UFCW
a VOICE for working America
Local 653

May 25, 2018

Re: *Pension Reform Communication from President Utecht*

Dear UFCW Local 653 Pension Participant:

This letter follows up on my prior communications to you about the recent changes to your pension benefits. As you know, the employees of Supervalu and numerous other independent grocery industry employers recently ratified collective bargaining agreements that transition future pension benefits from the Minneapolis Retail Meat Cutters and Food Handlers Pension Plan (the "Legacy Plan") to a new Variable Annuity Pension Plan (the "VAP Plan"). In my March 16, 2018 letter, I explained some of the major features of the VAP Plan, and I outlined some of the major financial issues with the Legacy Plan that prompted me to explore ways to ensure that Local 653's members could look forward to a secure retirement.

Since I sent my last letter on March 16th, some members have expressed concerns with the pension changes, and in particular with the elimination of future 30-and-out early retirement benefits. Therefore, my intent with this letter is to address those concerns and provide more historical information about the reasons why it was critical to negotiate for pension reform during the recent round of collective bargaining. As always, I greatly appreciate your feedback and encourage you to attend membership meetings, talk to your Union representative, and get involved with *your* Union.

Why Reform the Pension Plan?

I have prioritized the issue of retirement security since I was first elected President of UFCW Local 653 in 2013. In addition to inheriting a major economic crisis with the Union Health & Welfare Plan (which was losing more than $1 million per month), I also quickly recognized that the Legacy Plan had serious funding and regulatory problems that were a result of financial market forces beyond our control. In particular, the stock market crashes in 2001 and 2008 destabilized the financial reserves of the Legacy Plan, along with most other pension plans in the United States. Due to dramatic and unforeseen funding shortfalls caused in large part by those crashes, since 2008 the Legacy Plan has been designated as "endangered status" under the federal Pension Protection Act, which requires pension plan trustees to implement funding improvement plans that allow endangered plans, like the Legacy Plan, to emerge from their problem status over a ten-year period of time.

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Thus in 2010, the Union and participating employers agreed to their first funding improvement plan, which increased employer contributions by 30% and reduced benefits in order to stabilize the fund. As many of you likely recall, the benefit reductions agreed to in 2010 were severe. In particular the annual pension benefit accrual was reduced from $65.00 to $35.00 per year of service, and the "30-and-out" benefit was eliminated for members hired after May 1, 2010. Of course, it is never good when benefits are reduced, but I believed then (as I believe now) that these were necessary sacrifices made for the long-term sustainability of the pension plan.

Unfortunately, since 2010, the status of the Legacy Plan did not substantially improve. Even though the Legacy Plan produced competitive investment returns in later years, other mitigating factors like a dramatic decline in active participating employees continued to undermine the plan's funding progress. Left unattended, further long-term benefit cutbacks would have likely become inevitable. Additionally, the Employers were facing unaffordable contribution increases going forward just to maintain the Plan. As a result of those projected cost increases, during 2016, 2017, and 2018 three significant independent employers (Lunds & Byerlys, Kowalski's and Jerry's) withdrew from the Legacy Plan altogether, initiating a trend that threatened the very existence of the Plan. Also, in 2017 I was told by the Legacy Plan actuary that the Plan was projected to fall into "critical status" within just five years. Given these clearly unsustainable trends, I decided that the Union had to take responsibility and reform the pension structure before it was too late.

<u>The Process of Pension Reform from 2016 to Now.</u>

The process of restructuring the Legacy Plan into what is now the VAP Plan began in earnest about two years ago. Knowing that our Union would need to explore solutions to our pension funding issues, one of the first things I did (with the consent of the Executive Board) in 2016 was hire David Blitzstein, a highly-regarded and nationally-renowned expert in union pension plans, to advise us and facilitate an ongoing dialogue with the membership regarding the state of the Legacy Plan and possibilities for reform. After consulting with Mr. Blitzstein, the idea that made the most sense to me was to transition away from the unsustainable defined-benefit pension provided by the Legacy Plan and into a *variable annuity* defined-benefit plan that provided greater protection of benefits even in times of economic downturns. I also appointed Mr. Blitzstein as a union trustee on the Legacy Plan fund.

With Mr. Blitzstein's expertise, we thus set to work formulating the details of a VAP Plan that we thought would best serve the Union membership, and—just as important—that we could convince the Employers to accept during bargaining in 2018. This was a work-in-progress throughout 2016, 2017, and into early 2018. As many of you can likely recall, the topic of pension reform, including the potential transition to the VAP Plan and elimination of 30-and-out, has been a lively topic of conversation and debate at our regular membership meetings going back well into 2016. Through these conversations at membership meetings, I gained a distinct sense of what you—the membership—wanted to gain through pension reform: sustainable, long-term, *protected* benefits. In fact, in a survey distributed to the membership during the summer of 2017, members overwhelmingly ranked "*Protect pension and retirement benefits*" as one of the highest priorities of the Union going into bargaining with the employers in early 2018.

Unfortunately, as with any major change, I also have a distinct understanding of the pain that accompanies changes like this. As I explained in membership meetings over many months in 2017 and 2018, if we could solve the pension funding problems without any suffering or losses, we would have solved the problem years ago. However, the fact of the matter is that transitioning to a more sustainable pension model required sacrificing certain benefits, and of all the benefits provided by our pension plan, the 30-and-out early retirement benefit stood out clearly as one of the greatest strains on the plan's financial health. As those of you in attendance at our membership meetings will recall, we specifically discussed and debated elimination of the 30-and-out benefit on numerous occasions, and I completely understand that many of you feel very strongly about keeping that benefit. Especially those of you nearing the 30-year mark.

Thus, in a letter to the membership dated February 1, 2018, I described my goals for pension-reform through bargaining. Specifically, I made the following commitments to you in regard to the retirement program:

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.*

We knew we faced a challenge on the first day of bargaining when the Employers voiced strong opposition to continued funding of the Legacy plan and, instead, they proposed withdrawing from the Legacy Plan altogether and imposing a simple 401(k) plan in its wake. However, over the course of numerous long days of bargaining, I am gratified to inform you that the bargaining committee selected from rank and file members and your Union representatives satisfied each of the commitments that I made to you about securing your pension.

First of all, I can confidently state that the contracts that you recently ratified put the Union on the best path to preserving and protecting all accrued and vested benefits in the Legacy Plan. With the newly-ratified contracts, Supervalu and multiple independent grocers have agreed to continue funding accrued Legacy Plan benefits by making contributions to the Legacy Plan on behalf of all current *and future* employees in order to maintain current funding levels. According to our Legacy Plan actuary, the funding agreement that we have obtained will put the Legacy Plan on a secure path to greater financial health.

With my second commitment, I promised that we would make efforts to protect people who were on the cusp of eligibility. We accomplished that, too. In fact, we were able to negotiate protections for a group of 344 members who maintained their eligibility for the 30-and-out benefit for service through February 28, 2019. Additionally, any member who has previously become vested in the 30-and-out benefit can retire at any time with that benefit fully intact.

Finally, with regard to my third commitment, I am proud to state that the Employers agreed to creation and implementation of the VAP Plan, a defined-benefit pension plan with annual benefit accruals ranging from $20.00 to $35.00 per year. Because of its difficult financial status, the Legacy Plan has not been able to improve benefits since 2006. Moreover, during the negotiations, the employers' initial pension proposals reduced the benefit accrual to just $15.00 from the current $35.00. The fact that Local 653 was able to preserve these benefits and provide for a new plan with the potential to improve benefits going forward was truly a victory for all the members.

Having obtained a final agreement from the Employers late into the evening of Friday, March 2, 2018, we set to work preparing for the ratification vote that had previously been scheduled for Sunday, March 4, 2018. In addition to providing personalized contract summaries for each member, at my instruction, Matt Winkel, the administrator of the Legacy Plan, and David Blitzstein, the Union's expert pension advisor (who was also directly involved in negotiating the pension agreement), were physically present at the ratification meeting for the sole purpose of answering questions about the modifications to your pension benefits. In fact, I deliberately stationed these two gentlemen at a table where they answered membership questions about the pension agreement for over six hours. These two experts, along with myself, responded to detailed inquiries from scores of members on the pension agreement.

Ultimately, you, the membership, voted overwhelmingly to accept the contracts negotiated by the Union and bargaining committee. The recently-ratified grocery industry agreements comprise the richest economic packages ever negotiated by your Union. The overall gains that our members received from wage increases, health insurance contribution increases, and significant employer contribution increases for the Legacy Plan and the new VAP Plan are unprecedented. We are currently working to finalize and print new contract books for distribution to the membership.

I've been your Union President for a little more than five years now. In that time, we've faced dramatic funding challenges to both our Health & Welfare and Pension plans. Instead of kicking the can down the road and ignoring the inevitable decline of those plans, we took necessary steps—and, yes, painful steps—to put your benefits on a clearer path to sustainability. In contrast to the potential insolvency of other union plans, such as the Teamsters Central States Pension Plan and over one hundred other troubled multi-employer pension plans around the country, I strongly believe that UFCW Local 653 scored a great victory for its members under difficult circumstances.

Your pension plan is more secure, and I'm proud of what we achieved together.

In Solidarity,

Matt Utecht

Matt Utecht
President, UFCW Local 653