Automotive Industries Pension Fund and the Pension Protection Act: An Overview

Introduction

The Trustees are committed to providing responsible stewardship of the Pension Plan's investments, and to careful and informed management and oversight of the Plan's financial condition. Since its inception in September 1955, we have conscientiously monitored the Plan's assets, which are carefully invested and broadly diversified.

Today, we have over 6,400 active participants, 11,200 inactive participants who are eligible for a pension and 9,900 retired participants and beneficiaries. The Automotive Industries Pension Plan is a defined benefit plan whose goal is to provide participants with valuable retirement benefits.

To fund these benefits, the Plan relies on contributions from its participating employers and investment returns. When employers contribute to the Fund on behalf of their active employees, their contributions are invested in a wide range of investment vehicles. The resulting Plan assets (the employer contributions and investment earnings) are used to pay lifetime monthly benefits to current and future Plan retirees, and to cover any administrative costs. We work with professional advisors (actuaries, consultants, investment experts and legal counsel) to develop and implement a sound financial policy.

Defined Benefit Plan

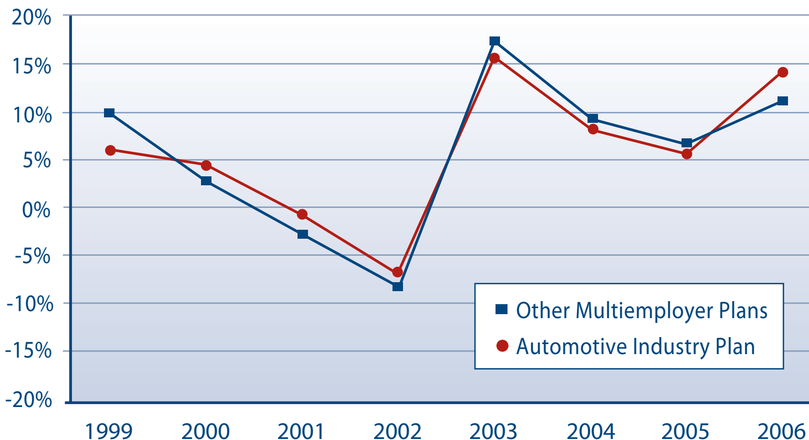
A defined benefit plan is a pension plan that provides a monthly pension to the retiree based on the service credits the retiree earned during his working years and formula at the time he or she retired. Employer contributions and investment earnings fund the Plan.

Impact of the Financial Market on our Plan

Over the years, the Trustees have closely monitored the performance of the Plan's investments. Our goal is a 7.5% annual return. In good times, positive results have meant improvements to benefits for retirees and future retirees. Toward the end of the 90s, the dot.com bust and a slowing economy signaled a downward trend in investment performance. After 9/11, investment returns of both the stock and bond markets became more volatile and lower than normally expected. No one could have anticipated what the long-term economic effects of this event would be.

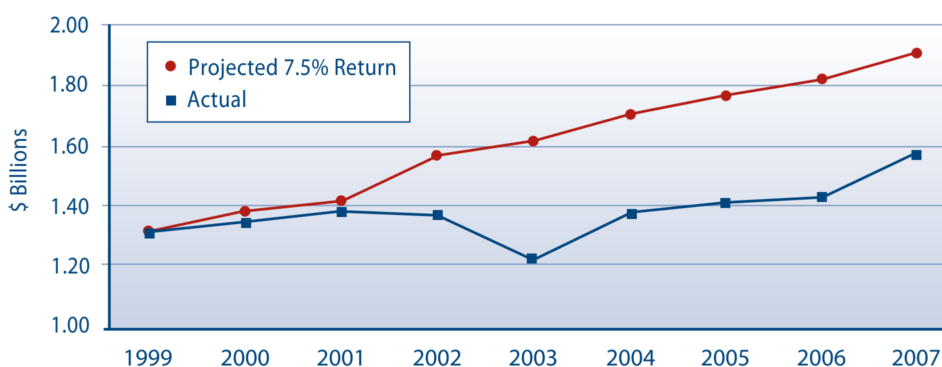
Due to the lower-than-expected investment returns and an overall downturn in the economy, many retirement plans across the country have experienced financial challenges in recent years. Despite careful investing, our Plan has also been affected by the market, which remains volatile and uncertain even today. The following graph provides an historical look at the annual rate of return for our Plan and other multiemployer funds like ours.

Poor Investment Returns Affect All Plans



Our Plan has been negatively impacted by less than expected market returns as well. As noted earlier, we anticipated an annual return on investments of 7.5%. This was reasonable, based on our history, but was not achieved in the last several years. On the graph on the next page, the red line indicates the value of the Plan's assets if investment results had been at the 7.5% level, and the blue line indicates the value of the Plan's assets based on actual investment results. As you can see, the difference by 2007 is significant—over $344 million.

Market Value as of January 1



The Pension Protection Act of 2006

In response to the falling value of pension plan assets (the money used to pay benefits) and the termination of pension plans by large employers in poor financial health, President Bush signed into law the Pension Protection Act of 2006 (PPA). This Act calls on Trustees to monitor their plans' financial prospects actively and to review projections of plan funding status at least annually. The Trustees of the Plan have always done this and will continue to do so. The PPA has now reduced the amount of time the Trustees could use to address any future funding issues.

The Act also requires our actuary, The Segal Company, to provide the Trustees with an annual assessment and certification of the Plan's funding status, the first of which was recently completed. This review covered:

- The expected contributions from employers in the coming year,
- The value of our benefits earned yearly plus the amount of money needed to fully fund all of the plan's future monthly retirement benefits, and
- The present value of vested benefits for both active and non-active participants (those currently not working—pensioners, beneficiaries, and those not yet retired).

The Segal Company has issued our certification. According to the new guidelines established by PPA, our certification states that the Plan is in "Critical Status," also known as the "Red Zone," effective with our Plan Year that began January 1, 2008.

What Does Being in the Red Zone Mean?

What this means is that under the new PPA guidelines, we currently anticipate a funding deficiency within the next five years. A funding deficiency does not mean that we will stop paying out pension benefits or that we will run out of money in five years. It means the Plan is not expected to meet its federally mandated minimum contribution requirements for 2012 and therefore must consider increasing contributions and reducing some benefits currently in place.

The Road to Recovery—Our Rehabilitation Plan

The PPA requires funds in the Red Zone to implement what is called a ***Rehabilitation Plan or Rehab Plan***. The Rehab Plan should enable the Fund to attain the PPA's funding requirements ten years from the date the Rehab Plan is implemented.

A Rehab Plan consists of changes, which the Trustees will propose to the collective bargaining parties. These changes are based upon reasonable anticipated experience and reasonable assumptions.

The Rehab Plan may consist of reductions in future benefit accruals and adjustable benefits, and increases in contributions, which are determined necessary. It may also include options to reduce plan expenditures. The Rehab Plan schedule, which will be provided to all bargaining parties, reduces adjustable benefits before any contribution increases are called for by the Trustees.

Reducing adjustable benefits could mean reducing:

- Benefits, rights and features under the plan, including post-retirement lump sum death benefits, disability benefits not yet in pay status and similar benefits, and
- Any early retirement benefit or retirement-type subsidy and any benefit payment option, other than the 50% qualified joint and survivor annuity.

The Rehab Plan must be reflected in collective bargaining agreements (CBA) that are entered into or renewed after April 27, 2008. Until the Rehab Plan is implemented, benefits and contributions will be governed by the existing CBAs. The changes will go into effect on the earlier of two dates: the date a new CBA is executed, or 180 days after the expiration date of the current CBA. Review your CBA or call your Local for the date your current CBA expires.

Here are the changes that are included in the Rehab Plan:

- Remove the early retirement subsidies (both the Rule of 85 and the 3% per year reductions from age 62) and provide only actuarial equivalent benefits from age 65 on all future Early Retirement awards,
- Eliminate future Disability Retirement Benefit awards,
- Eliminate 36-payment pre-retirement death benefit awards,
- Eliminate Automatic Joint and Survivor Benefit subsidies on all future pension awards, and
- Eliminate all optional forms of payments on pension awards. This means that single participants will receive a single life annuity with no death benefits; and married participants will receive the reduced 50% Automatic Joint and Survivor Benefit.

In addition, the Rehab Plan calls for a 12.5% increase in employer contributions per year for each of the next seven years beginning in 2013. These contributions will not count toward benefit accruals.

Change in Accrual Formula:

One change that is not dependent on the collective bargaining agreement is the change to the accrual formula for prospective service (contributions made on or after July 1, 2008). The new formula for all active participants will be 1% of employer contributions made on or after July 1, 2008. The amount of pension that you have accrued until July 1, 2008 is not affected.

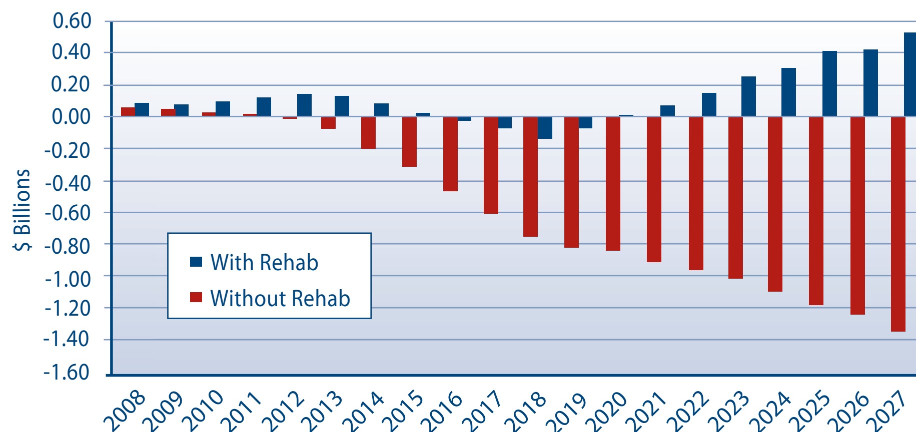
Why We Need the Rehab Plan

The Government mandates that pension plans be funded with at least a minimum annual contribution. To do this, the Government created the Credit Balance to keep track of whether this minimum was being met. The Credit Balance is not allowed to go below zero. Experience gains, such as investment returns over the Plan's assumption, add to the Credit Balance. The opposite is also true—experience losses would reduce it. Without the Rehab Plan, the current projection indicates we are not expected to meet the federally mandated contribution requirements in the year 2012 when the Credit Balance is first expected to fall below zero. However, with the Rehab Plan, we anticipate moving out of the Red Zone and into the Green Zone within the next ten years as required by PPA.

The graph below shows the difference in credit balance by year that would be anticipated with and without the Rehab Plan.

For inactive, vested participants not covered under a collective bargaining agreement, benefit changes will be effective for retirements on or after July 1, 2008.

Credit Balance for Plan Year Ending December 31



The chart on the left shows the impact of our Rehab Plan on addressing and maintaining a positive credit balance. As you can see, without the Rehab Plan, projections show an increasing deficit for our credit balance.

Who Is Affected—and Who Isn't

We understand that you may have many questions regarding this news and the most important one is ***"What does this mean to me and my family?"***

We understand that any benefit reductions are a significant cause for concern for our participants. You should know this:

- **Benefits for pensioners and beneficiaries who are currently in pay status will not be affected,**
- **The 1% accrual rate on employer contributions made on or after July 1, 2008 affects all participants immediately, and**
- **Any other changes that are implemented with the adoption of the Rehab Plan will apply to participants and beneficiaries whose benefit commencement date is after the Rehab Plan is incorporated into the CBA that applies to them.**

Since the Rehab Plan must be incorporated into CBAs when they expire, the changes will not affect you until your Local's CBA is renewed. The changes will go into effect on the earlier of two dates: the date a new CBA is executed, or 180 days after the expiration date of the current CBA. Review your CBA or call your Local for the date your current CBA expires.

For example, if your Local Union's CBA is renewed as of October 1, 2008, then the Rehab Plan changes will affect your benefits beginning on that date. However, the 1% accrual rate will affect everyone with contributions on or after July 1, 2008.

In Closing

The Trustees' goals have not and will not change: to provide lifetime monthly benefits to participants, while protecting the Plan's assets and ensuring its long-term financial stability.

We will continue to report our progress on the Rehab Plan and financial status of the Pension Plan to you annually. The Trustees will do everything required to reestablish and maintain the financial health of the Plan.

Board of Trustees

Automotive Industries Pension Trust Fund