40 YEARS AND COUNTING

This is the second of three articles designed to give you some context on and more information about our Western Metal Industry Pension Plan.

When you consider recent economic struggles and the effect they have on our Western Metal Industry Pension Plan, it's easy to wonder about the Plan's history. You might even be asking, how healthy is our Plan? This article shares those details and gives you year-by-year information since 1971 as well as the big picture -- over the span of 40 years.

You can see by reviewing the chart below, the Plan has been healthy for many, many years. The horizontal lines represent the average investment return over the 40-year span.



So, what makes it so difficult for our Pension Plan lately? Some have referred to this period of time in the pension world as the perfect storm because a number of factors, beyond our control (and which typically don't happen all at once), have aligned to produce some potent, negative effects.

2008 may have been the worst year in the chart above, but plan funding eroded over a decade of low returns. Look at the chart and see how plan investments reacted to market downturns and performed below targeted earnings of 7.5% in a number of years since 2000.

The ratio of active participants to retirees shifted, resulting in more money being paid out as benefits and less money coming in. In 2007, there were 5,000 active participants and 6,000 retirees. By 2011, active participants numbered 3,000 and retirees had grown to 7,000. With more retirees and few active participants, the Plan's funding must rely more on investment performance.

Strong investment returns of the 1990s worked against us in the 2000s. With high returns, the plan developed a funding surplus. Because the IRS required funding to stay within a certain range for employer contributions to remain tax deductible, the Trustees had to find ways to reduce excess funds. They did so by increasing benefits to higher than usual levels – with retiree increases, 13th checks and higher accrual rates.

Back then, the IRS did not allow plans to stockpile a surplus of funds for the future. That rule has since changed with the Pension Protection Act of 2006 (PPA), when maximum allowable funding levels were increased. But by 2006, the Trustees had already been forced to spend reserves by increasing benefits. Given the 2008 market declines, there haven't been any excess investment returns since PPA was enacted. PPA relief should help in the long-term, but it will take some time to recover.

Even taking our recent benefit reductions into account, earning a pension benefit in today's world still provides employees with additional financial security during their retirement. Pension plans have dwindled from 114,000 plans in 1985 to 38,000 in 2010. Our current plan benefits may seem low compared to how high they got in the 1990s, but they are not unusually low compared to other pension plans.