President’s Column

By Dr. Thomas J. Mackell, Jr., President, Association of Benefit Administrators, Inc.

Looking forward, the U.S. will be challenged on all fronts in order to maintain its global leadership role and its economic prominence, which, unfortunately, has dwindled dramatically over the last several years. Not surprisingly, none of the presidential candidates are discussing this new, impending, global economic paradigm.

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IN MEMORIAM

Jim Norton, the former International President of the Graphics Communication International Union and a member of the Board of Directors of the Federal Reserve Bank of Boston, passed away recently. Jim was a loyal, dedicated trade union leader and one of the finest gentlemen one could meet. He will be missed by his family, friends, members, acquaintances and all whom he touched.

Infrastructure: The Crossroads of Capitalism and Public Policy

McKinsey & Company’s Global Institute recently released a study entitled: “The New Power Brokers: How Oil, Asia, Hedge Funds and Private are Shaping Global Capital Markets.” These new mega financial power brokers will influence our lives in ways that most of us cannot envision today. The notions of regulation and transparency will be major challenges to central bankers and investors worldwide.

These power brokers will, along with the continuing breakneck speed of globalization, create new worlds of energy, transportation, technology, education, worker training, economic conditions and foster global interdependence that will precipitate additional massive seismic shifts in the lives of all people worldwide.


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Our national leadership’s failure in dealing with the new realities of employment, education, worker training, health care and retirement policy and our deteriorating infrastructure has taken its toll. In the late 1970s we lost our commitment to a national industrial policy and have been floating rudderless since.

We are fast taking on the characteristics of a third world nation.

Recently, I was intrigued by the title of a book that was reviewed in the News York Times written by Kinky Friedman entitled: “You Can Lead a Politician to Water, But You Can’t Make Him Think.” That sums up the inertia and incompetence of so many of our political leaders today. We’re paralyzed by partisanship and suffer from a severe leadership deficit.

On Friday, October 19, we remembered the 20th anniversary of the infamous Black Monday stock market crash when the Dow Jones Industrial Averages plunged 508 points or some 22.6%. This drop was unprecedented and hasn’t come close to being equaled since.

Even the historic 1929 crash, while deeper, broader and longer-lasting did not produce a one-day downdraft as vicious as 1987.

Even the historic 1929 crash, while deeper, broader and longer-lasting did not produce a one-day downdraft as vicious as 1987.

After the 1987 crash, the New York Stock Exchange implemented circuit breakers, namely, they reconfigured their infrastructure in order to preclude another meltdown. Under current rules, the market shuts down if the Dow industrials fall 2,700 points. The captains of industry, along with the titans of Wall Street were not going allow a failure in the structure of the stock exchange’s system that could lead to another crash and impact their holdings. So they redesigned the infrastructure.

So why is it that when the American Society of Civil Engineers, which issues a report card every four years, graded the nation’s infrastructure with a big fat “D” in 2005 — for our roads, bridges, railways, air and sea ports, electric grids, levees and dams — most people barely noticed? That grade was down from a “D+” issued four years before.

However, talk to a staggering number of Americans about their daily commute to and from work and you will get an earful!

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When the Spanish conquistadors arrived in South America in 1532, they saw and were astonished by the incredible number of bridges of braided fiber cables suspended across deep gorges and rivers in the Andes. What was awe inspiring was how the Incas recognized how important it was to maintain a well-functioning system of bridges — their infrastructure — for survival and for their economic well-being.

When will our political leaders connect the increasingly decrepit national physical plant with the prospect of declining worker productivity, diminished U.S. global competitiveness and the strengthening of our nation’s homeland security?

A recently published book by Stephen Flynn entitled “The Edge of Disaster” performs an incredible service to this nation when he marries the need for real homeland security with our deteriorating infrastructure. He leaves no doubt about his assessment of the current administration’s chest-pounding about how we are better protected in the post-9/11 world. My assessment is that they have redefined and accelerated the financial rewards of “crony capitalism,” taken it to new heights, and have left us naked.

Because of the lack of immediate political benefits that mark long-lived infrastructure projects, and the steadily increasing costs of other societal responsibilities of local and state governments, infrastructure has been relegated to a smaller share of public budgets.

The federal government has adopted a hands-off approach to protecting critical infrastructure so much so that managing the risk associated with large scale natural and man-made disasters remains far from the top of our national priorities. Our physical infrastructure is our national security asset.

Over time, our failure to act will weaken the competitive position of companies in the global marketplace. A national effort to repair and upgrade these systems would bolster the attractiveness of investing, working and living in the U.S.

Commuters would spend less time in traffic jams and infrastructure renewal projects would provide higher-paying employment opportunities for skilled trade union workers and stimulate the construction industry which is in the doldrums in the post-subprime mortgage debacle.

Changing demographics will dictate real estate development needs in America for decades. As a result of these shifts, there is a growing need for development of workforce housing, senior housing, new and modernized medical facilities, improved parking facility services, enhanced urban transportation needs, student and faculty housing, in addition to upgrading our roads, bridges, air and sea ports, etc.

Infrastructure development investments offer an opportunity for pension funds to do well while doing good — creating the “double bottom line” — at the crossroads of capitalism and public policy.

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ABA JOINS SPPON

By Peter C. Hapgood, Administrator, SPPON

The Association of Benefit Administrators, an organization focused on the American labor community, has joined the newly formed Statewide Public Pension Organizational Network. A new industry think tank dedicated to preserving America’s traditional public pension plans. Dr. Mackell, President of the ABA, will join seven others on the board of directors to battle attacks on the American worker’s retirement benefits.

The Statewide Public Pension Organizational Network’s initial meeting was in February of 2007. Without a definitive direction Dr. Mackell met with select group of professionals in Washington, D.C. to offer expertise and discuss the state and future state of the nation’s pension industry. Ray Edmondson, SPPON’s Chairman and the Executive Director of the Florida Public Pension Trustee Association, recognized a need for a national think tank to ward off unreasonable attacks on the pensions industry. As Mr. Edmondson and the FPPTA spearhead this initiative healthcare costs are sky rocketing, defined benefit plans are increasingly coming under attack and converting to a defined contribution plans, the funding process is often misunderstood, and the international investment process is facing moral scrutiny amongst a number of other large issues. The intention of SPPON is to educate the decision makers so that they may be well equipped to deal with the challenges they face.

The Statewide Public Pensions Organizational Network is comprised of industry professionals from multiple facets of the pension industry. Actuaries, directors and staff from various state and national organizations, lawyers, investment managers, and the like have come together to create this national think tank to fight for and create solutions to the attack on traditional pension benefits. The original intention of SPPON was to cross state barriers, discuss, teach and learn from the experiences in the pension world and then apply information towards a progressive end. With experience in so many corners of the business, SPPON is in a unique position to influence decision makers in a positive way to defend fair benefits of millions of American workers.

Amongst all the lobbying and bipartisanship what should matter can get lost in pleasing the agendas and relations of local, state and federal legislators. The Statewide Public Pension Organizational Network is the perfect place to discuss national trends in the industry. There is a seemingly never ending line of issues that challenge this industry, challenges that ask hard questions and require equally hard answers.

If anyone is interested in finding out more information about SPPON or if you would like to support this new pension industry initiative, please contact Peter C. Hapgood, SPPON Administrator at 508-765-6800.
GEttING yOuR MutLIEMPLOYER plAN REAdy FOR thE pENsION pROtEctION Act of 2006 (“PPA”)

By Jay Egelberg, Director, Retirement Actuary, Buck Consultants

PPA requires actuaries to annually certify the funded status of each multiemployer plan beginning on the 90th day of the 2008 plan year. The certificate is filed with IRS and states whether the plan is in endangered or critical status. The first due date is March 30, 2008, for calendar-year funds. This article highlights issues for current consideration.

The actuary must project plan liabilities and assets, and contributions under current collective-bargaining agreements (“CBAs”). Contributions are deemed to continue unchanged unless significant demographic changes imply adjustments. Trustees must provide the actuary with their knowledge of industry trends and anticipated changes in covered employment, and must “act reasonably and in good faith.” Actuaries might prefer this input in writing or to be recorded in minutes of trustee meetings.

Employer trustees might consult with contributing employers to learn about upcoming projects or jobs scheduled to end. Labor trustees should consider apprenticeship “graduates” joining the fund.

Yellow- or orange-zone plans must meet specific funded-percentage targets over ten (sometimes fifteen) years, while continuing to avoid funding deficiencies. Under red-zone funds, rather than meeting specific funding targets, the goal is, before ten years are up, to project no funding deficiency for a prospective ten-year period. During that period, the fund may experience a funding deficiency without incurring the usual penalties, certain accrued benefits may be cut, and employer contributions are automatically increased until new CBAs reflect terms of the trustees’ rehabilitation plan.

Some funds in true distress can’t wait, expediting actuary’s certificates and sending required notices declaring critical status now. Come 2008, these funds may immediately begin subsequent notification processes, implementing benefit adjustments and contribution surcharges.

Review your funding method and how it allocates career benefit costs to each year of service. Many funds use the entry-age normal cost method, under which costs are relatively level throughout employees’ careers to match the rather steady contribution level expected under CBAs. This

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relatively conservative method creates higher costs for young employees and “front-funds” a larger liability sooner than under less conservative funding methods, such as the unit-credit method. Unit-credit costs and liabilities are relatively lower for younger employees and grow consistently over time. A change in funding method might help trustees better manage their long-term objectives.

Five-year asset smoothing is still available (single-employer staff plans are limited to two years). Additionally, trustees can “fresh-start” the actuarial value to match the market value, which could be advantageous if recent gains are not yet fully recognized. If the asset method has not changed within five years, IRS allows automatic approval; otherwise, an application is required.

A five-year extension to amortize unfunded liabilities is available with actuarial certification, and another five years may be requested under more stringent requirements. Extensions can preserve credit balances and delay funding deficiencies.

Red-zone plans are required to consider expense reductions, including mergers. Due diligence should focus on each plan’s — and the resulting plan’s — current and projected funding status.

Employers will examine endangered or critical funds and weigh several options, for example, whether to:

- stay and:
  - bargain under a funding-improvement or rehabilitation plan;
  - pay possible contribution surcharges; or
- withdraw and incur regular or mass withdrawal liability; or
- attempt to spin-off their portion of the fund into another single- or multiemployer plan.

Fiduciary liability insurers are concerned about PPA. Will carriers continue to insure plans not in the green zone? Against new PPA penalties?

Now is the time to examine your actuaries’ projections, discuss the basis for them, consult with insurance carriers, and consider PPA’s funding and administrative implications.
interest rate environment if the principal value of the investment has declined. Normally investments are carried on the balance sheet at the lower of cost or current market value.

A relatively new product has been introduced throughout the country, which provides completely stable principal value, a fair market return on investment and 100% FDIC insurance on amounts up to $50 million. The program is known as CDARS, which stands for Certificate of Deposit Account Registry Service.

CDARS is a network of community banks across the country that has combined to share their FDIC insurance. Here is an example: a union has $1 million in liquid funds that they want to invest at a high yield of return with no risk. The union deposits the $1 million with a participating bank in the CDARS network and the funds are distributed into 11 certificates of deposit (10 at $96,000.00 and one at $40,000.00). These 11 certificates of deposit are all maintained with different banks so each amount is individually as well as collectively insured by FDIC insurance.

An advantage of the CDARS product is that you no longer have to do business with multiple banks if you want to insure your deposits under FDIC. This is extremely important in today’s world when time is at a premium and the business world does not slow down or take a break.

The CDARS product has begun to revolutionize the way banks accept and handle large dollar certificate of deposits and has even been written in municipal banking laws in 35 states so those municipalities can utilize CDARS in addition to or instead of Treasury investments.

In summary, the advantages of the CDARS service are 100% FDIC insurance on every single dollar up to $50 million with no fees or charges, ease and convenience of one primary bank relationship contact for all invested funds and the peace of mind your union or pension funds will not be at risk.
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INTERESTED MEMBERS SHOULD CONTACT TOM MACKELL AT (202) 297-1935.
People on the Move

Carnell Joyner, Jr., formerly the Fund Administrator of Local One IATSE Funds, recently took the position of Fund Administrator for United Association of Plumbers & Steamfitters Local Union No. 21 Funds in Peekskill, New York. Best of luck Carnell!

David B. Stewart, who serves on the Board of Directors of the Association of Benefit Administrators, will take the position of Fund Director for the Empire State Carpenters Fringe Benefit Funds as of January 1, 2008. His former post was Fund Manager of Road Carriers Local 707 Welfare and Pension Fund. The Executive Board of the ABA wishes Dave all the best.

Should any Association of Benefit Administrators member be interested in announcing a career change in this new column, please contact Jacquelyn Dragone at Perfect Forms and Systems, Inc. at (631) 382-4968.

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Spotlight

JAY K. EGELBERG, ASA, MAAA, EA
Director, Retirement Actuary

Jay Egelberg is a Director and consulting actuary in the Secaucus, New Jersey office of Buck Consultants, an ACS company. His efforts now focus on the coordination and development of Buck’s consulting to U.S. multiemployer funds.

Experience

• Jay is enjoying his 25th year of benefits consulting with broad experience in retirement programs, assisting clients with design, funding, compliance, administration, and communication issues.
• He joined the firm in 2005.
• Since 1993, Jay has been focusing his practice on multiemployer pension plans and has experience working with funds of all sizes in a wide variety of industries, e.g., manufacturing, building and construction, entertainment, retail, and transportation.

• Jay speaks nationwide on multiemployer issues, including various seminars sponsored by the International Foundation of Employee Benefits Plans and several bar associations. He has been speaking and published frequently on issues relating to multiemployer plans under the Pension Protection Act of 2006.
• Jay has championed mentoring and training programs for actuarial students and has been a frequent speaker at the International Foundation of Employee Benefits Plans Interns Program.

Education & Achievements

• Associate of the Society of Actuaries, a member of the American Academy of Actuaries, and an Enrolled Actuary
• Graduate of Queens College of the City University of New York, holding a BA in music and physics

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