UFCW Unions and Participating Employers Pension Fund

CHEIRON

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Withdrawal Liability Discussion

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Background

- ERISA 4213 governs actuarial assumptions used in determining unfunded vested benefit for withdrawal liability purposes:
  - Actuarial assumptions and methods which, in the aggregate, are reasonable (taking into account the experience of the plan and reasonable expectations) and which, in combination, offer the actuary's best estimate of anticipated experience under the plan
- Actuarial Standards of Practice require justification of individual assumptions for the purpose they are being used
- Assumptions for minimum funding purposes and for withdrawal liability purposes may be different

Considerations for Withdrawal Liability

- Valuation and withdrawal liability calculations serve different purposes
  - Valuation assumptions assume ongoing plan with long-term assumptions / time horizon (50-70 years)
  - Withdrawal liability is intended to allocate to an employer who is leaving their share of the Plan's unfunded
- After three years a withdrawn employer is no longer liable for mass withdrawal liability
- Non-Food fund experienced some withdrawals over the recent years though overall impact on contribution base has been relatively small
- Adjustments to either contributions or benefits can only be made to actives of participating employers. Thus, remaining employers have a higher share of the risk associated with unfavorable experience
- The "blended method" balances
  - Risk of mass withdrawal
  - Current market environment and ability to settle (annuitize) liabilities on a pro-rata basis for withdrawn employers to the extent liabilities are funded
- Only way to fully immunize continuing employers from a withdrawn employer's liability would be to completely immunize

Revised Assumption – Blended Method

- Blends vested liabilities calculated at both PBGC interest rates and funding assumptions
- Vested liabilities
  - PBGC Vested Liability x Percent Funded on PBGC Basis plus
  - Funding Vested Liability x (1 – Percent Funded on PBGC Basis)
- Numerically
  - $320.1 x ($101.8 / $320.1) = $101.8 plus
  - $166.0 x [1 – ($101.8 / $320.1)] = $113.2
  - For a total liability of $215.0 million

Impact

$ in millions

	Funding	Blended	PBGC
Total Vested Liability for Withdrawal Liability (including admin expenses)	$ 166.0	$ 215.0	$ 320.1
Market Value of Assets	$ 101.8	$ 101.8	$ 101.8
Unfunded Vested Liability	$ 64.2	$ 113.2	$ 218.3

Based on preliminary January 1, 2014 valuation

Required Disclosures

In preparing this presentation, we relied without audit, on information supplied by the Fund Office and the Fund auditor.

The actuarial assumptions, data and methods are those used in the preparation of the January 1, 2014 actuarial valuation report.

The assumptions reflect our understanding of the likely future experience of the Plan, and the assumptions as a whole represent our best estimate for the future experience of the Plan. The results of this report are dependent upon future experience conforming to these assumptions. To the extent that future experience deviates from the actuarial assumptions, the true cost of the Plan could vary from our results.

I certify that, to the best of my knowledge, this report and its contents, which are work products of Cheiron, Inc., are complete and have been prepared in accordance with generally recognized and accepted actuarial principles and practices which are consistent with the Code of Professional Conduct and applicable Actuarial Standards of Practice set out by the Actuarial Standards Board. Furthermore, as a credentialed actuary, I meet the Qualification Standards of the American Academy of Actuaries to render the opinion contained in this report. This report does not address any contractual or legal issues. We are not attorneys, and our firm does not provide any legal services or advice.

Cheiron's report was prepared solely for the Trustees of the UFCW Unions and Participating Employers Pension Fund for the purposes described therein, except that the plan auditor may rely on the report solely for the purpose of completing an audit related to the matters herein. Cheiron does not intend to benefit any other person who receives the report and assumes no duty or liability to such a person.