 2% for monthly contributions in excess of $500, effective January 1, 2005.

In 2008, the Plan was certified to be in "critical" status under the Pension Protection Act of 2006 and the Trustees adopted the 2008 Rehabilitation Plan. The Rehabilitation Plan reduced the benefit accrual rate to 1% of total contributions made on a participant's behalf, effective for contributions after July 1, 2008. The 2008 Rehabilitation Plan eliminated all early retirement subsidies, (including the "Rule of 85" benefit, whereby a participant was eligible, with certain limitations, for an unreduced early retirement benefit when the participant's age plus their years of service totaled 85) and all subsidies on the Automatic Joint and Survivor Benefit. The Rehabilitation Plan also eliminated all future disability awards, the 36 month guarantee of pre-retirement death benefit awards and all optional forms of payments on pension awards. Single participants can only receive the single life annuity with no death benefits. The 50% or 75% joint and survivor benefit available for married participants is unsubsidized. The 2008 Rehabilitation Plan also instituted supplemental contribution increases through a Default Schedule, whereby employers were obligated to pay an additional amount that does not count towards benefit accruals. These supplemental contribution increases were scheduled to begin in 2013.

In 2012, the Board of Trustees in consultation with its actuary, reviewed the Rehabilitation Plan and determined the following. Under the Worker, Retiree and Employer Recovery Act of 2008, the Trustees elected to extend the 10-year Rehabilitation period by 3 years to December 31, 2023. Even with the extension, the Trustees determined that the Plan could not emerge from Critical Status by the end of the rehabilitation period. Reflecting the Plan's actual experience through January 1, 2011, the supplemental contributions of the 2008 Default Schedule would have needed to increase from 12.5% to 35.8% per year for 7 years in order to emerge by the end of 2023. The average contribution rate would have needed to grow from $394 to $3,356 per month by the final year.

The Trustees concluded that such increases in the supplemental contribution rate were unreasonable and would cause considerable risk to the Plan and its participants. Based on the decline in the automotive industry, the rapid decline of contributing employers and active participants in the Plan and information regarding a substantial risk of withdrawals of the remaining larger contributing employers, the Board of Trustees concluded that the risk to the Plan's existence and the ability to keep contributing employers and maintain or improve the Plan's funded status would be jeopardized by any attempt to emerge from Critical Status by the end of the rehabilitation period. Thus, the changes to the Rehabilitation Plan adopted by the Trustees in 2012 were designed to forestall insolvency.

Effective July 9, 2012, the Trustees adopted an updated Rehabilitation Plan which further eliminated the early retirement benefit for inactive vested participants and adjusted the rate of the supplemental contribution increase. The 2012 update to the Rehabilitation Plan imposed a 5% cumulative supplemental contribution on employers. Employers began paying the 5% supplemental contributions in 2013 and will continue paying the supplemental contributions through 2019. In 2019, employers will pay 40.7% on every dollar that they are otherwise required to contribute to the Plan because the 5% supplemental contribution is cumulative (i.e., employers paid an additional 5% in 2013, 10.3% in 2014, 15.8% in 2015, etc.).

The Trustees also pursued other strategies to avoid insolvency. The Trustees considered various measures that involved the PBGC, such as a PBGC assisted merger, PBGC approved mass withdrawal and a plan partition. The Trustees also pursued merger opportunities outside the PBGC. Unfortunately, the PBGC assistance would have been insufficient to solve the problem. A plan partition (based on pre-MEPRA law) of liabilities related to benefits earned by participants from bankrupt employers was not viable due to the relatively small amount of plan liability eligible for assistance. The Trustees were unable to locate another pension plan willing or able to merge with the Plan in its current state.