

3M Retirement Series

Pensions: What You Must Know



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The 3M Pensions: What You Must Know

Over the past several months, we have experienced a large influx of questions and inquiries regarding pension options for long-time employees of 3M. In addition to our inquiries, we have heard lots of information and opinions being distributed to pensioners.

Some of the information has been misleading to people making irrevocable financial decisions. We have found some people are receiving advice under the context of fear and a potential negative outcome for their earned pension benefit.

In the simplest sense, pensions are designed to provide safe and secure benefits rewarding long-term loyalty to employees. Of course, there are risks associated with pension plans, but it is critical to evaluate those risks in terms of probabilities and the likelihood of that risk taking place. Our goal is to provide real-time clarity around the key considerations you should be aware of as you make this decision.

3M is experiencing a challenging path forward with several lawsuits, spinning off business lines and poor stock performance. Where employees may associate negativity surrounding the company with the pension and anticipate negative outcomes that may or may not be realistic.

Based on 3M's 2021 10-K SEC filings, 3M's pension is 93% funded. Comparatively, the average corporate pension is 88.4% funded and the average state pension expected to be 84% for 2021. These numbers change annually based on recipient vesting schedules, total assets, and return of those assets to meet the needs of the plan.

The long-term solvency should not be of concern to pensioners of 3M.

This paper will discuss following details of the existing 3M pension plan:

- Pension portfolio groups
- Interest rate impact on your pension
- Timeline for making pension decisions





Pension Portfolio Groups

There are 3 Pension Portfolios
(*groups of employees based on hire date*):

Portfolio 1 is the legacy pension

Portfolio 2 began on Jan 1, 2001 (Portfolio 1 had the option to voluntarily switch to portfolio 2)

Portfolio 3 (no pension if hired after Jan 1, 2009)

Those hired before 2009 should be aware of some changes coming and what it means for them personally.

The Effect of Rising Interest Rates

This is important to your pension from the standpoint that you will see your lump sum amount change. This amount is a complicated calculation of the money needed across 3 different time frames of your retirement. The pension uses an assumed rate of return from what is known as the risk-free rate (closely following the 10-year treasury rate) to determine what you would need today to equal the sum of all future payments over your expected lifetime. When interest rates rise, the assumed return will be higher so the amount you need today goes down. This rate is determined from the 417e segment rates each November and used for the following year.

The monthly payment is not affected by this rate change and still is a stable option.

For 2023, you will see a lower lump sum than you have been given in the past year. It is hard to determine how much it will drop, but that new lump sum will be available for all of 2023.



Timeline for Pension Decisions

Making your pension decision is a single piece of the much bigger picture. Choosing to retire based solely on what we have discussed would be unwise. We stress that the monthly payment or annuity that has been constant for years is not changing.

The best pension decision should be made in conjunction with a comprehensive financial plan outlining your objective and available resources.

What if things get worse at 3M?

Some are concerned about the payment options in the wake of lawsuits. The funds in the pension trust are not at risk of these lawsuits. The Pension's long-term health will be sustained based on 3M ability to maintain their annual contributions to the trust. As said earlier the pension is funded to a high level and backed by the Pension Benefit Guarantee Corporation or PBGC which can be thought of as the FDIC insurance of pensions.

Even in the extreme case of a bankruptcy filing, there are protections in place for those receiving pension benefits when backed by PBGC.

According to the 2021 PBGC annual report:

“Although it forces tough choices, bankruptcy does not mean that pensions must terminate for companies to succeed. In FY 2021, these plans were among those that continued after the bankruptcies of their sponsors or controlled group members...”

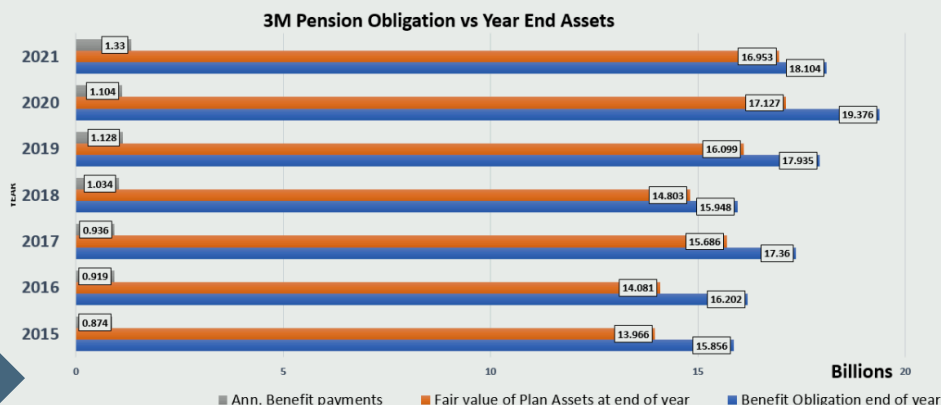
- LSC Communications, Inc. (more than 26,100 participants)
- Frontier Communications Corporation (more than 25,550 participants)
- Hertz Global Holdings, Inc. (more than 22,500 participants)
- Belk, Inc. (more than 7,550 participants)
- Valaris PLC (more than 4,450 participants)
- Libbey Glass, Inc. (more than 3,900 participants)

As touched on earlier, the higher the risk-free rate is, the better the assumed return should be for the Trust assets of the pension going forward. This creates a better ability of the pension portfolio to keep up with the needs of the pension payments.



Timeline for Pension Decisions

To better visualize 3M's trend for pension assets alongside their pension liabilities, see the chart below.



Another important consideration is that 3M's Portfolio I & II both closed to new participants years ago. This means that the future liabilities on the pension will eventually begin to decline as the existing pensioners "age out" of retirement benefits by passing away, and future pensioners who eventually all file for their benefit options eventually begin removing themselves from the long-term liabilities of the plan as well by themselves passing on or electing the Lump Sum option.

If your retirement is greater than 6 months from now, we advise reviewing your plan. A better understanding of your options and the impacts may cause you to claim your pension differently down the road than you would today.

If your planned retirement is inside of 6 months, it is important to see how a potential change would affect you. For those where claiming the Lump Sum pension benefit is potentially in your best interest, a realistic timeline for claiming a lump sum benefit where the 2022 segment rates would apply would be prior to November 15th, 2022.

Would it make sense to move up your retirement date? If so, healthcare coverage, potential income gaps, as well as tax liability would all need to be addressed along with the pension.

As we conclude this paper, we want to stress the importance of knowing all your options and how one decision impacts another. Don't fall victim to making short-sized decisions that could lead to regret later. Should you or those within your network need help understanding your options, Pine Grove Financial Group is here to help.





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