

Special Financial Assistance Program Application Walkthrough

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All remarks are off-the-record and not for attribution.



- SFA Overview
- SFA Application Instructions
- Assumptions Guidance
- SFA Application Templates
- Lessons Learned (So Far)



SFA Overview



PBGC

Eligibility for Special Financial Assistance

Eligibility Criteria

- Critical and declining status in any plan year beginning in 2020 through 2022.
- A suspension of benefits that has been approved under the Multiemployer Pension Reform Act of 2014 (MPRA) as of 3/11/2021.
- Critical status with a low funding ratio (<40%) and a mature population (active-to-inactive ratio <67%) in any plan year beginning in 2020 through 2022 (doesn't have to be the same year for each requirement).
- Became insolvent after 12/16/2014 and has remained insolvent and has not terminated as of 3/11/2021.

Amount of Special Financial Assistance

- SFA is the amount required to pay all benefits due through 2051.
 - Assumptions mandated, but plans may change assumptions, other than interest rate, if original assumption is unreasonable.
 - SFA payment is the amount by which the value of all plan obligations exceeds the value of all plan resources, as of the plan's SFA measurement date, and limited to the period through the plan year ending in 2051:
 - Includes amounts to make up payments for participants with previous suspensions for MPRA plans and eligible insolvent plans.
 - Includes repayment to PBGC of loans for regular financial assistance for insolvent plans – but repayment amount is separately determined by PBGC; not part of the plan's application.
- Paid as a single lump sum with no requirement for repayment.

Illustrative SFA Calculation

A. Plan Data & Assumptions

(1)	Plan Year	January 1 – December 31
(2)	SFA Measurement Date	9/30/2021
(3)	Plan Assets at 9/30/2021	\$2,250,000
(4)	SFA Interest Rate	5.00%

SFA measurement date is the last day of the calendar quarter immediately preceding the date the plan's application was filed

B. SFA-Eligible Plan Obligations

(1)	PV Benefit Payments	\$227,289,761
(2)	PV Admin Expenses	\$9,211,310
(3)	PV of Make-Up Payments for Suspended Benefits as of SFA Measurement Date (if applicable)	\$11,278,517
(4)	Total Plan Obligations	\$247,779,588

Present Values and projected resources and obligations are shown in “4-3 SFA Details” of Template 4

C. SFA-Eligible Plan Resources

(1)	PV Contributions	\$122,008,853
(2)	PV Withdrawal Liability Payments	\$656,680
(3)	PV Other Income	\$0
(4)	Plan Assets	\$2,250,000
(5)	Total of Plan Resources	\$124,915,533

D.	Special Financial Assistance (B.4 – C.5)	\$122,864,055
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“Must Have” Documents/Tools

Section 4262 of
ERISA and
Interim Final
Rule

Assumptions
Guidance

Application
Instructions
and Checklist

Application
Templates



SFA Application Instructions



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Instructions – Five sections

- **Addendum A** – Events described in IFR 4262.4(f)(2)-4262.4(f)(4) that occur between July 9, 2021 and the SFA measurement date
 - Mergers and Transfers of assets or liabilities (including spinoff)
 - Amendments to increase accruals
 - Reduction in contribution rate
- **Addendum B** – Instructions for notice of reinstatement
 - For benefits suspended under MPRA
 - For benefits suspended due to insolvency

Section A – Plan identifying information

- Basic information (Plan name, EIN/PN, filer name and role)
- SFA requested amount

Section B – Plan documents

- Plan documentation, actuarial valuation reports (AVRs), Form 5500, zone certifications, rehabilitation plan, asset and financial statements, withdrawal liability policy/procedures, payment enrollment form

Section C – Plan data

- Templates 1 through 8
- Census data if plan has 350,000 or more participants

Section D – Plan statements

- Identification of eligibility criteria satisfied, priority group (if applicable)
- Detailed supporting rationale for all assumption changes (examples of supporting rationale are provided in the instructions on page 13, Section D, item 6)
- Detailed narrative description of projected future employer contributions and withdrawal liability payments (supports Template 8)
- Narrative description of how the plan will reinstate benefits that were previously suspended due to MPRA or insolvency
- Reconciliation of fair market value of assets (FMVA) to SFA measurement date (if applicable)

Section E – Checklist and certifications

- **SFA Checklist (item 1)**
- **Certifications from plan's enrolled actuary:**
 - SFA amount (item 4)
 - Eligibility (item 2)
 - Priority group (if applicable) (item 3)
- **Plan sponsor certification**
 - Accuracy of assets used, including substantiating information (item 5)
 - Penalties of perjury statement (item 7)
 - Plan Amendment to reinstate benefits (if applicable) will be timely adopted (item 6)



Assumptions Guidance



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Pre-2021 zone certification – This is the most recent certification of plan status (“zone certification”) completed before January 1, 2021

- Identifies assumptions used to determine plan’s zone status
 - Many zone certifications reference assumptions in the most recently published Actuarial Valuation Report (AVR) and identifies any assumptions that are different
 - Example for calendar year plan: Zone certification for 2020 plan year is completed on 3/25/2020. This is the pre-2021 zone certification and it references the 2019 AVR assumptions and separately identifies any assumptions that are different from the 2019 AVR.
- Most zone certifications are for a period of 20 years or less

SFA Assumptions (except interest rate)

SFA Assumptions – Assumptions used to determine the SFA amount requested

- Mortality (healthy, disabled, improvement scale(s))
- Demographic assumptions (retirement, turnover, payment form, active population growth/decline, new entrant profile, percent married/age difference, etc.)
- Contribution base units
- Contribution rate(s)
- Withdrawal liability payments assumed (may reflect assumption to reflect amounts expected to be uncollectible)
- Administrative expenses
- Other as applicable

**Is there a change
in assumption?**

Section 4262.5(c):
Identification &
Supporting Rationale

Assumptions Guidance:
Acceptable
Generally Acceptable
Generally Not Acceptable

Generally, all plans will have an assumption change

- Zone certification assumptions are generally not utilized for 30 years
- Extensions of a pre-2021 zone certification assumption is an assumption change (for example: CBUs, contribution rates, administrative expenses and withdrawal liability payments)

Section 4262.5(c) – Identification and Supporting Rationale

- Describe why the original assumption is no longer reasonable;
- Propose to use a different assumption (the changed assumption); and
- Demonstrate the changed assumption is reasonable (see Section D(6) of instructions for examples of supporting rationale).

Guidance

Provides acceptable extensions of assumptions beyond date of insolvency or 20 years, as applicable

- Provides examples
- Allows for minimal supporting rationale for specified acceptable assumption changes
- Is optional to use – Plans do not have to use the guidance to select assumptions

Guidance – Five Sections:

- Background
- Acceptable assumption changes
- Generally acceptable assumption changes
- Generally not acceptable assumption changes
- Additional information

Section III of Assumptions Guidance

Assumptions Covered in Section III

- CBU assumption
- Administrative expenses assumption
- Mortality assumption
- Contribution rate assumption
- New entrant profile

Limited Demonstration - With respect to the § 4262.5(c)(1)(iii) requirement to demonstrate that the changed assumption is reasonable, it is sufficient to include a statement to that effect instead of a detailed demonstration.

CBU Assumption

- PBGC will accept a change in CBU assumption to reflect the post-certification projection years if the number of assumed CBUs for such years is the same or no less than the number assumed for the last full plan year for which a CBU assumption was utilized (“**Extension**”) in the pre-2021 zone certification.
- Example – If the pre-2021 zone certification projected a 2% decrease over the 8 years before insolvency resulting in 1,000 CBUs in year 8, projecting insolvency in 2029 plan year, and plan applies for SFA in 2022, PBGC will accept an assumption of the following:
 - For plan years from 2022 through 2028: the CBU equals the same amount of CBUs in the pre-2021 zone certification
 - For 2029 plan year: 1,000 CBUs
 - For 2030 + : 1,000 CBUs

Administrative Expenses Assumption –

- PBGC will accept a change in administrative expenses assumption for post-certification projection years if the rate of increase for administrative expenses for such years is the same or no more than the increase assumed for the last full plan year in the projection period for which an administrative expense assumption was utilized in the pre-2021 zone certification
- Further adjusted to reflect PBGC premium increase effective in 2031
 - Premiums for 2021 are \$31 per participant (indexed thereafter)
 - Premiums increase to \$52 per participant for 2031 (indexed thereafter)

Administrative Expense Assumption (continued) –

- Assumption also reflects a cap (percentage) determined as a function of benefit payments
- Cap is applied after assumption is developed
- “Extension” – Final assumption is what PBGC considers an “extension” of the expense assumption

Annual Benefit Payments for the Last Plan Year Ending On or Before the SFA Measurement Date	Cap on Projected Administrative Expenses as a Percentage of Projected Annual Benefit Payments
\$100 million or more	6%
\$50 million but less than \$100 million	9%
\$5 million but less than \$50 million	12%
Less than \$5 million	15%

Administrative Expenses Assumption Example

- Plan projected to become insolvent in 2026 plan year
- For plan years prior to insolvency, administrative expenses are estimated as equal to the prior year's amount and assumed to increase by 2% per year through 2024, to increase by 1.5% per year in 2025 and 2026
- No assumption utilized for administrative expenses after 2026
- Benefit payments in the last plan year ending on or before the SFA measurement date are \$75 million

Administrative Expenses Assumption Example (continued)

Step 1 - Calculate the assumed administrative expenses for each year without application of the cap:

- For years before 2026, use the same manner as the pre-2021 zone certification
 - For example, if a plan applies for SFA in 2022, the 2022 assumed administrative expense is calculated as the actual 2021 amount increased by 2%. For 2023 through 2024, the assumed administrative expenses are 2% higher than the prior years assumed administrative expenses. The 2025 amount is 1.5% higher than the 2024 amount.
- For 2026-2030, 1.5% higher than the prior year
- For 2031, 1.5% higher than 2030 plus premium increase

Administrative Expenses Assumption Example (continued)

Step 2 – Apply the cap for post-certification projection years

- Annual benefit payments in the last plan year ending on or before the SFA measurement date is \$75 million
- Using table, cap is 9%
- For years 2026 and later, administrative expenses amount is limited to 9% of the projected benefit payments for such year

Mortality – Acceptable Base Table and Improvement Scale

- PBGC will accept a change to the plan's mortality assumption if the plan adopts the Pri-2012 amount-weighted Blue Collar table (Pri-2012(BC)) with a projection scale published by the Retirement Plans Experience Committee (RPEC) of the Society of Actuaries in the two years preceding the SFA measurement date.

Section IV of Assumptions Guidance

Examples of Assumptions Covered in Section IV

- CBU assumption
 - Assumption for first 10 years, based on historical geometric average rate of change
 - Assumption for years more than 10 years in the future
 - Plan years including COVID period must be excluded (March 1, 2020 – December 31, 2021)
- Mortality assumption – Pri-2012(BC) & Partial credibility
- Change assumptions to reflect significant plan experience between census valuation date and SFA application date

Section V of Assumptions Guidance

Examples of Assumptions Covered in Section V

- CBU assumption
- Investment expense assumption
- Change assumptions to reflect short term plan experience between valuation date and SFA application date



SFA Application Templates



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Summary of Templates

Templates	Description	Required?
SFA Checklist	List of items necessary for application, includes file naming convention	Yes
1	Form 5500 projected benefit payments for plan years 2018+ (if applicable)	Depends on participant count
2	Top 15 contributing employers and amounts (if applicable)	Depends on participant count
3	Historical contributions for past 10 plan years	Yes
4	SFA calculations – Use all proposed assumption changes	Yes
5	Baseline calculation – Same as Template 4 but uses specified assumptions	Depends on assumption changes
6	Reconciliation details between assumptions used in baseline and SFA calculations	Depends on assumption changes
7	Identification of projected assumption changes that differ from the most recent certification of plan status prepared before 1/1/2021 (“pre-2021 zone certification”)	Depends on assumption changes
8	Projected employer contribution and withdrawal liability payments used in calculation of requested SFA amount (Template 4)	Yes



Four worksheets in Template

- **Template 4 Instructions**
- **4-1 SFA Interest Rate**
 - Details of determination of interest rate used in SFA projection
- **4-2 SFA Benefit Payments**
 - Projected benefit payments broken out by participant status
- **4-3 SFA Details**
 - Deterministic cash flow projections
 - PV of plan obligations and eligible plan resources

Template 4 - SFA Interest Rate

SFA interest rate used to determine amount of SFA is the lesser of:

- Interest rate used for funding standard account purposes as projected in the pre-2021 zone certification
- 24-month average third segment rate (non-stabilized) for month application is filed or one of the three preceding months plus 200 basis points. Month used is selected by the plan.

EXAMPLE: Plan applies for SFA on 8/31/2021. May select rate from below (plus 200 bps):

Funding Table 3							
For Plan Years Beginning In	Applicable Month	24-Month Average Segment Rates Not Adjusted			Adjusted 24-Month Average Segment Rates, Based on HATFA/BBA Applicable Percentage of 25-Year Average Rates		
		First Segment	Second Segment	Third Segment	First Segment	Second Segment	Third Segment
2021	Aug-21	1.13	2.70	3.38	3.32	4.79	5.47
2021	Jul-21	1.20	2.73	3.42	3.32	4.79	5.47
2021	Jun-21	1.27	2.77	3.45	3.32	4.79	5.47
2021	May-21	1.36	2.80	3.49	3.32	4.79	5.47

Template 4 - SFA Interest Rate

Template 4, Sheet 4-1 SFA Interest Rate: Plan provides information showing how SFA Interest Rate was determined

SFA Interest Rate Used	5.38%	Input amount used in determination of SFA.
Development of interest rate limit:		
Plan Interest Rate:	6.50%	Interest rate used for the funding standard account projections in the plan's most recently completed certification of plan status before 1/1/2021.
Month used for interest rate (<i>month in which application is filed or the 3 preceding months</i>):	Aug-21	Month is selected by the plan sponsor.
ERISA Section 303(h)(2)(C)(iii) rate disregarding modifications made under clause (iv) of such section:	3.38%	24-month average third segment rate for selected month without regard to interest rate stabilization rules. These rates are issued by IRS each month. For example, the applicable third segment rate for August 2021 is 3.38%. That rate was issued in IRS Notice 2021-50 on August 16, 2021 (see page 2 of notice under the heading "24-Month Average Segment Rates Without 25-Year Average Adjustment"). It is also available on IRS' Funding Yield Curve Segment Rate Tables web page (See Funding Table 3 under the heading "24-Month Average Segment Rates Not Adjusted").
Interest Rate Limit (<i>3rd Segment rate plus 200 basis points</i>):	5.38%	This amount is calculated based on the other information entered.

Template 4 – Sample SFA Details

4-3 SFA Details for Sample Plan

			PRESENT VALUE as of the SFA Measurement Date of Projected Amounts for:							
		(1)	(2)	PV of (3)	PV of (4)	PV of (6)	PV of (7)	PV of (8)		
		Fair Market Value as of the SFA Measurement Date	SFA Amount as of the SFA Measurement Date	Contributions	Withdrawal Liability Payments	Benefit Payments (should match total from Sheet 4-2)	Benefit Payments Attributable to Reinstatement of Benefits Suspended through the SFA Measurement Date	Administrative Expenses (excluding amount owed PBGC under 4261 of ERISA)		
		\$2,250,000	\$122,864,055	\$122,008,853	\$656,680	(\$227,289,761)	(\$11,278,517)	(\$9,211,310)		
		Show payments INTO the plan as positive, and payments OUT of the plan as negative, so that the sum of (1) through (9) equals (10).								
		(1)	(2)	(3)	(4)	(6)	(7)	(8)	(9)	(10)
Plan Year Start Date	Plan Year End Date	Fair Market Value of Assets at Beginning of Plan Year	SFA Amount as of the SFA Measurement Date	Contributions	Withdrawal Liability Payments	Benefit Payments (should match total from Sheet 4-2)	Benefit Payments Attributable to Reinstatement of Benefits Suspended through the SFA Measurement Date	Administrative Expenses (excluding amount owed PBGC under 4261 of ERISA)	Investment Income Based on SFA Interest Rate	Fair Market Value of Assets at End of Plan Year
07/01/2021	12/31/2021	\$2,250,000	\$122,864,055	\$4,077,000	\$53,000	(\$6,285,544)	(\$11,278,517)	(\$243,000)	\$3,078,190	\$114,515,184
01/01/2022	12/31/2022	\$114,515,184		\$8,154,000	\$80,000	(\$12,927,207)		(\$495,720)	\$6,202,345	\$115,528,602
01/01/2023	12/31/2023	\$115,528,602		\$8,154,000	\$80,000	(\$13,260,789)		(\$505,634)	\$6,249,102	\$116,245,281
01/01/2024	12/31/2024	\$116,245,281		\$8,154,000	\$64,000	(\$13,599,065)		(\$515,747)	\$6,278,849	\$116,627,318
01/01/2025	12/31/2025	\$116,627,318		\$8,154,000	\$52,000	(\$13,958,447)		(\$526,062)	\$6,289,583	\$116,638,392
01/01/2026	12/31/2026	\$116,638,392		\$8,154,000	\$52,000	(\$14,303,790)		(\$536,583)	\$6,280,472	\$116,284,490

For this example, there are no entries for column 5, "Other Payments to the Plan".

Identification and supporting rationale for changed assumptions

- Identify assumption changes
- Quantify assumption changes, as applicable
- Summarize rationale for changes, as applicable



Templates 5 and 6



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Same information and structure as Template 4

- Instructions, projected benefit payments, PV of projection of plan obligations and resources
- Use “Baseline” assumptions

Baseline Assumptions

- Pre-2021 zone certification assumptions except:
 - If plan proposed changed assumptions that are acceptable (see Section III of Assumptions Guidance), use the proposed acceptable assumptions
 - If plan’s proposed CBU assumption or administrative expenses assumption is not an “acceptable” extension, then use the acceptable extension in Template 5

Template 5 not required if SFA amount is determined using Baseline assumptions

Template 5 Sample Plan Baseline

Assumption	Pre – 2021 Zone Certification	SFA Determination (Template 4)	Baseline (Template 5)
Healthy Mortality	RP-2014, projection scale AA	Pri-2012 Blue Collar with recent projection scale	Pri-2012 Blue Collar with recent projection scale
CBU	3% decline per year	Used Generally Acceptable change in Section IV of Assumptions Guidance	Used Acceptable change in Section III of Assumptions Guidance (i.e., “3.0% decline then level CBU”)
Administrative Expense	1% per year assumed increase	2% increase per year	See Acceptable change in Section III of Assumptions Guidance (i.e., “1% per year increase with cap”)
Retirement Rates	2019 AVR Rates	Changed rates	2019 AVR Rates
All Other	2019 AVR	Same as 2019 AVR	Same as 2019 AVR

Instructions

6-1 Reconciliation

- Summary of changes in assumptions from baseline (Template 5) to SFA calculation (Template 4)
- Total SFA amount and change in amount with each incremental change in assumption

6-2 Reconciliation Details

- For each incremental change in assumption provide cash flow projections and PV of obligations and resources
- Same structure as Templates 4 and 5

Template 6 not required if SFA amount is determined using baseline assumptions

Template 6 Sample Plan Reconciliation

Item Number	Basis for Assumptions/Method Change	Change in SFA Amount	SFA Amount Shown in Reconciliation Sheets	Comments
1	Baseline	N/A	\$116,379,001	Same as Template 5
2	CBU Assumption Change	\$3,500,000	\$119,879,001	See “6-2 Reconciliation Details”
3	Retirement Rates Assumption Change	\$1,005,054	\$120,884,055	See “6-3 Reconciliation Details”
4	Increase in administrative expense assumption from 1% to 2%	\$1,980,000	\$122,864,055	Same as Template 4 (“6-4 Reconciliation Details” not required)



Template 7



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Template 7a – Assumption details on eligibility

- **List assumptions that differ from those used in the pre-2021 zone certification:**
 - Must include brief explanation as to why the original assumption is no longer reasonable
 - Must include brief explanation why the changed assumptions are reasonable
 - Full documentation of the rationale for the changes is provided in Section D, Item 6(a) of the instructions
- **Table 7a is not required if:**
 - Plan is eligible based on pre-2021 zone certification
 - Plan had an approved MPRA suspension on or before 3/11/2021
 - Plan is insolvent on or after 12/16/2014 and not terminated
 - Plan is eligible based on certification of plan status completed after 12/31/2020 but reflects the same assumptions as the pre-2021 zone certification

Template 7b – Assumption details on SFA amount

List assumptions utilized in the SFA determination that differ from those used in the pre-2021 zone certification (except the interest rate)

- Must include brief explanation as to why the original assumption is no longer reasonable
- Must include brief explanation why the changed assumptions are reasonable
- Identify if the changed assumption for CBU and administrative expenses is an 'extension' as described in paragraph A of Section III of the Assumptions Guidance
- Full documentation of the rationale for the changes is provided in Section D, Item 6(b) of the instructions



Lessons Learned (So Far)



PBGC

- Priority Group 1 Plans and pre-2021 zone certifications
- Identifying all assumption changes in template 7 (SFA vs. pre-2021 zone certification)
 - Mortality improvement scale
 - “No assumption”
- Documentation (section D of instructions) – Must document that original assumption is unreasonable if assumption is changing.
- Templates 3 and 8 – If there are values in the “other” categories, identify what those values represent.
- Changed demographic assumptions – Provide the supporting experience details and other information, and the rationale for the selected assumption.

- Information can be found on our website: <https://www.pbgc.gov/arp-sfa>
 - Includes information on priority groups, instructions for filing, our 2 informational webinars, FAQs, and status of applications received
 - You can also register to receive email updates at the site.
- Specific questions about the SFA process or about the applications should be submitted via email to multiemployerprogram@pbgc.gov.