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RE: March 2, 2022 Stakeholder Meeting regarding Puget Sound Pilots' Pension Program

Dear Stakeholder Representatives:

Following up our previous discussions or correspondence, this letter confirms that the first stakeholder meeting to consider a possible transition of the Puget Sound Pilots' pension from an unfunded pay-as-you-go or farebox system to a fully funded, defined-benefit retirement plan is scheduled for March 2, 2022 from 9:30 AM to noon at the PSP offices. PSP's actuary Christopher "Tiff" Wood will be attending and available to respond any questions regarding the 50-year cost projections that he prepared and the underlying assumptions. It should also be noted that UTC staff will not be participating in these stakeholder meetings.

In terms of an agenda for the meeting, PSP proposes the following:

1. Introductions
2. Presentation by Tiff Wood regarding 50-year cost projections and the actuarial assumptions
3. Q&A for Mr. Wood
4. PMSA comments/alternative proposal
5. PYM comments/alternative proposal
6. Next steps

In advance of this first stakeholder meeting, PSP considers it important to provide some historical context regarding its pension and to describe the very limited character of the negotiating space available to a pilot group that has had a pension program for retirees funded by its tariff dating back to 1967, a period of more than 50 years. At present, the PSP pension plan provides a retirement benefit of 1.5% for each year of service multiplied by the average of the retiring pilot's last three years of distributable net income or DNI. This percentage level of annual benefit accrual dates back to 2001, when the rate of accrual was increased from 1.25% to 1.5%, pursuant to a Memorandum of Understanding signed by PSP, the Puget Sound Steamship Operators Association and Polar Tankers (successor to ARCO Marine). It is important to note that PSP's 1.5% level of pension benefit accrual per year of service is in the middle range of annual benefit accruals among other pilot groups throughout the U.S. On the West Coast, the annual accrual rate for the San Francisco Bar Pilots is 1.84% and that of the LA Pilots is 2.2%. The Maryland Pilots' accrual rate is the same as PSP's at 1.5% per year, but there are no less than seven pilot organizations on the Gulf and East Coasts with annual pension benefit accrual rates of 2% to 2.66%.

It is also worth noting that the approximately 1,300 licensed maritime pilots throughout the U.S. who achieve this pinnacle profession do so in the middle of their maritime careers, which means that a newly licensed pilot begins work as a pilot either without a pre-existing pension or having to forego the opportunity to build an existing pension to the maximum benefit levels generated by a full career. In other words, new PSP pilots need a reasonably robust pension accrual rate in order to compensate for the negative impact of a mid-career change of maritime occupation on any pre-existing pension.

Finally, all stakeholders need to be aware of the legal obligations that PSP as an organization has both to existing retirees and to all current working pilots who have accrued and continue to accrue pension benefits promised to each pilot in writing when he or she was first licensed. PSP has an absolute legal obligation to honor and to pay the benefits earned by current retirees and all accrued benefits when each currently working pilot retires. With respect to the funding of the system, there is now more than one half century of precedent for funding PSP retirement benefits through the tariff that funds the pilotage system serving vessels calling in Puget Sound. The fact that this is a legitimate expense to be included within the rate base has been codified both in statute, RCW 88.16.055(1), and regulation, WAC 363-116-315. Indeed, in this WAC provision dating back to 1991, the Washington Board of Pilot Commissioners codified as a matter of state policy PSP's pension-related contractual obligations by imposing the following requirement on pilot associations in Washington:

> Pilot associations having retirement plans, the expense of which is reimbursed through board established tariffs, shall make such payments to retired pilots as are required by the benefits and enforcement provisions of those plans.

While it is theoretically possible to consider revising the level of PSP pension benefits downward for new licensees at some future date, PSP is strongly opposed to that idea for two reasons. First, the PSP pension is not overly generous by national standards as demonstrated by the number of U.S. pilot groups with significantly more generous plans. Second, any reduction in the existing level of PSP pension benefits would hurt PSP's ability to recruit the best candidates to a safety-critical transportation position and negatively affect the organization's efforts to diversify its pilot corps.

As noted in my letter of January 28, provided the benefits that have been promised to PSP's retirees and working pilots are not reduced, PSP is open to either continuing the existing pay-as-you-go pension plan or transitioning to one of the two fully funded defined-benefit plans presented in the Milliman 50-year cost projections.

We look forward to our discussions next week. If you have any questions, please not hesitate to call.

Very truly yours,

Mike

Michael E. Haglund

MEH:km

cc: Puget Sound Pilots
Blair Fassburg
Mike Jacob

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