

New York State Teamsters Conference Pension & Retirement Fund



Addendum to Report to the Retiree Representative for the Revised MPRA Application

***Application for Approval of Benefit Suspensions
under the
Multiemployer Pension Reform Act of 2014***

***Prepared by:
CBIZ Retirement Plan Services***

July 2017

Mr. Tom Baum
Retiree Representative
New York State Teamsters Conference
Pension & Retirement Fund
Email: info@nystfretireereptbaum.com

Dear Mr. Baum:

On May 15, 2017, the Fund's Board of Trustees submitted a revised application for Approval of Benefit Suspensions under the Multiemployer Pension Reform Act of 2014. This report is intended to supplement our previous report regarding the Fund's previous application.

CBIZ Retirement Plan Services has worked diligently with you to review the Fund's actuarial reports, to ensure the actuarial standards of practice were properly followed during the process, and to assist you in uncovering alternative benefit suspension options for Trustee consideration.

This report highlights only certain aspects of our review and it may not be appropriate to be used for other purposes. This document should not be provided to other parties, partially or in its entirety, without consulting CBIZ Retirement Plan Services as to the appropriateness of the document for use by these other parties.

In performing our review, CBIZ Retirement Plan Services has relied upon participant data, funding projections, and financial information provided to us by the Plan Administrator, Plan Actuary, and other organizations designated by the Trustees. While we did not audit or attempt to recreate the information provided, we have reviewed it for reasonableness and have no reason to believe the information is inaccurate, incomplete, or insufficient for the purposes intended.

The actuaries who participated in this engagement meet the Qualification Standards for Actuaries Issuing Statements of Actuarial Opinion in the United States and are qualified to render the actuarial opinions contained herein.

Our analysis has been performed independently as all relationships with the Plan's stakeholders and associates are strictly professional. There are no aspects of any of our relationships that impaired the objectivity of our work.

As always, we will be pleased to review this report with you at your convenience.

Respectfully submitted,

CBIZ Retirement Plan Services



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Background on Revised Application

In August of 2016, the Fund filed an application to suspend benefits under The Multiemployer Pension Reform Act of 2014 (“MPRA”). Our previous report describes certain aspects of the original application and the process the Fund went through, as well as the relevant items the Fund and its professionals considered while preparing the application. Although that report remains relevant today, this addendum is intended to answer two questions: What changed, and why? With that in mind, please refer to the previous actuarial report dated December 2016 for additional information regarding the application process.

The most noteworthy aspect of the revised application is that the benefit suspensions have been reduced since the previous application. The suspension percentage is a flat 29% for retired and terminated vested participants under the age of 75, down from 31% in the previous application. Likewise, suspensions for active participants changed from 20% to 18%.

The changes in the benefit suspensions resulted from various discussions between Treasury and the Fund, in which Treasury indicated it was likely to reject the application due to concerns regarding a number of the actuarial assumptions. While different actuaries may disagree on assumptions for a variety of reasons, Treasury is required to validate the assumptions used in the application are appropriate for projecting a plan’s solvency. Ultimately, Treasury suggested that the initial assumptions needed revision to meet their criteria to approve the application.

In some cases, the assumption changes requested by Treasury had offsetting impacts on the benefit suspension. Some of the assumption changes resulted in lower suspensions, while others led to higher suspensions. Concurrent with these assumption changes, the Fund experienced a favorable investment return between June 30, 2016 and March 31, 2017, necessitating lower suspensions as well.

In performing our work, CBIZ Retirement Plan Services did not reproduce the actuarial analysis, valuation results, or actuarial models provided by the Fund’s Actuary, Horizon Actuarial Services, LLC (“Horizon”). Therefore, in supporting the Retiree Representative as described above, our work focused on the following areas:

- Attendance at and participation in selected meetings and conference calls
- Reviewing the actuarial assumptions and methods used for projecting the effect of benefit suspensions for reasonableness and appropriateness for that purpose
- Confirming the applicable Actuarial Standards of Practice (“ASOPs”) have been considered during the application process
- Commenting on the applicability and implementation of MPRA and the associated final regulations
- Confirming there are no apparent defects in Horizon’s analysis

Throughout the Benefit Suspension application process and after its submission, we have provided actuarial consulting (requesting and reviewing analysis from Horizon), we have assisted in reviewing concerns submitted by participants, and we have suggested additional options and assumptions that should be considered by all parties throughout this process.

The next step is that Treasury will review the new application and the comments received through their website at <https://www.treasury.gov/services/Pages/New-York-State-Teamsters-Conference-Pension-and-Retirement-Fund-Resubmit.aspx>. If Treasury approves the application, Treasury will organize a vote.

Summary of Changes to Actuarial Assumptions

The Treasury Department recommended a number of changes to the actuarial assumptions and the actuarial model used to determine the amount of the benefit suspensions. Generally, these changes made the inputs to the model more complex. It is our understanding, based on discussions with the Fund's professionals, that had the first application used the same assumptions and methods used in the revised application, the benefit suspensions in the first application likely would have been **unchanged**. Alternatively stated, the assumption changes likely did not impact the magnitude of the suspensions.

However, during the interim period between the first and second submissions, the Fund's actual investment return greatly exceeded the expected return. This favorable investment return is the primary reason for the lower benefit suspensions.

This remainder of this report discusses the assumptions that were revised between applications. Any assumption discussed in our first report that is not discussed in this addendum is either unchanged or not material to the result.

Investment Return Assumption

First Application: For the first ten years, 6.75% per annum, compounded annually, net of investment expenses, and 7.50% per annum thereafter, compounded annually, net of investment expenses for projecting market value of assets.

Revised Application: Variable, beginning with 7.37% per annum, compounded annually, net of investment expenses, in 2017. The expected investment return changes for each calendar year and reaches a long term assumption of 7.67% per annum, compounded annually, net of investment expenses, in 2039.

This assumption was derived using the 2016 Horizon Actuarial Survey of Capital Market Assumptions, with a 10-year select period and using the survey's long term assumptions after year ten. In addition, the revised application considers the possibility that the Fund may move to a more liquid and less volatile asset allocation in the future, and "blends" the expected return of the current portfolio with the expected return of the possible future portfolio.

The 2017 investment return assumption was adjusted to reflect the market value of assets as of the end of the first quarter and to recognize that this assumption would only apply to the 9-month period from April 1, 2017 to December 31, 2017.

CBIZ RPS comments: In many ways, future investment returns are the determinative factor that will most impact the Plan solvency that the Fund seeks to ensure through benefit suspensions under MPRA. If future investment returns do not meet the assumed returns, additional benefit suspensions may be necessary, or the Fund may face insolvency even with the requested benefit suspensions.

The Treasury Department indicated the following areas of concern with regards to the investment return assumption in the initial application:

- The initial application did not adequately address the potential need for a less risky allocation in the future should the Fund's assets fall to a level where its illiquid and volatile investments become too risky given the Fund's cash flow.

- The expected investment return was too conservative given the underlying investments for this Fund and Horizon's survey.
- Investment returns should not be rounded to the nearest 25 basis points for solvency forecasts.

In short, the concerns raised by Treasury seem to rule out all simplified investment return assumptions. In light of the points above, Horizon provided a memo setting forth a new investment assumption that would meet Treasury's expectations. This memo:

1. Defined an alternative, less-risky asset allocation that the Fund might move to in the future, and identified when the Fund might consider such changes. This alternative asset allocation was prepared by the Fund's investment advisor and was reviewed and approved by the Fund's trustees.
2. Simulated the probability that the Fund would need to shift to an alternative asset allocation in the future, and blended the weighted average investment return for each future year.
3. Discussed the results of the 2016 Horizon Actuarial Survey of Capital Market Assumptions, and how the Fund's investment allocation performs based on that survey.
4. Reviewed the projected disbursements from the Fund's private equity investments.

CBIZ Retirement Plan Services believes the investment return assumption selected by the Fund's actuary for purposes of projecting the long-term solvency of the plan is reasonable and meets the requirements under the ASOPs and final regulations.

Participant and Beneficiary Mortality Assumption

First Application: Sex distinct RP-2014 Mortality Table with Blue Collar Adjustment, loaded by 15% and projected generationally with 50% of Scale MP-2015.

Revised Application: Sex distinct RP-2014 Mortality Table with Blue Collar Adjustment, without a loading adjustment, and projected generationally with 100% of Scale MP-2016.

CBIZ RPS comments: The Treasury Department had the opportunity to further review the Fund Actuary's experience for the Fund's participants. After review and appropriate data adjustments, the experience of the Fund would not result in a significant adjustment to the sex distinct RP-2014 Mortality Table with Blue Collar Adjustment, without a loading adjustment, and projected generationally with 100% of Scale MP-2016.

This revised mortality assumption employs the most recently published Society of Actuaries' tables. Therefore, CBIZ Retirement Plan Services believes the mortality assumption selected by the Fund's actuary for the purposes of the long-term solvency of the plan is reasonable and meets the requirements under the ASOP's and final regulations.

Other, Less-Impactful Changes

The following changes are other differences in the actuarial model used for the revised application. Compared to the above, these had minimal impact on the amount of the benefit suspensions.

Retirement Rates: The retirement rates for terminated vested participants were changed to reflect actual Fund experience.

Optional Form Selection Rates: The selection rate for Joint and Survivor pensions has been matched to the Fund's historical Joint and Survivor pension selection rate.

Timing of Contributions: The timing of the annual pension contribution rate increases for employers varies throughout the year. The revised model reflects the actual timing of the rate increases as opposed to attributing such increases to the following plan year.

Updating the data to reflect the status of certain retirees: Retirees who switched from a disability pension to a normal retirement pension are valued under the disabled retiree mortality table.

Older terminated vested participants: Terminated vested participants over the age of 72 are included in the projections.

CBIZ RPS comments: These assumptions were changed to increase their level of accuracy and better reflect the Fund's experience. Generally, these changes had minimal impact on the results of the specific calculations to which they applied, and minimal impact on the benefit suspensions. However, CBIZ Retirement Plan Services believes these revised assumptions selected by the Fund's actuary for the purposes of the long-term solvency of the plan are also reasonable and meet the requirements under the ASOPs and final regulations.

Impact of Various Changes

The following table indicates whether the changes from the first application resulted in higher or lower benefits suspensions:

<u>Assumption</u>	<u>Reduced Suspensions</u>	<u>No Significant Impact</u>	<u>Increased Suspensions</u>
Investment Return Assumption	<input checked="" type="checkbox"/>		
Mortality and Mortality Improvement			<input checked="" type="checkbox"/>
Retirement Rates		<input checked="" type="checkbox"/>	
Optional Form Selection Rates		<input checked="" type="checkbox"/>	
Update to Retiree Status Classification	<input checked="" type="checkbox"/>		
Inclusion of Terminated Participants Over Age 72			<input checked="" type="checkbox"/>
Timing of Contributions	<input checked="" type="checkbox"/>		
Investment Return Between Filing dates	<input checked="" type="checkbox"/>		
Passage of Time Between Filing Dates			<input checked="" type="checkbox"/>

As previously discussed, the net result of these changes was smaller cuts for participants.

The actuaries whose signatures appear below meet the Qualification Standards for Actuaries Issuing Statements of Actuarial Opinion in the United States and are qualified to render the actuarial opinions contained herein.

CBIZ Retirement Plan Services' relationships with the Retiree Representative, the Plan, the Plan Sponsor, and the Plan's Professionals are strictly professional. There are no aspects of these relationships that impaired the objectivity of our work.

This report serves only as an overview and summary of the process that led to the application and provides the main topics discussed throughout the process. Some of the information contained in this report may be misleading and/or confusing when not accompanied by an in-depth explanation provided by CBIZ Retirement Plan Services. To provide a complete, thorough written evaluation of every potential relevant point with respect to the review of the Benefit Suspension application is outside the scope of our engagement with the Retiree Representative. Significant additional commentary has been provided to the Retiree Representative during meetings, phone consultations, and other written correspondence. Care should be taken before any conclusions are drawn by anyone simply reviewing this report without the benefit of the additional guidance and explanation from CBIZ Retirement Plan Services provided to the Retiree Representative throughout our consulting engagement.

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Joseph F. Hicks, Jr., FCA, MAAA, EA, MSPA, QPA

Senior Vice President, Taft-Hartley Plans

Since 1994, Joe has been assisting clients design, administer, fund, and communicate employee benefits plans. He currently consults and provides actuarial services to a number of clients, with a focus on multiemployer pension plans. His most recent assignments include asset/liability projections and retirement plan redesign studies. Joe specializes in the Pension Protection Act of 2006 compliance, withdrawal liability calculations, and funding strategies/projections for multiemployer funds. Joe is the Multiemployer Practice Leader at CBIZ Retirement Plan Services, overseeing all aspects of the practice and its staff. He is also a member of the American Academy of Actuaries Multiemployer Plans Subcommittee and is currently pursuing the Society of Actuaries' Fellowship designation.

Before joining Savitz (which later became part of CBIZ Retirement Plan Services) in 2004, Joe was an assistant vice president for a national actuarial consulting firm where his primary responsibilities included providing valuation and other actuarial consulting services as account manager, actuary, and consultant to a variety of clients. He was also Training Director and a member of the National Valuation Report Task Force where he oversaw the development of the proprietary pension valuation system.

Joe frequently presents at the Enrolled Actuaries Meeting, the Society of Actuaries Meeting, the Conference of Consulting Actuaries Meeting, and the IFEBP Meeting. Joe also co-authored an article on Reorganization for the Journal of Pension Benefits (Summer '13)."

Bryan M. McCormick, FCA, ASA, MAAA, EA

Vice President, Taft-Hartley Plans

Bryan has been working in the employee benefits field since 2000. His experience includes working with multiemployer and single employer pension plans across many different industries. He currently provides actuarial consulting services to a number of clients, with a focus on multiemployer pension plans. He frequently consults on funding strategies/projections, Pension Protection Act of 2006 and Multiemployer Pension Reform Act of 2014 compliance, retirement plan design, and withdrawal liability calculations.

Additionally, Bryan supports the firm's actuaries by providing technical and actuarial expertise on special projects, including plan design and experience studies. Prior to joining CBIZ RPS in 2003, Bryan worked as an actuarial consultant for a national accounting firm.

Bryan is an Associate of the Society of Actuaries (ASA), a Member of the American Academy of Actuaries (MAAA), a Fellow of the Conference of Consulting Actuaries (FCA) and an Enrolled Actuary (EA).

Justin D. Clinger, FCA, FSA, MAAA, EA

Managing Consultant, Taft-Hartley Plans

Justin is a Managing Consultant for CBIZ RPS's Philadelphia office. Justin is a Fellow of the Society of Actuaries (FSA), a Member of the American Academy of Actuaries (MAAA), a Fellow of the Conference of Consulting Actuaries (FCA), and an Enrolled Actuary (EA).

As a Managing Consultant, Justin provides consulting services including actuarial valuations, forecast modelling, PPA zone certifications, and experience studies for both single and multiemployer pension plans. In addition, Justin prepares benefit calculations, benefit statements, and government filings for CBIZ' clients as needed. He also assists with internal studies and tools to help CBIZ deliver outstanding results to its clients.

This report is the work of CBIZ Retirement Plan Services and, in all respects, the information contained herein is intended only for the entity or person to which it is addressed. While the Retiree Representative has been granted permission to publicly share this report, any other dissemination to third-parties, copying, or use of this information is strictly prohibited without the prior written consent of CBIZ Retirement Plan Services.