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Multi-Employer Pension Plan Primer

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MEPP = Multi-Employer Pension Plan

- A retirement plan to which more than one employer contributes.
- Established via collective bargaining to cover unionized employees.
- Managed by a board of trustees comprised of equal numbers of employer and union representatives.
- Typically industry specific and supported by industry participants.
  - Employer contributions fund benefits for all plan participants (not just the employees of a contributing employer).
- Many plans include small employers and those with mobile workforces (construction, transportation, manufacturing, shipping and food production).
- Employer participation in a plan can range from a few companies to over a thousand.

How are MEPPs managed?

- Managed by a board of trustees.
  - Must have equal numbers of employer and union representatives.
  - Trustees:
    - Set benefit levels.
    - Control all plan provisions.
    - Administer the plan.
    - Oversee investment of plan assets.
    - Have fiduciary responsibility.
      - Trustees are required by law to act solely in the interests of all plan participants (active employees, terminated vested employees and retirees).

Plan Funding

Employers fund the plan via contributions.

- Contribution rates are negotiated between each employer and their respective local union in a collective bargaining agreement (CBA).
- Each CBA is separately negotiated.
- Contribution rates may differ between CBAs and/or between local unions within a fund.
  - Contributions are based on actuarial formulas that estimate the cost of the benefits established by the fund – may be a specific dollar amount for every hour worked or based on the funded status of the plan.

Negotiated Contributions in a CBA are designed to cover:

1. The administrative expenses for that year,

2. The cost of the benefits earned (or 'accrued') in that year, and

3. An amount that will 'pay down' the unfunded accrued liability (if any), as estimated at the beginning of the year, over a specified reasonable period of time.

Balance equation

PLAN ASSETS: Contributions + Investment Earnings

Equal

PLAN LIABILITIES: Benefits + Expenses

Plan Assets: Contributions + Investment Earnings

Employer contributions are invested with the goal of generating an 'expected rate of return'.

- Typically, the board of trustees (or a subcommittee) will work with an investment consultant to determine which asset classes to invest in, how much to allocate to each, and which specific managers/funds will be used.
- The plan's actuary will help determine a realistic return target based on the investments that are made.
- If plan assets consistently generate the expected rate of return and contribution levels are appropriate, the funded status should improve gradually as the unfunded liability is amortized.
- If investments underperform the target return, the plan's funded status will improve more slowly and may even decline.

Plan Liabilities: Benefits + Expenses

Liabilities are the obligations of the plan and reflect projected benefits for plan participants and plan expenses.

- Plan actuaries calculate the liabilities of the plan as of the end of each plan year, based on the value of benefits accrued to date (as determined using certain assumptions, including anticipated retirements, disabilities and deaths, and rates of employee hires and terminations).
- Plan actuaries also project future benefit payments, using complex calculations, based on participants' ages, expected life span, ages of spouses, etc.
- The total future expected benefits, based on service as of a given date, is called the Accrued Liability as of that date.
- Plan liabilities are discounted at the expected rate of return.
  - Note: single-employer plans discount liabilities using a corporate bond rate, which is typically much lower than the expected rate of return for a MEPP.
- Plan liabilities are obligations of the plan itself; as such, the liabilities are not recorded on the balance sheet of the companies that contribute to the plan.

Funded Status

The funded status is simply how well-funded the plan is: assets divided by accrued liabilities.

- Green zone plans are more than 80% funded and have no projected funding deficiency for at least 7 years.
- Yellow zone plans are less than 80% funded or have a projected funding deficiency within the next 7 years.
- Red zone plans are less than 65% funded with a projected funding deficiency in the next 5 years.

Unfunded Liability

- When plan liabilities are greater than plan assets, that difference is called the "unfunded liability".
- If a plan has unfunded liabilities that are not being paid down by current contributions, the 'deficit' can only be made up through:
  - Investment returns that are in excess of the assumed rate of return,
  - Increased contribution rates that are above the contribution rates negotiated in the individual CBAs (determined by the board of trustees), or
  - Reductions in the rate benefits are earned (determined by the board of trustees).
- Once a plan enters yellow (or red) status, the plan's board of trustees is required to establish a Funding Improvement Plan (yellow) or a Rehabilitation Plan (red) to improve the funded status by a certain amount within a specified time period. This usually results in increased employer contributions and/or reductions in future benefits, as determined by the board of trustees.
- The board of trustees of a red zone plan can reduce or eliminate what are known as 'adjustable benefits' (such as early retirement subsidies).

How Plans Become Underfunded

- Contributions are insufficient relative to plan benefits,
- Investment returns are less than expected,
- A withdrawn employer fails to pay its full withdrawal liability, or
- Actuarial adjustments are made to the calculation of liabilities (e.g. changes in mortality, retirement patterns, etc.).

- Previously, benefits were often increased when returns were better than expected, rather than 'saved' for when returns were less than expected.

MEPP Withdrawal

- Withdrawal from a MEPP means that an employer permanently ceases to have an obligation to contribute to the MEPP.
- The employer's participating employees are removed from the MEPP with respect to future benefits. However, accrued benefits for those employees, if vested, remain in the existing plan.

- The withdrawing employer:
  - Stops making regular contributions to that MEPP.
  - Is assessed a withdrawal liability to cover its share of "unfunded vested benefits", assuming the plan's present value of vested benefits is greater than the plan's assets. This withdrawal liability is calculated by the plan's actuary and is paid over time.
  - Moves its participating employees to a new (or different) plan, and makes contributions for future benefits to that plan going forward.

MEPP Withdrawal (Cont'd)

- An employer negotiates its withdrawal with the union and its settlement amount with the board of trustees of the plan.
- The withdrawal must be approved by the affected local unions through ratification of a new CBA.
- For accounting purposes, the withdrawal liability is recognized by the withdrawing employer once all parties have signed the agreement and the agreement is ratified by plan participants.
- The withdrawal liability is typically paid monthly or quarterly over a period not to exceed 20 years.

KROGER MEPPs

- Kroger participates in more than 360 CBAs, usually with terms of 3-5 years that cover approximately 65% of its associates.

- Kroger participates in over 30 different MEPPs.

- None of the obligations for these MEPPs are recognized on Kroger's balance sheet, consistent with GAAP accounting.
    - However, Kroger has chosen, and continues, to disclose its estimate of its "pro rata share" of the unfunded liabilities of these 30 MEPPs, given its potential relevance for users of its financial statements.

KROGER MEPPs (Cont'd)

- In all the MEPPs Kroger participates, the following is true:
  - Kroger is not an administrator.
  - Kroger does not make decisions pertaining to the operation of the plan.
  - The obligations of the plan are not on Kroger's books.
  - Contributions are expensed when paid or when Kroger is obligated to make such contributions.
- In two plans, the UFCW Consolidated Fund (2012) & the IBT Consolidated Fund (2017), the following is also true:
  - Kroger has oversight of asset allocation and manager selection.
  - Kroger guaranteed benefit levels for a specific period of time.
  - Kroger committed to make actuarially determined contributions, which will keep these plans in the green zone.

Benefits of the Proposed UFCW National Fund Withdrawal

- Benefits to Kroger Associates
  - Providing retirement benefits under a new plan structure that helps improve security and stability of associates' future benefits.

- Benefits to All Kroger Stakeholders
  - Kroger will look to establish a new benefit structure which will:
    - Reduce volatility of future contributions.
    - Reduce exposure to other employers.
    - Reduce future withdrawal liability from potential exposure to underfunded plans.

KROGER MEPP Strategy

- Continue to evaluate and address potential exposure to underfunded MEPPs.

- Continue to look for opportunities to make improvements/changes **when it makes financial sense.**


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