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# **REIMAGINING PENSIONS: THE NEXT 40 YEARS**

## **U.S. Pension Benefit Plan Design Innovation: Labor Unions as Agents of Change**

**Sponsored By The Pension Research Council and  
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## PURPOSE OF THIS ARTICLE

- Highlight the Role and Influence of Labor Unions in the Transformation of the Employer Based Pension System
- Describe How a Major National Labor Union Managed Its Pension Crisis
- Focus On the Union's Decision to Develop a Hybrid Pension Plan
- Utilize the Case Study Method

# SETTING THE STAGE FOR THE CASE STUDY

- Description of the UFCW Multiemployer Pension System
- Identify Governance and Regulatory Weaknesses Leading Up To the Crisis
- The “Perfect Financial Storm” of the 2000s and Its Consequences
- The UFCW’s Response to the Pension Crisis
- Pension Protection Act of 2006 and Its Amendments

# THE UNION'S INTERNAL ASSESSMENT OF THE PENSION CRISIS

- The UFCW's Organizational Advantages
- Conducting an Independent Plan Solvency Study
- Identifying Other Pressure Points – FASB and Credit Agencies
- Asking the Hard Questions – Is the Status Quo Fixable and Sustainable?

# INTROSPECTION LEADS TO A NEW UNDERSTANDING OF PENSION PLAN SUSTAINABILITY

- Understanding the Challenges of Mature Pension Plans
- Recognizing the Costs of Demographic Change
- Negative Cash Flow and Plan Leverage
- Investment Risk Overwhelms Modern Portfolio Theory

## SEARCHING FOR NEW PENSION DELIVERY MODELS

- Insights Into Past UFCW Pension Innovation
- Seeking New Paradigms – The Keith Ambachtsheer Effect
- Don Fuerst (Mercer) Reintroduces the Variable Annuity Plan and Risk Sharing

# SETTING PLAN DESIGN GOALS

- Rejected 401(k) and Cash Balance Models
- Target Stable Employer Contributions and High Probability of Full Funding
- Pay Adequate Benefits in Lifetime Annuities
- Share and Manage Investment Risk
- Establish Fair Pricing of Benefits
- Establish an Effective Governance Model

# THE VARIABLE DEFINED BENEFIT PLAN

- Floor Benefit
- Variable Benefit
- Floor Interest Rate
- Units and Unit Values
- Surplus Management and Reserves
- Managing Retiree Benefit Liability
- Investment/Risk Management Policy



# VARIABLE PLAN GOES PUBLIC

- Presented to UFCW Governance Bodies
- Presented to Industry Joint Labor Management Committee
- Organized Pension Summit for Union Trustees
- Initiated Employer Discussions
- Opportunity Knocks – Kroger Engages UFCW in Special Pension Negotiations

# VARIABLE PLAN GAINS BROADER ACCEPTANCE

- Public Policy Forums
- Interest from Other Unions
- NCCMP Retirement Security Review Commission

# UNIONS AND PENSION INNOVATION

- Unions Are Strategically Positioned to Renegotiate the Pension Deal
- Benefit Design Innovation is a Bridge to the Future
- Encourage Researchers in Different Academic Disciplines to Study the Role that Stakeholders Play in Transforming the Employer Based Pension System
- Case Studies Can Be Instructive and Empowering to Pension Practitioners