

# **Your Local Union and Company**

## **Working Together to Protect Your Pension**



**Presentation to Members - Associates**

## What we will cover

- I. Introductions
- II. Background on Central States Pension Fund
- III. Local Union and Kroger action and tentative agreement on pension
- IV. International Brotherhood of Teamsters Consolidated Pension Fund
- V. What it means, why this is right for you – today and in the future
- VI. Q&A

## Terms you need to know

Term	Definition
Benefit	The amount you receive monthly at retirement.
Accrual rate	Amount you earn for each month you work.
Contribution rate	Dollars the company pays per employee into your pension fund.
Eligibility	Generally, age, years of service required to receive and claim a pension benefit.
“Orphans”	Employees entitled to pension benefits from Central States, but whose employers are no longer making contributions on their behalf.
Vesting	Period of time required to fully participate in your pension benefit.
PBGC	Pension Benefit Guaranty Corporation, a federal government entity that insures a portion of employee pensions.
Multiemployer fund	A pension fund jointly trusted by employers and the Union in which multiple companies participate.

## Central States Pension Plan

- All participating employer contributions are pooled together in Central States Pension Fund.
- Kroger has been contributing to the Fund since 1970.
- Company contributions support the benefits for:
  - Our retirees
  - Our current associates who will retire in the future
  - Other participants in Central States, to the extent their employer has not fully funded their benefits. This includes “orphans” (participants in the Plan who are not and never have been Kroger employees)
- 1,500 associates working today at:
  - Memphis Distribution Center
  - Houston Distribution Center
  - Hutchinson and Goddard Distribution Centers
  - Crossroad Farms Dairy (Indianapolis)
  - Michigan Dairy

## Central States is in severe financial difficulty

- On March 31, 2015, the actuary for Central States certified that the Plan was “*critical and declining status.*”
- Central States administrators held a meeting with local unions in Chicago on April 8, 2015 and conducted “town hall” conference calls with employees and retirees on April 14, 2015 to explain the extent of the financial problems with the Fund and the need for benefit cuts.
- Letters have been sent to contributing employers and Plan participants, which you should have received. It summarizes the current financial condition of the Fund and the process for benefits cuts enabled by recent legislative reform.
- Teamsters National Bargaining Committee sent a letter to you about our tentative agreement.



**CENTRAL STATES  
PENSION FUND**

EMPLOYEE TRUSTEES  
CHARLES A. WHOBREY  
GEORGE J. WESTLEY  
MARVIN KROPP  
WILLIAM D. LICHTENWALD

EMPLOYER TRUSTEES  
ARTHUR H. BUNTE, JR.  
CARY F. CALDWELL  
RONALD DUSTEFAND  
GREG R. MAY

EXECUTIVE DIRECTOR  
THOMAS C. NYHAN

April 8, 2015

Dear PARTICIPANT:

Central States Pension Fund is committed to serving you and the more than 400,000 participants in our plan, including active workers, retirees and beneficiaries. Please know that your hard work is respected and that you deserve a secure retirement. We take very seriously the responsibility to protect your retirement security and the financial well-being of our plan—now and for the future.

However, like many of our nation's multiemployer pension funds, Central States Pension Fund has become severely underfunded and is headed toward financial failure if we don't take immediate, decisive action. Baby Boomers are retiring in record numbers and the union workforce has been steadily declining for years. As a result, the Fund currently has more than three times as many retirees as active members — so, fewer contributions are coming in than benefits being paid out. To put this into perspective, for every \$3.46 that the Fund pays out in pension benefits, only \$1 is collected from contributing employers, which results in a \$2 billion annual shortfall. Clearly, that math will never work.

Additionally, two major recessions have torpedoed our economy since 2000, driving down the Fund's investment assets and pushing a large number of employers into bankruptcy. The market has rebounded, but not nearly enough to make up for the huge imbalance. Central States Pension Fund currently has just 50 percent of the monies needed to support the pension benefits earned by our participants.

In order for the Fund to survive and your hard-earned benefits to be protected, significant and painful retirement benefit reductions must be considered for both active workers and current pensioners. This is not something we want to do or take lightly. Yet, it may be something we must do to save the Fund, keeping it viable and allowing us to pay benefits far into the future. We know how difficult this news will be to hear. But we owe it to you to provide honest, timely and straightforward communication.

Why didn't we take action to address this issue sooner? The answer is that, until the very end of last year, there was no path forward to fix this serious problem in a comprehensive way. That changed in December when the Multiemployer Pension Reform Act of 2014 (MPRA) was enacted and signed into law. MPRA allows trustees of multiemployer pension funds, such as Central States, to develop a rescue plan to save our pension plan from going broke and being unable to meet our obligations.



#### FOR MORE INFORMATION

*We have set up a special Central States Pension Fund MPRA website to provide information on a timely basis and to answer your questions.*

*Visit [www.CSPensionRescue.com](http://www.CSPensionRescue.com) for more information and to register your email address to receive updates.*

*Because some of our participants do not have Internet access, we will send critical information and periodic updates via U.S. postal mail.*



April 10, 2015

To Our Valued Teamster Member:

We want to let you know about an important potential change to your pension. Kroger and your Local Union have reached a tentative agreement that will provide you a stable, reliable and secure pension benefit at your retirement.

To do this, Teamsters and Kroger have tentatively agreed to form a new pension fund. It would be called the International Brotherhood of Teamsters Consolidated Fund. Representatives from the company and Local Union will be holding joint meetings at the facility where you work to provide more details. We will let you know the date and time soon.

The Teamsters and Kroger believe this change is the right move for you at the right time. Here is some important background as to why:

- Today, your pension is part of the Central States Pension Fund. As you may know, the Fund is in severe financial difficulty. According to the Fund's own estimates, it will run out of money within the next 10 to 15 years.
- The number of retirees in Central States receiving benefits is more three times higher than the number of active employees on which contributions are made. That means there is significantly more money going out of the Fund for retirement benefits than dollars coming in to pay for them.
- The situation is very serious. So much so, that Central States recently convened a meeting with the IBT local unions. At that meeting, Central States announced it would need to consider reducing pension benefits to avoid running out of money. When and to what extent is not yet known.

It became clear to the union and company during our recent Master Agreement negotiations that the financial situation at Central States would not improve without serious changes. These changes would ultimately reduce your pension benefits.

That is why we are taking action to protect your pension. We reached a tentative agreement with Kroger that provides for a transfer of your pension from Central States to the newly formed IBT Consolidated Fund. Our agreement with Kroger does three important things: 1) Protects the benefits that you have earned under Central States, 2) Provides a reliable and solid pension benefit for you in the future, and 3) Leaves Central States better off.

This is a good solution for you and all participating Kroger retirees. For it to become effective, the agreement will need to be ratified by the membership and Central States also will need to approve the transfer. Representatives from the union and company will provide background about the new fund and answer any questions you might have at upcoming meetings. We strongly encourage you to attend.

Sincerely Your IBT National-Kroger Bargaining Committee,

Steve Vairma  
Secretary-Treasurer Teamsters Local 455  
Western Region International Vice President-IBT  
President Joint Council 3  
Warehouse Division Director - IBT

Jeff Sperring  
Teamsters Local 135

Patrick Dougherty  
Teamster Local 337

Terry Constant  
Teamster Local 795

David Carter  
Teamster Local 968

Ed Huston  
Teamster Local 984

## Central States is in severe financial difficulty

- The Fund's financial problems are deep and need immediate attention.
- By its own estimates, the Fund will run out of money without changes in 11 years (2026).
- Central States said benefit cuts must be considered in order for the Fund to remain solvent.



## How did Central States get in this condition?

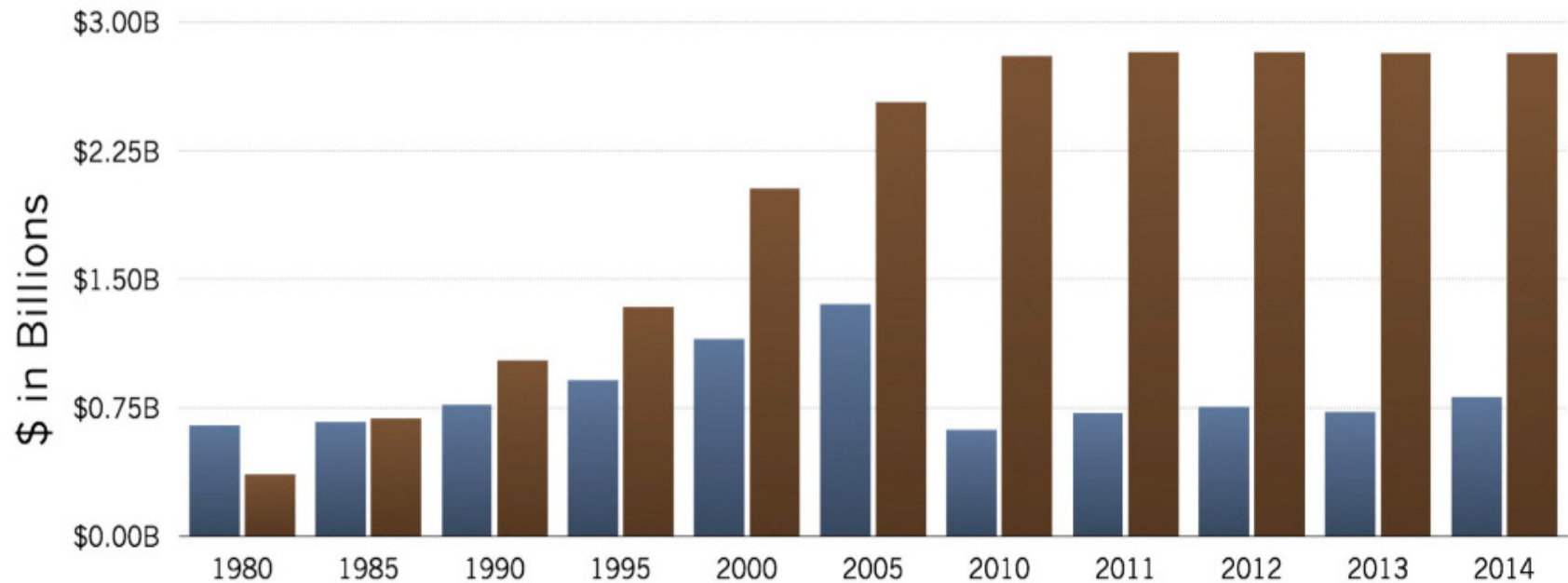
- Several significant events have caused financial difficulties.
- The stock market crash in 2008 and the great recession that followed.
- Many companies have left the Fund, with many of these departing companies having gone out of business.
- While these companies have not fully funded their benefit obligations their employees/retirees are or will be receiving benefits from the Fund.

## More money going out than coming in



- Contributions from participating employers – **\$ 575 million per year.**
- Annual benefit payments to retirees – **\$ 2.9 billion per year.**
- Only way to recover is for investments to earn more than 12 percent a year, which is highly unlikely.

## Growing Operational Deficit



**Contributions**

Contributions are about \$575 million per year.

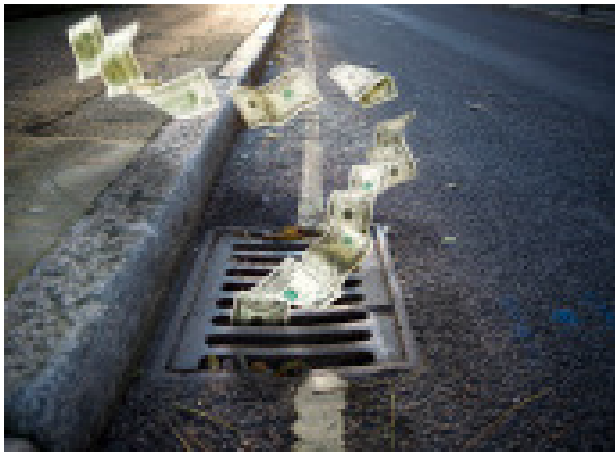


**Benefits**

Central States pays \$2.9 billion in pension benefits per year.

## Current trend and approach is unsustainable

Central States currently has over 3 retirees for every active employee. \*



Over \$2 billion annual shortfall is depleting the Fund.

## What does this mean

- Deeply troubled plans, like Central States, now by law (December 2014) can suspend or cut benefits to avoid insolvency. That includes benefits you have earned and even those currently being paid to retirees.
- Central States has said it will need to consider benefit cuts to keep the Plan solvent. They have not said to what extent cuts will be made, but expect to determine and announce this summer.
- Central States still could become insolvent (run out of money to pay benefits) down the road.

## If Central States goes insolvent

- Your pension will be reduced to the level guaranteed by the PBGC.
- The maximum PBGC guarantee for a 30-year participant who retires at 65 is \$1,072.50 a month - (\$12,870 per year).
- For a 30-year associate, this could mean a pension cut of 70 percent.
- Complicating factor – the PBGC is projected to become insolvent before Central States does; ultimately benefits could be reduced to almost zero.

*Without action by Kroger and Teamsters your pension benefit is at serious risk.*

## Teamster – Kroger solution

Teamsters and Kroger have worked together to develop a good solution that would protect your pension. It is part of your Master Agreement negotiations. Our joint solution would:

- Transfer associates/members from the Central States Pension Plan to a new multiemployer pension fund developed by the company and union.
- Preserve the retirement benefits you have earned to date under Central States. They are protected. They will not be cut or reduced.
- Provide solid, reliable and stable benefits moving forward in the new fund.
- The new fund is called the **International Brotherhood of Teamsters Consolidated Pension Fund.**

## What needs to happen

- Members need to ratify the agreement.
- Central States needs to agree to the transfer.



## Receive the better benefit

Associates/members who have worked for the company 10 years or more (as of the transfer date) receive the greater of either:

1. The benefit that you would have received from Central States at retirement had Kroger remained in Central States.

*OR*

2. The full benefit you had earned from Central States on the date your benefit is transferred to the new IBT Consolidated Pension Fund, plus the benefits you earn under the new IBT Consolidated Pension Fund.

*(Anyone under 10 years receives option 2)*

## New benefits formula

- Percent of annual salary reported on adjusted W2 (including pre-tax deductions).
- Retirement at age 62.

Plan years	Accrual Rate
1 – 2	0.75% first 5 years 1 % over 5 years
3 – 5	0.9 % for first 5 years 1.2 % over 5 years
6 – 8	1.05 % first 5 years 1.4 % over 5 years
9 - plus	1.125 % first 5 years 1.5 % over 5 years

## New benefits formula

- If you continue to work after age 62, your pension benefit is increased 6 percent each year until age 65
  - So that by age 65 our benefit will be 118 % of your benefit at age 62

## Examples

We do not know what Central States will do regarding the actual benefit cuts, but here are some examples based on the following assumptions:

- Central States reduces Accrued Benefit in 2016 as indicated but leaves early retirement subsidies unchanged.
- Central States cuts benefits by 35 percent.
- Central States rate of pension accrual does not increase with increases in contribution rates in 2016 or later.
- Annual salary increases.

## Example #1

*Chris just retired after 35 years of service with a pension of \$3,000 per month.*

Pension Scenario	Monthly Pension
Central States cuts benefits 35%	\$1,950
Central States reduces pensions to 110% of PBGC guarantee	\$1,376
IBT Consolidated Pension Fund	\$ 3,000

## Example #2

*Pat is age 55 and has 25 years of service. Pat makes \$50,000 per year and has an accrued pension today from Central States of \$2,200.*

Pension Scenario	At age 62	At age 65
Central States cuts benefits 35%	\$1,885	\$2,145
Central States reduces pensions to 110% of PBGC guarantee	\$1,258	\$1,376
IBT Consolidated Pension Fund	\$2,600	\$2,900

## Example #3

*Sam is age 40 and has 10 years of service. Sam makes \$40,000 per year and has an accrued pension today from Central States of \$1,100.*

Pension Scenario	At age 62	At Age 65
Central States cuts benefits 35%	\$2,177	\$2,398
Central States reduces pensions to 110% of PBGC guarantee	\$1,258	\$1,376
IBT Consolidated Pension Fund	\$2,470	\$3,020

## Comparison of Plans (Before benefit suspensions or cuts by Central States)

	Central States	IBT Consolidated Pension
Participation	20 weeks of contributions	Age 21 and 1 year of service Credit back to date of hire
Normal retirement		
Eligibility	Age 65 with 5 years vesting service	Age 65 with 5 years eligibility service
Benefit	Accrued monthly pension (AMP)	Accrued monthly pension (AMP)
Unreduced early retirement		
Eligibility	Age 62 with 20 years service AMP	Full benefit payable at age 62 with 10 years of service; additional benefits if work until 65
Benefit		
Reduced early retirement		
Eligibility	Age 57 with 5 years service	Age 55 with 10 years service
Benefit	AMP reduced 6% a year from age 62 if 20 years service; otherwise reduced 6% a year from age 65	AMP reduced 6% a year from age 62



## Comparison of Plans (Before benefit suspensions or cuts by Central States)

	Central States	IBT Consolidated Pension
Disability Pension		
Eligibility	Under age 62 with 10 years service and total and permanent disability	20 years of service and total and permanent disability
Benefit	\$250 until age 65 then AMP	AMP
Deferred Vested Pension		
Eligibility	5 years of service (20 weeks = 1 year)	5 years of service
Benefit	AMP (contribution based) reduced 6% a year from 65 (62 if 20 years service)	Actuarial equivalent of normal retirement pension if < 65
Form of pension	Unmarried: life annuity – 60 months guaranteed Married: Joint & Survivor with pop-up, actuarially equivalent to 5 C&C form	Unmarried – Single life annuity Married: Joint & Survivor Annuity actuarially equivalent SLA

## Comparison of Plans (Before benefit suspensions or cuts by Central States)

	Central States	IBT Consolidated Pension
Pre-retirement death benefit	One of the following: <ul style="list-style-type: none"> <li>▪ Qualified pre-retirement survivor annuity</li> <li>▪ 60-month benefit</li> <li>▪ \$4,000 lump sum</li> </ul>	Qualified pre-retirement survivor annuity

The actual terms of the plan will be controlled by IBT/Kroger agreement and plan document for IBT Consolidated Pension Plan.

## How we came to this solution together

- A joint Teamsters and Kroger subcommittee was formed as part of the Master Agreement negotiations.
- Subcommittee studied the situation for nearly a year and reviewed multiple options.

## Timing and governance

- Upon ratification of this agreement, we will request from Central States a transfer of your Central States benefits to the new fund.
- We will ask for transfer of liabilities from the Central States Pension Plan to the new IBT Consolidated Fund no later than July 1, 2016.
- You and other associates would begin to earn retirement benefits under the new pension fund effective with the transfer to the new fund.
- The new fund will be governed by a board of trustees that includes an equal number of Teamsters and employer representatives.

## Informing Central States

- Our intention is to protect your retirement and the company's investment in your pension.
- Teamsters and Kroger recently informed Central States of our tentative agreement to exit the Central States Pension Fund.
- Central States' initial reaction was not positive. It does not want to see any employer exit the Pension Fund, even though our approach protects your benefits.
- We will continue to engage in a dialog with Central States as part of our effort to protect Kroger associates and retirees without harming the remaining Central States participants.

## International Brotherhood of Teamsters Consolidated Fund

1. Preserves what you have earned to date at Central States.
2. Ensures a reliable, stable and secure pension for you moving forward.
3. Includes a significant contractual funding commitment from Kroger.
4. The company is managing its financial obligations in a responsible way for our associates, Central States and our company.

## Sources of information

- Union and company website [www.ibtkrogerpension.com](http://www.ibtkrogerpension.com)
- Your Local Teamster representatives
- Your facility management
- Consider visiting Central States special website [www.cspensionrescue.com](http://www.cspensionrescue.com)

# Questions?