Questions & Answers about the 2020 Reallocation

Why is the reallocation occurring?

PDC 30's Health & Welfare Fund has historically offered PDC 30 members excellent health benefits that have kept members and their families healthy, provided them peace of mind, and assisted employers in the recruitment and retention of highly-skilled and reliable tradespersons. The Fund continues to provide these great benefits and raises adequate funds to do so; however, in order to maintain those excellent benefits for years to come, the District Council, in close consultation with professional advisors who monitor the health of both PDC 30's Health & Welfare Fund and its Pension Fund, has determined it is wise and safe to temporarily boost the amount of money going into the Health & Welfare Fund. The main reason for this is to address the effects of the COVID-19 crisis, which has caused both an *economic* and a *health care* crisis in the United States and throughout the world. Because COVID-19 has begun to ravage the U.S. economy, the crisis is likely to be especially challenging for *self-funded health plans*, because such plans will experience reduced annual income from contributions (due to lost work), and potentially lower annual income from investments, as the stock market takes a hit throughout the year. Added to those factors are expenses to treat COVID-19 infection and related health care needs of eligible members and their dependents who remain working as part of the critical workforce.

Under what authority is this reallocation being adopted?

While the PDC 30 Health & Welfare and Pension Funds are administered by labor-management Boards of Trustees, the percentage of the total wage package that is allocated to these and other funds is determined by the District Council. Under Section 9.2 (n) of the CBA, the District Council has the authority, during the term of the agreement, to allocate or reallocate a percentage of any contractual increase between wages and contributions to any fund, and/or between such funds, identified in the CBA. This means the District Council may decide that a portion of contributions going into one fund can go – instead – into another fund. Nevertheless, District Council leaders have closely consulted with trustees of both the Health & Welfare and Pension Funds, and the plan was developed under the guidance of the Fund Administrator and plan professionals who advise both funds.

Are there any downsides of the reallocation?

The District Council, in close consultation with experts that advise both the Health & Welfare Fund and Pension Fund, are confident there are no downsides to this temporary reallocation. The per-hour contribution amount allocated to the PDC 30 Pension Fund can be reduced for two years and have NO effect on what plan participants earn toward their pension for the work they perform in the industry during the two years during of the reallocation plan, even though the contribution amount is lower. That is mainly due to the funding status of the PDC 30 Pension Fund, which last provided notice of a funded percentage of 125% (Annual Funding Notice, dated July 2019). The Benefits Office and District Council, in close consultation with experts advising both funds, have reviewed financial models that indicate a temporary reallocation of approximately 60% of the existing allocation to the PDC 30 Pension Fund (because each local union participates either entirely or partially in the PDC 30 Pension Fund, the exact per-hour contribution amounts differ for each) can be achieved without reducing any amounts participants earn toward their pensions during the two years of the plan. Assuming conservative average overall earnings through investments and accounting for no significant market recovery, and marginally fewer total work hours, the funding percentage will be slightly less – but still over – 100%. Assuming more stressful economic circumstances (fewer hours and investment losses in the immediate short-term not made up through a recovery), the funding percentage would remain in "the green zone" – the highest and healthiest category of health for pension funds. Meanwhile, the reallocation will raise the amount of reserves available in the Health & Welfare Fund to address inflation and COVID-19-related expenses, while modest increases in Health & Welfare contributions from annual wage increases have time to improve the long-term health of the Fund.

What does it mean to be a self-funded health plan?

For self-funded plans, money received by the fund (plan year income) is used to directly pay the medical claims of eligible participants (plan year expenses), and what is not used is invested to improve the value of the funds, resulting in additional plan year income. A self-funded plan builds up a reserve of funds to draw from when plan year expenses exceed income. The amount of money received by a self-funded plan is determined mainly by how many hours members work and the percentage of pay allocated to it. This is different than an “insured” plan, which would involve an employer-provided plan (or its participants) paying premiums, and the insurance company then covering expenses. To prevent expenses from exceeding income, insurance companies charge higher premiums, limit what’s covered, and have participants pay a larger portion of their medical bills.

What is health care inflation?

Inflation is a sustained increase, or upward trend, in the general price of goods and services over a period of time. Inflation can occur across and throughout a nation’s economy or it can affect only some industries. In the United States, there is much concern over the rising cost of health care. It is a regular subject among lawmakers and candidates running for public office. When the price of health care goods and services (cost of prescription drugs, doctors’ fees, and medical facility fees) rise, money people have to spend on such goods and services loses its purchasing power. A steady increase in the number of “high-dollar claims” is typically how health plans know that inflation is beginning to impact their plan. Health care inflation was already an issue before the COVID-19 crisis, as it came on the scene at a time when 4-5 years of gridlock in Washington and failure to continue meaningful health care reform has permitted doctors and hospitals to raise their prices and bill for services without anyone or anything slowing them down. But COVID-19 makes matters worse because it damages the economy, which reduces plan year income, and increases the need for medical care, which increases plan year expenses while inflation continues to trend upward.

Why two years?

The PDC 30 Pension Fund has assets that exceed what is needed to cover benefits in the short- and long-term; and, the temporary, two-year reallocation is not projected to alter that fact. The reallocation has been reviewed by staff and experts who advise the Health & Welfare and Pension Funds assuming both conservative and more stressful assumptions (such as what if there is more significant job loss and investment losses). The reallocation can be achieved without affecting the amount members earn toward their pension during the two years of the reallocation. It is possible that a rapid improvement in treatment protocols for COVID-19 will lead to a faster economic recovery (but not necessarily reduced medical expenses), and/or the 2020 election leads to a resumption in health care reform that slows or reverses the trend of health care inflation. If any of these or other factors lead to increased actual or projected annual income or decreased actual or projected annual expenses, the District Council may reduce the percentage of contributions going into the Health & Welfare Fund and bring the Pension Fund contribution amount back to its previous level sooner.

Will the reallocation plan produce unfunded liability?

It was important to the District Council that the reallocation plan did not produce unfunded liability for signatory employers. Unfunded liability occurs when future payment obligations under a pension plan exceed the present value of funds available to pay those obligations. Because of the PDC 30 Pension Plan’s funding ratio, signatory employers have not had to contend with the implications of unfunded liability. None of the scenarios considered by the District Council resulted in a funding ratio that would trigger unfunded liability. Even under more stressful assumptions, the funding ratio remained in the “green zone” and safely outside the range plan professionals advise would produce unfunded liability.

Will the reallocation increase the overall rate of pay for PDC 30 Apprentices?

No. The increase in contribution rates effective for Apprentices will include only the portion of the annual contractual increase allocated to the Health & Welfare Fund and, depending on the Zone and/or Local Union, may also include allocations to the PDC 30 MRA, PDC 30 LMIDF, and/or IUPAT Industry Pension Fund. Amounts *reallocated* from the PDC 30 Pension Plan for Journey Workers for each respective Zone and/or Local Union shall not also be required for Apprentices. Under Section 10.1 (a) of the CBA, contributions to the PDC 30 Pension Fund are not required for Apprentices. Because no such contributions are required, there are no contributions to *reallocate* under the reallocation plan. The enclosed Wage Rate Sheet lists Combined Fringe Benefit Rates and breaks out hourly contribution amounts for Apprentices (“Health & Welfare Apprentices”) that reflect this difference.