American Rescue Plan Act

Overview and Impact on Multiemployer Plans

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American Rescue Plan Act (ARPA)

Multiemployer Pension Provisions

Temporary Funding Relief

- Section 9701. Temporary delay of zone status
- Section 9702. Extension of recovery periods
- Section 9703. Extended loss recognition

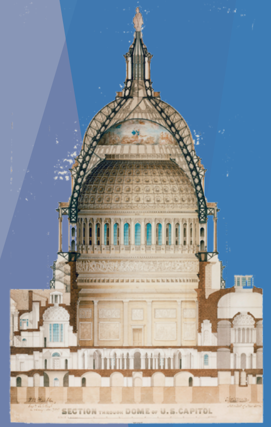
Relief for Deeply Troubled Plans

- Section 9704. Special Financial Assistance Program
- Also includes PBGC premium increase

Recent Multiemployer Legislation

Date	Event	Action
Dec 2014	**Multiemployer Pension Reform Act (MPRA)**	Passed
Jun 2015	Keeping our Pension Promises Act [expanded partition]	*Proposed*
Oct 2015	Pension Accountability Act [MPRA reforms]	*Proposed*
Jun 2016	Treasury denies MPRA application by Central States Pension Fund	Agency Action
Nov 2017	Butch Lewis Act [federal loan program]	*Proposed*
Dec 2018	Joint Select Committee [partition, other reforms]	*Proposed*
Nov 2019	Grassley-Alexander proposal [partitions, reforms, composite plans]	*Proposed*
May 2020	Heroes Act [partitions, COVID relief, composite plans]	*Proposed*
Dec 2020	Grassley-Alexander update [partitions, reforms, composite plans]	*Proposed*
Mar 2021	**American Rescue Plan Act** [PBGC financial assistance, COVID relief]	Passed

Legislative Intent

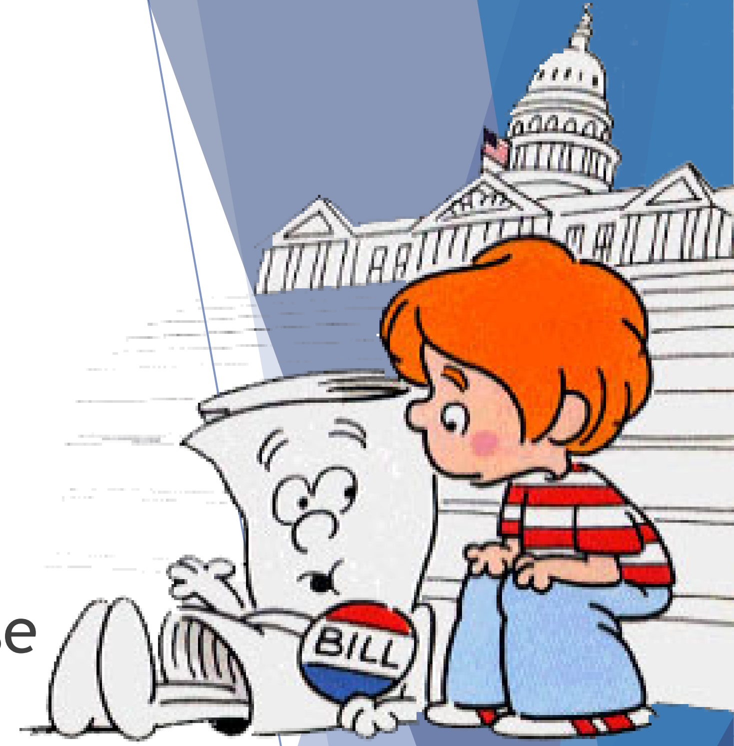


- Statement by Leader Schumer:

> "I will be watching how the administration implements this new program very closely to ensure plans receiving financial assistance under the new program are not placed in a worse long- term funding position than they are today or are projected to be into the future. This new program is intended to be a long-term solution for these ailing plans, a solution that protects retiree benefits as well as the health of the plans themselves."

Cong Rec (Daily Ed. March 5, 2021) S1270.

Legislative Intent (Cont.)



- Committee Report

> The Committee believes that implementing a special financial assistance program for the most financially troubled multiemployer plans and increasing PBGC premiums for multiemployer plans will (1) permit these plans to restore their solvency; (2) protect pension benefits of the participants and beneficiaries in these plans; and (3) lessen the financial impact of these plans upon the PBGC's multiemployer plan program.

American Rescue Plan Act of 2021, Report of the Committee on the Budget, House of Representatives, Report 117-7 (Feb. 24, 2021), p. 850.

Special Financial Assistance (SFA)

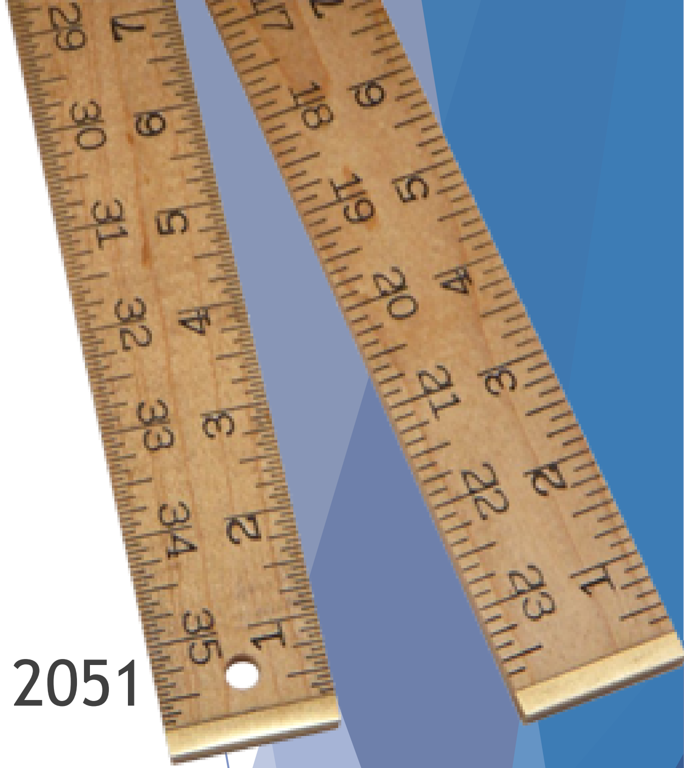
Overview and Commentary

- PBGC provides lump sum special financial assistance to eligible plans (not a loan, not a partition)
- Paid for out of the general treasury, not out of premiums or the existing guarantee funds
- Better than we could have expected in 2020
- Not a permanent solution to the solvency crisis

Interim Final Rule (IFR)

- PBGC interim final rule (IFR) published July 9, 2021
- PBGC estimates total program cost to be $97 billion
- PBGC now projected to become insolvent in mid 2050s

Interim Final Rule (IFR) Notable Issues



- SFA calculated to enable solvency through 2051 only
- Due to “interest rate disconnect,” many plans will be projected to become insolvent several years sooner than 2051
- Many eligible plans will receive zero SFA
- Plans that have suspended benefits under MPRA face a dilemma, potential fiduciary challenge

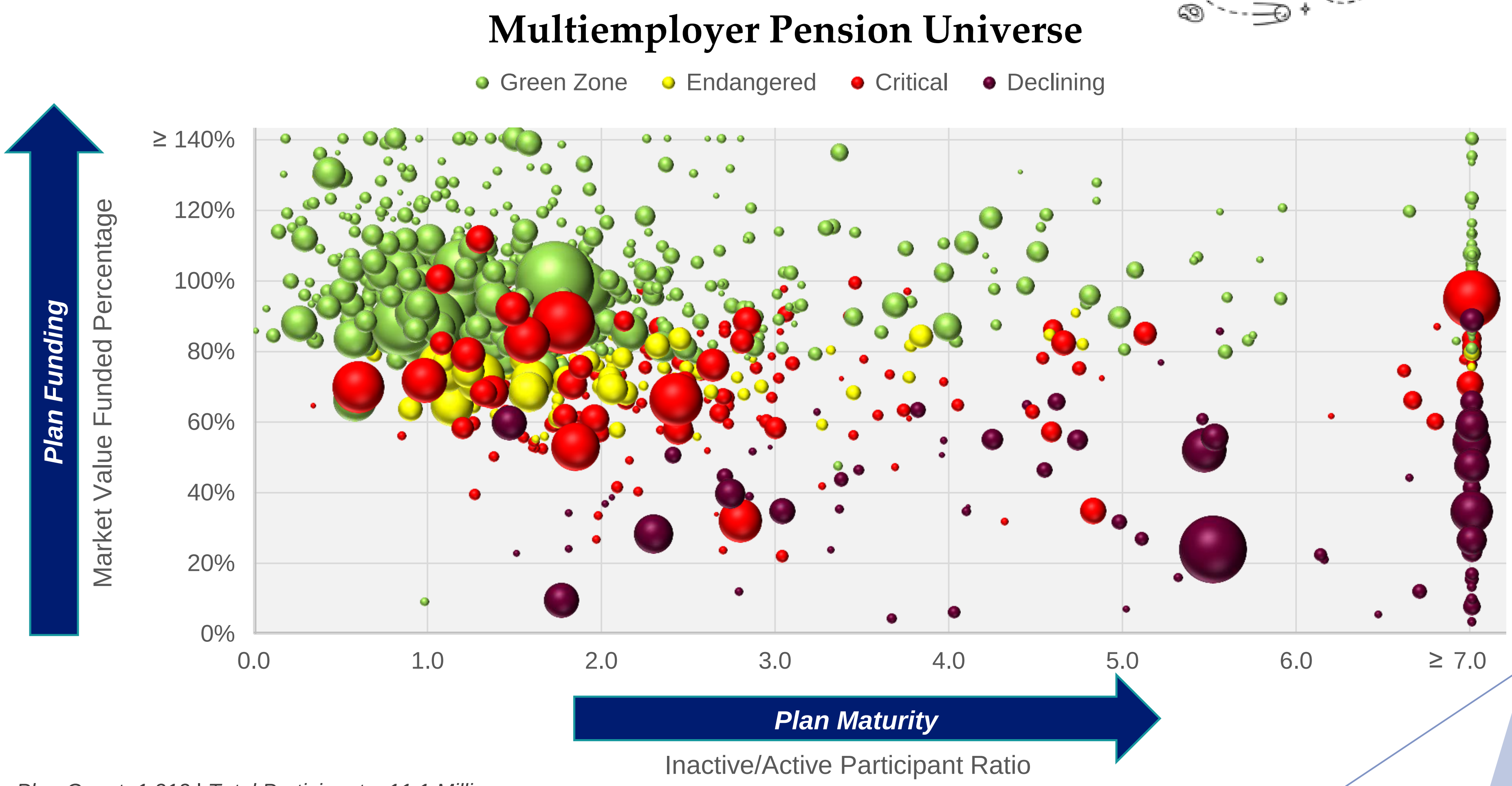
Eligibility

Criteria		Est. # Plans
1. Critical and declining	In critical and declining status in any plan year beginning in 2020, 2021, or 2022	~ 110
2. Suspension approved	Suspension of benefits under MPRA approved as of APRA enactment (March 11, 2021)	18
3. Critical status and other criteria	In critical status in any plan year beginning in 2020, 2021, 2022, *and* - Current liability funded percentage < 40%; - Ratio of active to inactive participants < 2 to 3	100+
4. Insolvent after MPRA	Plan that became insolvent after passage of MPRA (December 16, 2014), has not terminated	~ 20

Notes

- PBGC estimates more than 200 plans will be *eligible* for SFA
- PBGC noted that some eligible plans will receive *zero* SFA

Multiemployer Universe



Plan Count: 1,212 | Total Participants: 11.1 Million

Source: Segal analysis of Form 5500 data for plan years ending in 2019. Zone status applies to plan years ending in 2020.
The size of each "bubble" is based on the total number of participants covered by the plan.

SFA-Eligible Plans

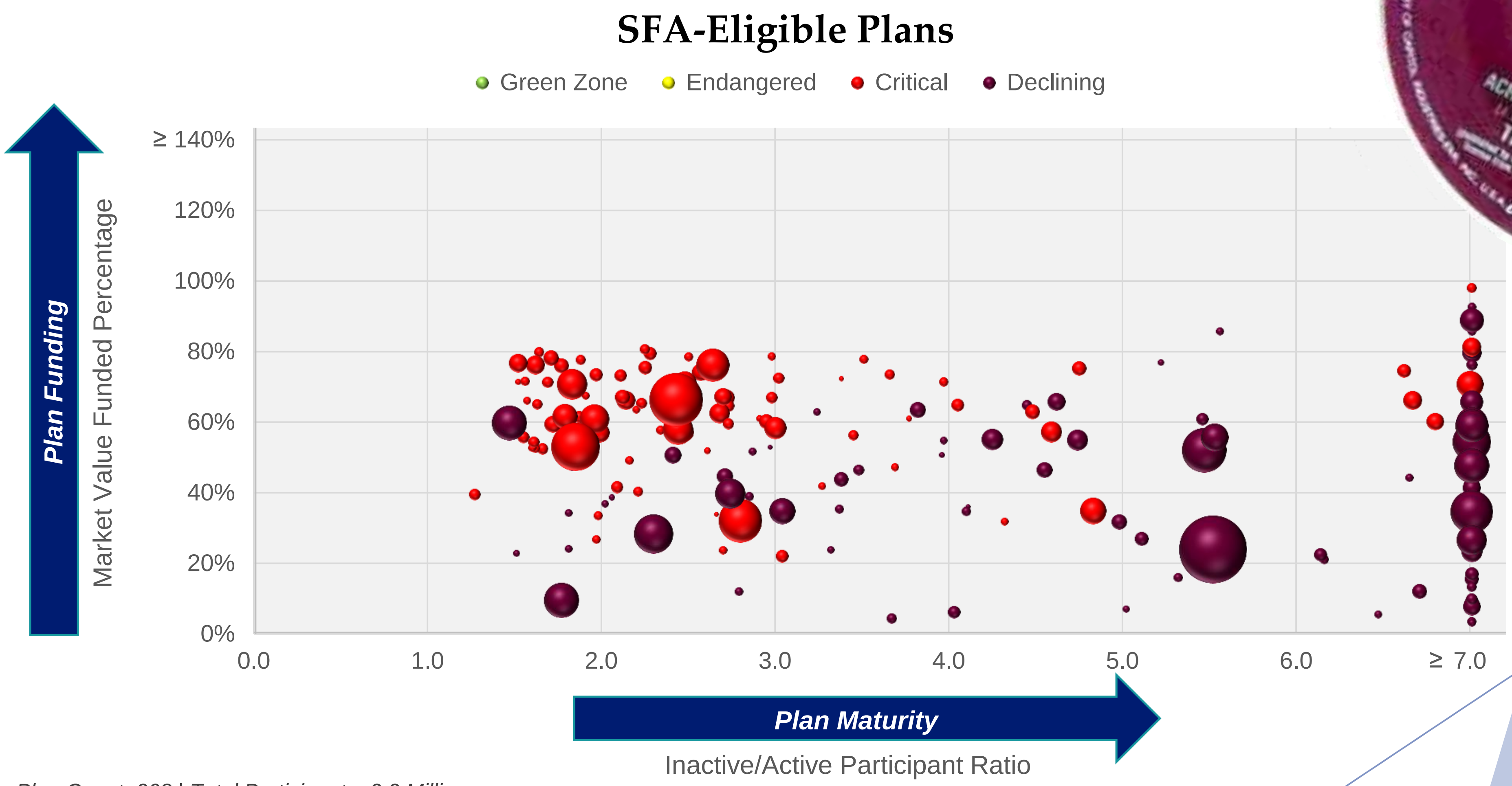


Exhibit does not include insolvent plans eligible for SFA.

Plan Count: 208 | Total Participants: 2.2 Million

Source: Segal analysis of Form 5500 data for plan years ending in 2019. Zone status applies to plan years ending in 2020. The size of each "bubble" is based on the total number of participants covered by the plan.

Application Priority

SFA Priority Group		Application Date	Est. # Plans
1	Already insolvent; or projected to be insolvent by March 11, 2022	Immediately	25
2	Implemented a MPRA suspension as of March 11, 2021; or expected to be insolvent within one year of their application	Jan 1, 2022	18
3	In critical and declining status with more than 350,000 participants	Apr 1, 2022	1
4	Projected to be insolvent by March 11, 2023	Jul 1, 2022	3
5	Projected to be insolvent by March 11, 2026	By Feb 11, 2023	22
6	Represents over $1 billion in liability to PBGC	By Feb 11, 2023	11
N/A	**No priority**	After Mar 11, 2023	**100+**

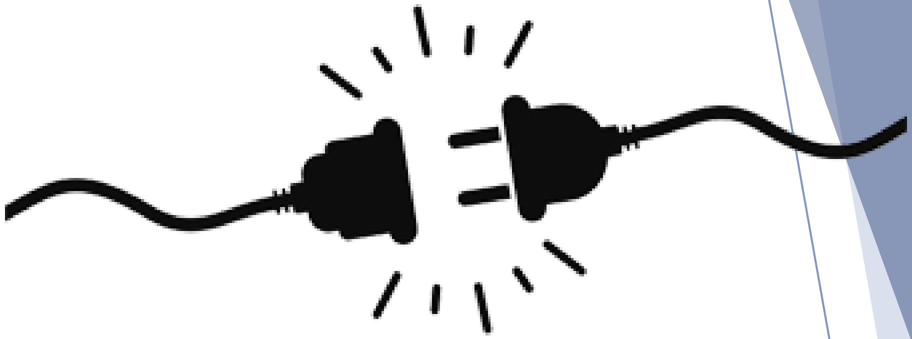
Amount of SFA

Per PBGC Interim Final Rule (IFR)

Amount of SFA	=	Present value of plan obligations through 2051	-	Present value of plan resources through 2051
		Benefit payments and administrative expenses		Market value of assets, contributions, withdrawal liability payments

- Simplified present value calculation
- Considers cash flows only through 2051
- Uses single interest rate assumption

Interest Rate Disconnect



SFA Interest Rate

- Plan’s interest rate from pre-2021 zone status certification
- Subject to a cap: third segment rate plus 200 basis points
- Most eligible plans will have an interest rate of about 5.5%

Restrictions on SFA assets

- SFA assets must be segregated from other plan assets
- Must be invested in investment grade bonds or other investments permitted by PBGC
- Investment grade bonds currently yielding 2% to 2.5%

NCCMP Response to PBGC IFR

Discussion of Comments

Comments (Paraphrased)

1. Many eligible plans in critical status will not receive any SFA
2. For vast majority of plans, SFA will only forestall insolvency, with many plans becoming insolvent well before 2051
3. Trustees of “MPRA plans” are in a fiduciary bind
4. PBGC’s present value approach ignores cash flow timing issues

NCCMP Response to PBGC IFR

Recommendations

A. Determining amount of SFA

- PBGC should interpret the law to provide enough SFA so plans will have assets that are projected to increase by the end of the 2051 period
- Would provide enough SFA to restore solvency without providing a windfall
- SFA should recognize “shared sacrifices” over these bargained benefits and provide SFA to enable plans to continue beyond 2051

NCCMP Response to PBGC IFR

Recommendations

B. Permissible investments and SFA discount rate

- Recognize disconnect between interest rate used to determine SFA and permitted investments on SFA assets
- Statute states that permissible investments for SFA assets may include “other investments as permitted by” PBGC
- PBGC should permit SFA assets to include investments that are US-denominated public debt or equity securities to achieve returns of at least interest rate limit

NCCMP Response to PBGC IFR

Other Concerns

C. PBGC metering of applications

- PBGC should consider time to prepare applications
- Plans should be able indicate their intent to file

D. Retroactive benefit increases

- Absolute prohibition is counterproductive

E. PBGC review of actuarial assumptions

- PBGC should adopt deferential approach in its reviews
- Unreasonably high level of scrutiny by Treasury in reviewing MPRA applications

SFA Methodology Scenarios

Overview and Assumptions

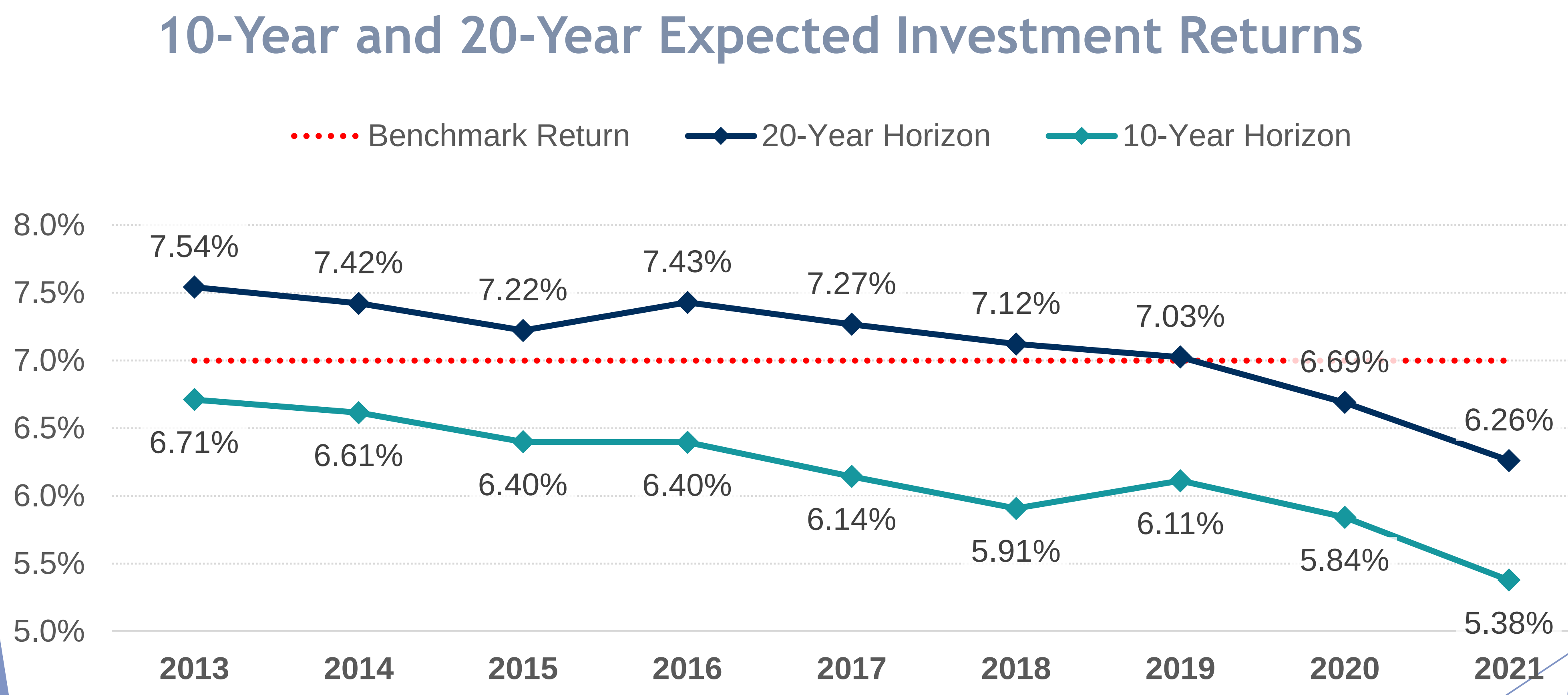
Overview

- Projections are for illustration, to show orders of magnitude
- Based on publicly-available information for an plan
- Results are scaled and adjusted to de-identify the plan

Assumptions (Simplified)

- Assume SFA determined based on 5.5% interest rate
- For illustration, actuarial liability interest rate is also 5.5%
- Assume returns on non-SFA plan assets are 5.5% or 6.5% per year
- Assume returns on SFA assets are 2.0% or 5.5% per year

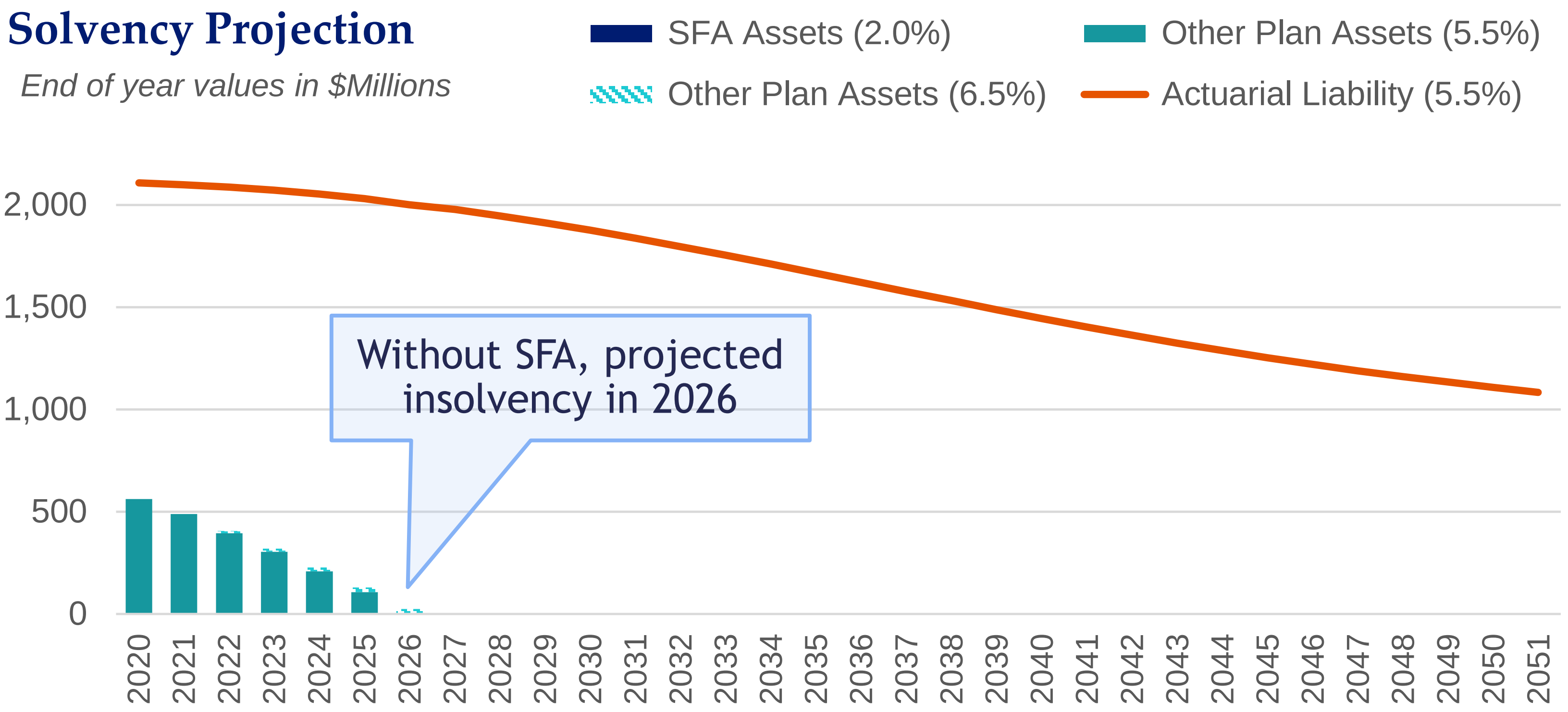
Return Expectations



Expected returns for a hypothetical pension plan allocation based on average assumptions from the annual Survey of Capital Market Assumptions by Horizon Actuarial Services, LLC

Baseline Scenario

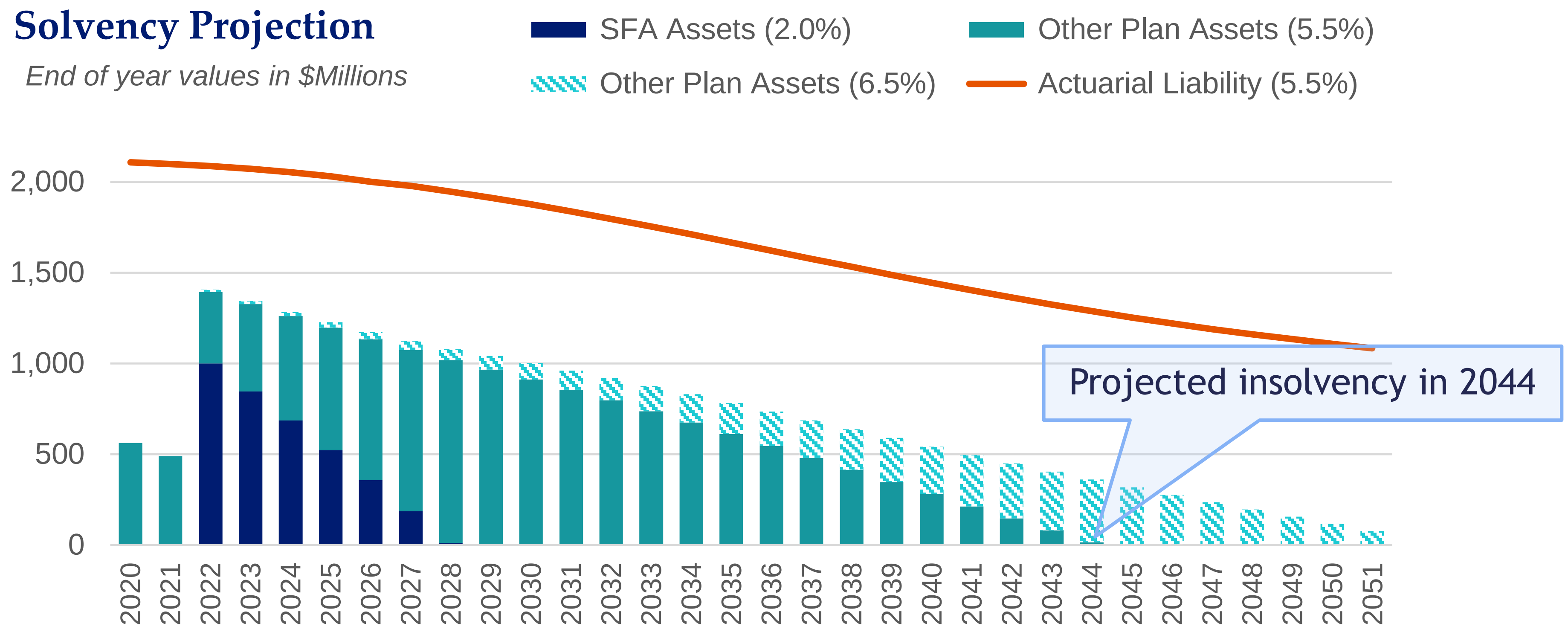
No SFA, projected insolvency in 2026



- Without SFA, plan assets are projected to be depleted in 2026

SFA Determined under IFR

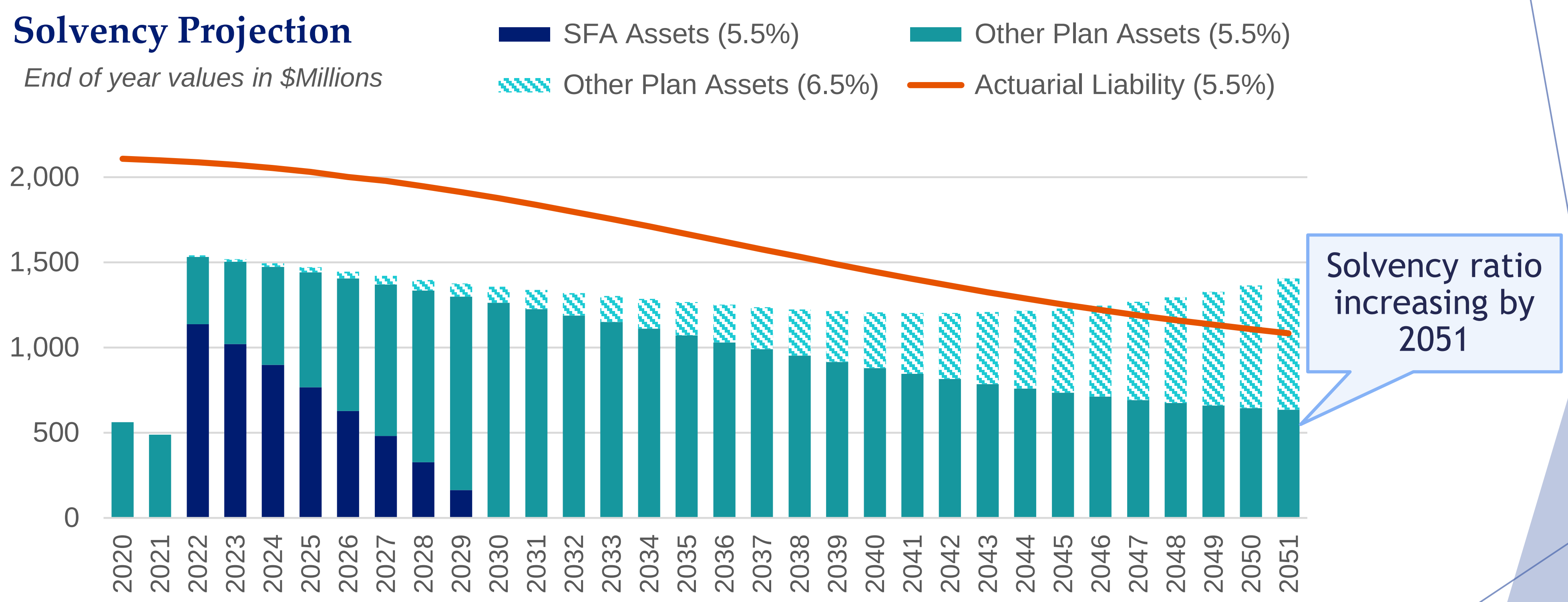
SFA = $1,000 | Assume SFA assets return 2.0% per year



- Because of the interest rate disconnect, the Plan is projected to become insolvent in 2044 instead of 2051

SFA Targets Improving Solvency

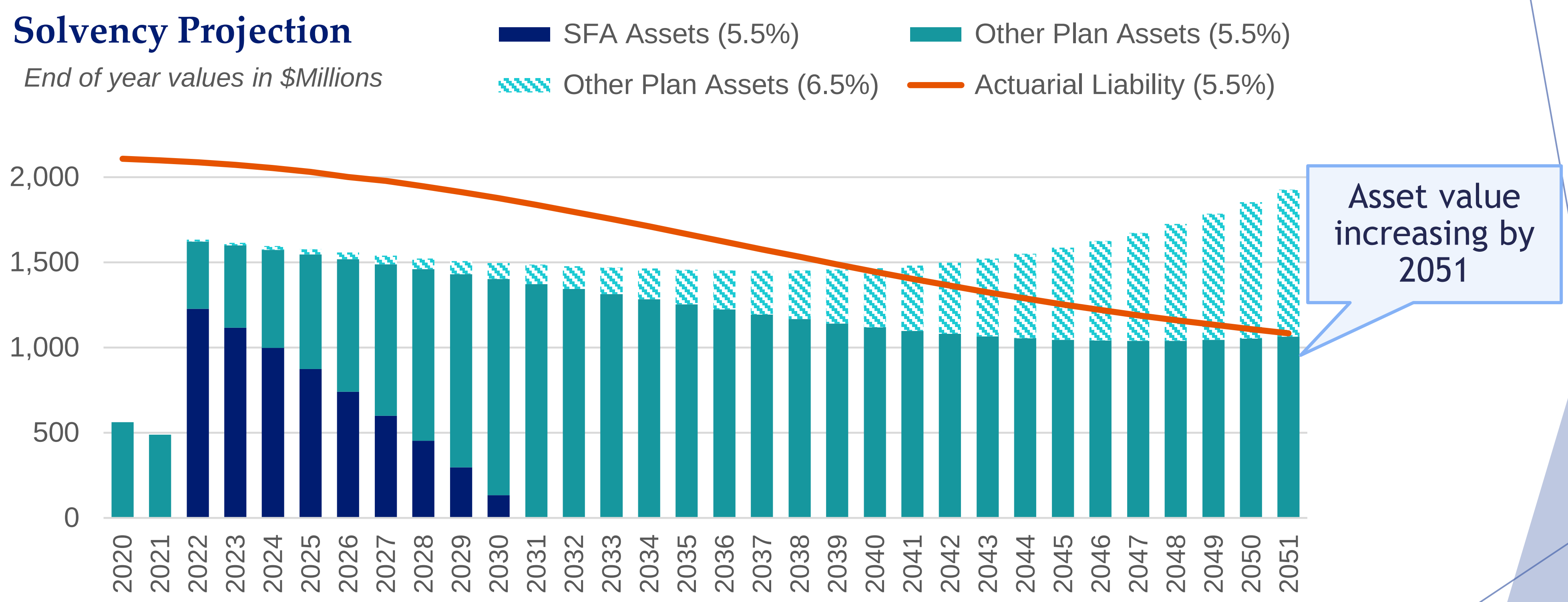
SFA = $1,140 | Assume SFA assets return 5.5% per year



- For this purpose, solvency ratio is plan resources divided by plan benefits in each plan year (same as in MPRA regulations)

SFA Targets Increasing Asset Value

SFA = $1,230 | Assume SFA assets return 5.5% per year



- SFA targets increasing asset value (not just solvency ratio)

SFA Calculation Methodology

Summary

SFA Scenario	SFA	% Change
1. SFA based on IFR methodology Insolvency projected in 2051; years sooner with restrictions on SFA assets	$1,000	N/A
2. SFA targets increasing solvency ratio Also, more flexibility with SFA assets	$1,140	+14%
3. SFA targets increasing asset value Also, more flexibility with SFA assets	$1,230	+23%

- Results will vary significantly based on the specific situation for each SFA-eligible plan

Questions?