



February 2, 2018

Dear Pension Member:

As we prepare to engage the supermarket employers in industry bargaining, I want to communicate my thinking about pension bargaining. The security of our pension plan is of the utmost priority in the upcoming negotiations.

Much has happened in the past two decades that has adversely impacted our collectively bargained pension plan. Two severe financial crises in 2000-2002 and 2008-2009 drained tens of millions of dollars of assets from the plan, creating the underfunded status we face today. In response to this crisis, Congress legislated the Pension Protection Act of 2006 (PPA) which established strict funding requirements of which the board of trustees of your pension plan must comply.

The plan is currently certified Endangered Status (also referred to as Yellow Zone). This means the plan is less than 80% funded (in 2017 the plan was 73% funded). The plan's PPA funding status has been struggling since 2008 when the stock market crashed and the plan lost nearly 23% of its assets. The board of trustees of the plan has developed a Funding Improvement Plan that is projected to lift the plan out of endangered status in 10 years by increasing employer contributions by annual increases of between 6.0% and 9.0% over the next ten years depending on whether benefit reductions are included or not.

In response to these events, several employers have decided to withdraw from the plan. Under Federal Pension law, these employers must pay the plan withdrawal liability. Kowalski's and Lunds & Byerlys withdrew in 2016 and 2017 and are currently paying withdrawal liability payments equal to \$55 million over the next five to six years. Jerry's recently announced their plans to withdraw from the plan. Jerry's withdrawal liability is \$41 million. In the short term, these withdrawal liability payments are a windfall that will improve plan funding. In the long-term, the departure of these employers shrinks the plan's contribution base and spreads costs and investment risks to the remaining employers. The active population of the plan in 2017 is half of what it was in 2009.

The plan also faces some difficult investment challenges. The plan uses a 7.5% investment return assumption. But asset returns have fluctuated dramatically. The plan's average annual return for the past 10 years was only 5.5%. Meeting the investment goal of 7.5% is further hampered by current historically low interest rates.

**Matthew Utecht**, *President*

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The plan trustees are required by law to invest the assets of the plan using a diversified portfolio of different assets with an eye toward avoiding large losses. This is especially problematic in today's investment environment where expected future returns on assets have been reduced even as the stock market has returned strong performance. Last year, the plan benefited from the stock market rally, returning an estimated 12% (significantly above the 7.5% assumption). However, we fear that returns experienced in 2017 are not sustainable.

Based on the economic and financial realities described above, UFCW Local 653 has been exploring ways to restructure our pension plan by utilizing alternative benefit designs that are affordable, competitive, and that help us secure the pension promise that our members deserve. UFCW Local 653 began this process of rethinking our pension in the summer of 2016 when we retained a pension expert to explore new ideas and options. That process continued in 2017 through a number of education sessions with the employers in an effort to build a consensus on this very complex subject.

In my opinion, the Union and the employers need to take action and make changes to the pension plan in this current bargain while the opportunity still presents itself. The Union's goal is to increase pension security and build a solidly designed plan that can weather future risks in the best interests of our members and the industry.

My commitment to you is that any changes made to the plan will accomplish the following:

1. Preserve and protect the current benefits you've accrued to date through necessary long-term funding.
2. Where we have to make changes as it relates to early retirement, we will make all efforts to protect those members who are on the cusp of retirement decisions.
3. Any new plan negotiated for future benefits will be a defined benefit pension plan that will maintain current benefit accruals and provide an opportunity for benefit improvements based on conservative investment performance.

This communication on pension bargaining is the first of many that you will receive from your Union. Please talk to your Union Representative and bargaining committee members if you have questions. We will make all efforts to respond to you as quickly as possible. Your best source of information during bargaining is your Union. With your support and trust, we have an opportunity in these negotiations to do great things for you and your family and enhance your pension benefit security.

In Solidarity,



Matt Utecht  
President