FY 2013 report card: investment returns surpass expectations for defined benefit AMO Pension Plan

Investment returns for the defined benefit American Maritime Officers Pension Plan surpassed expectations for the second consecutive fiscal year.

For the fiscal year that ended Sept. 30, 2013, the AMO Pension Plan realized a total return on investments of 10.9 percent, exceeding both the assumed rate of return of 7.5 percent used by the Plan's actuary, Horizon Actuarial Services, and the rate of return that would have been produced by meeting the benchmarks for various investment classes.

The performance of the Plan's investments in fiscal 2013 was strong overall despite a tough year for fixed income securities. In October 2012, the first full month of fiscal year 2013, the Plan incurred a loss of 1 percent in investment markets. However, the market then began to rebound, resulting in positive returns in nine of 12 months in fiscal 2013.

As of Oct. 1, 2013, the defined benefit AMO Pension Plan was approximately 71.2 percent funded based on the preliminary market value of the Plan's assets - approximately $368 million - and the projected value of the Plan's accrued liabilities - approximately $517 million.

During fiscal year 2013, the Plan paid approximately $32.8 million in monthly benefits to participants and survivors.

The Plan remains in the "Yellow Zone" (endangered status) as defined by the Pension Protection Act of 2006.

Working with Horizon, the Plan's joint union-employer trustees continue to examine options for advancing the Plan to the Pension Protection Act's "Green Zone," as well as options for responsibly accelerating the funding improvement plan for the defined benefit AMO Pension Plan. When the funding improvement plan has been satisfied and the defined benefit Plan attains fully funded status, a level that exceeds the "Green Zone" rating, full contribution rates for the separate AMO Defined Contribution Plan under Schedule 2.1 can be implemented for all participants.

The intent of the trustees is to preserve the "20 and out" retirement option with monthly benefits from the defined benefit AMO Pension Plan. This remains an important retirement option for AMO members, but also increases the Plan's projected liabilities, and therefore negatively impacts the Plan's funding status from year to year.

At the close of fiscal year 2012, the defined benefit Plan was funded at a level of approximately 68 percent, with an estimated $506 million in accrued liabilities and assets valued at approximately $344 million.

Fiscal year 2012 was particularly positive, with the Plan realizing investment returns totaling approximately 20.4 percent. This followed poor returns in investment markets hampered by prolonged recession in fiscal year 2011. At the close of fiscal 2011, the Plan was funded at a level of 57.7 percent.

The AMO Pension Plan Board of Trustees will continue to keep all Plan participants informed of any developments as they occur.

The following is a breakdown of the performance of the AMO Pension Plan's investments in fiscal year 2013.

The overall performance of the AMO Pension Plan's investments is measured by "benchmarks" assigned by the investment advisor to the various asset classes held by the Plan. Benchmarks are the average rates of performance of asset classes as gauged by several indexes.

Had the Plan's investments in fiscal 2013 met the assigned benchmarks, the total return for the year would have been 10 percent. As the performance of the Plan's investments exceeded benchmarks in more than one class, the total return for fiscal 2013 was 10.9 percent.

The AMO Pension Plan's equity holdings - large-cap, mid-cap and small-cap stocks - generated a positive return of 23.1 percent, surpassing the benchmark of 21.4 percent.

Due to rising interest rates, fixed income and bond investments held by the Plan realized a negative return of 0.4 percent; however, the benchmark for this class of investments was negative 1.68 percent. Thus, the performance of the Plan's fixed income and bond investments exceeded the benchmark by approximately 1.3 percent.

Other investment asset classes that are not correlated to the U.S. markets - international equities, emerging market equities, commodities and real estate investment trusts - returned 1 percent to the Plan, which was lower than the benchmark of 3.1 percent for these investments.

The Plan currently has approximately 52.7 percent of its assets in equity holdings, 33.7 percent of its assets in fixed income and bond holdings and 13.6 percent of its assets in other investment asset classes.

Eight of the Plan's fourteen investment managers surpassed benchmarks in their respective asset classes in fiscal 2013. Three additional managers missed their benchmarks by less than 1.5 percent.

The one overall setback occurred in the commodities asset class, which had a return that was 11.7 percent below the benchmark. Commodities account for less than 2 percent of the AMO Pension Plan's total invested assets.

This was the second consecutive year this asset class has performed significantly below its benchmark. The Plan's investment advisor and the Plan's trustees have addressed this issue, resulting in the Plan replacing the investment manager.