Albertsons Responds to New York Post Article

January 30, 2020. Albertsons Companies, Inc. ("Albertsons") is responding to significant inaccuracies in a January 27, 2020 article in the New York Post concerning Safeway's potential liabilities to the Food Employers Labor Relations Association and United Food and Commercial Workers Pension Fund ("FELRA").

Albertsons has approximately 270,000 employees nationwide, of which 170,000 are union employees. Most retirement benefits for union employees are provided through multiemployer pension plans. Albertsons is contributing $475 million to these plans in fiscal 2019, which is reflected in earnings before income taxes, depreciation and amortization ("EBITDA") and Adjusted EBITDA.

Albertsons negotiates changes to these retirement programs through collective bargaining. Albertsons fully expects an agreement between Safeway and the Union locals representing 10,400 employees in the Mid-Atlantic area will be reached. In fiscal 2019 to date alone, Albertsons has successfully concluded labor agreements covering more than 80,000 of its union employees.

The New York Post's article about Safeway's potential liabilities to FELRA contains many errors. Albertsons addresses the most important of those errors in this response. The numbers referenced below are estimates.

New York Post statement: "The United Food and Commercial Workers International Union, which represents 112 Safeway stores in D.C., Maryland and Virginia, claims Safeway in its 2012 and 2016 worker agreements included a guarantee to cover one-third of all pension losses in the group plan — beyond its obligations to Safeway employees."

- The Union locals now assert that Safeway has agreed to guarantee payment of FELRA benefits, including in the event that the Pension Benefit Guaranty Corporation ("PBGC") itself becomes insolvent and does not pay for benefits when FELRA becomes insolvent. Safeway disagrees. Safeway's position is that:
    - In 2012, the Unions and Safeway agreed to freeze most benefit accruals in FELRA and create a new plan, Mid-Atlantic UFCW and Participating Employers Pension Fund ("MAP"), to provide future service benefits. It was agreed that upon insolvency of FELRA, the benefits not paid by FELRA, including the "gap" between what would have been paid under FELRA and the reduced benefits paid by the PBGC up to applicable legal limits, would become the responsibility of MAP. Safeway's position is that its obligation is limited to paying the collectively bargained monthly contribution rates, which currently approximate $27.5 million annually, plus annual increases of 6 cents per hour or approximately $900,000 per annum.
    - It was never agreed that Safeway would stand behind, and guarantee, the PBGC's obligations in the extremely unlikely event that the PBGC itself becomes insolvent.
    - In 2016 negotiations, the Union locals and Safeway agreed to keep in place the 2012 language concerning Safeway's obligation to FELRA and MAP.

New York Post statement: "That would amount to roughly $565 million…." apparently referencing withdrawal liability from FELRA.

- The estimate of $565 million for Safeway's withdrawal liability from FELRA is not applicable.
    - o When a multiemployer pension plan becomes insolvent, employers are not required to withdraw from the plan, and are not required to make a lump sum payment. Instead, employers may continue to participate in the insolvent plan by contributing to the plan on a continuing basis.
    - o Withdrawal liability is assessed against an employer when it withdraws from participating in a multiemployer pension plan. Safeway has no intention to withdraw from FELRA.
    - o Even if Safeway were to withdraw from FELRA, its obligation would be to pay withdrawal liability installment payments in an amount estimated to be $38 million per year. Safeway's liability would not be paid in a lump sum. It would be in lieu of its annual contributions to FELRA and would not have a material impact on Albertsons' cash flow.

New York Post statement: "The group pension, now underfunded to the tune of $1.7 billion ….leaving Albertsons in the lurch."

- FELRA is estimated to be underfunded in the amount of $1.7 billion.
- FELRA's $1.7 billion underfunding is not Safeway's liability.
    - o The PBGC is required by law to pay $1.2 billion of the $1.7 billion underfunding.

- In the unlikely event that the PBGC is insolvent and does not satisfy its legal obligation to pay FELRA's participants' benefits, and Safeway loses all its arguments that it is not contractually responsible to pay for all the benefits, Safeway would have to fund $680 million (40% of $1.7 billion) over decades – not in a lump sum.

- The prospect of Congress permitting the PBGC to fail is highly remote given the large number of retirees that would be immediately affected.

New York Post statement: "The grocery giant … says that if the pension goes bust it will continue to fund the nest eggs of Safeway's roughly 10,000 workers in the DC area at a rate of roughly $20 million a year."

- As noted above, Safeway's only legal obligation is to continue to contribute its current contribution level of $27.5 million annually plus annual increases of 6 cents per hour or approximately $900,000 per annum.

New York Post statement: "Settlement talks held between the company, the union and the government pension insurer recently fell flat, sources said. Albertsons broke off talks after refusing to fork over about $200 million in a deal …."

- The Unions' allegation that Safeway refused to put up $200 million and withdrew from the PBGC negotiations is incorrect.

    - The Unions, Safeway and Giant met with the PBGC several times, and jointly hammered out a deal.

    - Safeway is prepared to implement that deal. The deal would:

        - Combine MAP into FELRA.

- Require Safeway to contribute to the combined plan between $23-24 million annually for 25 years in return for a release from withdrawal liability.

- Implement an innovative “top up” plan to compensate Safeway participants for PBGC cutbacks for pension benefits in excess of PBGC limits, that the PBGC has indicated it would not oppose.

- Implement a new variable defined benefit plan for future service that would reduce Safeway’s exposure to investment underperformance, that the PBGC has indicated it would not oppose.

- This deal would result in an increase in Safeway’s annual cash contributions in amounts that are not material to Albertsons, with a portion of the increase offset by reductions in health care costs. No lump sum by Albertsons would be required.

- The Unions have so far refused to finalize the deal with the PBGC.