Coalition of Oak Ridge Retired Employees (CORRE)

"2009 ─ An Up and Down Year"

Annual Meeting Presentation: November 2, 2009

Dub Shults, President

I am operating on the assumption that everybody in this room knows about CORRE…what it is, and what it is trying to do. Accordingly, this talk is intended to be a "Report to the Membership for 2009." I have entitled it "An Up and Down Year" because that is exactly what it has been. I want you to know what we on the CORRE Board have been doing, what we have accomplished, and what our representatives are doing on our behalf. I want you to know about the ups and the downs. So, what I plan to do is contrast the situation as of September 24th last year --- the date of the last CORRE Annual Meeting --- with the situation today, mentioning some of the activities that occurred in the meantime. I will do this by dividing the discussion into five topics. This is not an attempt to cite everything that has happened this year, and it goes without saying that there is much interplay between these topics. The topics are: 1) The Secretary of Energy, 2) The Economy, 3) The Stimulus Package, 4) The Medicare Part D Subsidy, and 5) The Potential Economic Benefit to Your City.

First Topic: The Secretary of Energy

THEN (Last Year):

On September 24, 2008, the date of CORRE's Annual Meeting last year, Samuel P. Bodman was the Secretary of Energy. From our perspective, his name should be Badman. He categorically opposed adjustments within DOE's defined benefit retirement plans. You may remember that he even attempted to institute a policy ─ DOE Notice 351.1 ─ whereby the defined benefit plans of DOE's contractors would be frozen. No augmentation would be allowed, even if a plan had a surplus of assets over liabilities. That policy hit directly at us. It would have been a formidable obstacle. Fortunately, that Notice was withdrawn under pressure from our representatives and others. Nevertheless, Secretary Bodman's opposition was the reason given locally for the inability to win adjustments in our benefits. So, at the time of the last Annual Meeting, the party line was:

> **"We can't do anything until after the election and we have a new Secretary of Energy. Maybe we can do something then."**

What happened since then?

Dr. Stephen Chu was nominated to replace Secretary Bodman. As soon as we learned of the nomination, CORRE prepared lists of questions that might be asked of Dr. Chu during confirmation hearings, and submitted them to each of our legislative representatives. Senator Corker adapted one of our questions and asked it of Dr. Chu. In part, he asked: "Will you conduct a careful review of the benefit plans offered to retirees by the Oak Ridge DOE contractors …and tell us if you believe there are inequities in those plans?"

Dr. Chu responded: "If confirmed, I would certainly be willing to request a review of the benefit plans provided to retirees at Oak Ridge and other DOE sites, and to examine the issue closely. ..I do not currently have a view of whether there are inequities in the Oak Ridge plans. I would look forward to discussing the issue further with you after conducting a review." Dr. Chu was later confirmed.

CORRE became concerned that a review of "retirement plans" would focus on existing plans and existing employees, and not on issues that are important to those of us who are already retired. We raised this concern with our representatives and the local DOE directly, and have been assured by both Congressman Wamp and Congressman Davis that post-retirement issues will be addressed in the Chu review. In fact, Congressman Wamp posted on YouTube an exchange between him and Dr. Chu about this very issue. Meanwhile, Senator Corker writes: "I will continue to work with Secretary Chu and my colleagues in the Senate to look further into this issue."

We don't know exactly where the review stands at the present time. We do know that the May 25th issue of *Inside Energy* reported that DOE has established a "Senior Leadership Team" to address funding problems within its contractor pension plans and that DOE included some money to address pension problems in its 2010 budget. We know that our representatives are well informed and generally supportive of our proposals for pension adjustments.

NOW:

We are better off this year than last. The election is over and we have a new Secretary of Energy. Pension needs are no longer being rejected categorically. A review has been promised and is likely to be underway. Our representatives assure us that it will include post-retirement issues. DOE's retirement programs are on the "To Do" list of DOE's Council of Site Managers. Dr. Chu says: "Hopefully, the stock market recovers and this goes away." Well, the stock market bottomed in March and has recovered significantly since then. That is strong movement in the right direction.

There is still a concern, however. If DOE undertakes to solve system-wide retirement problems by simply bailing out under-funded plans, then it would work against us. Our retirement plans in general are in better shape than those at many other sites, because our plans have been managed very well over the years, and because our pensions have been frozen since 1998. Our representatives are well aware of this potential problem and are working the issue on our behalf.

Second Topic: The Economy

I am going to discuss the economy in the context of the Multi-Employer Pension Plan, the so-called MEPP. It is the plan that covers retirees from Y-12 and ORNL. There are parallel plans at Bechtel Jacobs and Wackenhut. I believe the important points can be made with the MEPP Trust. It is by far the larger of the three.

THEN (Last Year):

On January 1, 2008, the level of funding of the MEPP trust was 112% according to the Annual Funding Notice that we all received in April of this year. That figure is the so-called Target Attainment Percentage. It means that the estimated value of the trust assets were more than the estimated value of its liabilities by 12%. There was a sizable surplus in trust funding. That was Jan. 1, 2008.

At the time of our last Annual Meeting in September 2008, the Dow had fallen about 23%, from 14,093 to 11,385. The MEPP Trust was losing its surplus, and with it we were losing our argument that adjustments to our pensions could be funded with surplus funds. I am not saying that the trust has to have a surplus in order for us to win adjustments --- it doesn't. A surplus just makes it easier to fund. So, the market had headed down and our 401(k)s had become 301(k)s. The contractors were beginning to be concerned that new funds might have to be added to the Trust, and the people were beginning to be concerned about the stability of the retirement plan itself. It seemed like the economy went south at about the same time that a new Secretary of Energy was confirmed…that one thing against us, and the other worked for us.

In the Meantime:

On January 1, 2009, the Target Attainment Percentage of the MEPP trust stood at 110%, and the percentage continued to decline for several months as did the stock market, ultimately approaching 85% of target level. Additional funding would have been required if the percentage fell below 80%. Fortunately, that didn't happen. It was not necessary to add money to the MEPP Trust in FY2009. The record was preserved: it has not been necessary to add new funds to the MEPP since 1984, an interval of 25 years. However, it was necessary to add funding to the Bechtel Jacobs Trust and to the Wackenhut Trust, which are small relative to the MEPP Trust.

NOW:

Based on market growth since March this year, we estimate that the MEPP Trust is again funded at approximately 110%. This is a healthy level but not necessarily a comfortable one when viewed in the context of the economic events of the past year. So, the party line remains:

"Perhaps we can do something for you when the market recovers."

The catch here is that we don't know and can't find out just how great a recovery is needed before our adjustments would be granted…or even considered. In the meantime, we are relying on our Congressional representatives to find a "legislative solution" to the problem. That approach could provide the adjustments that CORRE has been proposing for the past eight years without consuming programmatic funds that the contractors need to do their work.

It is important to pause here and remember that this is not simply a money matter…it is also a people matter. The economic crisis that we are enduring has hurt all of us just as much as it has the Trust. And retirees don't enjoy the same recovery time as do the Trust or the contractors or the DOE. The granting of CORRE's adjustments is crucial for retirees. There is no argument about this.

So, the bottom line is this: We are better off today than we were last year. The economy is slowly recovering. The Trust funding is in the black and is building a surplus. It was not necessary to add additional fund to the Trust. Our 401(k)s fell to 201(k)s for a short period and have recovered at least to 301(k)s. The contractors understand the issues and appear to be reasonably supportive within the limits of good business practice. Our legislators understand our requests, support them, and are working for us.

Third Topic: The Stimulus

THEN (Last Year):

As mentioned earlier, at the time of last year's Annual Meeting, the Dow had dropped approximately 23% from its peak, and the economy was beginning to struggle. Talk of a stimulus package was increasing, and the number mentioned was $780B.

In the Meantime:

When stimulus packages began to evolve, CORRE contacted our congressional representatives, Secretary Chu, the local DOE, and even the new President, seeking stimulus money. We pointed out how stimulus funds for us would support jobs, help businesses, provide benefits that exceed the cost, and would provide sustained economic benefit to the area without recurring costs. We believed then and we believe now that funding our requests would be a valid and sound use of stimulus money. It would, *de facto*, constitute a **local** stimulus package. A stimulus package for the aged, so to speak. The party line that we heard from DOE and some of our representatives at the time was: **"Now is the time to fix this problem."**

NOW:

We are pleased that much stimulus money has come to Oak Ridge, but disappointed that it came only for very specific objectives and with very tight controls. Stimulus funds are in essence short-term, finite life-time program money. No stimulus money has been forthcoming for retiree issues, and none is expected.   **Bottom Line: Now was not the time.**

Fourth Topic: The Medicare Part D Subsidy

THEN (Last Year):

The Medicare Part D legislation of 2003 provided for a subsidy of 28% of the cost of prescription drug coverage to be given to employers who continued to offer similar coverage to their retirees. In May of 2006, UT/Battelle requested that DOE allow it to apply its subsidy to the health insurance premiums of its retirees for the coming year, thus counteracting to some degree rising health care costs. DOE denied the request. CORRE wrote to the Senate Committee on Health, Education, Labor, and Pensions, requesting a review. CORRE also took the issue to our legislators, particularly Senator Alexander's staff, and they took up the issue on our behalf.

When we met in September of 2008, DOE's position was **"We do not approve this use of the Medicare Part D subsidy…cost sharing is considered an augmentation to the benefit plan…"** Our Congressional people were working with DOE and the contractors and with CORRE to reverse that position.

NOW:

In December 2008, Bechtel Jacobs broke the ice. They began to share their Part D subsidy with participants in their Medicare Supplemental Health Insurance Plan. Then, on February 1, 2009, UT/Battelle and B&W Y-12 followed suit. Wackenhut distributed its share later as a one-time payment. In the case of MEPP retirees, this cost-sharing amounts to approximately $29 per month reduction in medical insurance cost per person, $58 per month per couple.

There is more. In September, participants in the supplemental medical insurance plan at ORNL and Y-12 also received a reduction in the base premium of their supplemental health insurance which, in combination with the subsidy-sharing program, reduces their total monthly cost from $374 per month to $300 per month per couple. CORRE had nothing to do with the reduction in premium, but we commend the contractors for allowing it to happen.

Bottom Line: All four contractors have begun to share their Part D subsidies with their retirees, in one way or another. These reductions in supplemental health insurance cost --- $888 per year for an MEPP couple – may not seem like a raise, but they feel like one.

Fifth (and last) Topic: The Potential Economic Benefit

THEN (Last Year):

In September 2008, as in years past, CORRE had produced and published information about the potential economic benefit that would accrue to Tennessee and to the local six-county area if our pension adjustments were granted. The primary use of the information was internal to CORRE.

In the Meantime:

During the year, with the help of the contractors and information from the University of Tennessee, CORRE devised a way to estimate the potential economic benefit that our adjustments would bring to individual cities. Not the State, not the area…individual cities.

NOW:

CORRE is in the process of conveying estimates of the potential economic benefit to numerous people and organizations, at all levels, in individual cities in Tennessee. We hope that strong support for CORRE's requests for adjustments in retirement benefits will be generated among local representatives, as well as the public, when and if they understand and appreciate it. In many cases, the magnitude of the benefit to a given city is huge.

Let me illustrate this with a couple of examples. Someone give me the name of your city. Thanks. The potential economic benefit to your city is $… per year. This is not the increased pension income; it is the total economic impact based on the University of Tennessee factor of 2.08 benefit per dollar of income.

One more example please. Someone give me another name of a city. Thanks. The potential benefit to your city is $… per year. You see how it works.

Request for Help

I want to make a request for your help, as we usually do. There is an Economic Benefit station in the lobby. We ask that you go by that station, tell the person on duty the name of your city, and he or she will give you a card that states what the benefit to your city would be each year if CORRE's requests were granted. Take that information to your community officials. Every city and county I know of could use extra money…especially if it comes annually and requires no new investment, no new infrastructure, and no new tax incentives. This is a benefit that would help everyone, not just CORRE's retirees.

Conclusion

Now, let's look at the scorecard. We have a new Secretary of Energy who appears to be more open than the previous one; that's an **UP**. The economy is recovering, and the surplus is building. That's an **UP**. We struck out on Stimulus money. That's a **DOWN**. The Medicare Part D supplement is now being shared with participating retirees by all four local contractors. That's an **UP**. The potential economic benefit of CORRE's proposals, if granted, would be huge. That's a **Too Early to Tell.**

My scorecard says that 2009 truly has been and Up-and-Down year, but it has been much more Up than Down.

Before closing, I would like to acknowledge two members of the Board whose terms are ending: Lou Dunlap and Don Wood. Lou has been on the Board for two years and has done a fine job as chair of the Nominations Committee both years. Don has been indispensable as our legal person on the Board for eight years. We appreciate both of them and the time and energy that they have put into CORRRE over the years. It is a relief that both have agreed to serve as Advisors to the Board, beginning next year.

I need to mention one more thing and I am finished. You have not heard from the Governmental Relations Committee, chaired by Pete Lotts, or the Strategic Planning Committee, chaired by Dave Mason, this year, but be assured that their work is embedded in everything that has been reported today.

There is an old saying that goes like this: There is no such thing as magic…if you look behind the curtain you will find someone hard at work. If you looked behind the CORRE curtain, you would find the entire CORRE Board hard at work for you…and we have no intention of stopping.

Thanks very much for your attention.