



March 16, 2018

Dear Pension Member:

The recently ratified collective bargaining agreements with Supervalu and independent employers included a historic restructuring of our retirement program. I consider the outcome of these contracts to be a total success on behalf of UFCW Local 653's membership because we reached an agreement with the contributing employers that addresses the long-term funding dilemma of the Minneapolis Retail Meat Cutters and Food Handlers Pension Fund (Legacy Plan). In 2000, this plan was nearly fully funded. However, the plan never recovered from the stock market crashes of 2001 and 2008. Today the plan is 73% funded with \$203 million in unfunded liability, notwithstanding our joint efforts with the employers to increase contributions, reduce benefit obligations, and formulate an effective investment program (Plan assets have nearly doubled to \$533 million since their low in 2009).

I decided two years ago that resolving the funding problems of the pension plan had to be a priority in 2018 bargaining. Local 653's executive committee supported my efforts by agreeing to hire experts to advise us on potential solutions. You also indicated through bargaining surveys and at membership meetings that achieving a secure retirement was a priority for 2018 bargaining. The urgency of the situation became even more apparent when two large employers (Kowalski's and Lunds & Byerlys) withdrew from the plan in 2016 and 2017 and started paying withdrawal liability contributions. Prior to the commencement of 2018 bargaining, Local 653 tried to engage the employers in early negotiations on the pension plan, but the employers refused our overtures. At the end of the day, the solution that Local 653 offered the employers a year ago is what they ultimately agreed to. The remainder of this letter spells out the details of the new pension agreement.

The Legacy Plan (The current Minneapolis Retail Meat Cutters and Food Handlers Pension Plan)

1. We agreed to freeze this plan for future benefit accruals effective December 31, 2018.
2. Members in the Legacy Plan will continue to earn vesting service and credited service for benefit eligibility purposes.
3. The employers will increase their contributions by 2.8% annually for the next three years, and 3.0% annually in years 4 and 5 of the collective bargaining agreement (a 15% increase in employer weekly contributions).
4. The 30-year service pension will be eliminated effective December 31, 2018. Any member with 30 years of service as of December 31, 2018 becomes a protected group that is not affected by this benefit change. This protected group can retire whenever they wish.
5. Non-protected members can retire from the Legacy Plan at age 62 without incurring a benefit reduction.

The decision to freeze the Legacy Plan was strategically crucial. The employers will continue to make contributions to the Legacy Plan for all current members and future new hires. Freezing this plan contains future costs and the newly bargained employer contributions and future investment returns will slowly pay off the Legacy Plan's unfunded liability over the next 20 years. Our ultimate goal is to improve the benefit security of the Legacy Plan and ensure that the promise of lifetime benefits is met for active participants and retirees.

Matthew Utecht, *President*
Paul Crandall, *Secretary-Treasurer*

United Food & Commercial Workers Local 653
6160 Summit Drive North, Suite 600, Brooklyn Center, MN 55430
Office 763-525-1500 or 800-292-4105 – Fax 763-525-0680 – ufcw653.org

The New Variable Annuity Plan (VAP) for Future Service Benefits

Effective January 1, 2019, all members will earn future service benefit accruals in the new Variable Annuity Plan (VAP Plan). The VAP Plan is a separate trust and plan from the Legacy Plan. All current active and future active employees are eligible for coverage in the VAP Plan. The service and vesting provisions of the VAP Plan are identical to the Legacy Plan (Members must earn five years of vesting service to earn a non-forfeitable benefit). All current active employees will bridge their vesting service between the Legacy Plan and the VAP Plan. Members who are already vested in the Legacy Plan become automatically vested in the VAP Plan. If, for example, you currently have three years vesting in the Legacy Plan, you are only required to earn two years vesting in the VAP Plan to become fully vested in both plans.

The VAP Plan is a defined benefit pension plan in which the accumulated accrued benefit is adjusted up and down based on investment performance benchmarked to earning 5.5% each year (the hurdle rate). The VAP Plan is different from the Legacy Plan because it shares some of the investment risk with the members. However, Local 653 negotiated a pre-funded "Stabilization Reserve" from employer contributions that can be used to protect accrued benefits during years of investment underperformance. Also, the VAP Plan uses a lower investment hurdle rate than the Legacy Plan (5.5% vs. 7.5%) which means the assets of the VAP Plan will be invested in a less risky portfolio. Therefore, benefit accruals should not be subject to volatile swings. Finally, because of this unique design, the VAP Plan automatically rebalances itself each year and is expected to stay nearly fully funded at all times.

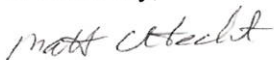
Some of the other design features of the VAP Plan are described below:

1. The death benefit and the disability benefit of the VAP Plan is the same as the Legacy Plan.
2. The normal retirement age of the VAP Plan is age 65. Eligibility for early retirement will be the same as the Legacy Plan with benefits reduced 6.0% per year for commencement prior to normal retirement age.
3. Annual benefit increase adjustments will be capped at 3.0% above the investment hurdle rate of 5.5%. Any surplus above the capped rate of 8.5% will be allocated to the Stabilization Reserve.
4. The VAP Plan accrual benefit for Corporate Cub/Supervalu will start at \$26.25 effective in plan year 2019, \$28.75 effective in plan year 2020, \$32.50 effective in plan year 2021, and \$35.00 effective in plan year 2022. All other independent employers will start at \$20.00 effective plan year 2019 and 2020.
5. At retirement, members will have the option to choose whether the benefit is fixed for life or continues to vary based on investment performance, with a potential for some level of inflation protection.
6. Members who retire from both the VAP and the Legacy Plan will receive two pension checks.

The VAP Plan is the pension design of the future. It is financially sustainable in that it allows employers to budget their contribution requirements over the long term, avoiding the obligation for unexpected unfunded liabilities. This is also important for members because it avoids employers' concerns about withdrawal liability and offers the local union the opportunity to negotiate newly organized groups into the VAP Plan. As a result, the VAP Plan will become an attractive organizing tool. For members, the VAP Plan will ensure retirement security and offer a greater potential for improved benefits.

Local 653 will continue this ongoing series of pension communications to familiarize you with the recently negotiated pension restructure and the creation of the new VAP Plan. We are very proud of what we have accomplished in the 2018 Industry Bargaining and look forward to implementing the new retirement program. If you have questions, you should not hesitate to contact your union representative.

In Solidarity,



Matt Utecht
President