



Special Financial Assistance: Solvency Through 2051?

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Our Presenters Today

Moderator



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Panelists



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Agenda

SFA Overview

Interest Rates to Determine Amount

Application Timing

Withdrawal Liability Rules

Plan-level Restrictions

Investment Considerations

Strategies for SFA Assets

Disclaimer

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Special Financial Assistance

Statutory goal:
solvency through 2051



SFA Final Rules

Final SFA Regulation: Overview

American Rescue Plan Act of 2021

- Enacted on March 11, 2021
- Included Special Financial Assistance (SFA) program

PBGC regulations on SFA

- Interim final rule released on July 9, 2021, published and effective on July 12, 2021
- Final rule released on July 6, 2022, published on July 8, 2022
- Final rules take effect August 8, 2022
 - Comment period on phased recognition of SFA for purposes of withdrawal liability



Final SFA Regulation

Interest Rate Disconnect Addressed

	IFR	Final Rule
Interest Rate	Single interest rate	Separate (lower) rate for SFA Asset growth
Permissible SFA investments	Investment grade bonds	Flexibility on 33% of SFA Assets
Solvency	Many plans fall short of solvency through 2051	Changes designed to meet solvency goal

IFR had a disconnect between SFA interest rate and expected returns on SFA assets

Two Interest Rate Approach

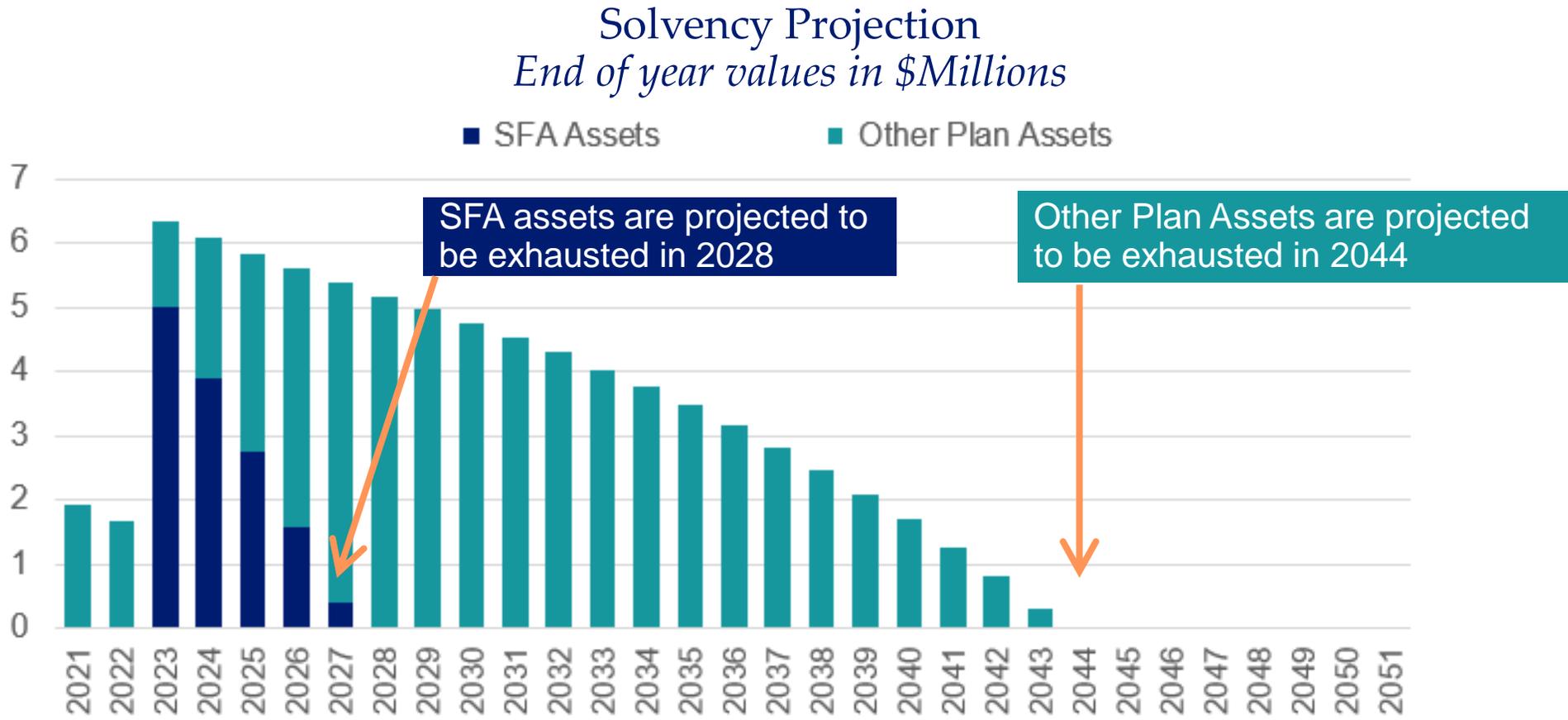
Under final rule: Lowest of last 4 months before application date

Month	PPA Funding Segment Rates				SFA Rate	Non-SFA Rate
	1st	2nd	3rd	Average	Average + 0.67%	3rd + 2.00%
July 2022	1.14	2.89	3.44	2.49	3.16	5.44
June 2022	1.02	2.80	3.38	2.40	3.07	5.38
May 2022	0.93	2.72	3.32	2.32	2.99	5.32
April 2022	0.87	2.67	3.29	2.28	2.95	5.29
March 2022	0.87	2.64	3.28	2.26	2.93	5.28
December 2021	0.92	2.62	3.29	2.28	2.95	5.29
September 2021	1.07	2.68	3.36	2.37	3.04	5.36

Special Financial Assistance (SFA) – Under IFR

Impact on Solvency Projections

Estimated SFA of \$5.0 million assumed to be received on December 31, 2023

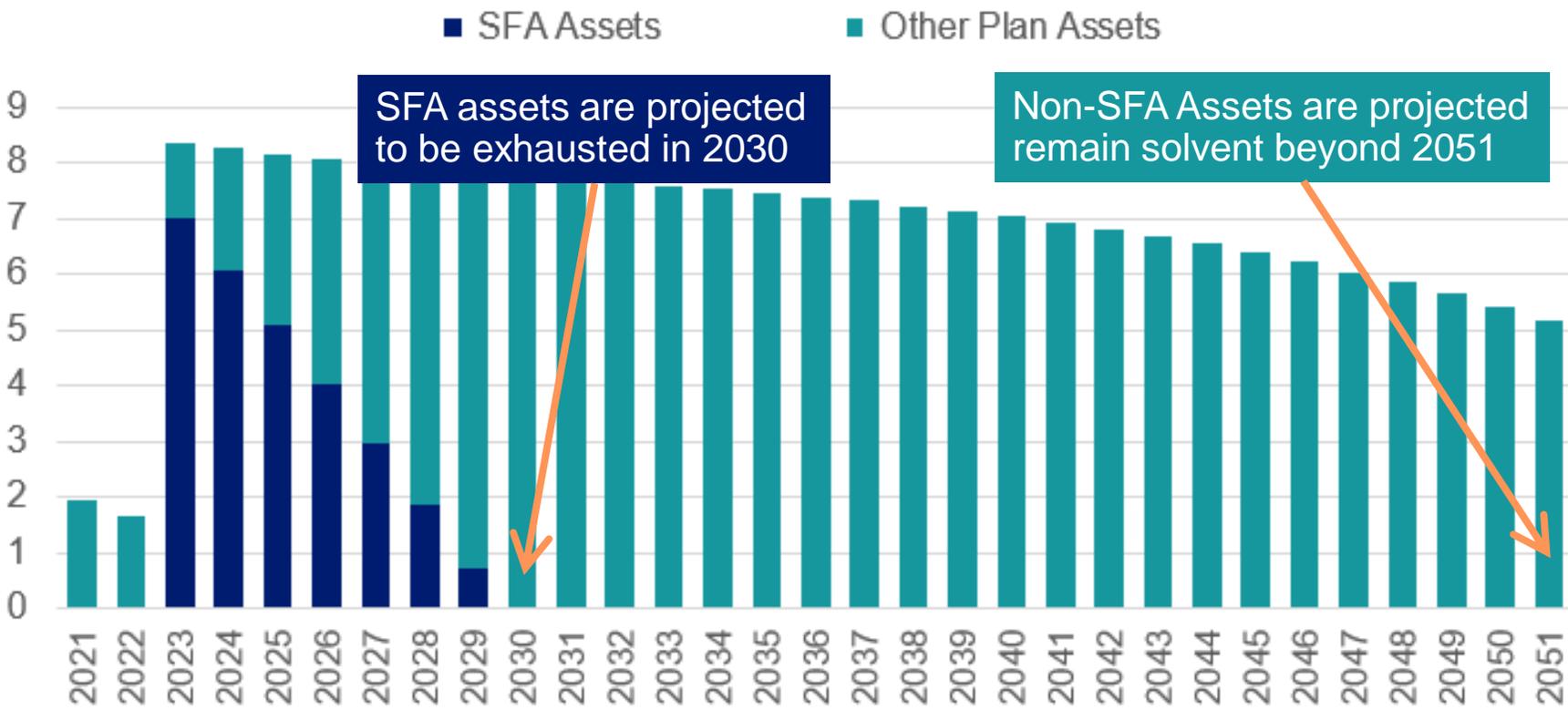


Special Financial Assistance – Under Final Rule

Impact on Solvency Projections

Estimated SFA of \$7.0 million assumed to be received on December 31, 2023

Solvency Projection
End of year values in \$Millions



Final SFA Regulation

Interest Rate Disconnect Addressed

Impact of two interest rate approach

- In general, greater impact on plans at or near insolvency, prior to receiving SFA
- Less impact on plans with low interest rates, less SFA relative to non-SFA assets
- More likely that plans will stay solvent through 2051
- Plans may stay solvent beyond 2051, based on ability to potentially out-earn SFA determination assumptions

MPRA Plans

IFR put plan fiduciaries in a bind

- Avoid insolvency indefinitely; or
- Seek SFA and reinstate benefits but risk long-term health

Methods for determining SFA amounts

- Final rule: SFA is the greatest of three amounts

Basic Method: SFA determined in same way as for non-MPRA Plans

Increasing Assets Method: SFA sufficient so that plan is projected to have rising assets at the end of the 2051 plan year

Present Value Method: SFA equal to present value of MPRA reinstated benefits (make-up payments + reinstated benefits going forward through 2051)

SFA Measurement Date

- PBGC's metering system: application portal may temporarily close
- Application filed if it meets filing requirements and PBGC can accommodate it
- Base data in initial application cannot be changed
- IFR: Last day of calendar quarter prior to filing
- Final rule: Last day of 3rd month prior to filing

Filing Date	Measurement Date
February 2023	November 30, 2022
March 2023	December 31, 2022
April 2023	January 31, 2023

“Lock-in” Applications

Final rule: may submit pro-forma “lock-in” application

- Establishes plan’s ability to file later using a specific SFA measurement date
- Avoids uncertainty and application re-work
- May be filed March 11, 2023 through Dec. 31, 2025
- Priority groups 5 and 6 (and other groups PBGC may establish) only “lock-in” if portal is closed

SFA Census Data

Census data is either for the “plan year in which occurs the plan’s SFA measurement date; or if there is no such report for that plan year, the preceding plan year”

Example based on Calendar Year Plan

Filing Date	Measurement Date	Census Data – based on a completed valuation
March 2023	December 31, 2022	January 1, 2022; or January 1, 2021, if 2022 valuation not completed
April 2023	January 31, 2023	January 1, 2022, since 2023 valuation would not be completed

Withdrawal Liability for SFA Plans

	IFR	Final Rule
Mass Withdrawal Interest Rates	Applies until later of 10 years or when plan no longer holds SFA (including earnings)	Applies until later of 10 years or expected SFA payout period (presuming SFA used first)
SFA as Plan Asset	Immediately included	Phased-in* each year over the fixed expected SFA payout period (presuming SFA used first)
Settlement	Settlements over \$50M require PBGC approval	Same

*PBGC requested comments by August 8, 2022 regarding the phased-in methodology, and is therefore subject to change

Withdrawal Liability

IFR Calculation

	PRE-SFA ^[1]	YEAR 1	YEAR 2	YEAR 3
1 Present value of vested benefits using funding assumptions	\$5.00	N/A	N/A	N/A
2 Present value of vested benefits using mass withdrawal rates ^[2]	\$10.00	\$10.00	\$9.80	\$9.55
3 Non-SFA market value of assets	\$2.00	\$2.00	\$2.15	\$2.35
4 SFA market value of assets ^[3]	N/A	\$7.00	\$6.10	\$5.40
Interim Final Rule (IFR)				
5 Present value of vested benefits for withdrawal liability	\$7.00	\$10.00	\$9.80	\$9.55
6 Market value of assets for withdrawal liability (3+4)	\$2.00	\$9.00	\$8.25	\$7.75
7 Unfunded Vested Benefits under IFR (5-6)	<u>\$5.00</u>	<u>\$1.00</u>	<u>\$1.55</u>	<u>\$1.80</u>

^[1] “PRE-SFA” assumes that the plan uses a blend based on the funding and mass withdrawal rates for determining withdrawal liability, as if the plan did not receive any SFA in Year 1 for illustrative comparison.

^[2] Mass withdrawal rates refer to the interest rates used to value benefits in appendix B to 29 C.F.R. part 4044. Under the IFR, the mass withdrawal rates must be used to determine withdrawal liability for the later of 10 years or the period the SFA-recipient plan retains SFA, including earnings. As provided under the Final Rule, use of mass withdrawal rates are required to be used for the later of 10 years or the projected SFA payout period.

^[3] Assumes that SFA is projected to be exhausted in seven years.

Withdrawal Liability

Final Rule Calculation

	PRE-SFA ^[1]	YEAR 1	YEAR 2	YEAR 3
1 Present value of vested benefits using funding assumptions	\$5.00	N/A	N/A	N/A
2 Present value of vested benefits using mass withdrawal rates ^[2]	\$10.00	\$10.00	\$9.80	\$9.55
3 Non-SFA market value of assets	\$2.00	\$2.00	\$2.15	\$2.35
4 SFA market value of assets ^[3]	N/A	\$7.00	\$6.10	\$5.40
Final Rule				
5 Present value of vested benefits for withdrawal liability	\$7.00	\$10.00	\$9.80	\$9.55
6 SFA Phase-in fraction	n/a	7/7	6/7	5/7
7 SFA to exclude due to phase-in (\$7.00 x 6)	N/A	\$7.00	\$6.00	\$5.00
8 Market value of assets for withdrawal liability (3+4-7)	\$2.00	\$2.00	\$2.25	\$2.75
9 Unfunded Vested Benefits under Final Rule (5-8)	<u>\$5.00</u>	<u>\$8.00</u>	<u>\$7.55</u>	<u>\$6.80</u>

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^[3] Assumes that SFA is projected to be exhausted in seven years.

Withdrawal Liability *Calculation Comparison*

Unfunded Present Value of Vested Benefits for Withdrawal Liability

	PRE-SFA	YEAR 1	YEAR 2	YEAR 3
Interim Final Rule (IFR)	\$5.00	\$1.00	\$1.55	\$1.80
Final Rule	\$5.00	\$8.00	\$7.55	\$6.80

Observations

- IFR results in lower withdrawal liability
- Final Rule results in higher withdrawal liability in early years, then phases out amount of SFA
- Final rule may deter withdrawals while IFR may encourage withdrawals in early years

Contributions and Benefit Improvements for SFA Plans

Contributions

- Increases agreed to on or after July 9, 2021, excluded from determining SFA amount
- After 5 years, may reallocate up to 10% of contributions to health fund, with restrictions
- Decrease permitted, with restrictions

Benefit Improvements

	First 10 plan years after receipt of SFA	Plan years 10+ after receipt of SFA
Retrospective	Not permitted	May seek PBGC approval for exception
Prospective	Permitted if contribution increases sufficient to pay for benefit increase	May seek PBGC approval for waiver from increased contributions

Mergers and Transfers Involving SFA Plans

Mergers and Transfers

- PBGC approval required
- For a transferee plan: conditions determined by PBGC
- For a merged plan: certain SFA conditions and restrictions apply to merged plan
- Plans can apply for a waiver of certain SFA conditions

Mergers Involving SFA Plans

Condition	Applies to Merged Plan	Waiver possible?
SFA: pay benefits and expenses, segregated, investment restrictions	YES	NO
PBGC approval for future mergers and transfers	YES	NO
Withdrawal liability settlements over \$50M	YES	NO
Subject to compliance reporting and audit	YES	NO
“Deemed” critical status	NO	N/A
Prospective benefit increase restrictions	NO	N/A
Allocation requirements of plan assets and expenses	NO	N/A
Retroactive benefit increase restrictions for participants of SFA plan	YES	YES
Contribution decrease restrictions for employers of SFA plan	YES	YES
Allocation of contributions and other income for SFA plan	YES	YES
Withdrawal liability interest rate for employers of SFA plan	YES	NO
Withdrawal liability phase-in of SFA assets for employers of SFA plan	YES	NO

Transition Rules

Supplemented and Revised Applications

Approved under IFR

May file supplemented application if SFA already received by the plan

Pending Review

- Upon receipt of SFA, may file supplemented application
- or*
- Withdraw and re-file a *revised* application under final rule

Denied or Withdrawn

Must file a revised application under the final rule

New rules regarding permissible investments and withdrawal liability phase-in apply upon filing of supplemented application

Conditions and restrictions

- Supplemented and revised applications: must file by Dec. 31, 2026
- 120-day PBGC review period
- Cannot change: SFA measurement date, asset value, census data
- Supplemented applications also cannot change: assumptions, except interest rates and contribution assumption to exclude post July 9, 2021 increases

Strategies for Investment of SFA Assets

ARPA and PBGC Guidance

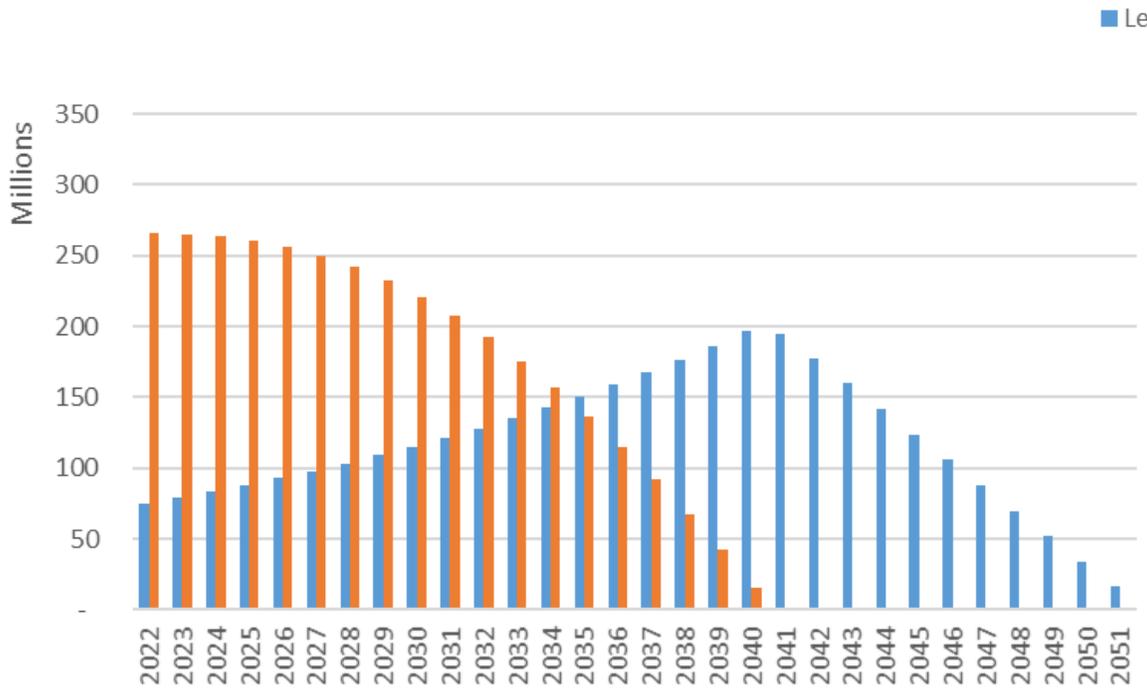
Pension Benefit Guaranty Corporation **Interim** **Final Rule**

Investment guidance under the interim final rule

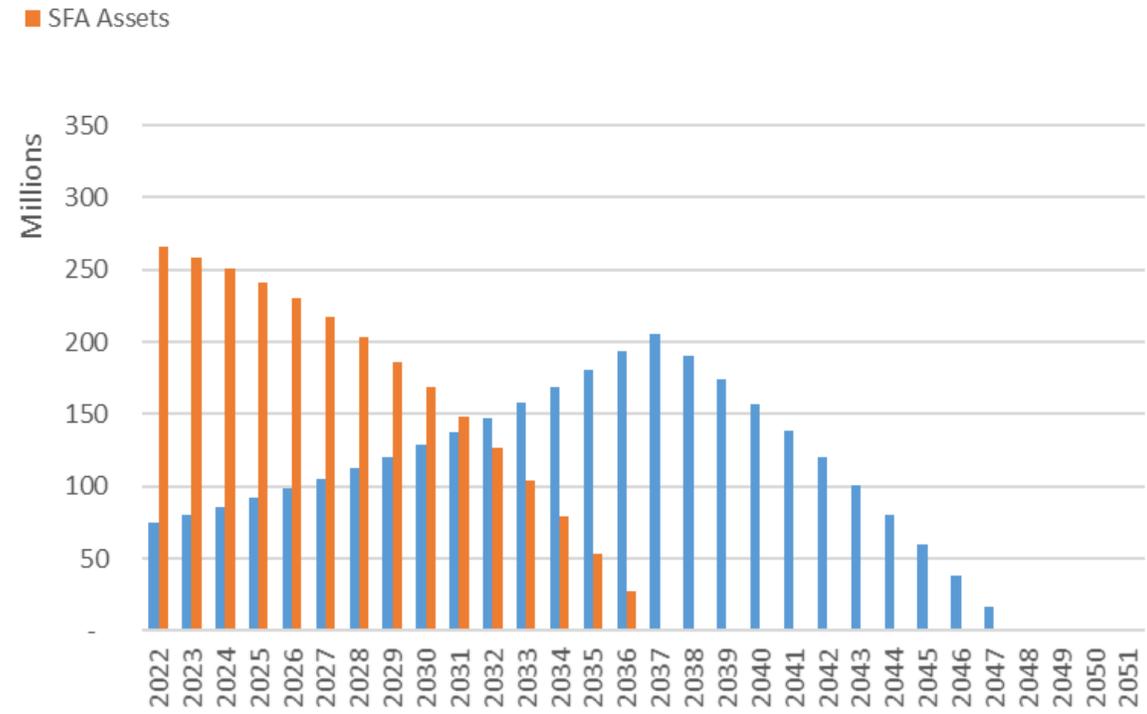
- Investment grade fixed income only with a 5% bucket for fallen angels

Illustration: Shortfall using the IFR Methodology

PBGC Intention

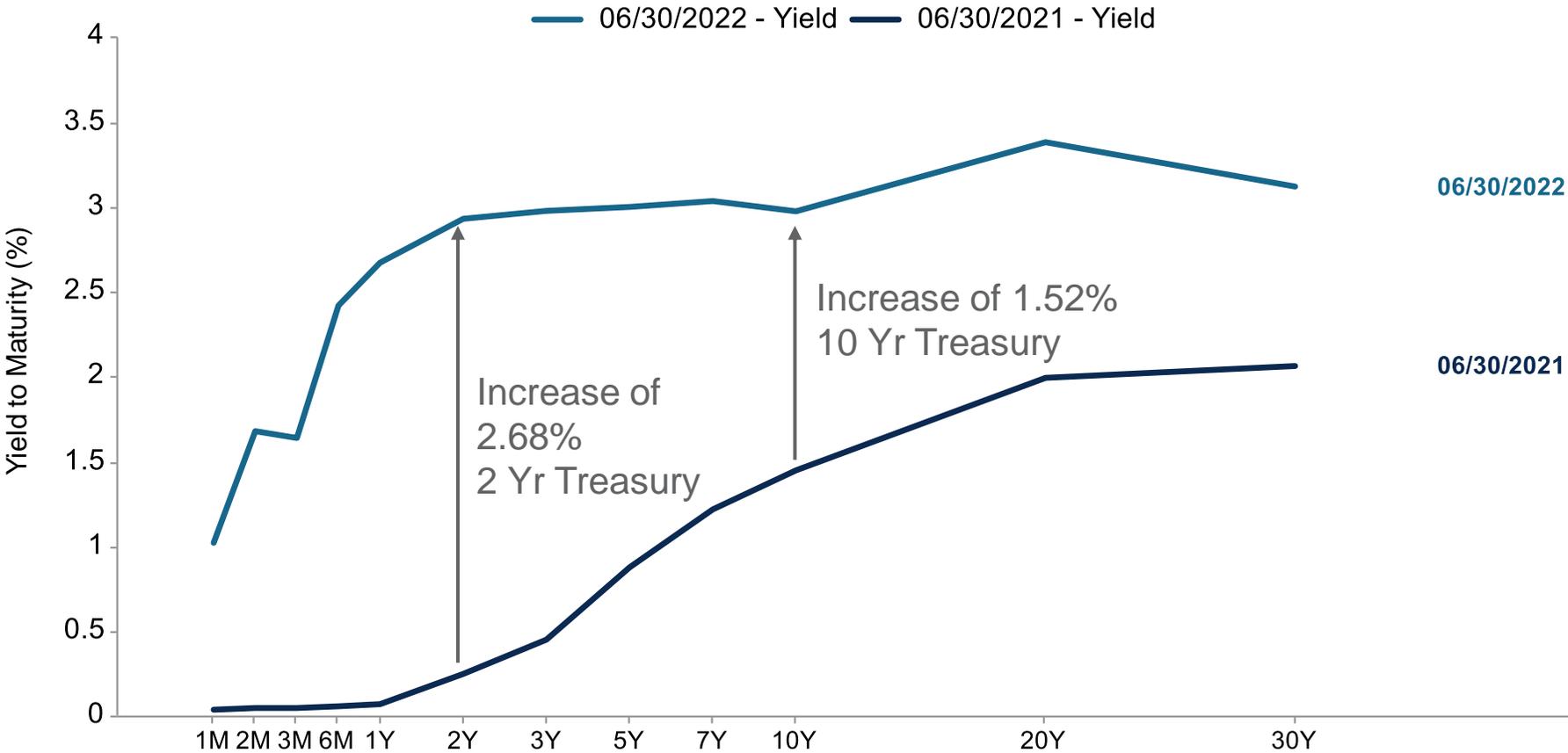


Reality



Yield Curve

United States Treasury Yield Curve



	3M	1Y	2Y	5Y	10Y	30Y
6/30/21	0.05	0.07	0.25	0.88	1.45	2.06
6/30/22	1.64	2.67	2.93	3.00	2.97	3.12

Source: FactSet

ARPA and PBGC Guidance

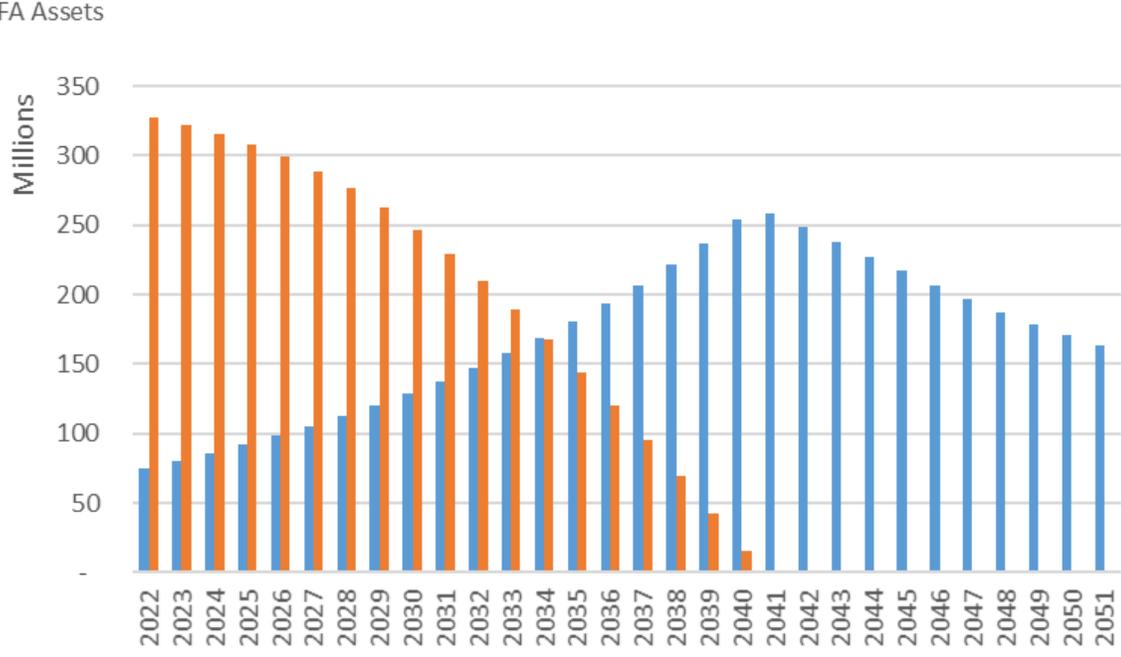
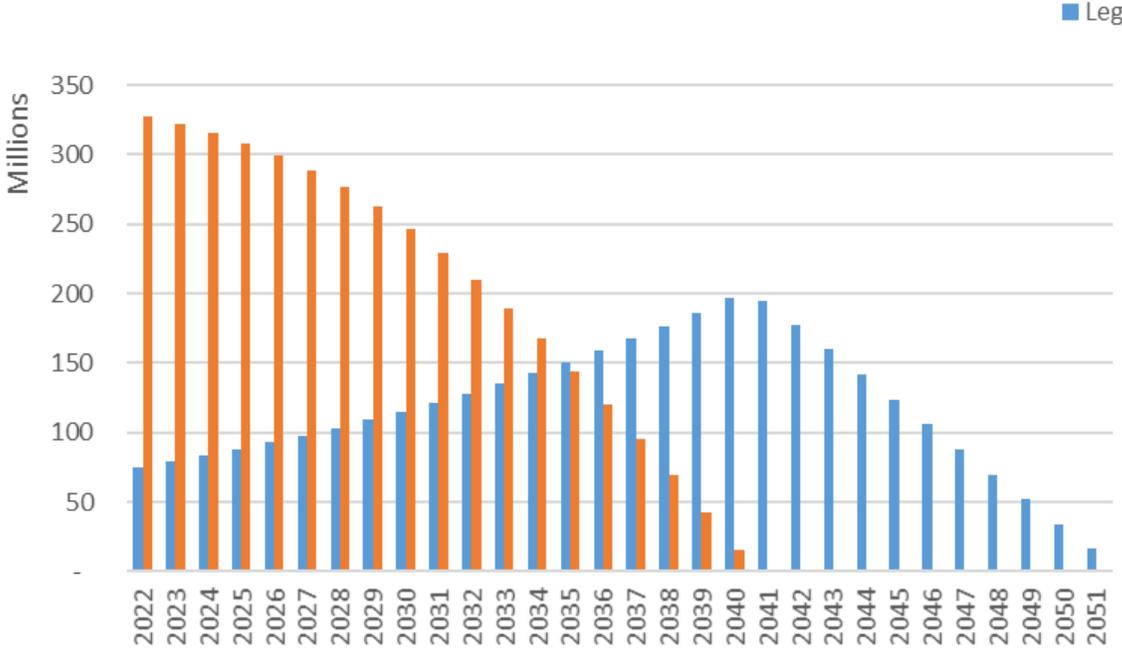
Pension Benefit Guaranty Corporation Final Rule:

- Provides the ability to invest up to 33% in risk-seeking assets (RSA)
- 67% of SFA invested in investment-grade fixed income and cash
- Defines investment grade fixed income for SFA
- Outlines the use of permissible vehicle types
- Provides guidance on use of derivatives
- Established the use of two separate interest rate assumptions for both SFA and non-SFA assets

Illustration: Using the Final Rule Methodology

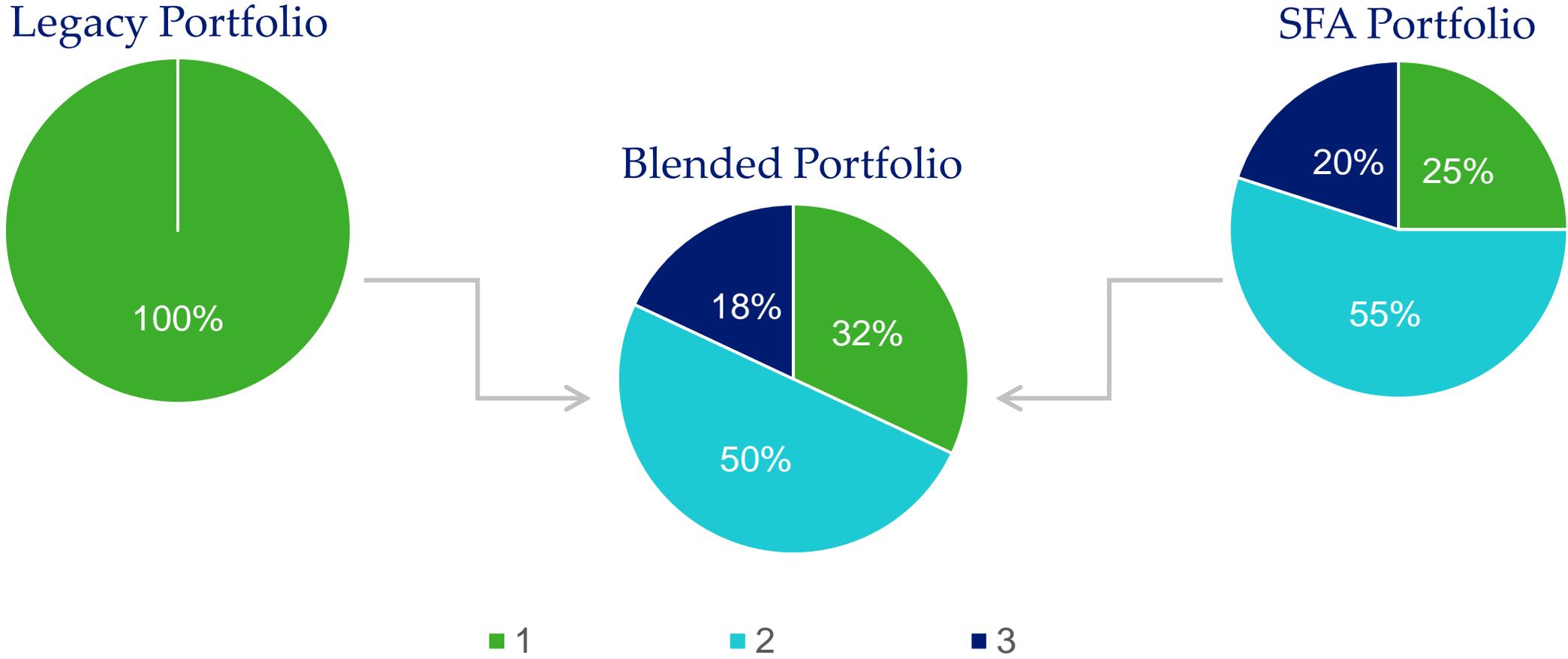
Objective: Achieve Solvency through 2051 with Less Risk

Objective: Extend Solvency Beyond 2051 through Return-Seeking Assets



Holistic Approach to Both Parts of the Plan

Interaction of the asset allocation/cash flows of each piece of the Plan is critical to success



Investment Strategy: Components for Success

Ongoing Monitoring

Ongoing planning, and reporting is key to long term success, including monitoring implementation and exploration of a glide path as the Plan matures.

Philosophy

Each multiemployer pension plan has its own characteristics – funding level, demographics, cash flow, liquidity, size of financial assistance, etc.

Asset Allocation and Implementation

To manage the overall portfolio (combined SFA and Legacy), the Fund’s risk and liquidity profile and determine the role of existing and/or new managers and cost.



Approach

Need to develop an investment solution that is customized, given current limitations on permissible assets for SFA, and holistic in its attention to assets and liabilities

Strategy

To structure a SFA portfolio that is focused on benefit driven investing and a Legacy portfolio that invests in return generating assets.

Objectives

To strike the proper balance between meeting the needs to pay benefit obligations and building long-term financial security.

Questions?



Thank You



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