

MPRA Benefit Reductions Explained: Re-retirement and Re-determination Benefits Are Changing

The purpose of this *Pension Fund Notes* newsletter is to explain benefit changes that were previously announced by the Trustees – **this is not an announcement of additional changes**. The benefit changes discussed in this newsletter have already been included in your Official Notice of Proposed Reduction, which was sent to you in January 2021.

Here's what's happening:

- In order to sustain the Plan for participants and beneficiaries into the future, the Trustees had to make painful choices under the proposed MPRA benefit reduction, and to do so in the fairest way possible under the law.
- If the reduction is approved, Re-retirement and Re-determination benefits will be recalculated for those who already have them on January 1, 2022.
- The new calculation methods for Re-retirement and Re-determination benefits will also be applied going forward to these benefit types earned January 1, 2022 and later.

Why Re-retirement and Re-determination Benefits Are Changing

Some people have contributions made to the Plan on their behalf after starting their pension – either because they return to work or they continue to earn income based on previous work (such as new use). Re-retirement and Re-determination benefits are additional benefits earned after you have already started receiving a pension benefit from the Plan.

As part of the proposed MPRA benefit reduction (if approved), both of these benefit types will be recalculated for those who already have them on January 1, 2022. **The new calculation methods will also be applied going forward to these benefit types earned January 1, 2022 and later.**

Keep reading further below to learn how these benefits are currently calculated, what's changing and review examples (see How Re-retirement Benefits Are Changing and How Re-determination Benefits Are Changing).

Why These Changes?

The purpose of a pension plan is to provide retirement security through income replacement in retirement. A pension is not generally designed to be paid while you are continuing to work (some would see this as “double dipping”). In fact, most multiemployer pension plans suspend or stop paying benefits for those who return to work after retirement, particularly if you retire before age 65 or the plan's normal retirement age.

The Plan has multiple funding concerns. Benefit payments continue to grow each year and already far exceed contributions – by more than two to one at this point. Contributions therefore must be supplemented by investment returns. But, with the very volatile stock market, investment returns simply cannot keep up with the ever-increasing liabilities. (Find out more about the importance of investment returns for late career benefits in the Learn More section at the end of this article.)

Add to that the enormous cuts that active members (who sustain this Plan with current contributions) have already taken in the past 17 years as the multiplier was lowered from \$4.65 to the \$1.00 benefit established in 2010.

In order to sustain this Plan for participants and beneficiaries going into the future, the Trustees had to look carefully at the parts of the Plan that provide benefits above and beyond its core promise (the age-65 lifetime benefit at the \$1.00 multiplier), such as Re-retirement and Re-determination benefits.

How Re-retirement Benefits Are Changing

Re-retirement benefits apply to those who start their pension before age 65 and then later return to work before age 65. Re-retirement benefits are added to your pension check at age 65 based on contributions you earn between your initial pension effective date and age 65. (You must meet the Plan requirements and there are special rules for those in steady employment.) [Click here](#) to view the Plan's early retirement procedures.

How Re-retirement Works Now

Currently, to determine your Re-retirement benefit, the Plan recalculates your entire benefit as if you retired at 65 using the contributions you earned throughout your career. That amount is reduced ("offset") to account for the payments you've already received from the Plan and the monthly benefit you are currently receiving. The result is the Re-retirement monthly benefit that is in addition to your initial monthly pension benefit.

What's Changing

If the proposed MPRA benefit reduction is approved, Re-retirement benefits that have already been earned will be recalculated as of January 1, 2022. Re-retirement benefits will be calculated using only the contributions earned since your initial pension effective date. That amount will be in addition to your Regular Pension. For all contributions earned since January 1, 2010, the \$1.00 multiplier is used. For contributions earned before 2010, the reduced multipliers will be used. [Click here](#) to learn about the proposed reduction of the multipliers.

Re-retirement Benefit Example

To illustrate, Phil retired at age 55 and started his Regular Pension of \$600 per month based on contributions of \$30,000. After meeting the conditions required by the Plan, he started working again. Between 55 and 65, he earned an additional \$5,000 in benefit contributions towards his Re-retirement benefit. All of these additional contributions were earned at the \$1.00 benefit multiplier.

Under the current approach, Phil's Re-retirement benefit would be calculated as follows:

Benefit at age 65 using total contributions of \$35,000 and age 65 multipliers:	\$1,300
Reduction for actuarial value of payments received from age 55 to 65:	<i>minus</i> \$500
Current Regular Pension benefit:	<i>minus</i> \$600
Re-retirement benefit:	= \$200

If the benefit reduction is approved, Phil's Re-retirement benefit will be recalculated using only the \$5,000 in contributions he earned between 55 and 65 (with no offset for benefits already received). Phil's reduced Re-retirement benefit will be \$50 instead of \$200 (\$1.00 x each \$100 of his \$5,000 of benefit contributions).

How Re-determination Benefits Are Changing

Re-determination benefits apply to those who start their pension and then work after age 65 (or later if retirement is after 65). Re-determination benefits are calculated each year based on contributions received by the Plan in the prior calendar year.

How Re-determination Works Now

Currently, Re-determination benefits are calculated each year that the Plan receives at least \$50 of contributions made on your behalf after age 65 (or your initial pension effective date, whichever comes later). The additional benefit earned each year is reduced (“offset”) by the value of the Re-determination benefits received in the prior year.

What’s Changing

If the proposed MPRA benefit reduction is approved, Re-determination benefits that have already been earned will be recalculated as of January 1, 2022.

Going forward, Re-determination benefits will continue to be calculated each year. However, the additional benefit earned each year will be reduced by the value of all benefits you’ve already received from the Plan. Under the new approach, it’s likely that participants will not have additional Re-determination benefits because the offset will be based on the entire benefit already received.

Re-determination Benefit Example

Sally retired at age 65 and began her Regular Pension benefit of \$2,000 per month. During each of the next 2 years, the Plan received \$5,000 of benefit contributions on her behalf.

- **Under the current approach**, when she was 66, the Re-determination benefit that was added to Sally’s monthly benefit was \$50 ($\$1.00 \times$ each \$100 of her \$5,000 of benefit contributions). There was no offset in the first year because Sally had not yet been paid any Re-determination benefits. When she was 67, Sally’s benefit increased by another \$48 (the same \$50 calculation as before, but offset by the actuarial value of the Re-determination benefits she’d received the year before) for a total Re-determination benefit of \$98.
- **If the proposed MPRA benefit reduction is approved**, Sally’s Re-determination benefit will be recomputed as of January 1, 2022 based on all contributions after age 65. In Sally’s case, her total additional benefit of \$100 (\$50 in each year) will be reduced by the actuarial value of all of the benefits she has received from the Plan (her Regular Pension plus her Re-determination benefits). This offset reduces the Re-determination portion of her benefit to zero.

[Learn More: Benefit Payments Often Far Exceed Benefit Contributions](#)

Time is a critical ingredient for funding a pension benefit.

The basic math of a pension plan is this: Contributions + Investment earnings = Benefits + Expenses. In a recent [Pension Fund Note](#), we showed an example of two different participants who each had \$30,000 in Benefit Contributions, which produced an age-65 benefit of \$1,355 per month. Over 10 years, those monthly benefit payments would add up to \$162,600 – far more than the \$30,000 that employers contributed to the Plan on the participant’s behalf. The remainder has to come from earnings on investments; and that takes time.

The benefits you earn each year become more expensive to the Plan the closer you get to retirement age. That’s because the contributions made to the Plan on your behalf at age 60 have a lot less time to earn investment income than those that were made when you were 30. It’s similar to your personal retirement savings – if you start contributing to your IRA at 30,

the monthly amount you need to save would be much lower than if you started at 60. When you take this a step further and provide a benefit essentially immediately upon receipt of the contributions (as is the case with Re-determination), the cost to the Plan is very high indeed. In addition, the way that Re-retirement benefits are currently calculated have produced some very large benefits compared to what someone who waits until 65 to start their benefit would receive.

More information on the proposed benefit reductions can be found on the AFM-EPF website at www.afm-epf.org, including the [MPRA Benefit Reductions page](#), [Frequently Asked Questions](#) and previous issues of [Pension Fund Notes](#).