

CO-OP RETIREMENT PLAN

REPORT AND SUMMARY OF THE 2009 WINTER MEETINGS

Keith Vickers and Greg Runyan of United Benefits Group conducted the 2009 Co-op Retirement Plan Winter Meetings at twelve locations from February 2, 2009 through March 26, 2009. One or more members of the Retirement Committee (Ken Hahn, Jim Carlson, Ed Foster, Dave Christiansen, and Stan Stark) were at each location to listen to your questions, concerns and comments. We experienced record-high attendance at this year's meetings yet it's estimated that 25%-30% of our Participating Employers were not able to attend. This Summary is designed to inform those who could not go to a Winter Meeting but it will also serve as a reminder and a reference for those who did. As always, it was a great pleasure to meet with all of you despite the fact that our message was not as positive as we would have preferred.

TO SET THE STAGE, A REVIEW OF THE PLANS ORIGINS, UNIQUE DESIGN, AND HISTORY

The Winter Meetings began with a review of relevant facts and history of the Co-op Retirement Plan. The following points were discussed:

- Farmland's Employee Retirement Plan originated in 1946. For the first 40 years of the Plan's existence it covered both the employees of Farmland Industries and the local cooperatives that owned Farmland. In 1986 Farmland spun its employees out of the Plan, at which time it was re-named the Co-op Retirement Plan.
- The Co-op Retirement Plan became totally independent of Farmland in 2002 following Farmland's bankruptcy. United Benefits Group was created at that time to sponsor and administer the Plan.
- The Co-op Retirement Plan is a multiple-employer defined-benefit plan for cooperatives. This is a rare breed of plan that enjoys many advantages over single-employer plans.
- The differences between defined-benefit (traditional) pension plans and defined-contribution (mainly, 401(k)) pension plans were discussed. From a participant's point-of-view there never was a better time to be a participant in a defined-benefit plan, since a participant's benefit is unaffected by the recent market downturn.
- The Plan experienced a relatively stable pattern of contributions from 1946 to the turn of the century due to favorable government regulations during that period.
- New government funding regulations precipitated a crisis for all defined-benefit plans in 2002-2003 when interest rates fell to historically low levels. Under the new regulations, low interest rates translate to greatly increased pension-funding liabilities. Those increased funding liabilities caused many employers to freeze their plans during that period. The Co-op Retirement Plan Committee lowered the benefit accrual rate and increased the Employee Contribution Rate in a successful effort to moderate employer contribution rates, thus helping to ensure the long-term viability of the Plan.
- Congress passed a new pension bill in 2006 (Pension Protection Act of 2006) and it was not at all favorable to employer-sponsors of pension plans. Nevertheless, Keith Vickers and the National Rural Electric Cooperative Association (with exceptional help from our Participating Employers) were able to secure a highly-favorable exemption from the Pension Protection Act for multiple-employer defined-benefit plans of cooperatives. This placed the Co-op Retirement Plan in an advantageous position for ten years ending in 2017.

THE CO-OP RETIREMENT PLAN WAS STRONG HEADING INTO FISCAL 2009

As the year 2008 dawned it had been five years since the onset of the “perfect storm” pension crisis of 2002-2003 which as you will recall was caused by a simultaneous drop in the stock markets and long-term interest rates. Investment performance was strong during that entire five-year period and although interest rates remained fairly low the funding status of the Plan improved dramatically, reaching a 96% Current Liability funding ratio and a 111% Accrued Liability funding ratio by April 1, 2008. (The Current Liability funding ratio would have been 91% if not for the special exemption our Plan received in the Pension Protection Act of 2006.)

EMPLOYER RATE-CHOICE PROGRAM INTRODUCED IN 2008

The Retirement Committee viewed the improvement in the Plan’s funding status as an opportunity to introduce the Employer Rate-Choice Program, the program where employers select the benefit accrual rate and employee contribution rate they prefer for their employee-group. In doing so the Retirement Committee was responding to the desires of many employers to return to higher benefit accrual rates, but the Committee did not want to mandate those rates upon all employers since some preferred to remain at the lower 1.25% benefit accrual rate. The solution was a program that gave each individual employer control over two factors that help to determine the level of benefits and the cost of those benefits.

During the initial sign-up period for the Employer Rate-Choice program (August-December, 2008) the following elections were made:

- 63.8% of employers chose the 1.75% Benefit Accrual Rate
- 2.8% of employers chose the 1.50% Benefit Accrual Rate
- 33.4% of employers chose the 1.25% Benefit Accrual Rate

Regardless of the benefit accrual rate chosen, almost all groups coupled their decision with the maximum-possible Employee Contribution Rate.

This program was originally scheduled for implementation on January 1, 2009 but was delayed by the Retirement Committee to July 1, 2009 due to market volatility and uncertainty.

SECOND PENSION CRISIS HITS IN LATE 2008

At the same time that employers were signing-up for the Employer Rate-Choice Program the stock markets began to plunge, eventually losing over half of their value. Although the Co-op Retirement Plan fared much better than the overall equity markets due to the high degree of diversification in the Trust Fund, the drop in the Plan’s assets reached approximately 25% at the end of February, 2009. Despite the exemption we received in the Pension Protection Act of 2006, this magnitude of loss would almost inevitably lead to significantly increased contribution levels in the Plan.

A major portion of the Winter Meetings was spent discussing the possible impact of the market drop on the Plan’s funding requirements. Keith demonstrated that a 10% loss would cause little to no problem, but a 15%, 20%, or 25% loss would unavoidably result in higher contribution rates.

WHAT WILL CONTRIBUTION LEVELS BE IN THE FISCAL YEAR BEGINNING APRIL 1, 2009?

The answer to this question won't be known until the Retirement Committee meets at the end of March, but even with a sharp rebound in the financial markets by March 31 an increase in plan funding is almost unavoidable. After all the facts are in, the Retirement Committee must exercise their fiduciary duty to fund the Plan in such a way to protect the promises that have been made to participants but at the same time avoiding a level of contributions that might make it impossible for many Participating Employers to continue to participate. An exact prediction was not given during the Winter Meetings since so much depends on where the financial markets end up on March 31.

RETIREMENT COMMITTEE EXPECTED TO AUTHORIZE HIGHER EMPLOYEE CONTRIBUTIONS RATES

In normal times the employee contribution is limited to an amount that is not likely to trip the "Minimum Benefit Rule," a federal regulation that forces a pension plan to give extra benefits to participants who buy more than half of their formula benefit with their own personal contributions and interest. That's why only certain levels of employee contribution rates were offered in last fall's Employer Rate-Choice sign-up. The Retirement Committee realizes, however, that after the events of the last few months it can be truly said that these are not normal times. Accordingly, the Committee is expected to approve higher levels of employee contributions for those groups which would so elect. Specifically, it's anticipated that employers will be able to choose from among the following employee contribution rates: 0%, 1%, 2%, 3%, 4%, and 5%. Note, however, that there will be a cost associated with any employee contribution rate which would result in a significant amount of extra benefits being paid under the Minimum Benefit Rule. In other words, employers who choose an "excess" employee contribution rate will pay a small premium to cover the extra cost associated with the Minimum Benefit Rule so that they are not being subsidized by other employers who choose a smaller employee contribution rate. New cost sheets will be issued in early April reflecting the new choices for employee contribution rates and the premiums connected with choosing one of the higher rates.

NEW EMPLOYER RATE-CHOICE ELECTIONS WILL OCCUR AFTER APRIL 1

The Retirement Committee will set the new contribution rates for the Employer Rate-Choice Program on or about April 1. Employers will be notified immediately and will be given the opportunity to change the election they made in the fall of 2008. In order to give employers time to make new elections (or to suspend participation), the new contribution rates will not go into effect until July 1, 2009.

NEW UNITED BENEFITS GROUP EMPLOYER WEBSITE – A NEW WAY OF DOING BUSINESS

For the last 18 months United Benefits Group has been overhauling its computer system to accommodate the Employer Rate-Choice Program and other changes that were made to the Plan's rules and provisions. In fact, the Employer Rate-Choice program would have been impossible without this system upgrade. The major feature of this overhaul is the creation of an employer-portal website designed to streamline the administration of the Plan. Employers will use this website to accomplish the following tasks:

- Upload payroll data
- Maintain up-to-date employer and employee data
- The system will inform employers when an employee becomes eligible for the Plan

- Make secure electronic payment of contributions with each submitted payroll.

Employers are now being contacted to set-up their access to the new website and to begin downloading payrolls for 2009.

A REVIEW OF CHANGES IN THE CO-OP RETIREMENT PLAN BEGINNING APRIL 1, 2009

Many large and small changes will happen in the Co-op Retirement Plan starting in April of 2009.

Here are some of the more significant changes:

- Contributions will be based on current compensation starting in April. For the first 62 years of the Plan's existence contributions were based on prior year compensation. This switch to a current compensation method is the change that made it possible for the Retirement Committee to introduce the Employer Rate-Choice Program.
- The Plan will no longer have two entry dates per year for new participants. From now on, new participants will enter the Plan on the first day of the second month after reaching the 1,000 hour threshold.
- The method for determining whether an employee has worked 1,000 hours will change in April. Previously, the actual number of hours worked was required for each employee. Starting in April, the Plan will switch to the Equivalency Method, which assumes that an employee works 190 hours per month regardless of the number of hours he/she actually works. This method is allowed under federal pension law and makes the administration of the 1,000 hour rule very easy. The net effect of the Equivalency Method is that employees become eligible for participation in the Retirement Plan if they work in six different months throughout the applicable counting period, which is an employee's first 12 months of employment and every calendar year thereafter. For example, a seasonal employee who works in less than six different months in an applicable counting period will never qualify for the Retirement Plan, but a permanent part-time employee who works a few hours in every month will become eligible after working in six different months.

Note: You received a more comprehensive list of plan changes last week. It was sent together with your List of Participants and the Payroll Deduction List.

QUESTIONS, COMMENTS?

We welcome your questions or comments. Here's our contact information:

For questions about the Winter Meeting material:

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