

# Northern California Electrical Workers Pension Plan

Pension Plan Overview  
April 8, 2010

# Topics

- Summary of January 16, 2009 Meeting
  - Including changes since meeting
- Plan Demographics
- Overview of Current Plan Status
- Legislative Update

# Summary of January 16, 2009 Meeting

# At The Last Meeting...

- The Pension Protection Act (“PPA”) required multiemployer plans to classify a Status each year, beginning in 2008.
- The Plan was in “Safe” Status for 2008.
- Stock Market returns in 2008 were the lowest in over 70 years.
- The fund lost approximately 29% in 2008.
- The Plan was in projected to be in “Critical” Status for 2009.

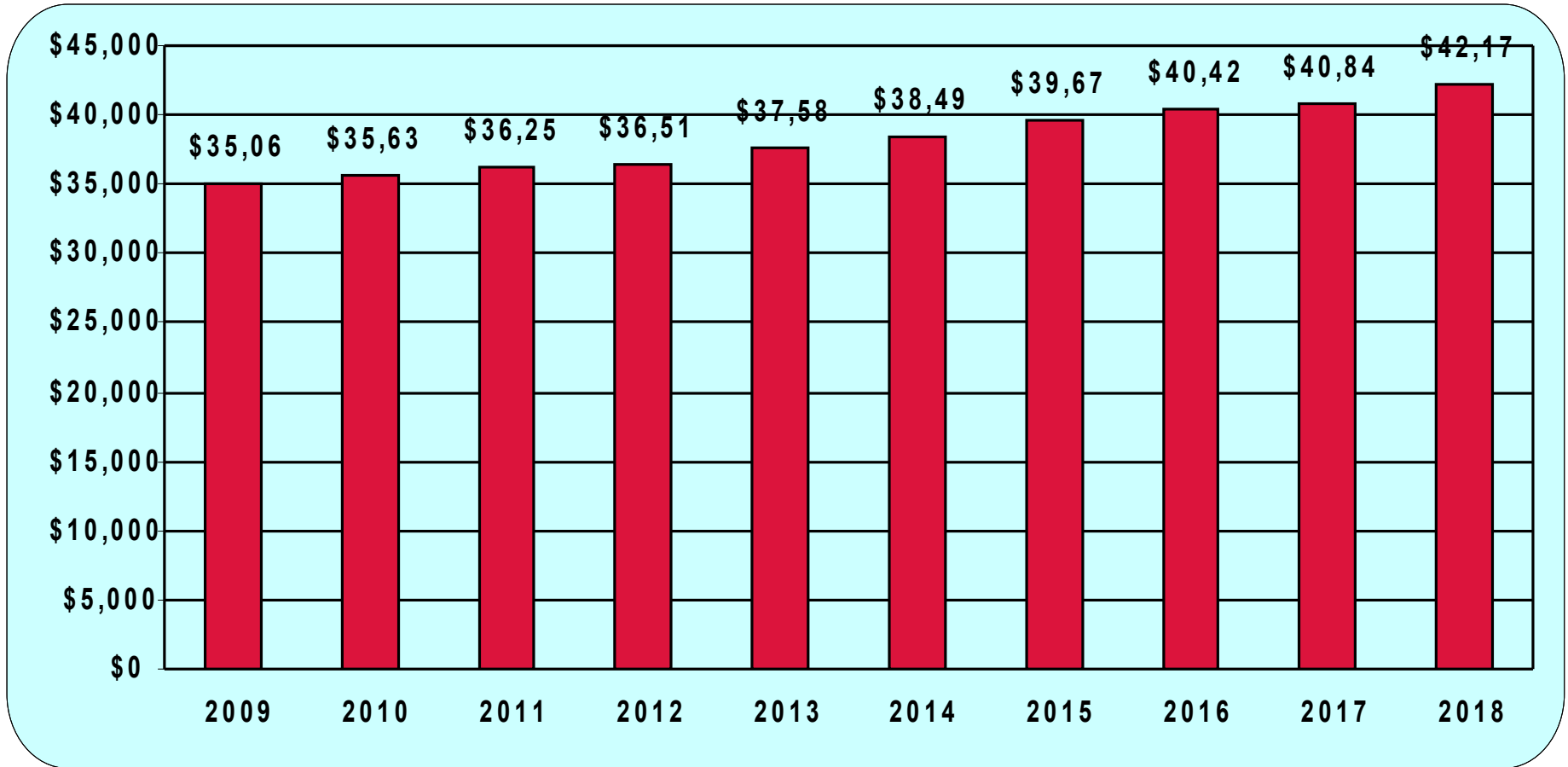
# Changes

- Trustees agreed to assumption and method changes in actuarial valuation designed to reduce required costs and improve credit balance projection.
  - Credit balance is equal to actual contributions received by plan to minimum contribution under ERISA as calculated by plan actuary.
  - A negative credit balance is called a “funding deficiency”.
- With these changes, the Plan was in projected to be in “Endangered” Status for 2009.
- The Worker, Retiree, and Employer Recovery Act (WRERA), enacted at the end of 2008, permitted the Plan to elect to retain its 2008 Status (“Safe”) for 2009.

# Plan Demographics

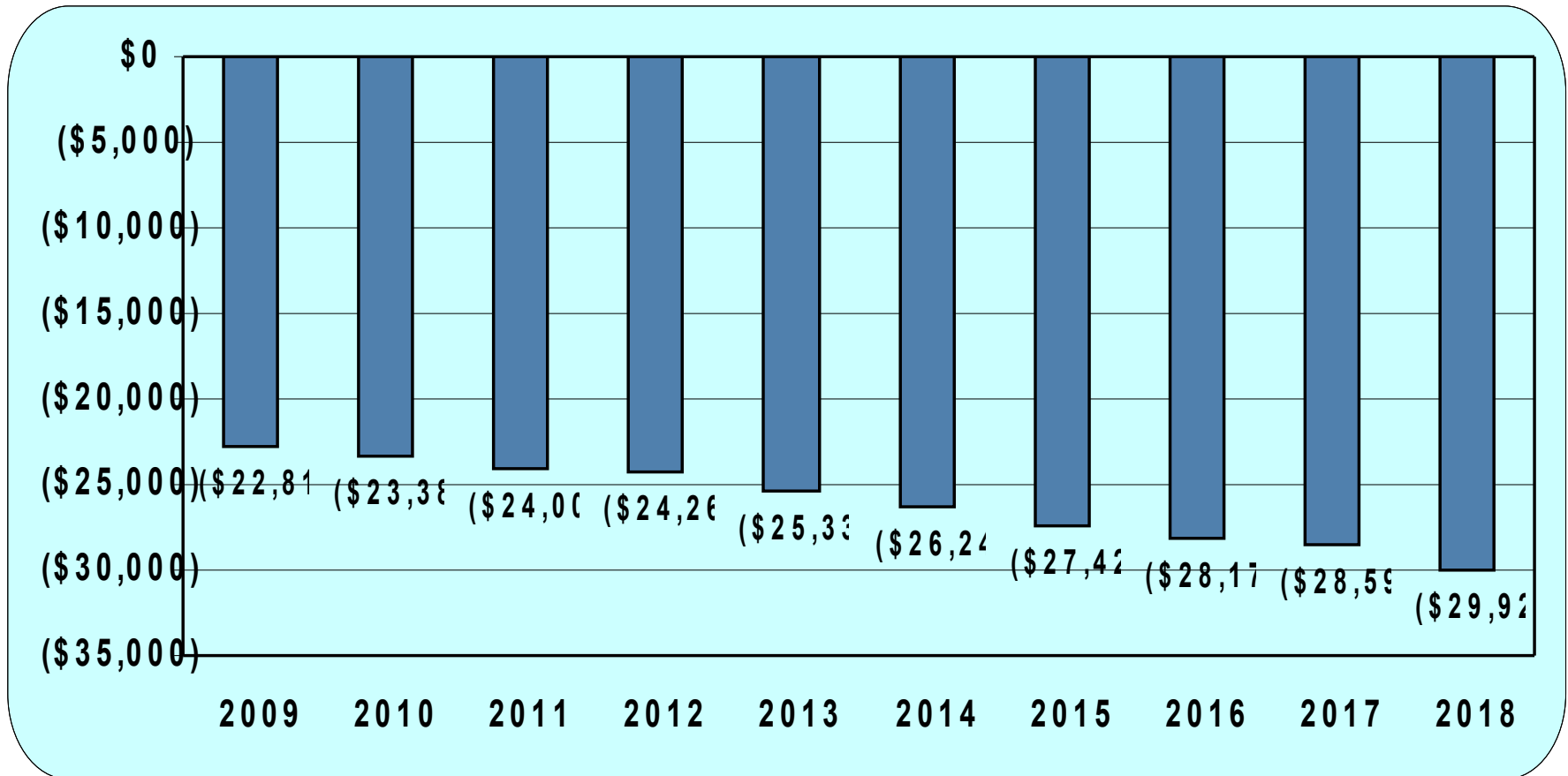
# NCEW Projected Benefit Payments

(in thousands)



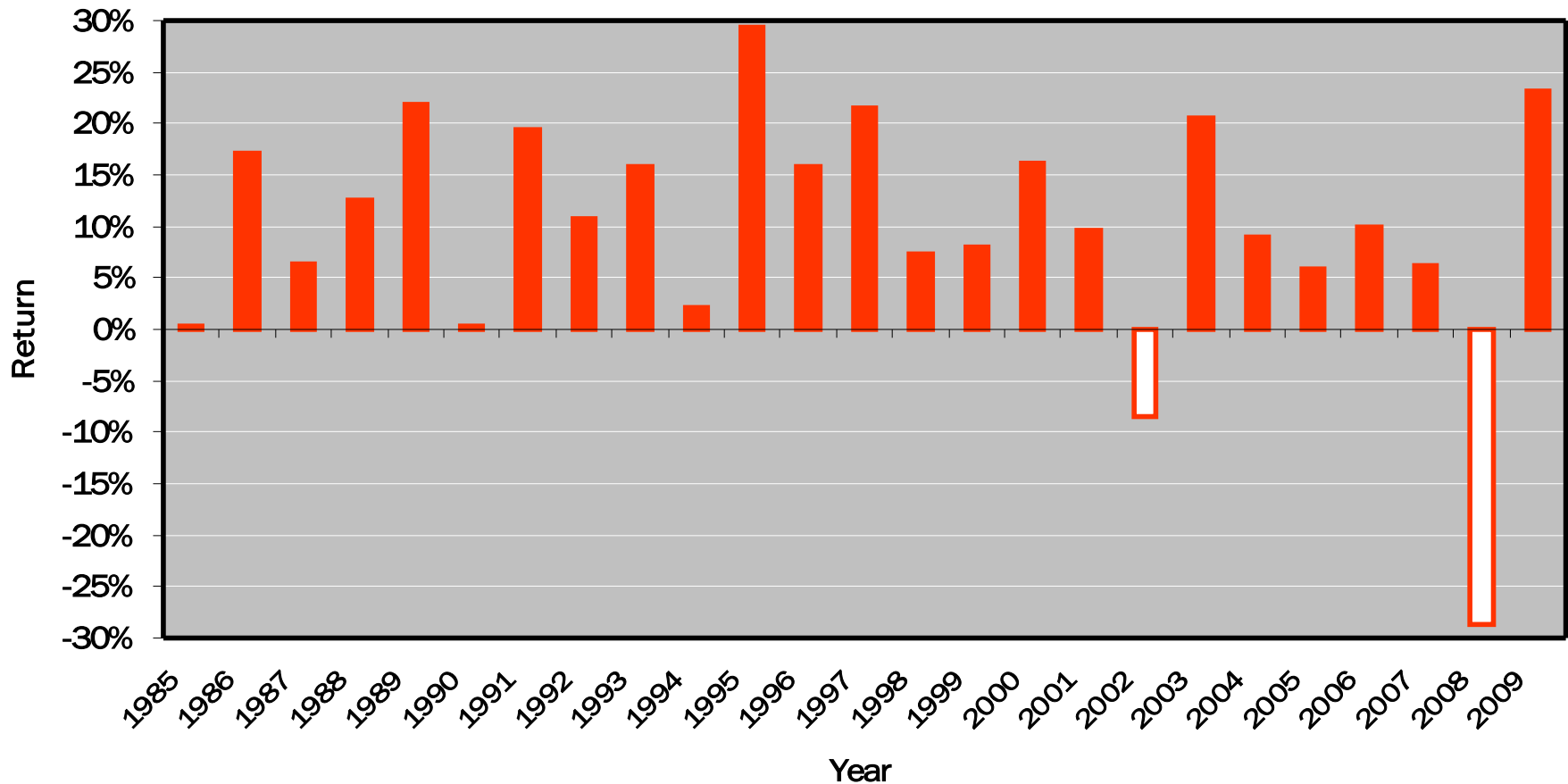
# NCEW Projected Cash Flow

(in thousands)



Cash Flow = Net Contributions – Benefit Payments – Administrative Expenses

# NCEW Investment Return 1985-2009

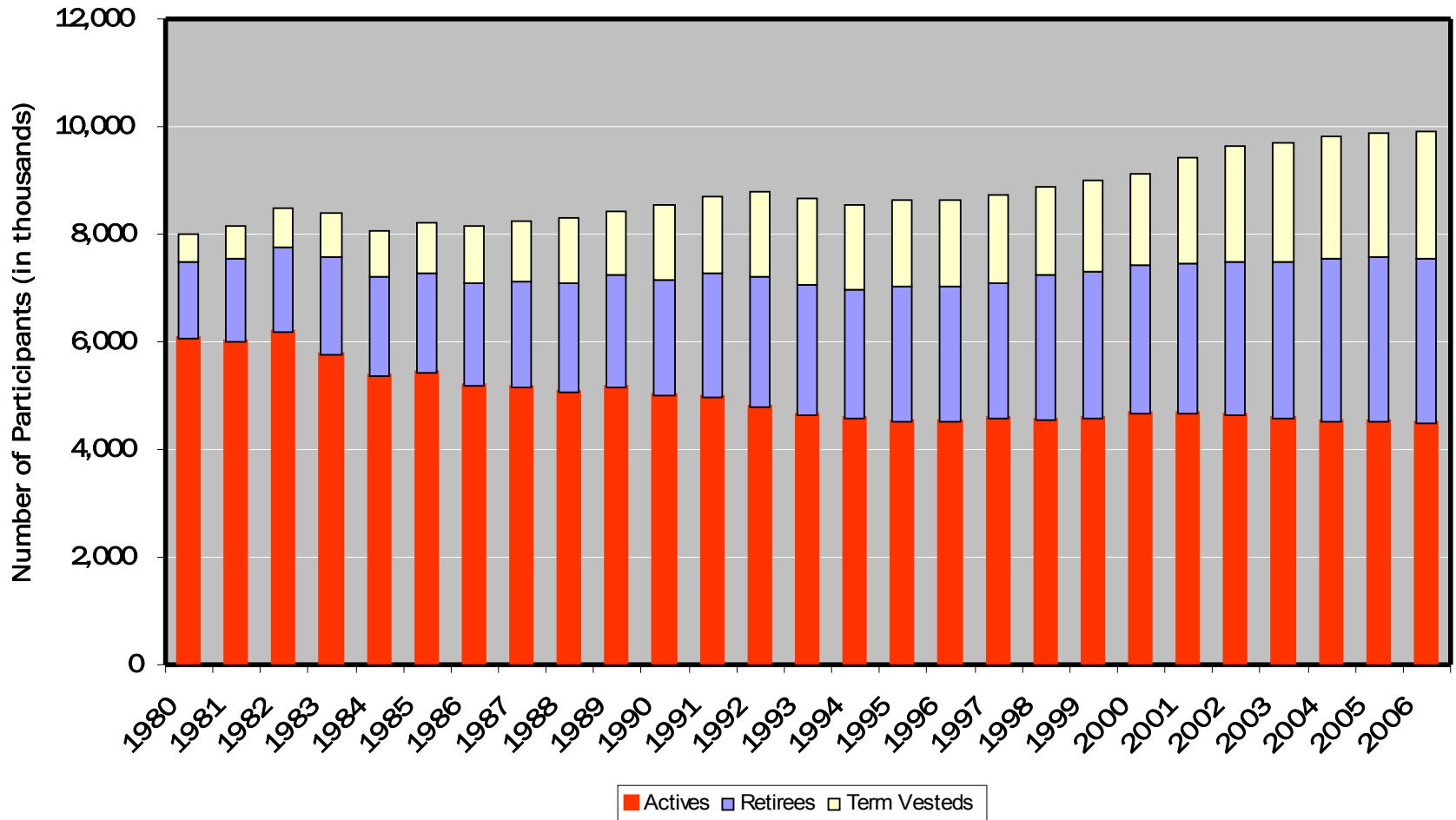


2009 return is estimated pending completion of annual audit.

Average Annual Return 1985-2009 = 10.1%

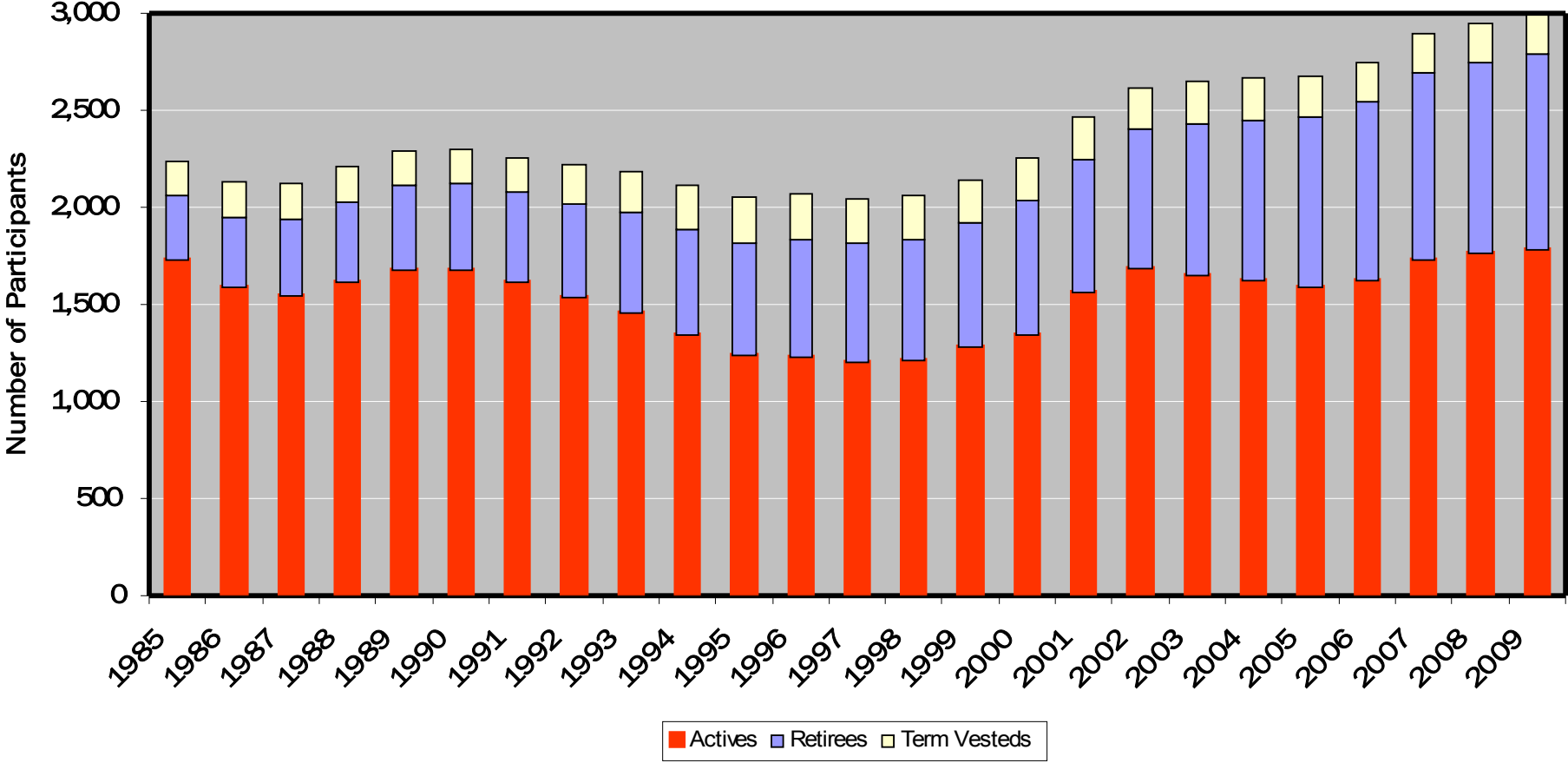
# Demographic Changes

## Actives vs. Inactives in PBGC Multiemployer Plans



Approximate Ratio of Actives to Inactives = 83%

# NCEW Pension Plan Demographics



Approximate Ratio of Actives to Inactives = 148%

# Overview of Plan Status (PPA)

# 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.

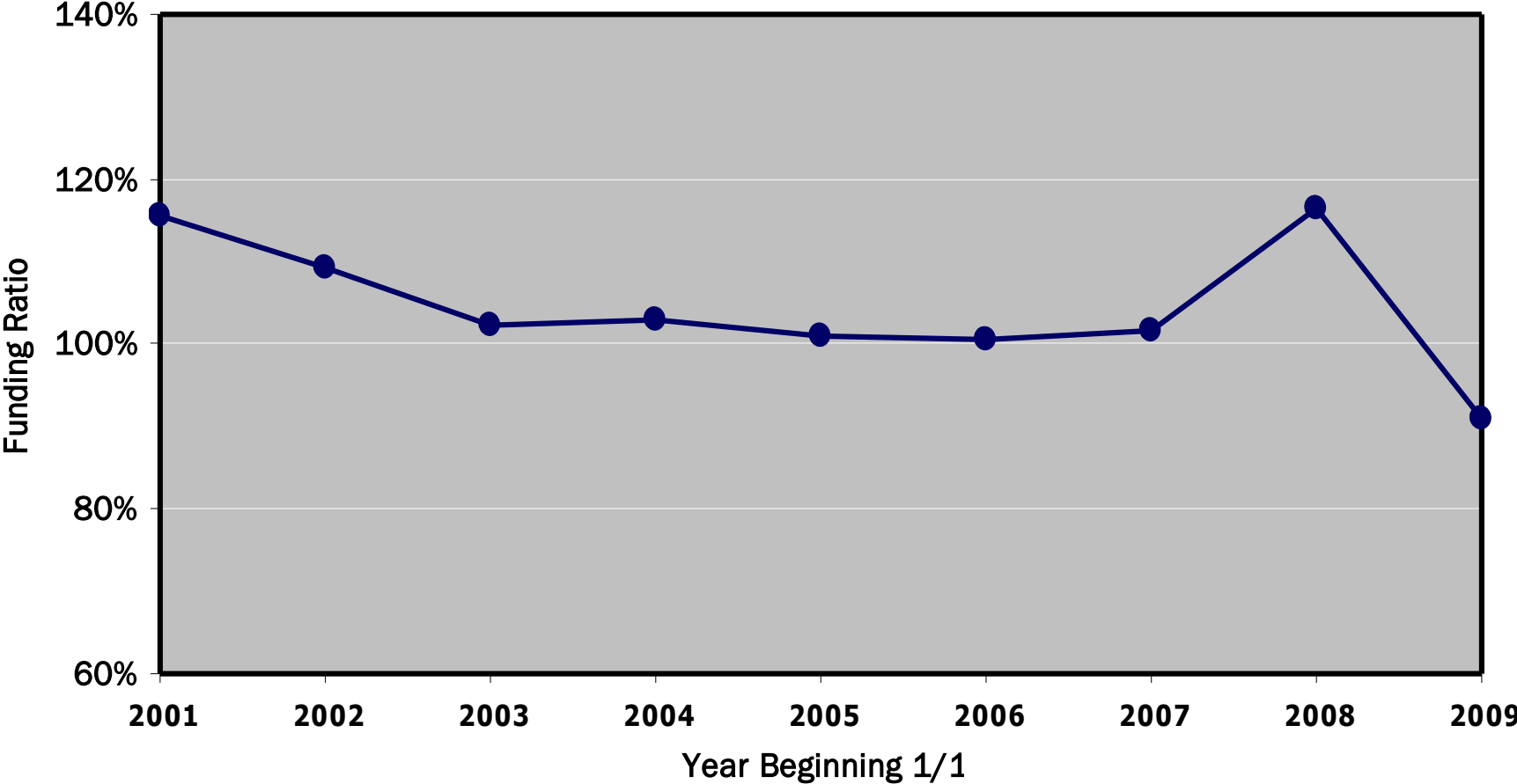
# Criteria for PPA Endangered Classification

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

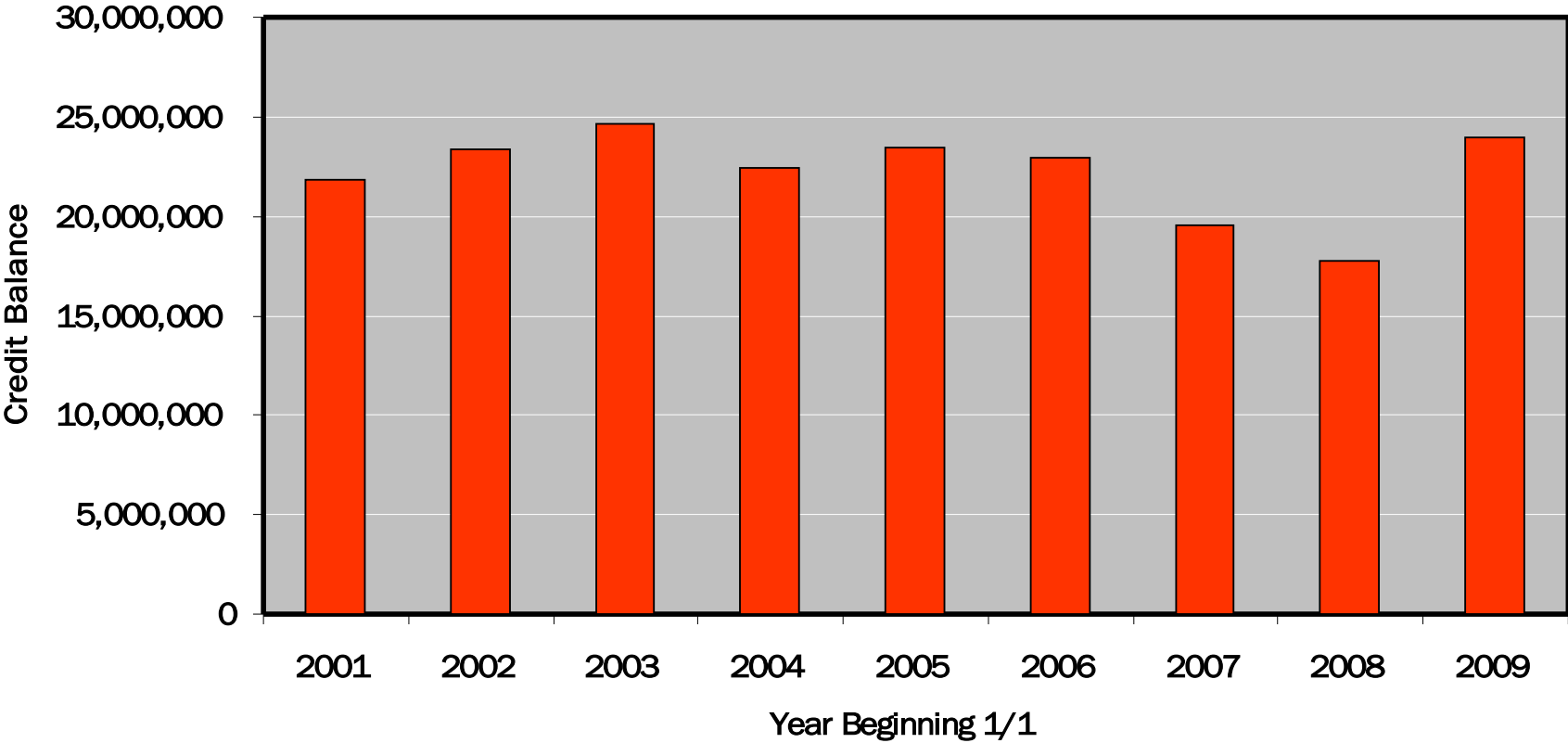
# Criteria for PPA “Safe” Classification

- Any plan that is neither Critical nor Endangered.
- The NCEW Plan was certified as “Safe” for 2008 and 2009.

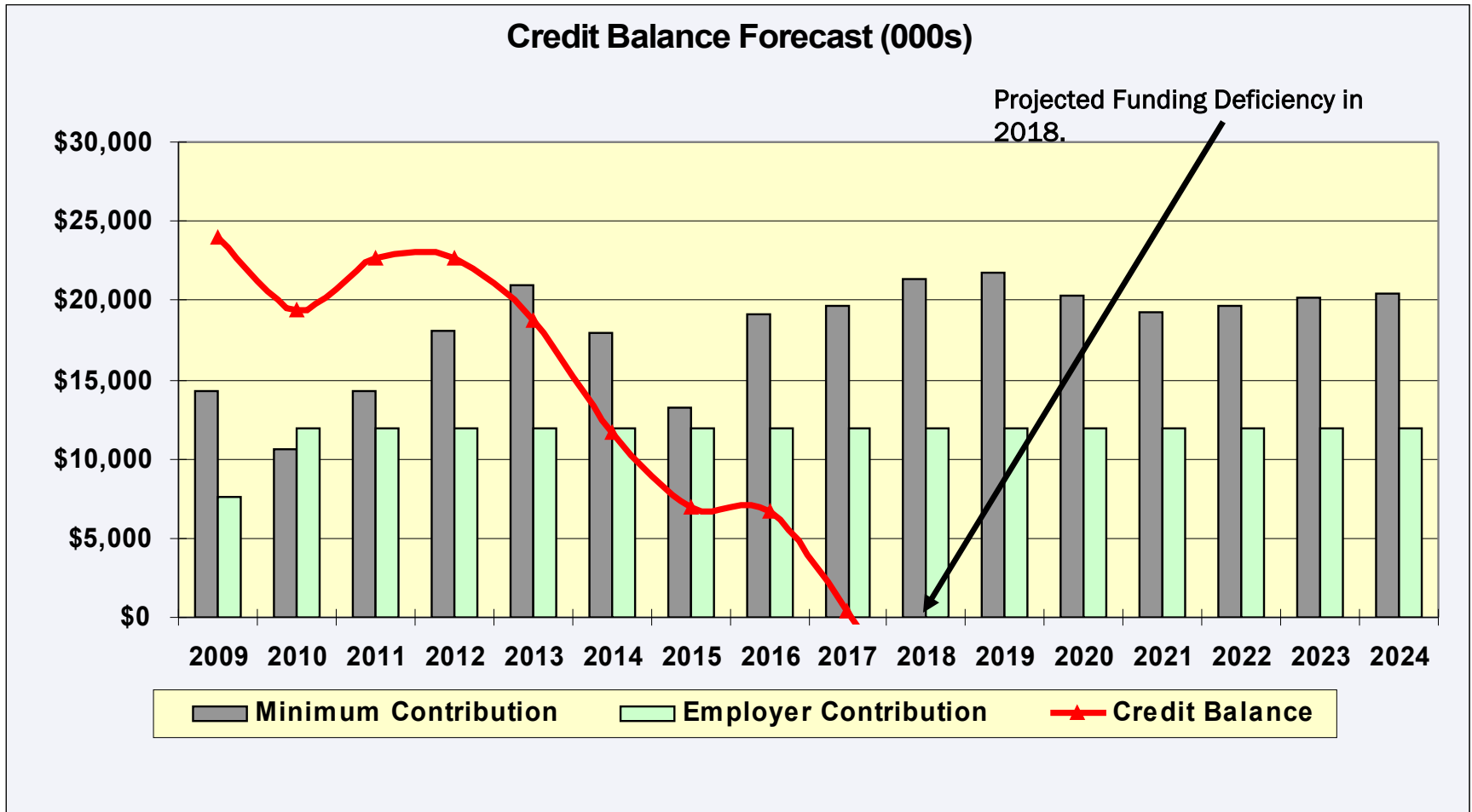
# NCEW Pension Plan Funding Ratio



# NCEW Pension Plan Credit Balance



# Credit Balance Forecast



# Improvements to Plan Status

- Estimated 23.2% return on Plan assets in 2009.
- \$3.04 increase in hourly contribution rate that was diverted from the Retirement Savings Plan effective 1/1/2010.
  - From \$5.38 to \$8.42.
- Automatic amortization extension effective 1/1/2009.
  - Spreads cost of unfunded liability over an additional five years.
  - Lowers required minimum contribution and improves credit balance projection.
- With these changes, the Plan is in “Safe” Status for 2010.
- Credit Balance is projected to be negative by the end of 2018; Plan may be “Endangered” in 2012.

# 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

- Trustees have used available remedies to improve Plan Status.
  - Increase hourly contribution.
  - Approve changes in actuarial assumptions and methods.
  - Extend amortization period.
- Very good investment performance further improved the Plan.
  - Still have a long way to go to recover 2008 losses.
- Favorable demographics, i.e. higher than average ratio of actives to inactive employees, further strengthened plan's funded position.
- NCEW plan is in “Safe” Status for 2010.

# Potential Legislative Changes

# Potential Legislative Changes

- March 10 – Senate approves pension funding relief as part of jobs bill (H.R. 4213)
  - For first two plan years ending after 8/31/2008
    - Net investment losses may be amortized over 30 years
    - Actuarial Asset Value (used for funding requirements and PPA Funding Ratio) determined by spreading losses over 10 years, with upper limit increased to 130% of market value (from 120%)
- March 17 – House Ways & Means removed relief provisions from jobs bill markup (H.R. 4849)
- Pension funding relief unlikely to be revisited by Ways and Means Committee until April

# Conclusion

- The plan is “Safe” for 2010.
- Based on current projections, the plan is “Safe” for 2011.
  - What could impact this projection?
    - Investment returns (7% or less).
    - Declining hours (= less contributions)
- A projected Funding Deficiency in 2018 would create an Endangered Status classification in 2012.
- All projections do not include the impact of potential legislative changes that may give the Trustees more time to make adjustments.