

The Pension Fund is Secure

In our last issue of the Journal, and in letters to members' homes, it was announced that changes were being made to the U.S. Pension Fund. Over the last three months since the announcement, Pension Fund Administrator Gary Meyers has been personally visiting district



councils and locals throughout the country to answer members' questions.

And, not surprisingly, most of the letters we've recently received address this subject as well. So, in this issue, Ask the General President is dedicated solely to answering your questions on the U.S. Pension Fund changes.

Q For years now we've been seeing stories in the Journal and hearing in meetings that the Fund is in excellent shape and that it is even stronger than ever. Was that untrue?

A No. Our rate of return on our investments in the Fund over the last three years was 16.1% in 2003, 8.8% in 2004 and 7.5% in 2005. Overall, that is an excellent rate of return. Currently, the Fund is performing in the top 25% of the Taft-Hartley Funds Universe index that our investment advisors use and this is what we have been touting in union meetings and in the pages of the Journal.

The main reason we have taken such pains to promote this great rate of return over the last several years is that in 2000, 2001 and 2002, due to the general market downturn, our rate of return was 1.4%, - 2.8% and - 8.1% respectively. The financial health of our Fund relies on getting a rate of return of at least 7.25%. Obviously, those rates fell far short of that and, despite our excellent recent returns, we are still trying to recover from those losses today.

Q If it's doing so well now, why change it?

A Pension legislation has just recently passed in both the House of Representatives and the Senate and will soon be sent to the president for his signature. Among other things, this legislation would require pension benefit programs to increase their funded positions and become fully funded at a faster pace. In short, being "fully funded" means that the assets currently in the fund are equal to the liability for benefits earned to date, which allows a fund to keep the promises made to participants in the Pension Plan without further contributions.

As of January 1, 2005, the IUPAT U.S. Pension Plan was 77.9% funded. If this legislation is voted into law, all pension funds would be required to be at least 80% funded or be forced to undertake burdensome (and expensive) measures to arrive at this minimum. There is no doubt that these actions mandated by the government would include a reduction in benefits to participants, among other things.

Basically, if we didn't take action, the federal government made it clear that it would do so. (Editor's note: see page 20 for further news on the pending federal legislation.)

Q Why are we under-funded? Were we ever fully funded?

A In 1999, the Fund was over 100% fully funded. Then we hit those down years of 2000-2002 that I described earlier. As I'm sure many of you remember, the economy entered what seemed like a free fall during those years and our investments were not immune to the market's downturn even though we fared better than many.

Q How did that happen? Doesn't someone monitor our investments?

A The Fund Trustees and the Fund's independent financial advisors keep close watch over Fund investment performance but, as you are aware, no one can predict the future of the market and guarantee success. The Trustees, with the advice of the financial advisors, make what they feel are the best decisions to garner the best results for the Fund. However, during the 2000 - 2002 period, it was very difficult to earn positive returns in the financial markets. During that three year period, in part due to the 9/11 attack on our homeland, the S&P 500 lost over 35% of its value and virtually all pension funds suffered substantial losses. In 2003, the Fund changed financial consultants and restructured its investment portfolio. To date these changes have proven to be positive, nevertheless we must remain diligent in our oversight. The Plan Trustees

have put into effect various diversification measures to help insulate the participants from a reoccurrence of what happened in 2000-2002.

Q Is the Fund in jeopardy?

A No. The changes we made to the Plan have effectively put us on the path to become over 80% funded.

Q How long is this change going to be in effect?

A We'll proceed at this new rate for as long as it takes to assure that our members' pension benefits are sufficiently funded and secure. When we achieve this goal, we will consider improving benefits. I wish I could more specific, but like I said, no one can predict the future of the market and guarantee success.

Q Will you retroactively restore the 2% once you are able to?

A If we can do so without threatening our 80% funded status once we achieve it, we will consider retroactively restoring the benefit.

Q The Pension Fund just completed building a hotel in Washington, D.C. Did that turn out to be a bad investment and the reason we're making this change?

A Historically, real estate has been a good long-term investment where we can achieve a strong rate of return while at the same time balance our portfolio. The Pension Fund invested \$42 million of equity in this newly constructed hotel. It was completed on time, on budget and is expected to achieve double

digit returns on our investment. Furthermore, the District of Columbia also recognized the potential of this new hotel and invested an additional \$11 million in the project in the form of Tax Increment Financing. This

investment was judged sound not only by our consultants, but by the office of the mayor of Washington, D.C. as well. Our investment manager advises that, if we chose to do so, the hotel could be sold at a substantial profit.

It's never easy to make decisions such as this one, but trust me when I say we examined all of the options available to us, including increasing the contribution rate to the plan by at least 50% and no longer offering the option of early retirement to our members. The Trustees decided that reducing the future accrual rate to 1% from 2% was the most reasonable plan of action.

By reducing the accrual rate, members don't lose any of the benefits already accumulated under the Plan. This change only affects everyone going forward from January 1, 2006. Those receiving benefits from the Plan now will not be affected.

Our Pension Fund is one of the best in the Building Trades and it is the job of its Trustees to make certain

it stays that way. The newspapers are filled with stories about pension plans going under and the government, in passing the legislation described in this article, is attempting to address that issue. The IUPAT has decided to be proactive and will take action instead of waiting for the government to do so. We are fully confident that this change has put our Fund on the right path where all participants will enjoy a secure pension benefit when they retire.

We know this issue is extremely important to all of our Pension Fund participants, so we will make every effort necessary to keep you fully informed. Continue to read the Journal and check the Painters and Allied Trades Industry Pension Fund web site for updates and more information.

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