2020 NATIONAL PENSION FUND

Name | Title

Date

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Outline

- Update
- Current Situation
- Proposed Solution
  - *Current Plan*
  - *New Plan*

UPDATE

The Union Trustees on the National Pension Fund have reached a historic agreement with the three largest employers in the Plan - Kroger, Stop & Shop, and Albertsons/Safeway.

UPDATE

The agreement:

✔ **Provides a $1.84 billion contribution to the plan.**

This huge cash infusion will help to ensure that any benefits our members have earned are protected and will also help to enable the plan to be well funded for many years to come.

✔ **Establishes a future service pension plan for our members employed by Kroger, Stop & Shop, and Albertsons/Safeway.**

This future service pension plan is similar to the current plan but lowers the amount of returns needed from investments to maintain benefits.

✔ **Provides a bridge for our members to transition from the current plan to the new future service plan with minimal disruption.**

Under the agreement, members would begin to accrue benefits in the future service plan as of July 1, 2020. Any members who are 55 and have at least 10 years of service or any member who has at least 20 years of service would maintain their current benefit accruals. Other members would experience approximately a 20% reduction in benefit accruals. Because of the downtown in the economy, much larger reductions could have occurred without the new plan.

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UPDATE

The agreement:

✔ Provides a variable benefit to our members.

The benefits in the future service plan will adjust up or down based on investment returns. Under the current plan, the target investment return is 7.5%. Under the future service plan, the target investment return will be 5.5% (which makes it easier to achieve) and any returns above 5.5% up to 7% will provide an increase in benefits. Returns above 7% would be put into a reserve, which will be used to help prevent benefit reductions if returns fall below 5.5%.

✔ Maintains current contribution levels.

The current contributions being made to the National Pension Fund will be maintained in the new future service plan for the eight-year duration of this agreement. At that point, the Union would negotiate new contribution amounts.

STATE OF THE CURRENT PLAN

State of the Current Plan

- The current National Pension Fund was 97% funded and in the "Green Zone" as of July 1, 2019. But without substantial year over year contribution increases or substantive benefit reductions its funded status is projected to **decline** over time.

- The funding deficit can be attributed to several factors such as:
  - *Orphan Liabilities: This refers to participants remaining in the Fund after their employers have stopped making contributions due to closings, bankruptcies or other issues.*
  - *More benefits being paid out to retirees than contributions being made on behalf of current participants. Today, approximately $4.00 being paid in benefits for every $1.00 in contributions.*
  - *Lower contributions which were insufficient to cover the benefit which was earned. In some cases, the contributions were not enough to pay the benefit which was earned.*

- The trustees of the current National Pension Fund have been working on a solution to address a possible future funding deficit in the Plan.

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State of the Current Plan

- The recent stock market declines have exacerbated the problem by causing an underperformance in Plan investments and have made the need to address the issue even more urgent. If nothing is done, there is a significant possibility of the Plan becoming underfunded and entering what is referred to as the "Red Zone."
- The result would likely be a combination of benefit reductions (possibly up to 60% on average) and large contribution increases, which could mean less in wage increases or health care benefits in the future.
- If the Pension Benefit Guaranty Corporation (PBGC) became involved, the percentage of benefits would be reduced for many of the participants.

State of the Current Plan

- In an effort to get ahead of this and to protect benefits that our members have earned, we negotiated an agreement with the National Fund's three largest employers: Kroger, Stop & Shop, and Albertsons/Safeway.

- This agreement would have to be approved by a vote of the membership for each affected contract.

PROPOSED SOLUTION

Proposed Solution: Current Plan

- As part of the proposed offer, Kroger, Stop & Shop, and Albertsons/Safeway would make payments totaling approximately $1.84 billion that would be contributed to the existing Fund.

- This money will improve the finances of the National Fund for many years.

- Let’s look at how this would change the outlook for the National Fund going forward.

Impact on Current Plan

Projected Funded Percentage in 2035	
Status Quo	Proposed Solution with $1.84 Billion Cash Infusion
45% funded in 2035	119% funded in 2035

As you can see, the odds of remaining solvent improve significantly with the infusion of the $1.84 billion.

Proposed Solution: New Plan

- Effective July 1, 2020, all covered employees of Kroger, Stop & Shop, and Albertsons/Safeway commence participation in the new plan and benefit accruals on and after that date are earned under that plan.

- <u>The benefits earned under the current plan would not be touched and would be administered by the National Fund.</u>

- Kroger and Stop & Shop would contribute $45 million to cover transition costs of a new variable benefit fund established effective July 1, 2020. This $45 million would help to maintain the same level of benefits going forward for grandfathered participants in the new plan who have at least 20 years of service or are at least 55 years old with 10 or more years of service.

- Albertsons/Safeway would contribute approximately $8 million to a separate variable benefit fund with the same terms and conditions as the Kroger/Stop & Shop variable benefit fund.

Proposed Solution: New Plan

- Participation eligibility at 21 years of age.
  - *Years of service prior to age 21 apply once someone reaches age 21 and participates.*

- Other benefit provisions:
  - *Same eligibility, vesting, general benefit options etc., as National Fund.*
  - *Vesting credits under National Fund count in New Variable Plan.*
  - *Once vested, all prior service applies for benefit options.*

New Variable Plan

- Each year, the participant earns a benefit.
- After the benefit is accrued, all benefits adjust at the end of each year based on plan investment returns above and below a return of 5.5%.
  - *If actual plan returns are between 5.5% and a cap (expected to be 7%), all benefits earned under the variable plan increase.*
  - *If actual plan returns are less than 5.5%, all benefits earned under the variable plan decrease.*
  - *Changes in benefits are not expected to be significant as the new plan is started.*
  - *Earnings above 7% are put into a reserve to maintain benefits that may be adjusted downward.*
  - *Investment returns of 5.5% on plan assets, which would be needed to maintain benefit levels, are reasonable. By way of comparison, using the existing asset allocation in the National Fund, the current market expectations indicate a 6.3% average annual return over the next 10 years, and a 6.8% average annual return over the next 20 years.*

How the Calculations Work

Example 1: First Few Years

Year	Prior Year Plan Return	VAPP Calculations
Year 1	N/A	VAPP adjustment for investment returns = N/A in first year Benefit earned in Year 1 = $30.00 Accrued benefit at end of Year 1 = **$30.00**
Year 2	6.0%	VAPP adjustment = 1.0047 (6.0% return vs. 5.5% hurdle rate) Benefit at end of Year 1, adjusted = 1.0047 x $30.00 = $30.14 Benefit earned in Year 2 = $30.00 Total accrued benefit at end of Year 2 = $30.14 + $30.00 = **$60.14**
Year 3	3.0%	VAPP adjustment = 0.9763 (3.0% return vs. 5.5% hurdle rate) Benefit at end of Year 2, adjusted = 0.9763 x $60.14 = $58.71 Benefit earned in Year 3 = $30.00 Total accrued benefit at end of Year 3 = $58.71 + $30.00 = **$88.71**
Year 4	8.0%	Note: Ceiling rate of 7.0% applies VAPP adjustment = 1.0142 (7.0% ceiling rate vs. 5.5% hurdle rate) Benefits at end of Year 3, adjusted = 1.0142 x $88.71 = $89.97 Benefit earned in Year 4 = $30.00 Total accrued benefit at end of Year 4 = $89.97 + $30.00 = **$119.97**

How the Calculations Work

Example 2: Mid-Career

Year	Prior Year Plan Return	VAPP Calculations
Year 10	N/A	Note: example begins at end of Year 10 Accrued benefit at end of Year 10 = **$311.07**
Year 11	11.0%	Note: Ceiling rate of 7.0% applies VAPP adjustment = 1.0142 (7.0% ceiling rate vs. 5.5% hurdle rate) Benefit at end of Year 10, adjusted = 1.0142 x $311.07 = $315.49 Benefit earned in Year 11 = $30.00 Total accrued benefit at end of Year 11 = $315.49 + $30.00 = **$345.49**
Year 12	8.0%	Note: Ceiling rate of 7.0% applies VAPP adjustment = 1.0142 (7.0% ceiling rate vs. 5.5% hurdle rate) Benefit at end of Year 11, adjusted = 1.0142 x $345.49 = $350.40 Benefit earned in Year 12 = $30.00 Total accrued benefit at end of Year 12 = $350.40 + $30.00 = **$380.40**
Year 13	0.0%	VAPP adjustment = 0.9479 (0.0% return vs. 5.5% hurdle rate) Benefit at end of Year 12, adjusted = 0.9479 x $380.40 = $360.58 Benefit earned in Year 13 = $30.00 Total accrued benefit at end of Year 13 = $360.58 + $30.00 = **$390.58**

Sample Benefit Statement

Pension Summary as of June 30, 2033 *Amounts payable at Normal Retirement Age*	**Years of Service**	**Monthly Benefit**
Fixed benefit earned under National Fund (fixed)	10.0	$380.00
Variable benefit earned under New Fund (variable)	13.0	$390.58
Total benefit from two Funds	23.0	770.58

When you retire, you will receive two checks: one from the National Fund (fixed benefit) and one from the New Fund (variable benefit).

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New Plan: Accrual Rate

- For non-grandfathered participants:
  - *Monthly accrual rate in the new plan represents approximately a 20% decline from the accrual rate in effect under the National Fund as of June 30, 2020.*

- Accrual Rate over first 10 years of participation.
  - *Same structure as current National Fund.*
  - *Multiplier for years 1-5 = 75.0%; for years 6-10 = 87.5%; years 11 and above = 100%.*
  - *For current participants, service under National Fund counts under New Plan.*

New Plan: Grandfathering

- **Certain participants grandfathered at current accrual rate (i.e., no reduction from benefit accruals in current National Fund as of June 30, 2020).**
- Grandfathering provision is supported by $45 million transition reserve.
- Eligibility:
  - *Age 55 and 10 or more years of service, or at least 20 years of service.*
  - *Based on age and service as of June 30, 2020.*
  - *For current participants, service under National Fund counts under New Plan.*
- Approximately 15,000 participants grandfathered.
  - *Out of approximately 55,000 Kroger, Stop & Shop, and Albertsons participants in total.*

New Plan: Transition Period

- Eight-year agreement from July 1, 2020 through June 30, 2028.

- No changes to nominal accrual rate during period; except that the cost of any PBGC premium increases legislated after 2020 will be paid through bargaining.

- Two scheduled contribution rate increases of $2.50 per hour during period to pay for administrative expense.
  - *Worth $13+ million in additional contributions over transition period.*