Bill Jensen

From:	Barry Marks [barry.marks@milliman.com]
Sent:	Monday, December 22, 2014 8:52 AM
To:	Bill Jensen
Cc:	Victor Harte
Subject:	UFCW Unions & Participating Employers Pension Fund
Attachments:	Kroger analysis UFCW Non Food Plan-2 (3).pdf

Hi Bill

As requested, the attached letter summarizes our analysis of Cheiron's report of Kroger's proposal to spin-off assets and liabilities related to the UFCW Unions & Participating Employers Pension Fund. Please call us if you have any questions. Please distribute this analysis to the appropriate personnel.

Please note that the attached pdf file contains an electronic signature. No paper copies will follow unless requested.

Thanks, Barry

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December 19, 2014

Mr. William Jensen
President
Associated Administrators, LLC
4301 Garden City Dr. Suite 201
Landover, MD 20785-6102

Re: United Food and Commercial Workers Unions & Participating Employers Pension Fund

Dear Bill:

As requested by the Trustees, we have analyzed a proposal to transfer assets and liabilities from the UFCW Unions and Participating Employers Pension Fund ("Fund") to another multiemployer fund negotiated by UFCW Local 400 ("Local 400") and the Kroger Company ("Kroger").

Cheiron, the Fund Actuary, has provided to the Board of Trustees a study regarding the transfer. We have been asked to perform the following services:

- Analyze the methodology and results of the Cheiron study, including the value of the liabilities, and advise the Trustees if we agree with the methodology and results, and if not, why not and what alternatives, if any, we believe would be appropriate.

- If different from the amount proposed as part of the transfer, advise the Trustees about the amount of assets that should be transferred in connection with the transfer of designated liabilities, so that the Transfer is cost neutral, that is, the required contributions required of the remaining participating employers will be the same before and after the Transfer

We received and reviewed the following information:

- January 1, 2013 actuarial valuation report prepared by Cheiron,
- Kroger Analysis prepared by Cheiron dated November 13, 2014,
- Kroger's 2013 withdrawal liability information prepared by Cheiron dated May 14, 2014,
- Summary of Plan Description dated October 2009 received online,
- 2014 multiemployer zone certification prepared by Cheiron dated March 31, 2014
- 2013 Form 5500 and attachments downloaded from the Department of Labor website,

- 2014 Principal Valuation Results prepared by Cheiron dated November 13, 2014, and
- 2010 Rehabilitation Plan providing different contribution schedule and benefit changes.

Our findings are as follows:

- The proposed transfer of assets and liabilities of Kroger, complies with our understanding of the applicable statutes (ERISA Section 4231 in Appendix I)
- We have concerns of how the asset transfer amount was developed. (Cheiron's formula)
- We will discuss an alternative asset amount to transfer that would keep the Fund cost neutral (Contribution increases each year of 13.5%, after Kroger withdraws)

Recap of valuation results:

The Fund is in critical status. The rehabilitation plan requires a sizeable contribution increase each year to improve the funded status and allow the Fund to emerge from critical status prior to the end of the rehabilitation period. This is dependent upon on all actuarial assumptions being realized.

Preliminary January 1, 2014 valuation results provided by Cheiron are as follows:

Actives participants:	7,010
Terminated vested participants:	5,249
Retired participants:	2,554
Total participants	14,813
Ratio of inactive to active participants	1.11
2013 benefit payments	$9.4 million
2013 administrative expenses	$1.2 million
Estimated 2014 employer contributions:	$ 6 million
Market Value of Assets (MVA)	$105.7 million
Actuarial Value of Assets (AVA)	$114.5 million
Present Value of Accrued Benefits (PVAB- 8%)	$168.4 million
Unfunded Accrued Liability (MVA)	$ 62.7 million
Unfunded Accrued Liability (AVA)	$ 53.9 million
Estimated Normal Cost	$2.8 million*
Funded Ratios:	
Based on MVA:	63%
Based on AVA	68%

*based on results shown in the 2013 valuation report

Based on the preliminary valuation results, the expected contribution of $6 million does not even cover the normal cost plus interest on the unfunded accrued liability. The Cheiron analysis of the spinoff concluded that to emerge from critical status by the end of the rehabilitation period, contribution increases of 13.5% would be needed for the next nine years if Kroger remains in the Fund and 14.2% per year for the next nine years would be needed if Kroger withdraws. Therefore, the estimated $6 million contribution amount would increase to approximately $18.7 million in 2023.

The Fund data indicates that Kroger employs about 8% of active plan participants. Kroger's latest statutory withdrawal liability estimate (as prepared by Cheiron.) is approximately $4.8 million. This is based on the presumptive method using valuation assumptions and market value of assets. Kroger's total contribution amount as shown in the latest withdrawal liability estimate is about $401,000, compared to total plan contributions of $4.9 million. This represents about an 8% ratio ($401,000/$4,900,000). For comparison purposes, the Fund's estimated unfunded vested benefits as shown in Cheiron's preliminary 2014 valuation result is approximately $60.2 million ($166.0 - $105.7 million). 8% of $60.2 million is about $4.8 million, which is close to Kroger's assessment. However, Kroger's annual withdrawal liability payment amount is approximately $1.2 million and the withdrawal liability assessment would be paid off in about 5 years.

Analysis of the asset transfer:

Kroger proposes to take Fund liabilities of $5.3 million (based on valuation assumptions) which includes active and also inactive employees. The Fund must ensure they have identified all inactive participants.

Kroger proposes to transfer assets of $2.3 million. This is based on a calculation of Kroger's liability (using blended assumptions) of $7.7 million less the withdrawal liability assessment of $4.8 million less $500,000.

One concern is that there is an inconsistency in how the $7.7 million of Kroger's liability was developed as compared to the withdrawal liability assessment of $4.8 million. It is our understanding that the $7.7 million is based on a blended interest rate, commonly referred as the "Segal Method". The $4.8 million withdrawal liability assessment is based on valuation assumptions, specifically an 8% interest rate. If a blended interest rate was used to determine Kroger's withdrawal liability would most likely exceed Kroger's liabilities of $7.7 million. Using the methodology above, zero assets would be transferred.

It is our understanding that the trustees would ideally like the following conditions to approve the transfer:

- After the transfer, the funded status of the Fund is at least as great as it was before the transfer, and

- The increase in the contribution rate after the transfer is not greater than the increase in the contribution rate that would have been had the transfer not occurred.

As disclosed in Cheiron's report transferring liabilities and assets of $5.3 million and $2.3 million respectively, leaves the Fund is a slightly better funded position than prior to the transfer, 63.7% as compared to 63.1%. However, the rate at which the expected contributions are scheduled to increase each year increases from 13.5% to 14.2% to allow the Fund to emerge from critical status by the end of the rehabilitation period.

Determining the difference between the contribution with and without Kroger as shown in Cheiron's analysis (1 year increase of 85.7% with Kroger and 92.3% without Kroger), we have we estimated that the present value of the difference between contribution amounts using a $6 million contribution amount with Kroger and a $5.6 million contribution amount without Kroger, would produce a present value for nine years at 8% of approximately $2.4 million. Therefore, the asset transfer to keep the Fund cost neutral would need to be lowered by $2.4 million, which in all essence would reduce the asset transfer to zero.

Conclusion:

It appears what Cheiron presented in their Kroger analysis complies with our understanding of ERISA Section 4231 with respect to the asset and liability transfer. If a blended interest rate is used to determine Kroger's withdrawal liability, the mechanics of the formula presented in Cheiron's analysis would reduce the asset transfer to zero.

Even though the funded percentage increases slightly, the rate at which the expected contributions are scheduled to increase each year increases from 13.5% to 14.2% for the next nine years to meet the terms of the rehabilitation plan. If the deal is structured to be cost neutral, allowing the remaining employers to increase their contributions by 13.5% per year after Kroger withdraws, the asset transfer would need to be reduced to zero.

Kroger could still withdraw and pay their annual withdrawal liability payments. However, the assumptions used to determine withdrawal liability should be updated to reflect more conservative assumption, such as the "Segal Method" as addressed in Cheiron's report. This would not change the annual withdrawal liability payment amount ($1.2 million) just the number of years to pay off the assessment.

Limited Use and Distribution:

This report has been prepared for trustees of the UFCW Unions & Participating Employers Pension Fund (Pension Fund) for a specific and limited purpose. It is a highly complex, technical analysis that assumes a high level of knowledge concerning industry operations and withdrawal liability and multiemployer funding rules and regulations. Milliman's work is prepared solely for the internal business use of the employer trustees of the Pension Fund and its advisors with respect to this project and may not be provided to third parties without our prior written consent. Milliman does not intend to benefit or create a legal duty to any third party recipient of its work product. Our consent to release this product to any third party may be conditioned on the third party signing a release. Third party recipients of Milliman's work product should not rely upon our analysis and should instead engage their own qualified professionals for advice appropriate to their specific needs.

Reliance:

In preparing the report, we relied, without audit, on information (some oral and some in writing) supplied by the Bill Jensen, President of Associated Administrators, LLC and Cheiron., This information includes, but is not limited to, valuation and withdrawal liability reports for the Pension Fund and rehabilitation schedules provided by Associated Administrators, LLC. We did not audit any of the information provided. The results of our analysis depend on the integrity of this information. If any of this information is incomplete or inaccurate, our analysis may be different and our calculations may need to be revised.

Legal Disclaimer:

The consultants who worked on this project are pension actuaries. Their advice should not be construed as legal advice. We have presented our conclusions and summarized our findings based upon our current understanding of applicable law and regulations pertaining to withdrawal liability and multiemployer pension funding obligations. Legal advice should be sought to confirm that our understandings are correct before any action or inaction is considered.

Once you have reviewed this information, please give us a call to discuss the next steps with regard to this project.

Sincerely,

Barry A. Marks

Barry Marks, EA, MAAA
Principal and Consulting Actuary

c: Victor Harte

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Appendix I

Spinning off asset and liabilities pursuant to ERISA Section 4231

To satisfy ERISA Section 4231, the trustees may not cause a multiemployer to transfer assets or liabilities to another multiemployer plan unless the transfer satisfies all of the following requirements.

- No participant's benefit is lower immediately after the effective date of the transfer
- Actuarial valuation of the plans exist before the transfer
- The plan meets the solvency test as described in the regulations
- The trustees must notify the PBGC of the transfer

The solvency test vary depending upon whether the transfer is de minimis or not, and, if not de minimis, whether the plan is a significantly affected plan.

A transfer of assets or liabilities is considered de minimis if (1) the fair market value of assets transferred, if any, is less than 3 percent of the fair market value of all the assets of the transferor plan (2) the present value of accrued benefits transferred (whether or not vested) is less than 3 percent of the fair market value of all the assets of the transferee plan, and (3) the transferee plan is not a plan that has terminated under section 4041A(a)(2) of ERISA (Mass withdrawal).

A significantly affected plan is defined as follows: (1) Transfers assets equal to or exceed 15 percent of its assets before the transfer, (2) Receives a transfer of unfunded accrued benefits that equal or exceed 15 percent of its assets before the transfer, (3) is created by a spinoff from another plan, or engages in a merger or transfer (other than de minimis merger or transfer) either (i) after such plan has terminated by mass withdrawal or (ii) with another plan that has so terminated.

If the Plan is not a significantly affected plan, the solvency requirements is satisfied if (1) the expected fair market value of assets immediately after the transfer equals or exceeds, five times the benefit payments for the last plan year ending before the proposed effective date of the merger or transfer, or (2) in each of the first five plan years beginning on or after the proposed effective date of the merger or transfer, the expected plan assets plus expected contributions and investment earnings equal or exceed expected expenses and benefit payments for the plan year.

The solvency requirements for a significantly affected plan are satisfied if all the conditions are met:

- The expected contributions equal or exceed the estimated amount to satisfy the minimum funding requirements for the five plan years beginning on or after the proposed effective date of the transaction

- The expected assets of the plan immediately after the transaction equal or exceeds the total amount of expected benefit payments for the first five plan years beginning on or after the proposed effective date

- The expected contributions for the first plan year beginning after the proposed effective date equal or exceed the expected benefit payments for that plan year

- Expected contributions for the amortization period equal or exceed unfunded accrued benefits plus expected normal costs. The actuary may select an amortization period of either (i) the first 25 plan years beginning on or after the proposed effective date of the transaction or (ii) the amortization for the resulting base when the combined charge base and the combined credit base are offset under section 412(b)(4) of the Code.

It is our understanding that the transfer of liabilities from one plan to another is based on the information contained in the latest actuarial valuation report. This implies that valuation assumptions may be used to determine the proportional share of liabilities to transfer. There may be other acceptable actuarial bases to use for the determination of the proportional share of the liabilities to transfer.

Based on the above information, it is our understanding that the assets and liabilities proposed to be transferred would not be a de minimis transfer. The new plan created by Kroger would be a significantly affected plan, but the Fund would not be so classified. A solvency test for each plan would need to be passed as discussed above.

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January 7, 2015

Mr. William Jensen
President
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4301 Garden City Dr. Suite 201
Landover, MD 20785-6102

Re: United Food and Commercial Workers Unions & Participating Employers Pension Fund

Dear Bill:

This is a follow up letter with regard to our initial analysis submitted on December 19, 2014 to your office. After release of our analysis, we received a report of additional information that Cheiron provided to the Trustees in November of 2014 on the impact of using different interest rate assumptions to determine withdrawal liability.

Specifically, Kroger's 2014 withdrawal liability assessment of $4.8 million is based on a blended interest rate ("The Segal Method"). While this clarification resolves our concern about how the calculation was prepared it does not change the results. Our conclusion remains the same even after considering this additional information on the withdrawal liability assumptions.

Based on our understanding, the trustees would ideally like the following conditions to approve the transfer:

- After the transfer, the funded status of the Fund is at least as great as it was before the transfer, and
- The increase in the contribution rate after the transfer is not greater than the increase in the contribution rate would have been had the transfer not occurred.

As discussed in our December 19th analysis, Cheiron's report suggests transferring liabilities and assets of $5.3 million and $2.3 million respectively, which leaves the Fund in a slightly better funded position than prior to the transfer, 63.7% as compared to 63.1%. However, the rate at which the expected contributions are scheduled to increase each year increases from 13.5% to 14.2% to allow the Fund to emerge from critical status by the end of the rehabilitation period.

Determining the difference between the contribution with and without Kroger as shown in Cheiron's analysis (1 year increase of 85.7% with Kroger and 92.3% without Kroger), we have estimated that the present value of the difference between contribution amounts using a $6 million contribution amount with Kroger and a $5.6 million contribution amount without Kroger, would produce a present value for nine years at 8% of approximately $2.4 million. Therefore, to keep the Fund cost neutral, the asset transfer would need to be lowered by $2.4 million, which effectively would reduce the asset transfer to zero.

Conclusion:

It appears what Cheiron presented in their Kroger analysis complies with our understanding of ERISA Section 4231 with respect to the asset and liability transfer.

Even though the funded percentage increases slightly, the rate at which the expected contributions are scheduled to increase each year increases from 13.5% to 14.2% for the next nine years to meet the terms of the rehabilitation plan. If the deal is structured to be cost neutral, allowing the remaining employers to increase their contributions by 13.5% per year after Kroger withdraws, the asset transfer would need to be reduced to zero.

Kroger could still withdraw and pay their annual withdrawal liability payment of $1.2 million for the next several years.

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Once you have reviewed this information, please give us a call to discuss the next steps with regard to this project.

Sincerely,

Barry A. Marks

Barry Marks, EA, MAAA
Principal and Consulting Actuary

c: Victor Harte

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