# Adjustable Pension Plan Explainer

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CWA Employees participate in a type of defined benefit pension called an Adjustable Pension Plan. It provides a monthly payment to retirees and has features that ensure that retirement benefits will be fully funded.

**WHAT IS A PENSION?**

A **traditional pension** is a retirement plan that takes contributions from an employer on an employee's behalf, invests those funds with guidance from investment professionals, and provides a monthly benefit when the employee retires.

Traditional pension plans rely on a formula to calculate retirement benefits, usually:
**[Years of service] X [A fixed percentage accrual rate] X [Employee's salary]**.

Using such a formula, an employee in a pension plan with a **1.5% accrual** rate who worked at the same employer for **30 years** would receive **45% of their salary in retirement** until death.


Some traditional pensions allow participants to withdraw their benefits all at once instead of receiving it as a monthly payment - a so-called "lump sum" option. Some traditional pensions might have benefits that are adjusted to keep up with inflation.

The cost of such traditional plans increased over time because of legal and regulatory changes. Employers could not or did not want to carry the liabilities of a pension plan on their balance sheet or bear the risk of poor investment returns. Instead of offering a **"defined benefit"** pension plan to workers in retirement, employers offered **"defined contribution"** plans instead, such as a 401(k) plan.


Employees make their own contributions to such plans, sometimes with matching contributions from employers, but employees - not employers - bear the investment risk. This also introduced the possibility that a worker might outlive the funds in their retirement account.

### HOW IS THE ADJUSTABLE PENSION PLAN DIFFERENT?

The **Adjustable Pension Plan** is a hybrid option between a traditional pension plan and a 401k defined contribution plan. It was introduced to help employers avoid long term liabilities and spikes in legally mandated contributions.

Instead of having a fixed accrual rate based on your salary at retirement, the benefit is calculated each year with an accrual rate based on the previous year's investment returns. The benefit formula changes each year, but the funding of the plan is more stable for employers. The risk of poor investment returns is borne by both employer and employee, and the employee still can receive a monthly benefit in retirement until their death.

### SOME KEY POINTS

**Five years to vesting.** All CWA employees are "participants" in the plan, meaning CWA pays a contribution to the plan based on your salary, and employees earn credit under the plan. You become "vested" in the plan after your fifth anniversary of your start date, meaning you are eligible to receive a monthly benefit when you retire. If you leave CWA sooner than the five years, you will not receive any benefit from the plan.

**The APP is not inflation adjusted.** If you earn a $700 annual benefit from the plan and retire 30 years later, the benefit will retain its $700 nominal value and inflation will reduce its purchasing power.

**Monthly benefits only.** The APP does not provide a "lump sum" benefit. You will receive a monthly benefit and you will receive the same amount until you die, protecting you from outliving your savings. If you are married, your spouse will receive 50% of your pension after your death until his or her death.

**Benefits are insured and cannot be altered.** All pension plans, including the APP, pay a monthly premium to a federal agency, the Pension Benefit Guaranty Corporation (PBGC), to insure benefits earned by employees. If there is a catastrophic failure of the pension, the PBGC would take over the plan and ensure that participants receive their earned benefits. Furthermore, the plan cannot change the benefits you have under the plan once you have earned them.

**Fully Funded.** While you might have heard about some pensions not having enough assets to meet their liabilities, the APP is designed to always be funded at 105% of its liabilities. If there are poor investment returns, the accrual rate is lowered for the next year, balancing out the assets and liabilities.

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**Below you will find an example of what a plan participant can expect to earn in retirement.** Each year a small benefit is added. As an illustration, the cumulative benefit often is compared to a “stack of pancakes”; each year another pancake is added to the benefit, but some are thinner or thicker pancakes, depending on the market returns and funding level of the plan.

## Example of an Individual's Accrual under the Adjustable Pension Plan

Jane is 45 years old in 2018, makes $75,000 per year with 2% raises per year, and retires at 65.

The plan years 2018 through 2021 are the actual accrual rates and the years after are contrived.

| YEAR | SALARY | ACCRUAL RATE | ANNUAL BENEFIT AT 65 YEARS OLD | MONTHLY BENEFIT AT 65 YEARS OLD |
|---|---|---|---|---|
| **2018** | $75,000 | 0.90% | $675 | $56 |
| **2019** | $76,500 | 1.02% | $780 | $65 |
| **2020** | $78,030 | 1.09% | $851 | $71 |
| **2021** | $79,591 | 0.91% | $724 | $60 |
| **2022** | $81,182 | 0.78% | $633 | $53 |
| **2023** | $82,806 | 0.72% | $596 | $50 |
| **2024** | $84,462 | 0.88% | $743 | $62 |
| **2025** | $86,151 | 0.91% | $784 | $65 |
| **2026** | $87,874 | 1.13% | $993 | $83 |
| **2027** | $89,632 | 1.06% | $950 | $79 |
| **2028** | $91,425 | 1.10% | $1,006 | $84 |
| **2029** | $93,253 | 1.01% | $942 | $78 |
| **2030** | $95,118 | 0.82% | $780 | $65 |
| **2031** | $97,020 | 0.89% | $863 | $72 |
| **2032** | $98,961 | 0.79% | $782 | $65 |
| **2033** | $100,940 | 0.90% | $908 | $76 |
| **2034** | $102,959 | 0.99% | $1,019 | $85 |
| **2035** | $105,018 | 1.09% | $1,145 | $95 |
| **2036** | $107,118 | 1.07% | $1,146 | $96 |
| **2037** | $109,261 | 1.00% | $1,093 | $91 |
| **2038** | $111,446 | 0.96% | $1,070 | $89 |
| | | **TOTAL** | **$18,484** | **$1,540** |