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Should we panic about pension?
All signs point to no, and I'll tell you why

by [Harvey Mars, Esq.](#)

Harvey Mars is counsel to Local 802. Legal questions from members are welcome. E-mail them to jurmars566@aol.com. Harvey Mars's previous articles in this series are archived at www.harveymarsattorney.com. Nothing here or in previous articles should be construed as formal legal advice given in the context of an attorney-client relationship.

Our pension fund's situation is at the top of our minds. At the beginning of May, the fund finalized its rehabilitation plan and made it public. (See www.afm-epf.org.)

The details are dizzying in scope and are worth a close read. In the past two issues of *Allegro*, we've reported on the highlights and given members a substantial overview.

However, over the last several weeks, I've received e-mails from members with additional questions. I'd like to discuss two of these here.

First question: How exactly is the pension fund claiming that it won't go insolvent in 40 years?

Here's what I learned. The actuary, in calculating future funding status, makes the worst possible assumption.

That is, on a certain date, all contributions will cease.

In the case of the AFM Pension Fund, the date used for this year would be the beginning of the current fiscal year: April 1, 2010.

Then the actuary asks the following question. Assuming that all contributions will end on April 1, 2010, how much of the fund's current obligations will be covered?

To make the calculation, take the market value of the fund's assets – the money the fund has as of April 1, 2010 – and divide it by the actuarial value of the fund's liabilities – basically the pensions that have been earned, both those currently being paid and those that will be paid because they are vested.

That result gives the funding percentage. Since we are in the "red zone" that percentage is now less than 65 percent.

When making the 40-year projection, the same two figures are used: the market value of assets, and the actuarial – or assumed – value of liabilities. And the same assumption is made that all contributions end on April 1.

For purposes of determining solvency, it is also assumed that the fund's assets will be invested and earn the fund's normal 7.5 percent increase.

The figure 7.5 percent is used because historically the markets, when averaged over several decades, have produced that rate of return or more. Those decades include the 1930's, the period of the worst market experience in history.

Looking at the numbers from the fund's latest tax return (otherwise known as a Form 5500), which covers the period April 1, 2008 through March 31, 2009, at the end of that period of time, the fund had net assets in the amount of \$1,341,038,724 and pension disbursements for that plan year in the amount of \$105,393,339.

So, if the rate of return were 7.5 percent, then benefits could be paid out for over 40 years. That's where the 40-year figure comes in.

Now if you want to assume a 3 percent return (instead of 7.5 percent), the fund would still have enough assets to pay benefits in that yearly amount for about 18 years.

I have reviewed these figures with the Pension Benefits Guaranty Corporation.

I also learned something else from the PBGC. Presently, there are 1,500 multi-employer funds that it insures. (The AFM Pension Fund is one of them.) Only 40 of them are insolvent. That means that less than 3 percent of multi-employer funds have gone under. That is an extremely small number compared to the number of single-employer pension funds that the PBGC has been required to take over.

Second question: Should we trust the pension fund's facts, figures and statements?

I have been told that an independent actuary has read the latest fund's actuarial report and found nothing to criticize. The actuarial report is available to any local upon request from an officer.

The Pension Benefits Guaranty Corporation has also advised me that it reviews the pension fund's tax return each year.

As far as a complete, in-depth, independent actuarial review and audit is concerned, I believe that this would not be possible absent some solid evidence of a problem. It would also be beyond the financial resources of any individual – and possibly any local.

The most compelling argument against the existence of corruption or malfeasance is that no one benefits. The union trustees hear complaints from the participants who are suffering the lowering of their future pensions, the employer trustees hear from the employers who have to increase their contributions, the professional advisors face the possibility of getting fired and the fund staff hears it from everybody. It's not good for anybody.

Our pension fund is in a situation similar to other multi-employer pension funds around the country. Indeed, the whole economy is in the same situation. If our pension fund's troubles were an isolated incident, I think that concern about fiscal mismanagement or malfeasance would be warranted. But that's simply not the case. We're all in the same boat.

If any member would like to see a complete copy of the pension fund's latest tax return, please e-mail me at JurMars566@aol.com, and I'll e-mail you back a PDF of it.