

Northern California Electrical Workers Pension Plan

Pension Plan Overview
January 16, 2009

Multiemployer Plans

General Information

- More than one employer contributes
- Maintained under collective bargaining agreements between labor and management
- Centrally managed by a board of trustees represented by both labor and management
- Allows benefit portability in mobile industries
- Has employer withdrawal liability
- Not a “Single Employer” Plan

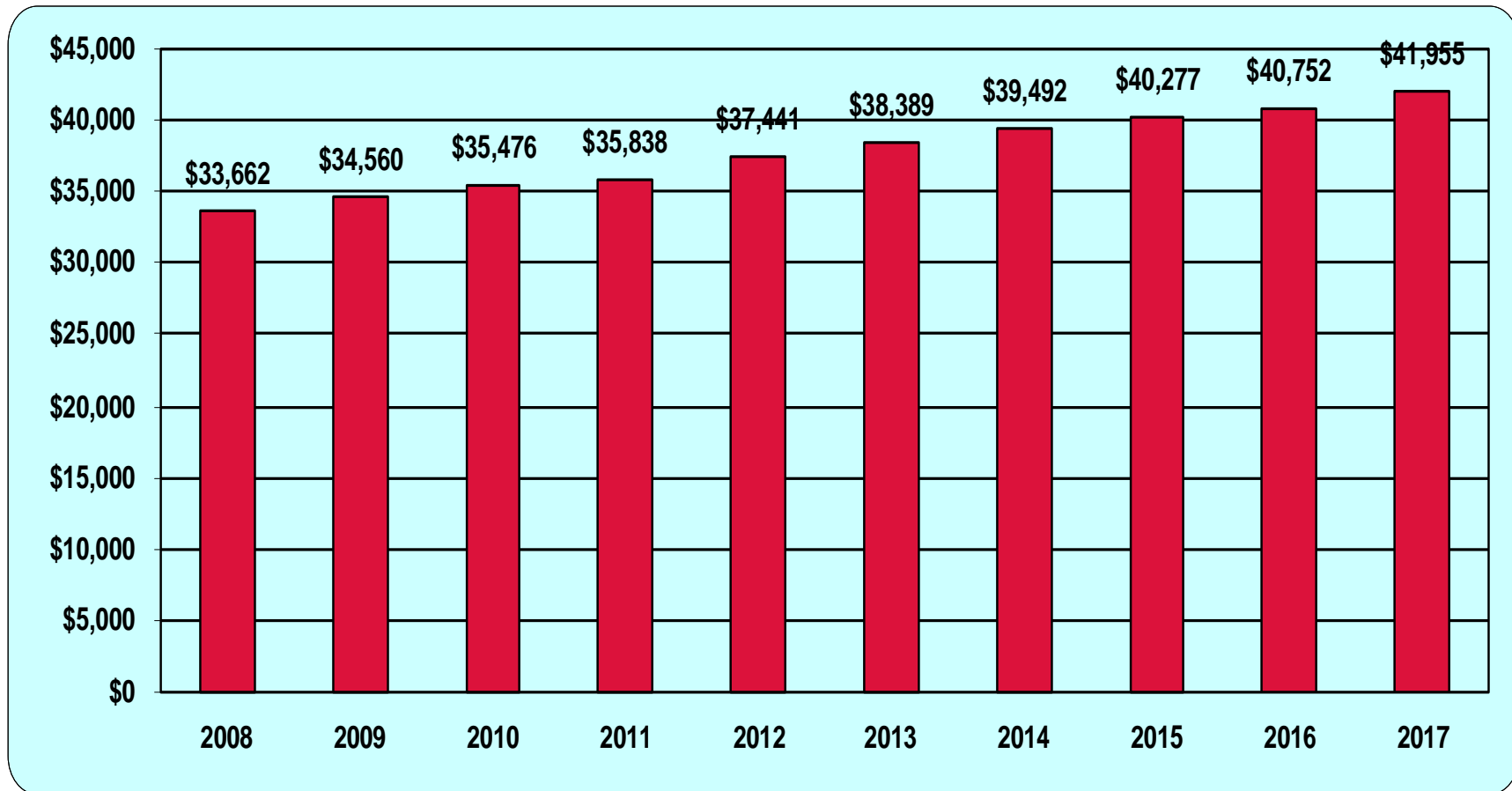
Defined Benefit Plans

General Information

- Benefits are based on a formula contained in the Plan document
- Contributions are made by employer
- No individual accounts – all contributions pooled to pay benefits
- Employees must meet vesting rules to be eligible for benefits
- Certain benefits guaranteed by PBGC

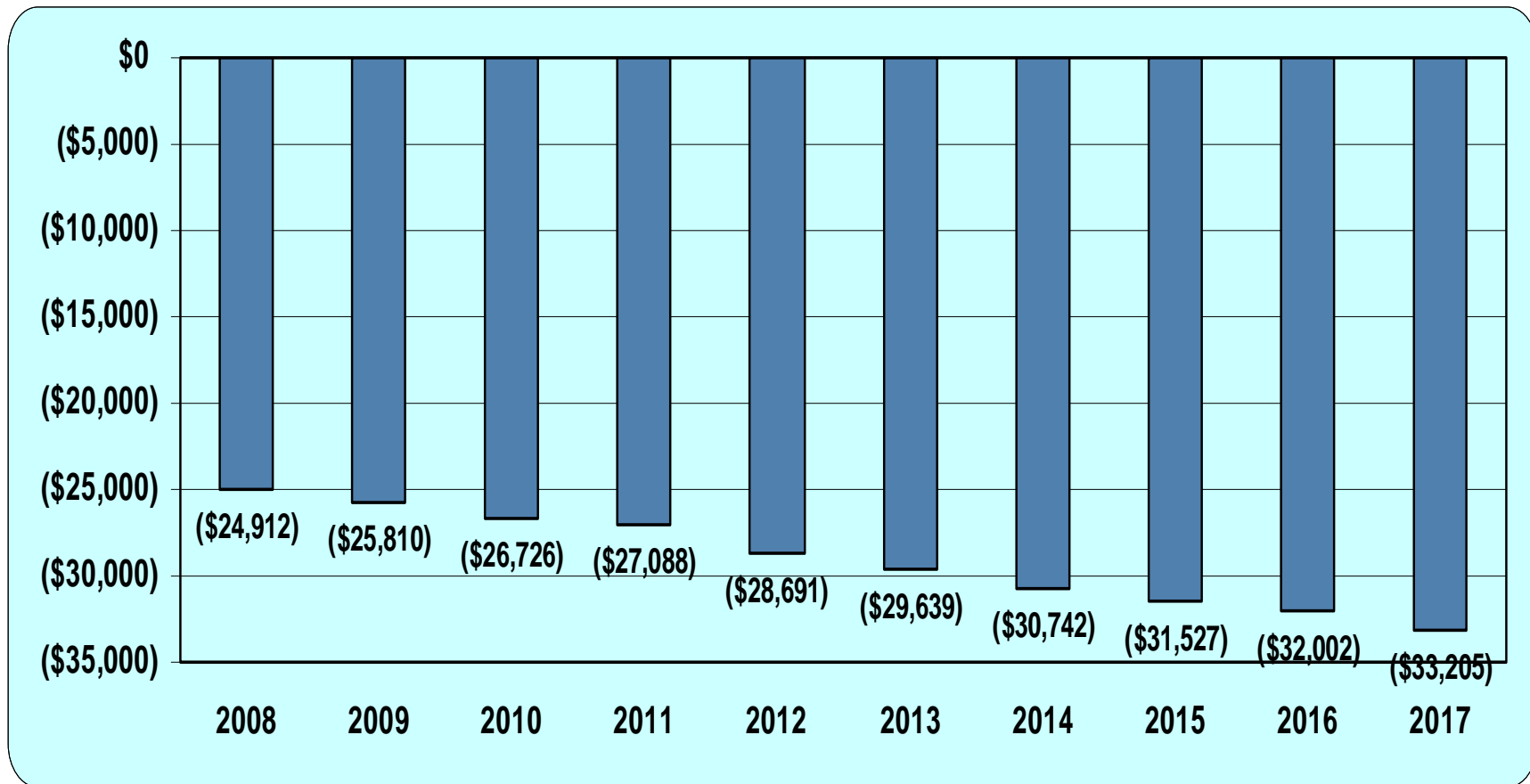
NCEW Projected Benefit Payments

(in thousands)



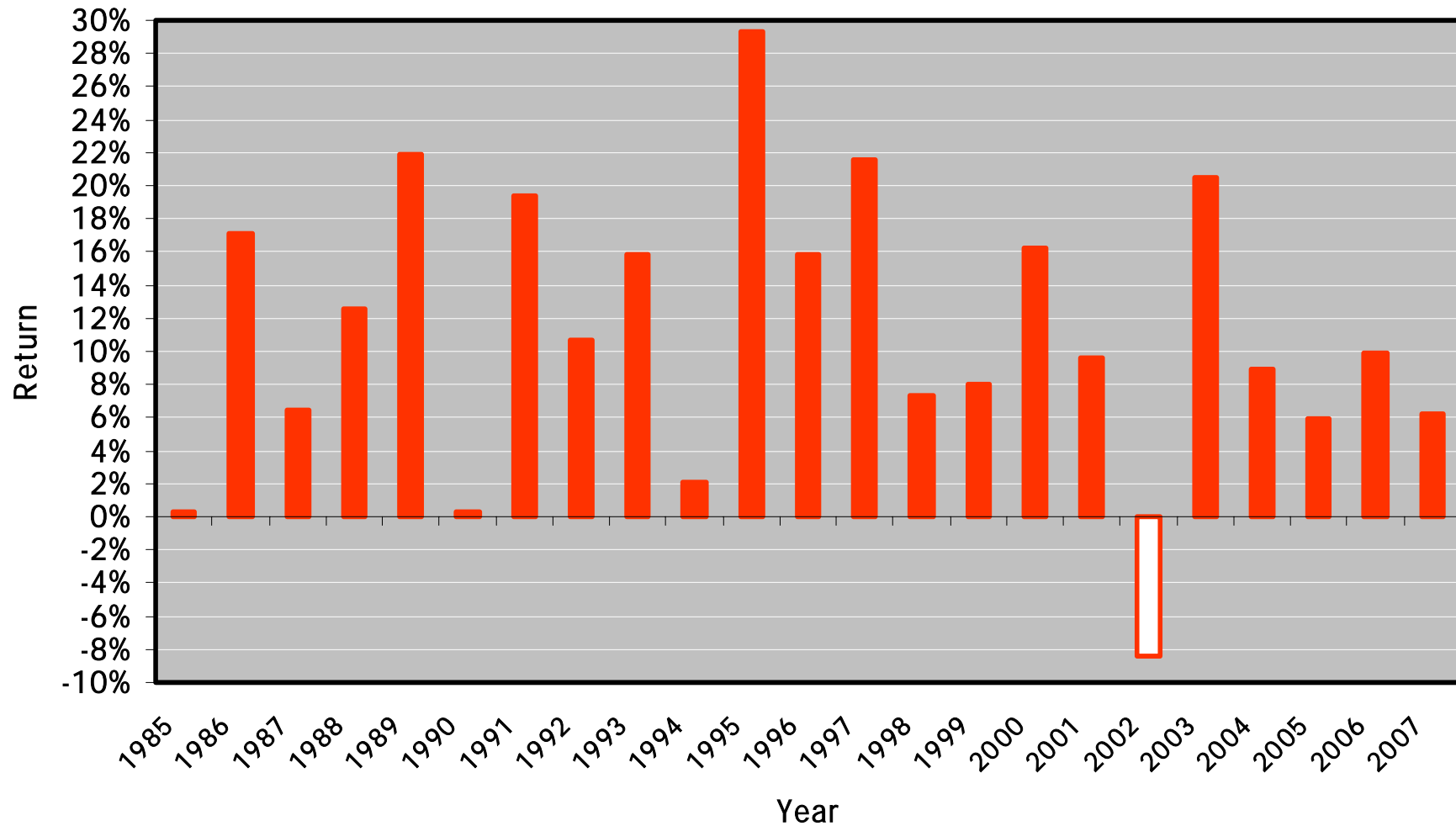
NCEW Projected Cash Flow

(in thousands)



Cash Flow = Net Contributions – Benefit Payments – Administrative Expenses

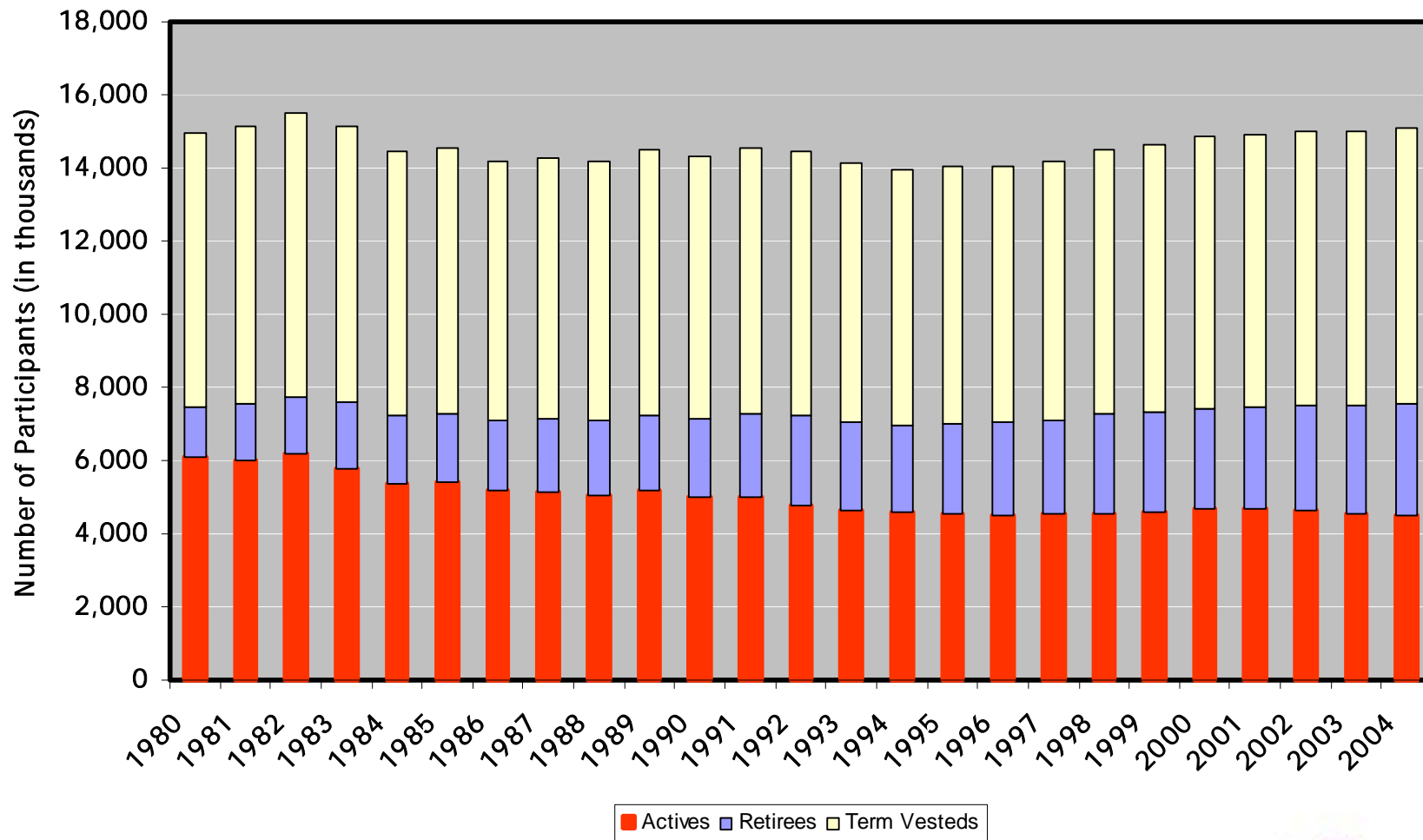
NCEW Investment Return 1985-2007



Average Annual Return 1985-2007 = 10.9%

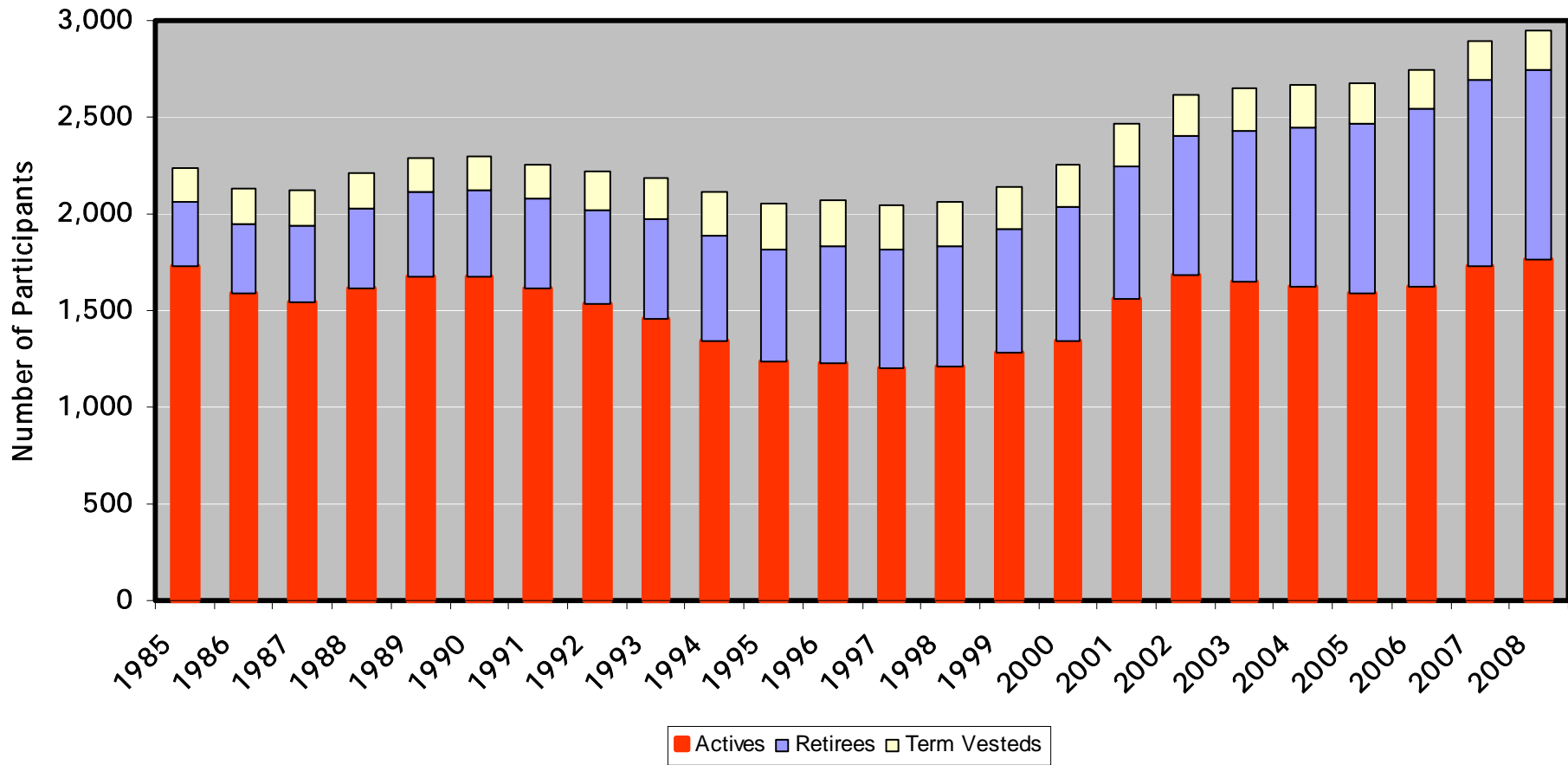
Demographic Changes

Actives vs. Inactives in PBGC Multiemployer Plans



Approximate Ratio of Actives to Inactives = 43%

NCEW Pension Plan Demographics



Approximate Ratio of Actives to Inactives = 149%

Legislative Changes

- Prior to 2008, decisions regarding plan changes were based on the annual actuarial valuation.
- The actuarial valuation is a “snapshot”, i.e., it provides the funded status of the plan at the beginning of each year.
- In some years, benefit increases had to be given to preserve deductibility of employer contributions.
- Concerns over the long-term viability of many multiemployer plans, along with the potential strain on the PBGC, resulted in changes in the way trustees considered plan improvements.
- In addition to the snapshot, we must now look at results as far as 7 years in the future and take immediate action if certain benchmarks are not reached during that time.

Pension Protection Act of 2006 (PPA)

- Effective 1/1/2008 for NCEW.
- Attempts to improve financial condition of plans.
- Expands notification requirements.
- Creates classifications for multiemployer plans, based on projected values
 - “Safe” (Green Zone)
 - Endangered (Yellow Zone)
 - Seriously Endangered (Orange Zone)
 - Critical (Red Zone)

Pension Protection Act of 2006 (PPA)

- Annual classifications based on Funding Ratio and projection of Credit Balance.
 - Made by March 31 for that year based on available data.
- Funding Ratio = Ratio of Plan Assets to Present Value of Accrued Benefits
- Credit Balance
 - Measure of actual contributions received by plan to minimum contribution under ERISA as calculated by plan actuary.
 - Credit Balance is established when actual contributions exceed calculated minimum.
 - A Funding Deficiency, or a negative Credit Balance, occurs when plan contributions are not sufficient to meet ERISA minimums.

Criteria for PPA Critical Classification

- Funding ratio less than 65% and projected minimum funding deficiency within 5 years, or
- Funding ratio less than 65% and plan assets expected to run out in 7 years, or
- Projected minimum funding deficiency within 4 years, or
- Plan assets expected to run out in 5 years, or
- Liability for inactives > actives, contributions less than normal cost plus interest on unfunded liability, and projected minimum funding deficiency within 5 years.

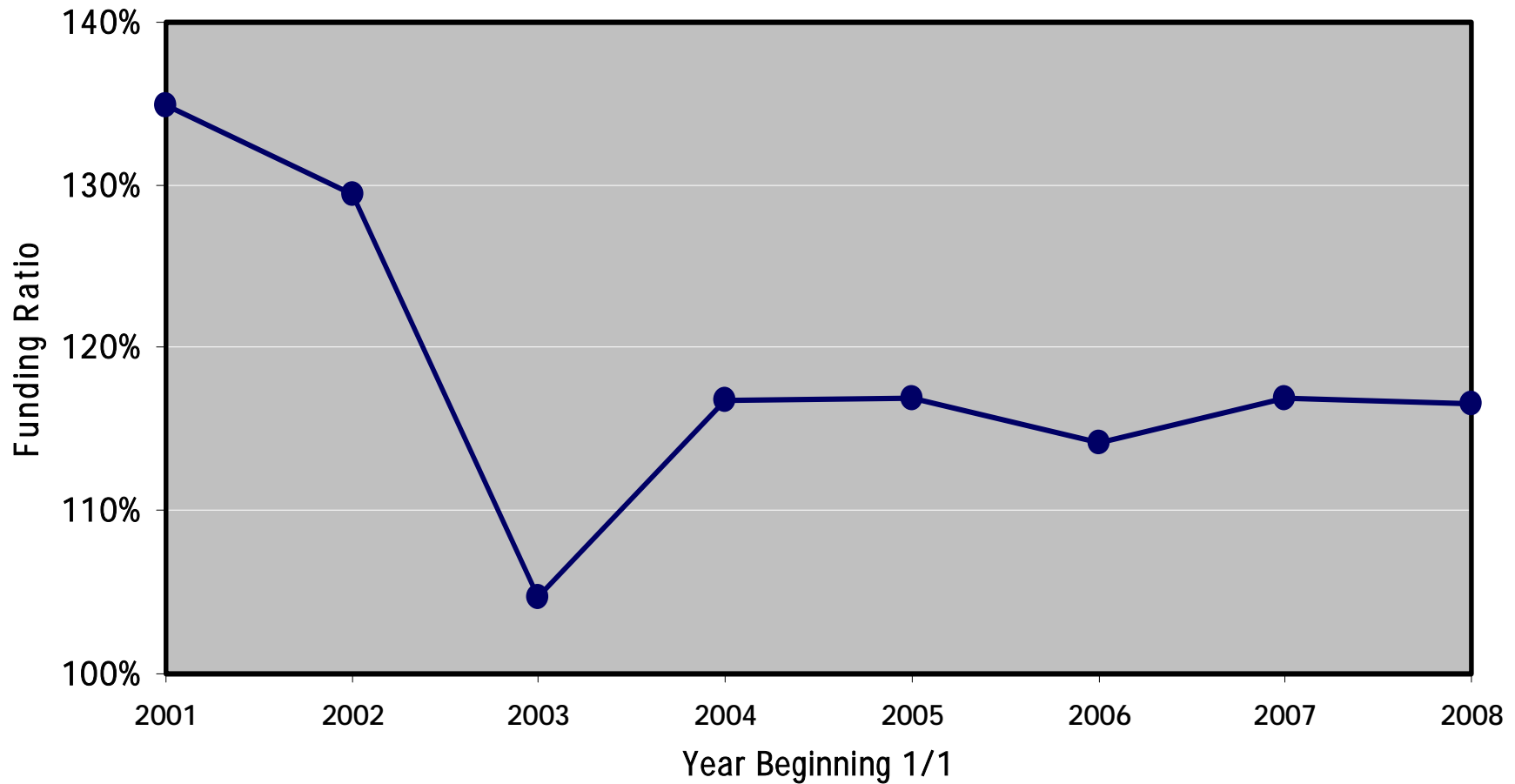
Criteria for PPA Endangered Classification

- Funding ratio less than 80%, or
- Projected minimum funding deficiency within 7 years.
- If both criteria are met, the plan is **Seriously Endangered**.

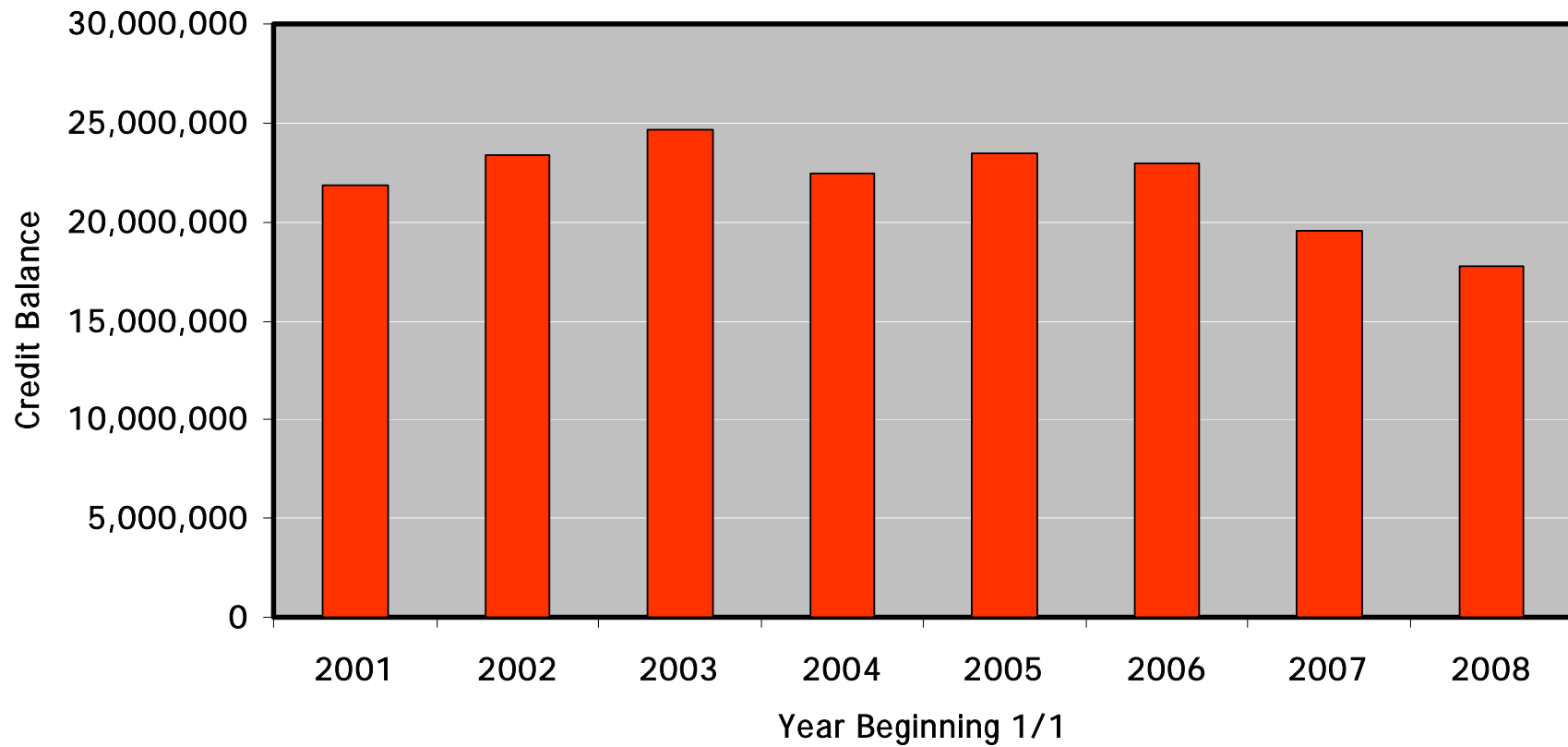
Criteria for PPA "Safe" Classification

- Any plan that is neither Critical nor Endangered.
- The NCEW Plan was certified as "Safe" for 2008.
 - Estimated 2008 Funding Ratio was over 80%.
 - No funding deficiency in 7 years.

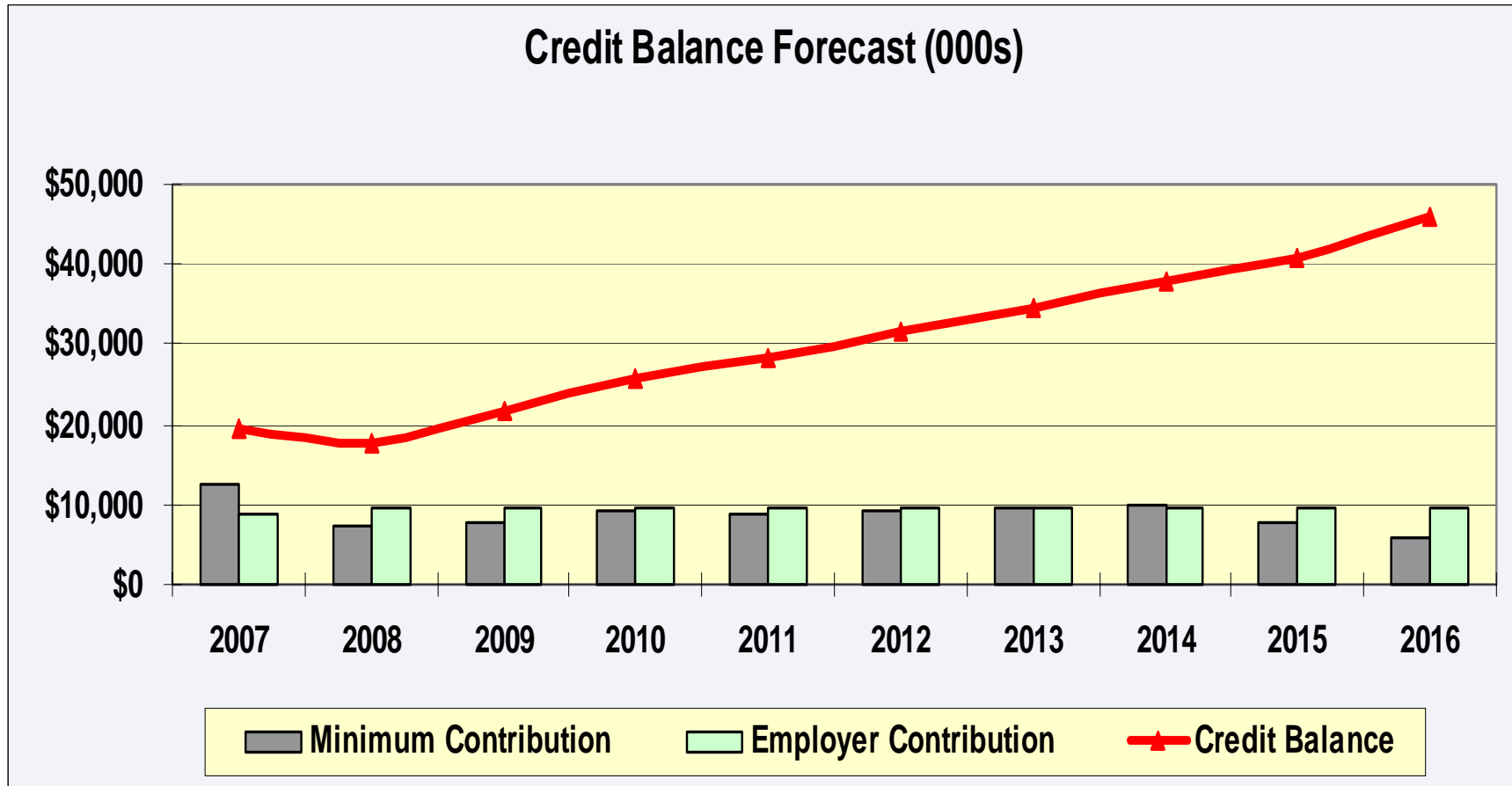
NCEW Pension Plan Funding Ratio



NCEW Pension Plan Credit Balance



NCEW 2008 Credit Balance Projection



Consequences If Plan Is Not “Safe”

- Trustees must adopt a Funding Improvement Plan (if Endangered) or a Rehabilitation Plan (if Critical).
- Designed to improve status over a period of time.
- No benefit improvements can be implemented unless they are immediately funded.
- PPA provides specific timelines for notification, implementation, and effective date of Funding Improvement and Rehabilitation plans.

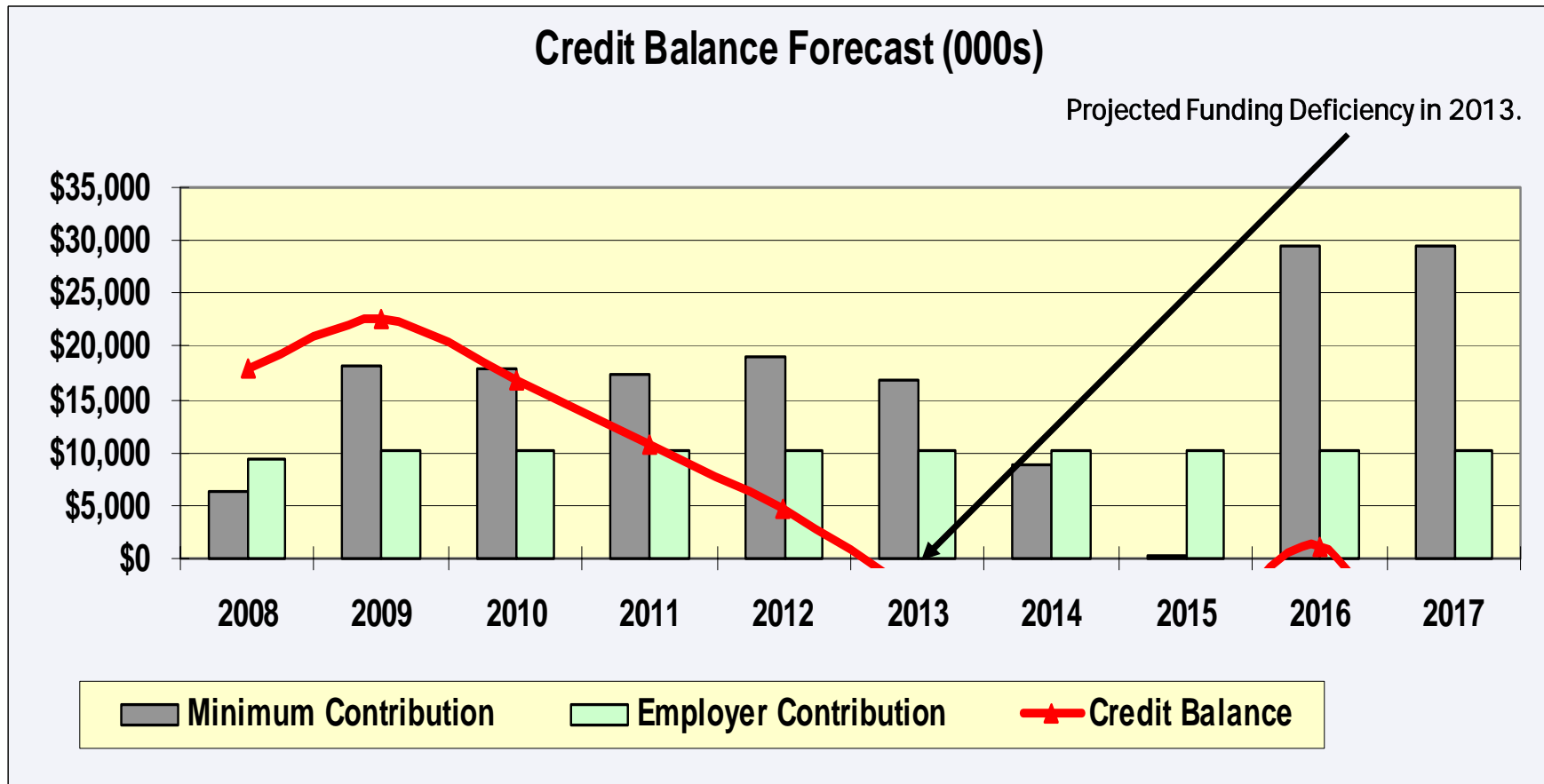
Review

- Asset returns through 2007 contributed to plan surplus.
- Favorable demographics, i.e. higher than average ratio of actives to inactive employees, further strengthened plan's funded position.
- PPA forces multiemployer plan sponsors to classify based on projections and take immediate action.
- NCEW plan is "safe" as of 1/1/08.

Effect of 2008 Market Return

- Stock Market returns in 2008 were the lowest in over 70 years.
- Approximately 55% of the NCEW fund is invested in equities.
 - Within investment policy guidelines established by Trustees in consultation with investment consultants.
 - In line with investment policies of many multiemployer pension funds.
- The fund lost approximately 29% in 2008, based on current estimates.
- NCEW plan's PPA status expected to change in near future.
 - Funding Ratio is expected to remain over 80% through 2010, but Credit Balance will erode.

NCEW 2009 Credit Balance Projection



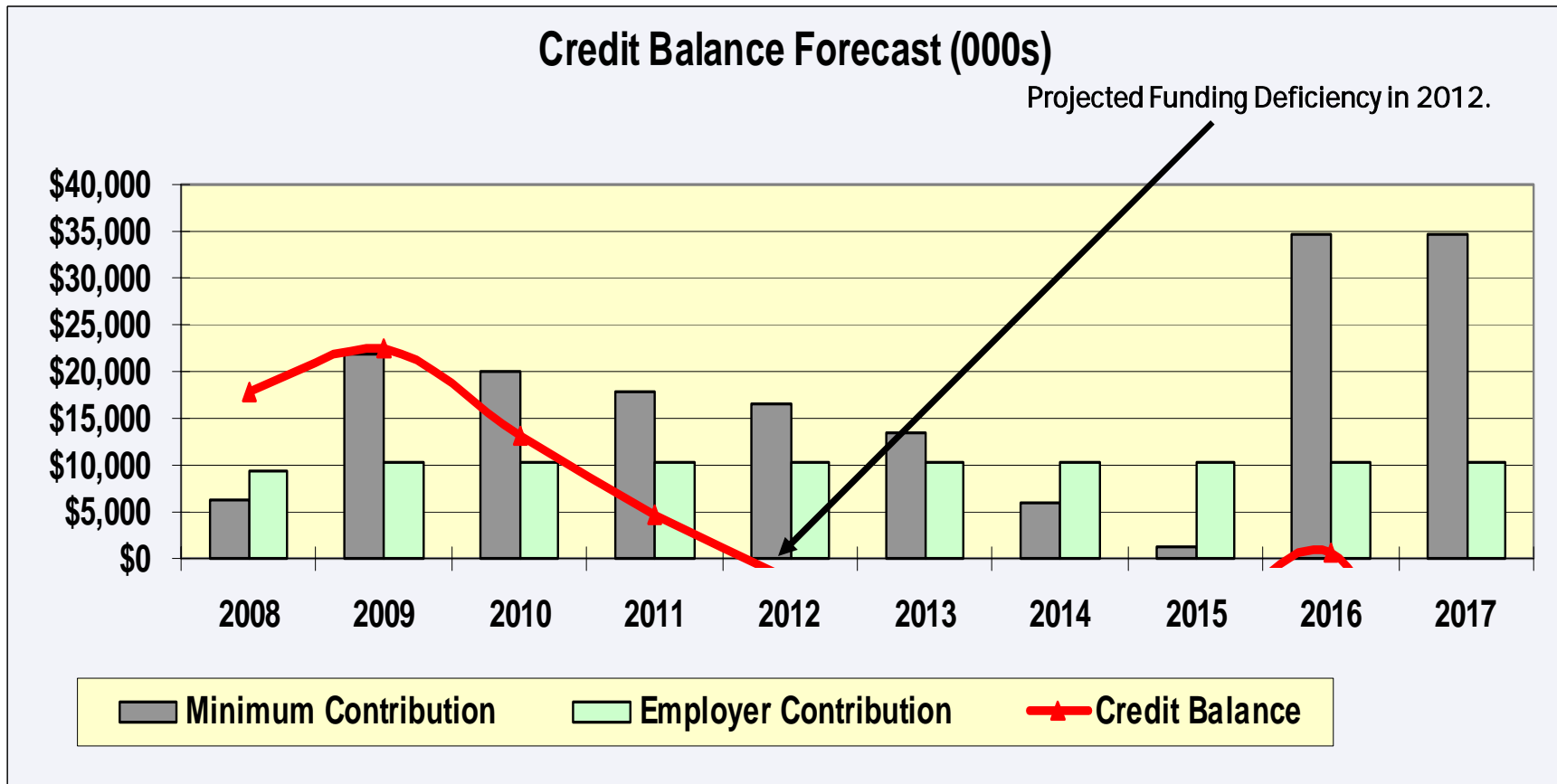
Effect of Critical Status On You

- What will happen
 - Benefits in pay status will not be affected.
 - Benefits accrued as of the date of any change will not be reduced.
 - Normal retirement provisions (age 65 with 5 years of pension credit) remain unchanged.
- What may happen (subject to Trustee action)
 - Adjustable benefits may be reduced or eliminated with 30 days advanced notice, including:
 - Early retirement benefits and subsidies not in pay status (“Rule-of-85”)
 - Disability benefits not in pay status
 - Post-retirement death benefit (not including Joint & Survivor benefits)
 - Supplemental benefits
 - Cost-of-Living Adjustments
 - Future benefit accruals may be reduced (not below a level equal to 1% of employer contributions if a “default” Rehabilitation Plan is adopted).

Conclusion

- The plan appears to be “Safe” for 2009.
- Projected Funding Deficiency in 2013 will cause a Critical Status classification for 2010.
- The Worker, Retiree, and Employer Recovery Act (H.R. 7327) was passed by Congress on December 11, 2008 and signed by the President on December 23.
- This Act would have permitted the NCEW plan to elect to retain its 2008 PPA status (“Safe”) for 2009, but provides no relief for 2010.
- As of today, based on current law and barring an extraordinary turnaround in the stock market, the NCEW plan will likely be classified as Critical in 2010.

NCEW 2009 Credit Balance Projection



Remove from final presentation – based on -35% return.