

## **Questions and answers on AMO Defined Benefit Plan, amended rehabilitation plan, Defined Contribution Plan**

The following article addresses the most frequently asked questions about the AMO Pension Plan and the new AMO Defined Contribution Plan during recent shipboard visits by AMO officials and me and during the recently concluded informational AMO membership meetings in East, Gulf and West Coast ports.

It is important to note before reading these questions and answers that the AMO Pension Plan and the AMO Defined Contribution Plan are completely separate retirement benefit plans established and administered under separate Declarations of Trust. The only features that the two plans have in common are that the active participants (deep-sea, Great Lakes and inland waters AMO members) are the same, and earned credits are based on years of service.

We are in transition from the traditional defined benefit AMO Pension Plan to the AMO Defined Contribution Plan, which complements and more closely resembles the AMO 401(k) Plan and the AMO Pension Plan Money Purchase Benefit. The AMO Defined Contribution Plan is completely portable — AMO members who change jobs within AMO or who withdraw from AMO membership and find employment elsewhere take their AMO Defined Contribution Plan account balances with them.

Once the AMO Pension Plan is fully funded and out of the “red zone” as defined by the Pension protection Act of 2006, active AMO members will be able to convert the cumulative value of benefits earned under the AMO Pension Plan through December 2009 into a lump sum that can be rolled over into their AMO Defined Contribution Plan accounts, or they can opt for the monthly benefit from the AMO Pension Plan when they choose to retire.

Please note as well that there is no longer a requirement that AMO members file for benefits from the AMO Pension Plan by December 31, 2010, and that AMO members can continue to retire after 20 years of service if they choose to do so — with no reduction of benefits earned as of December 31, 2009.

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### **Why were AMO members not given the opportunity to vote on the AMO Pension Plan rehabilitation strategy?**

Under federal law, the joint union-employer trustees of all single or multiemployer defined benefit pension plans have exclusive authority to govern these plans. These trustees cannot allow plan participants to set plan policy through referenda, petition or any other means.

The trustees also bear the exclusive risk of liability — allowing plan participants to vote on any matter arising from the administration of any retirement plan could result in lawsuits filed by individuals whose votes were not among the majority. With or without merit, civil cases charging breach of fiduciary responsibility in any retirement plan — failure to manage the plan responsibly — could delay efforts to stabilize the plan and result in significant but unnecessary legal expense for all parties.

### **How can AMO members find out who the trustees of the AMO Pension Plan are?**

The trustees of the AMO benefit funds are identified on the AMO Plans Web site at <http://www.amoplans.com>. AMO members can log in to the Plans site directly, or they can link to it through the official AMO Web site at <http://www.amo-union.org>.

The AMO Plans trustees are also identified in Summary Plan Descriptions available from AMO Plans.

### **How are the defined benefit AMO Pension Plan and the AMO Defined Contribution Plan funded?**

Both plans are funded entirely by deep-sea, Great Lakes and inland waters merchant vessel operating companies that have collective bargaining agreements with American Maritime Officers.

Under current collective bargaining agreements, all employer contributions to the AMO Pension Plan will continue at the agreed upon rates. These contributions are paid not in the names of individual plan participants, but for each deep-sea, Great Lakes and inland waters job, or billet — including billets filled by AMO members who have received in-service lump-sum benefit distributions from the defined benefit AMO Pension Plan.

When the AMO Defined Contribution Plan begins union-wide in January 2011, some of the money contributed by AMO employers to other AMO benefit funds (with the exception of the defined benefit AMO Pension Plan) will be allocated to the individual personalized retirement accounts established under the AMO Defined Contribution Plan as allowed for by law and in accordance with AMO collective bargaining agreements.

These allocations — which will not result in reduction or loss of any other benefits for AMO families, including medical coverage — will be routed through an Allocation Committee comprised of trustees conferring with actuaries and legal counsel.

The initial formula for funding the new individual retirement accounts will be Schedule 1. Once the defined benefit AMO Pension Plan is fully funded, all of the employer contributions now made to the AMO Pension Plan will go directly and exclusively to the AMO Defined Contribution Plan under Schedule 2.

Schedule 1 and Schedule 2 are posted on the AMO Plans Web site at <http://www.amoplans.com/DC-Schedules.pdf>.

### **Why are AMO members who received in-service lump-sum benefits from the AMO Pension Plan entitled to benefits under the AMO Defined Contribution Plan?**

The AMO Defined Contribution Plan is a new benefit fund established under a trust agreement separate and apart from that which created the defined benefit AMO Pension Plan nearly 60 years ago. As such, the AMO Defined Contribution Plan covers all active deep-sea, Great Lakes and inland waters AMO members and applicants for membership, and funding is based on age and years of service.

Moreover, the AMO Defined Contribution Plan cannot even appear to discriminate against individuals who received in-service lump sum benefits from the AMO Pension Plan and who remain at work under AMO contract. To avoid this difficulty and possible complications involving the Internal Revenue Service and other federal authorities, the AMO Defined Contribution Plan covers everyone working under AMO contract.

Many AMO members who received in-service lump-sum pension benefits before this option was eliminated in October 2009 have since retired — that is, withdrawn permanently from the industry. Given the average age of current active in-service lump-sum benefit recipients, many more are expected to actually retire in the next few years.

### **Why did the AMO Pension Plan allow in-service lump sum benefit distributions to continue when it became clear that the fund would become deficient?**

The in-service lump sum benefit distribution option was available under the AMO Pension Plan for many years. It was an established benefit that many AMO members took appropriate advantage of.

Under federal law, the trustees of defined benefit retirement plans can alter projected benefits, but they cannot eliminate, reduce or otherwise modify established benefit options or retirement income already earned. The only choice available legally to the trustees of the AMO Pension Plan under these circumstances was to end all lump-sum pension payouts as of October 1, 2009 — the date the plan's actuaries certified the AMO Pension Plan to be in the "red zone" as defined in the Pension Protection Act of 2006. The Pension Protection Act prohibits lump sum benefit distribution by "red zone" retirement plans.

### **Do AMO members who received in-service lump sum pension benefits stand to gain the most from the AMO Defined Contribution Plan?**

It may appear that way to some, but the fact is that in-service lump sum recipients are, on average, approaching actual retirement. Because these individuals will participate in the new plan for relatively brief periods, they will earn less in employer contributions, compound interest and investment income from the AMO Defined Contribution Plan than younger individuals beginning their careers or than individuals whose ages and service time fall somewhere in the middle.

**Will AMO members whose earned AMO Pension Plan benefits were frozen on December 31, 2009 be permitted to roll their defined benefit value into their AMO Defined Contribution Plan accounts?**

Once the defined benefit AMO Pension Plan is fully funded under the rehabilitation strategy, all active AMO members who had earned benefits from this plan as of December 31, 2009 will be allowed to choose between rolling their defined benefit values into their AMO Defined Contribution Plan accounts in a lump sum or collecting the defined benefits monthly upon retirement.

The AMO Pension Plan recently provided each active AMO member with detailed notice stating the value of his or her earned monthly benefit as of December 31, 2009. AMO members who did not receive such notice are urged to contact the AMO Pension Plan immediately.

The AMO Pension Plan soon will provide each active AMO member with a statement declaring the projected value of his or her monthly benefit as of December 31, 2009 if taken as a lump sum for the purpose of rolling the money over into his or her individual AMO Defined Contribution Plan account. This projected value will be based on interest rate assumptions and individual age at the rollover point.

The AMO Pension Plan also intends to provide each active AMO member with the projected value of his or her AMO Defined Contribution Plan account balances under a formula combining interest earning assumptions and estimated years of future employment.

These initiatives involve the age and employment and wage histories of more than 3,000 individuals, but the AMO Pension Plan will make every effort to complete both by the start of the next fiscal year on October 1, 2010.

**When can AMO members expect the defined benefit AMO Pension Plan to become fully funded?**

The AMO Pension Plan's actuaries say the plan can be fully funded in at least seven years, but this depends on the Plan's investment earnings — it could take less time or more.

**What will happen once the AMO Pension Plan is fully funded?**

The AMO Defined Contribution Plan's Schedule 2 will be applied, and employer contributions now going to the AMO Pension Plan will go the AMO Defined Contribution Plan.

AMO members will have the option of rolling their frozen defined benefit values into their individual AMO Defined Contribution Plan accounts in lump sums OR receiving monthly benefits when they retire by choice.

Individuals who choose to add their defined benefit values as lump sums to their Defined Contribution accounts will have these enhanced balances, AMO Pension Plan Money Purchase Benefit distributions and AMO 401 (k) accounts for security during retirement.

Individuals who choose earned but frozen monthly benefits at retirement will have these annuities and their AMO Defined Contribution Plan, AMO Pension Plan Money Purchase Benefit and AMO 401(k) Plan accounts for retirement income.