

Special Financial Assistance Final Rule

NCCMP Annual Conference

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September 17, 2022

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



- I. SFA Overview and Current Status of Application Inventory
- II. Special Financial Assistance Final Rule
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SFA Overview and Current Status of Application Inventory

PBGC

Special Financial Assistance Program Timeline

Enactment of
American
Rescue Plan
3/11/2021

Issuance of
Interim Final
Rule
7/9/2021

First SFA
Application
Received
8/13/2021

First SFA
Payment
1/14/2022

Announcement
of Final Rule
7/6/2022

(Final Rule
effective
8/8/2022)



Pension Benefit
Guaranty Corporation

Current Status of Application Inventory

As of September 16, 2022

| | Applications Approved | Applications in Review | |
|--|-----------------------|------------------------|---------------------------|
| | | Full Applications | Supplemented Applications |
| Number of Plans | 30 | 9 | 19* |
| Aggregate \$ SFA (approved or requested) | \$7.5 billion | \$36.3 billion | \$918.6 million |
| Aggregate Participant Count | 152,479 | 407,379 | 122,214** |



Special Financial Assistance Final Rule

PBGC

What has not changed:

- Plan eligibility requirements – statutory criteria
- Basic definition of Special Financial Assistance – consider all plan resources and obligations
- Basic application and review processes
- Reporting and monitoring – post-SFA receipt

What Changed from the IFR

- Permissible investments for SFA assets
- Interest rates used to calculate SFA
- SFA amount for MPRA plans
- Certain conditions
- Certain application requirements

Expansion of Permissible Investments

IFR Provision

- SFA invested 100% in investment grade fixed income

What Changed

- Up to 33% of SFA assets may be invested in return-seeking assets (RSA)

Reason for Change

- Better allows plans to project to pay benefits through 2051
- Strikes a balance between investment risk and investment returns

Use of Two Interest Rates

IFR Provision

- Single interest rate for SFA and non-SFA assets

What Changed

- Use of two separate interest rates for SFA and non-SFA assets; reflects expansion of permissible investments

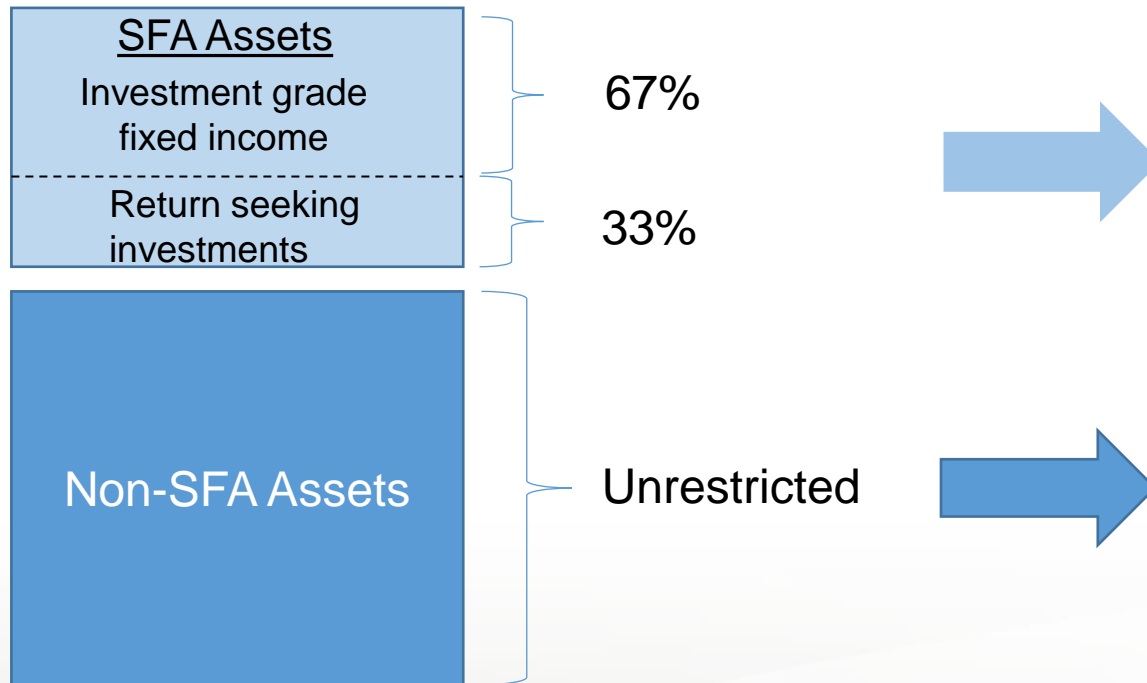
Reason for Change

- Addresses interest rate mismatch thus better enabling plans to project to pay benefits through 2051

SFA and Non-SFA Interest Rates – Illustration

Each SFA eligible plan has a unique ratio of SFA to non-SFA assets*

The two interest rates used to determine SFA reasonably represent future expected returns and reflect the permissible investment requirements for each asset group



Lesser of plan zone certification rate and...

2.99% as of May 2022
(Average of 3 segment rates + 67 basis points)

5.32% as of May 2022
(3rd segment rate + 200 basis points)

IRS Table at:

<https://www.irs.gov/retirement-plans/funding-yield-curve-segment-rates>

| For Plan Years Beginning In | 24-Month Average Segment Rates Not Adjusted | | | |
|-----------------------------|---|---------------|----------------|---------------|
| | Applicable Month | First Segment | Second Segment | Third Segment |
| 2021 | May-22 | 0.93 | 2.72 | 3.32 |
| 2021 | Apr-22 | 0.87 | 2.67 | 3.29 |
| 2021 | Mar-22 | 0.87 | 2.64 | 3.28 |
| 2021 | Feb-22 | 0.86 | 2.61 | 3.26 |
| 2021 | Jan-22 | 0.88 | 2.61 | 3.27 |
| 2021 | Dec-21 | 0.92 | 2.62 | 3.29 |

Rate is based on SFA measurement date

*For example, for insolvent plans, nearly all assets will be SFA assets, while other plans will receive very little SFA assets.

MPRA Plans – Methodology and SFA Calculation

IFR Provision

- No special SFA calculation for MPRA plans

What Changed

- SFA equals greatest of the non-MPRA SFA amount, present value of reinstated benefits, and amount needed to project increasing assets in 2051

Reason for Change

- Addresses possible dilemma between choosing to accept SFA or maintaining MPRA suspensions to keep plan on projected path of indefinite solvency

Changes to SFA Conditions

Benefit Improvements

- Retroactive and prospective benefit improvements permitted after 10 years with PBGC approval, if plan can demonstrate it will avoid insolvency
- As in the IFR, prospective benefit improvements permitted at any time if contribution increases are sufficient to pay for the benefit increase and increased contributions were not included in the determination of SFA
- Helps attract and retain participating employers

Mergers or Transfers

- As in the IFR, transfers and mergers still require PBGC approval
- Clarifies which conditions apply and how they apply after a merger to merged plan; removes certain conditions and allows for waiver of certain conditions to encourage beneficial mergers (particularly for small plans that receive SFA)

Changes to SFA Conditions (continued)

Contribution Allocations

- After five years, with PBGC approval, plans can temporarily reallocate up to 10% of pension contributions to a health plan if the plan can demonstrate that the reallocation is needed to address an increase in healthcare costs required by a change in federal law and that the reallocation does not increase the risk of insolvency for the pension plan

Withdrawal Liability

- Retains IFR condition to mandate 4044 rates to determine liabilities for later of 10 years and expected SFA payout period
- Adds condition to phase in recognition of the amount of SFA over the expected SFA payout period to help plans pay for benefits and plan expenses and so as not to indirectly subsidize employers and encourage them to exit plans
 - *Note – the Final Rule includes a request for additional comments related to the phase-in withdrawal liability condition*

Changes to SFA Application Process

New Lock-in Application

- Provides a mechanism for plans to set the SFA measurement date so that assumptions and data can be set in advance of submitting the application; eliminates need to rework applications not yet submitted and avoids conflict with closed e-filing portal

Definition of SFA Measurement Date

- Changes from last day of the preceding calendar quarter to the last day of the third calendar month preceding the application date to ease data availability and timing conflicts for plans (For example, application date is July 15, SFA measurement date is April 30 under the Final Rule versus June 30 under the IFR)



Transition to Final Rule



PBGC

Transition from Interim to Final Rule

Already received SFA*

Keeps initial SFA payment and...

May submit a supplemented application under Final Rule

Pending applications*

Can withdraw and revise in accordance with Final Rule – or...

Proceed with current application under IFR and if approved, submit supplemented application

Plans that have not yet applied

Submit application in accordance with Final Rule

*No change in measurement date, assumptions, and data, with PBGC review within 120 days.

Impact of Final Rule Changes

- Substantially improves plans' ability to project paying benefits through 2051 (however long run outcomes will depend on actual investment returns and plan experience)
- Addresses potential conflict for MPRA plans
- Increases SFA program costs by an estimated \$5.6 billion
- Facilitates application process after priority period

Questions?

For official PBGC statements, please contact
PBGC Public Affairs at 202-229-4343 or
PBGCExternalAffairs@PBGC.gov.

