Horizon
Actuarial Services, LLC

2022 NCCMP Annual Conference

Impact of PBGC's SFA Final Rule on the Multiemployer System

September 17, 2022

Ben Ablin, ASA, EA
Mary Ann Dunleavy, ASA, EA
David Pazamickas, ASA, EA

Today's Discussion

- **Overview**
- **Impact of SFA on PBGC Multiemployer Program and Premiums**
- **Impact of SFA Final Rule on Individual Plans**
  - No More Disconnect Between Interest Rate and Investment Return Expectations!
  - No More Dilemma for MPRA Plans!
  - Withdrawal Liability
  - Application Decisions
  - Other Items

Disclaimer
This presentation includes a summary of the presenters' understanding of significant changes from the interim final rule to the final rule and does not represent a complete summary of the final rule. *In addition, this presentation is provided for informational purposes only does not represent legal, tax, or other professional advice.* *Further, the opinions expressed in this presentation are those of the presenters and do not necessarily reflect the views or positions of Horizon Actuarial Services, LLC.*

Overview

Overview

American Rescue Plan Act of 2021 (“ARPA”)

- Enacted on March 11, 2021
- Created Special Financial Assistance (“SFA”) Program

Pension Benefit Guaranty Corporation (“PBGC”) SFA Regulations

- ***Interim Final Rule (“IFR”)***
    - Published on July 9, 2021 and effective on July 12, 2021
- ***Final Rule***
    - Published on July 8, 2022 and effective on August 8, 2022

Impact of SFA on
PBGC Multiemployer Program and Premiums

Change in Estimated Total SFA Payments

From PBGC FY 2020 to FY 2021 Projections Report

Figure 3 – Reconciliation of Changes in Total SFA Estimate Nominal Cost of SFA Payable to Eligible Multiemployer Plans ($ in billions)	
1. Mean Total SFA from FY 2020 Projections Report	$97.2
2. Changes	
a) New Plan Data	(11.1)
b) New Economic Data	(12.7)
c) Model Improvements	(0.4)
d) Other Assumption Changes	4.1
e) Total Changes [(2a)+(2b)+(2c)+(2d)]	($20.1)
3. Mean Total SFA Prior to Reflection of Final Rule of ARP [(1) + (2e)]	$77.1
4. Impact Due to Changes in the Final Rule of ARP	$5.6
5. Mean Total SFA [(3) + (4)]	$82.7

Source: *PBGC FY 2021 Projections Report*

Estimated Range of Total SFA Payments

PBGC FY 2021 Projections Report

Figure 4 – Stochastic Range of Projected SFA Distributions

	Estimated Number of Plans[a]	Estimated Total SFA ($ billions)
99th Percentile	234	$100.4
85th Percentile	224	$91.2
Mean	197	$82.7
50th Percentile (Median)	200	$81.9
15th Percentile	167	$74.7
1st Percentile	140	$66.2

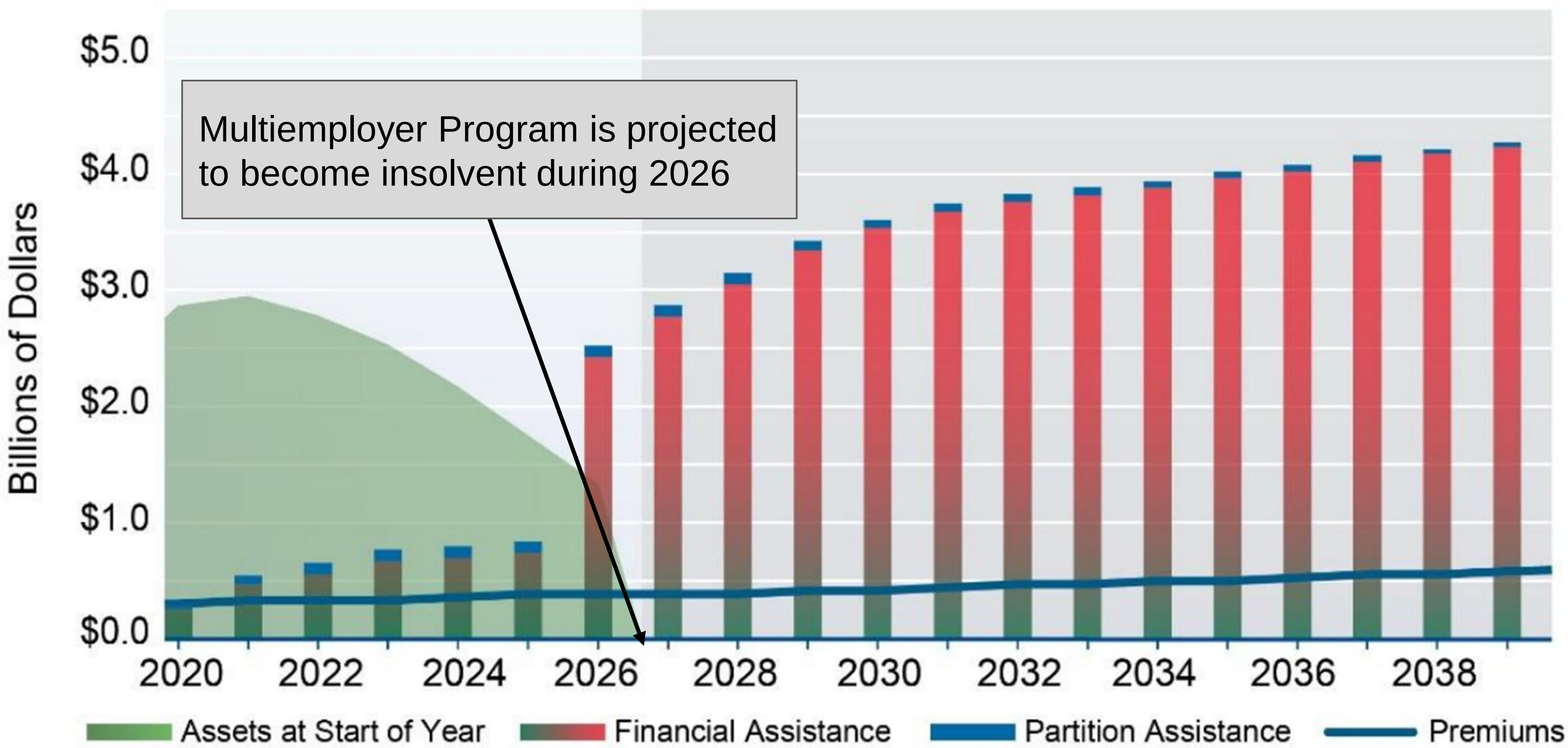
a) The estimated number of plans excludes plans that may be eligible for SFA but do not require additional funds to be able to pay all benefits and expenses through 2051.

Source: *PBGC FY 2021 Projections Report*

PBGC Multiemployer Program Solvency Projections

Prior to SFA Program

PBGC FY 2019 Projections Report



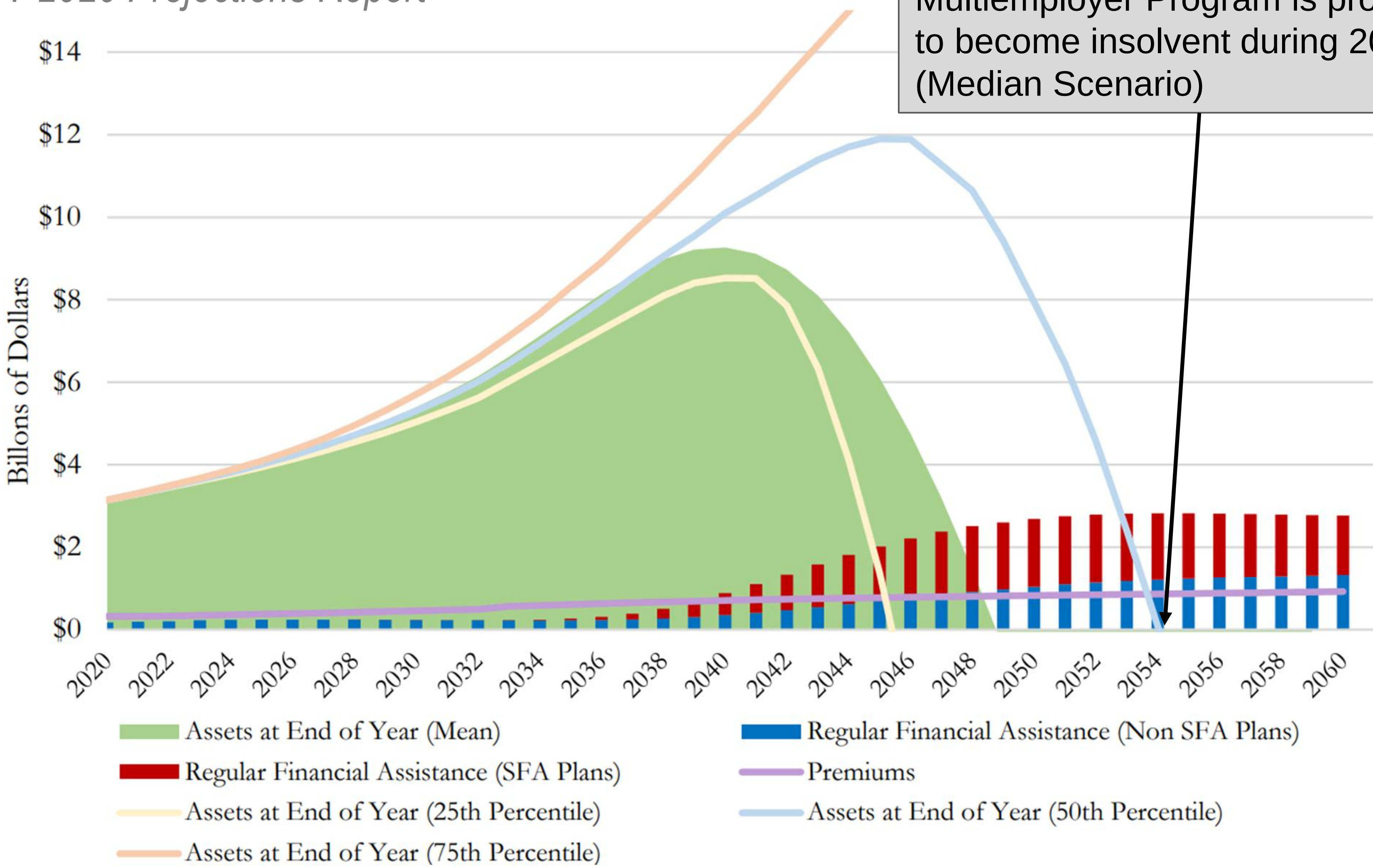
Source: *PBGC FY 2019 Projections Report*

PBGC Multiemployer Program Solvency Projections

After Reflecting SFA IFR

PBGC FY 2020 Projections Report

Multiemployer Program is projected to become insolvent during 2055 (Median Scenario)



Source: *PBGC FY 2020 Projections Report*

PBGC Commentary on Premium Rates after IFR

"Based on the projection results reflecting [ARPA] provisions, current premium levels are expected to be sufficient to maintain the solvency of PBGC's Multiemployer Program for at least the next 20 years. However, ***additional premium revenue will likely be required to enable PBGC to pay the full level of guaranteed benefits into the future*** as plans (including those that received SFA as well as those that did not) are projected to run out of money with more frequency."

Figure 6 – Alternative Premium Revenue Scenarios

Premium Revenue Level	Probability That ME Fund Remains Solvent Through FY 2060
Baseline - Current Law	44%
Current Law Revenue x 1.3	50%
Current Law Revenue x 4.0	75%

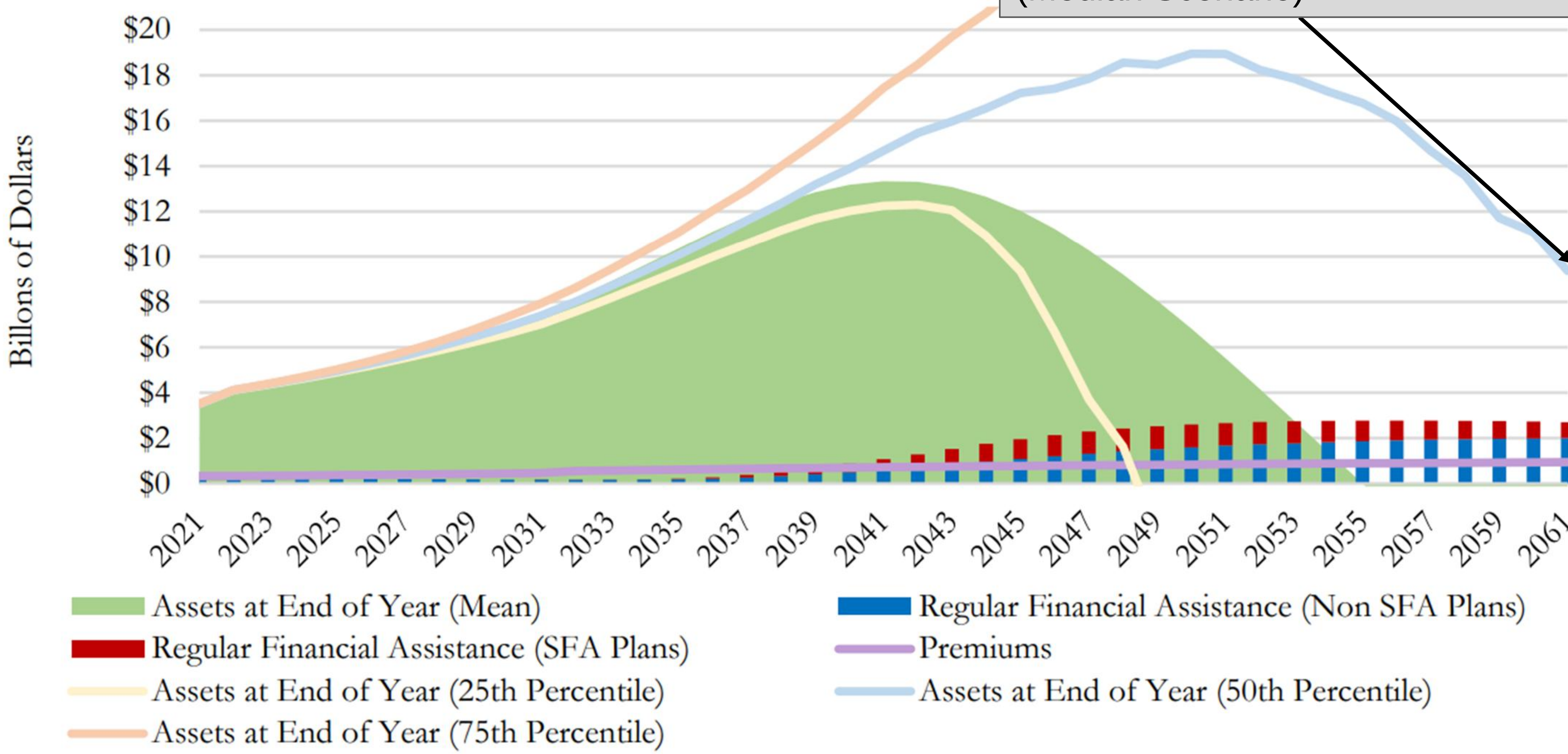
Source: *PBGC 2020 Multiemployer Program Quinquennial Report*

PBGC Multiemployer Program Solvency Projections

After Reflecting SFA Final Rule

PBGC FY 2021 Projections Report

Multiemployer Program is projected to become insolvent after 2061 (Median Scenario)



Source: *PBGC FY 2021 Projections Report*

PBGC Premium Rates

Sample Plan 1 *Less Mature | Higher Contribution Rate*	**Before ARPA**	**ARPA**	**Without ARPA?**
Total Participants	10,000	10,000	10,000
Flat-Rate Premium	$ 43	$ 52	$ 272
Annual Premium	$ 430,000	$ 520,000	$ 2,720,000
Active Participants	5,000	5,000	5,000
Hourly Contribution Rate	$ 8.00	$ 8.00	$ 8.00
Total Annual Contributions	$ 80,000,000	$ 80,000,000	$ 80,000,000
Total PBGC Premium as a % of Contributions	**0.5%**	**0.7%**	**3.4%**

Sample Plan 2 *More Mature | Lower Contribution Rate*	**Before ARPA**	**ARPA**	**Without ARPA?**
Total Participants	10,000	10,000	10,000
Flat-Rate Premium	$ 43	$ 52	$ 272
Annual Premium	$ 430,000	$ 520,000	$ 2,720,000
Active Participants	2,000	2,000	2,000
Hourly Contribution Rate	$ 1.00	$ 1.00	$ 1.00
Total Annual Contributions	$ 4,000,000	$ 4,000,000	$ 4,000,000
Total PBGC Premium as a % of Contributions	**10.8%**	**13.0%**	**68.0%**

Commentary
The impact of the increase in PBGC premiums under ARPA will impact plans differently.
Some of the increases under discussion pre-ARPA would have had a significant impact on all plans.

Notes:

- Premium calculations are shown for 2031.
- “Before ARPA” assumes inflationary increase from current level of $32.00 for 2022.
- “Without ARPA?” assumes potential 533% increase based on PBGC MPRA Report.

Impact of SFA Final Rule on Individual Plans:

No More Disconnect between Interest Rate and Investment Return Expectations!

Changes from IFR to Final Rule

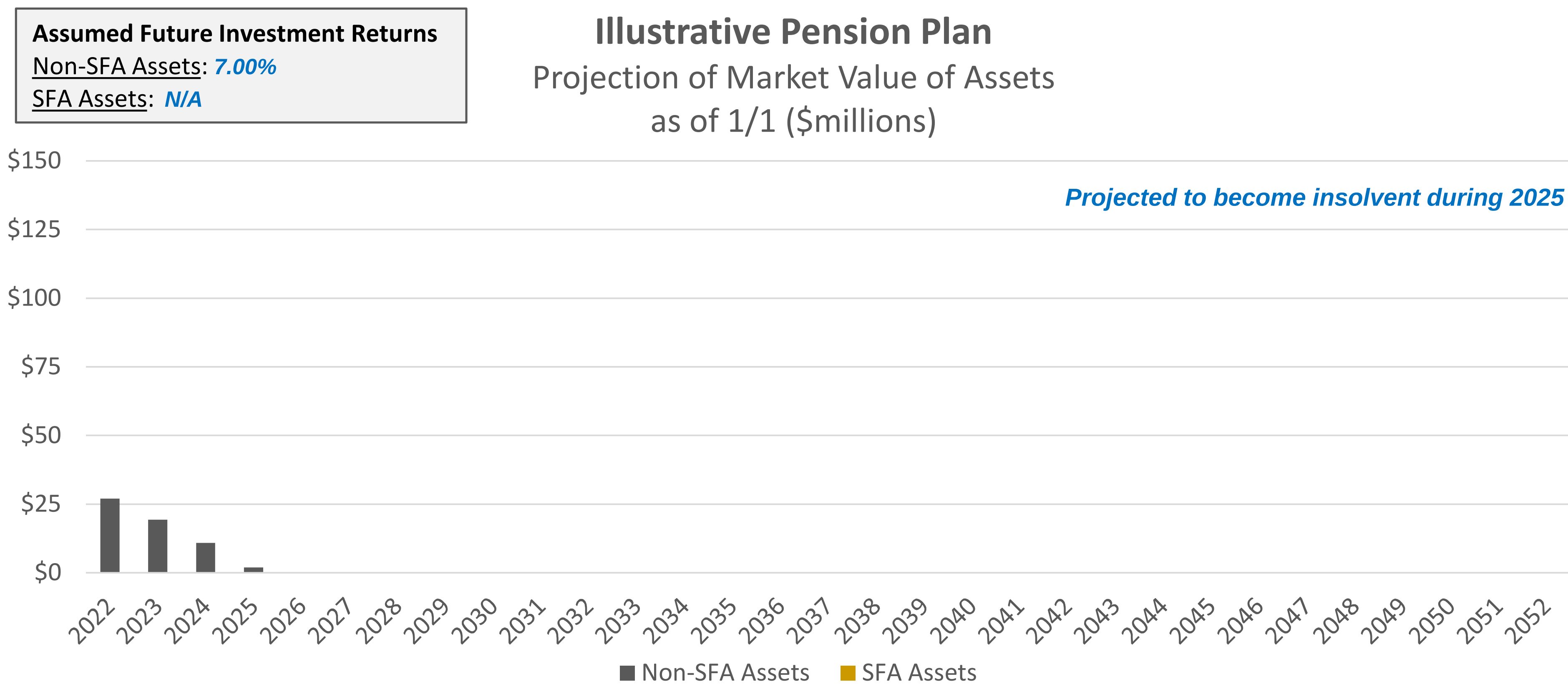
Disconnect between Interest Rate and Investment Return Expectations

	IFR	Final Rule
Interest Rate Assumption[1]	Lesser of interest rate used in a plan's 2020 zone status certification[2] and the 3rd segment rate[3] plus 200 basis points (currently near 5.5%)	Lesser of interest rate used in a plan's 2020 zone status certification[2] and: • Non-SFA Interest Rate: the 3rd segment rate[3] plus 200 basis points (currently near 5.5%) • SFA Interest Rate: *average of the 1st, 2nd, and 3rd segment rates[3] plus 67 basis points (currently near 3.3%)*
SFA Permissible Investments	100% of SFA assets must be invested in U.S. investment grade bonds	*At least 67% of* SFA assets must be invested in U.S. investment grade bonds *Up to 33% of SFA assets may be invested in return seeking assets (e.g., U.S. equities)*

1. For purposes of determining the amount of SFA
2. Plan's latest zone certification filed prior to January 1, 2021
3. Segment rates are the 24-month average of high-quality corporate bond rates for bonds with a maturity of less than 5 years (1st segment rate), at least 5 years and less than 20 years (2nd segment rate), and 20 years or more (3rd segment rate). Based on the segment rates as of the month of the plan's initial application date, if published by such date, or the prior three months.

Illustrative Plan Projection – Before ARPA

Amount of SFA: None
SFA Asset Allocation: N/A

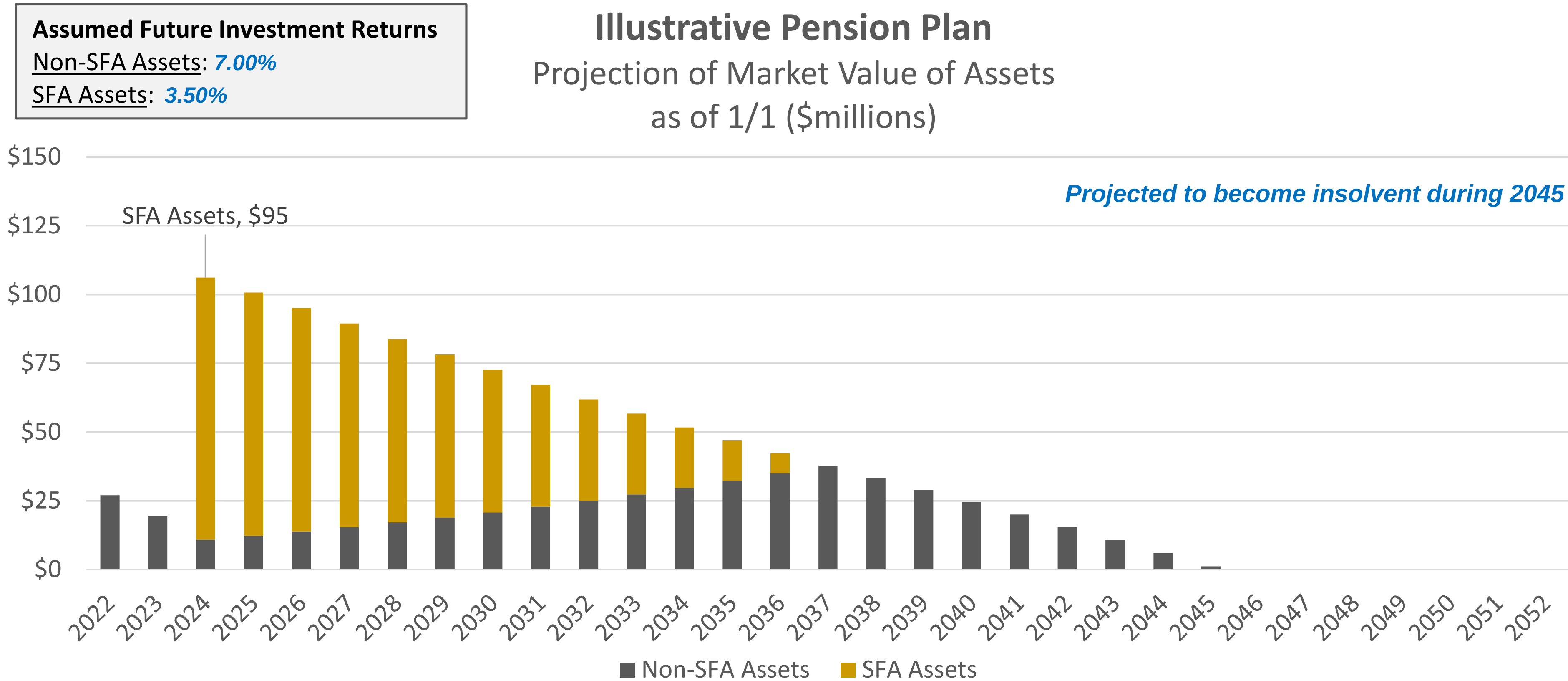


Illustrative Plan Projection – Under the IFR

Amount of SFA: Determined under IFR (5.75% Interest Rate)

SFA Asset Allocation: 100% U.S. investment grade bonds

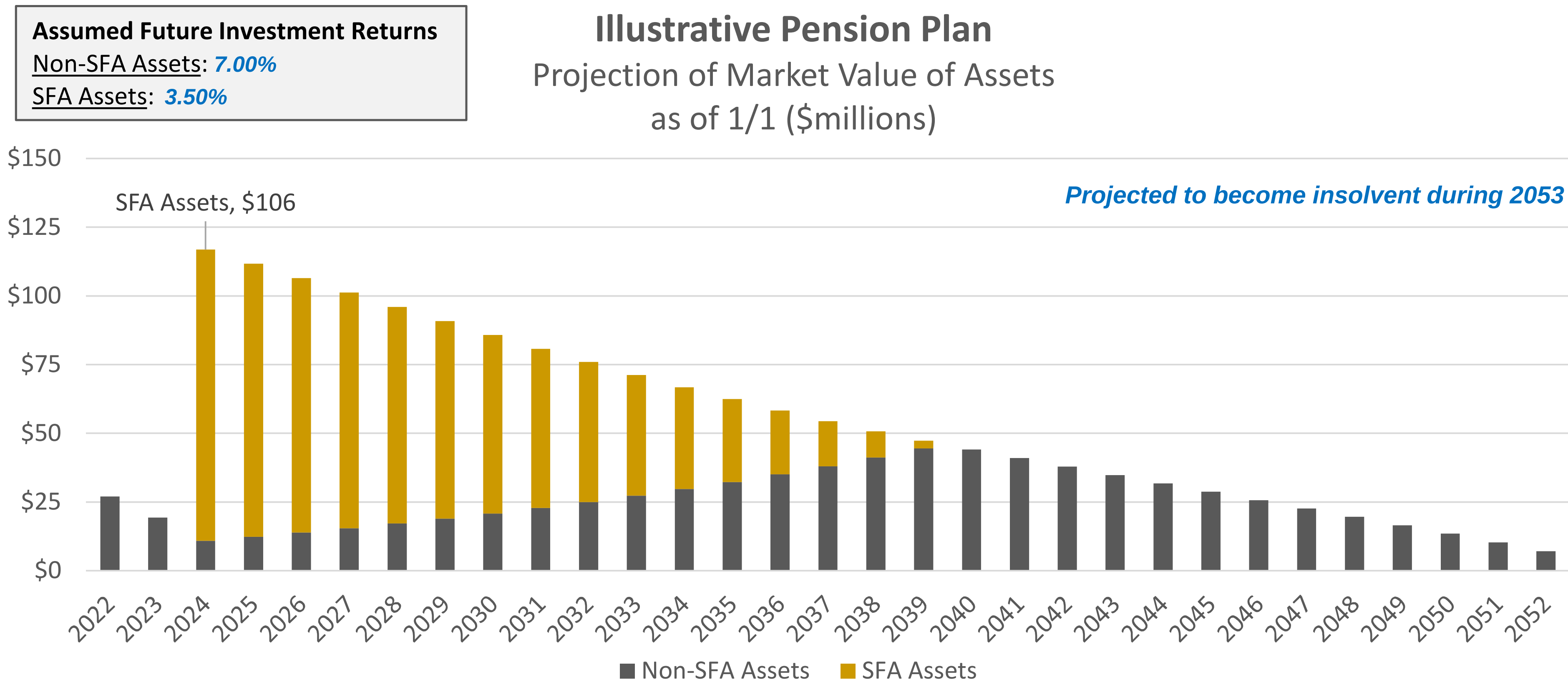
Assumed Future Investment Returns
Non-SFA Assets: ***7.00%***
SFA Assets: ***3.50%***



Illustrative Plan Projection – Bifurcated Interest Rate

Amount of SFA: Determined under Final Rule (Non-SFA Interest Rate = 5.75% | SFA Interest Rate: 3.50%)

SFA Asset Allocation: 100% U.S. investment grade bonds

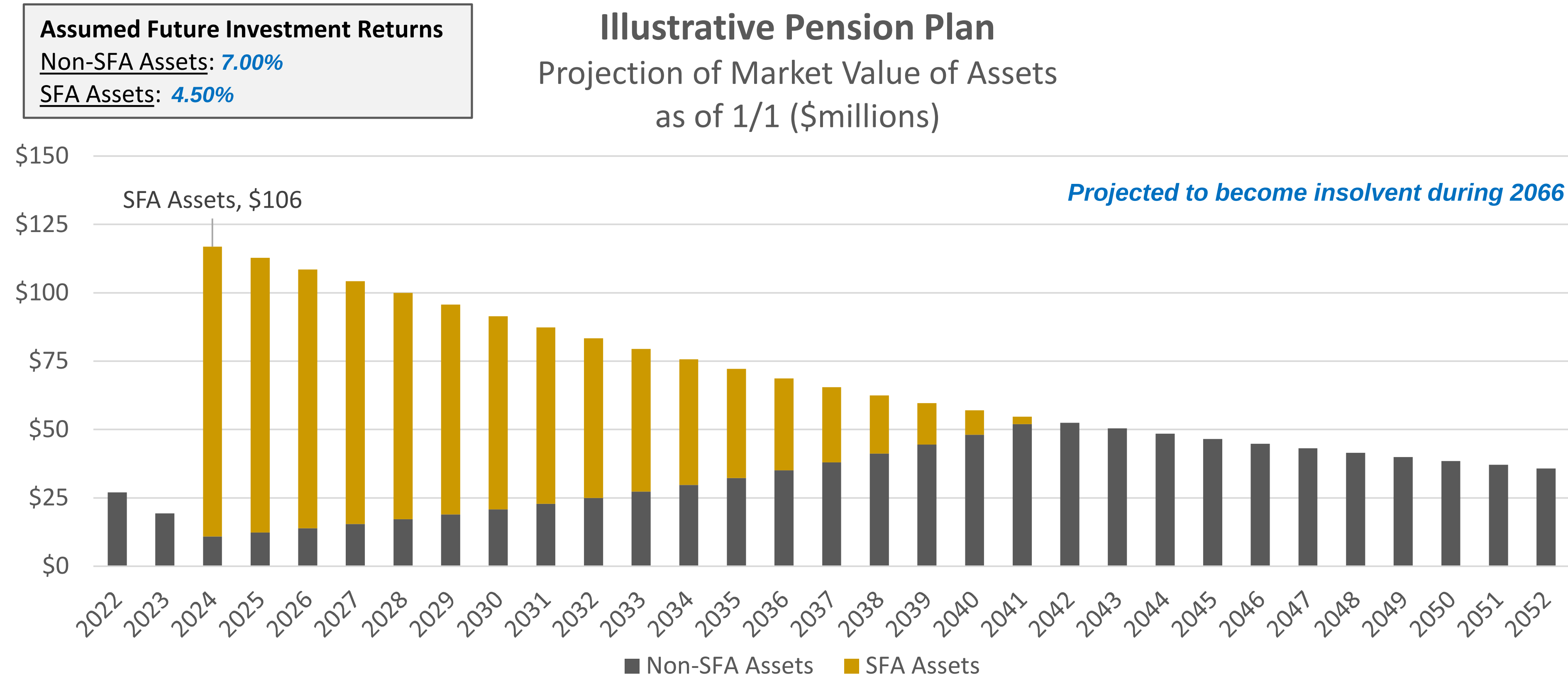


Illustrative Plan Projection – SFA Asset Allocation

Amount of SFA: Determined under Final Rule (Non-SFA Interest Rate = 5.75% | SFA Interest Rate: 3.50%)

SFA Asset Allocation: 67% U.S. investment grade bonds and 33% U.S. large cap equities

Assumed Future Investment Returns
Non-SFA Assets: ***7.00%***
SFA Assets: ***4.50%***



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Observations for SFA Eligible Plans

Final Rule Interest Rate Change

- More impactful for plans in the greatest financial distress (currently or nearly insolvent)
- Less impactful for plans with lower valuation interest rates
- Plans are more likely to remain solvent through 2051

Final Rule Permissible Investment Change

- Less impactful for plans receiving a lower amount of SFA relative to non-SFA assets
- Plans may be able to extend solvency beyond 2051

General Commentary on Plan Solvency under ARPA

- Plans that can increase contribution rates will have better prospects for long-term solvency (post-2051)
- Plans whose investment experience on SFA Assets and Non-SFA Assets are better than the SFA Interest Rate and Non-SFA Interest rate will have better prospects for long-term solvency (post-2051)
- Plans whose work levels are higher than assumed in their SFA Applications will have better prospects for long-term solvency (post-2051)

Impact of SFA Final Rule on Individual Plans:

No More Dilemma for MPRA Plans!

Dilemma for MPRA Plans[1]

IFR Resulted in a Difficult Decision for Trustees

Option 1	Option 2
• Apply for and receive SFA • Immediately restore retroactive and prospective suspended benefits • Significantly increase chance of future insolvency	• Do not apply for SFA • Possibly restore prospective suspended benefits in the future • Maintain lower likelihood of future insolvency
Outcome	**Outcome**
• Better for current/near-term retirees • Worse for younger participants further away from retirement	• Worse for current/near-term retirees • Better for younger participants further away from retirement

1. Plans that received approval for a suspension of benefits under the Multiemployer Pension Reform Act of 2014 as of March 11, 2021

Illustrative MPRA Plan Projections under the IFR

Stochastic Simulation of Future Investment Returns

All Scenarios (5,000 of 5,000 Trials)

	Probability of Insolvency by		
Scenario	**2032**	**2042**	**2052**
Option 1 *Receive SFA*	2%	30%	39%
Option 2 Do Not Receive SFA	<1%	14%	30%

Scenarios with Correction in 5 Years (1,994 of 5,000 Trials)*

	Probability of Insolvency by		
Scenario	**2032**	**2042**	**2052**
Option 1 *Receive SFA*	5%	52%	62%
Option 2 Do Not Receive SFA	1%	24%	41%

* A "correction" is defined as a year with an investment return of -10% or less

Changes from IFR to Final Rule

Dilemma for MPRA Plans

	IFR	Final Rule
Methodology for Determining Amount of SFA for MPRA Plans	**Basic Method:** SFA calculated the same way as a non-MPRA plan[1]	**Basic Method:** SFA calculated the same way as a non-MPRA plan[1] **Increasing Assets Method:** Minimum amount of SFA needed to project rising plan assets starting in 2051 **Present Value Method:** Present value of retroactive and prospective reinstated benefits payable through 2051 using the SFA interest rate

1. Reflects reinstatement of retroactive and prospective benefit suspensions

Illustrative MPRA Plan Projections under the Final Rule

Stochastic Simulation of Future Investment Returns

All Scenarios (5,000 of 5,000 Trials)

	Probability of Insolvency by		
Scenario	**2032**	**2042**	**2052**
Option 1 *Receive SFA*	<1%	8%	17%
Option 2 Do Not Receive SFA	<1%	14%	30%

Scenarios with Correction in 5 Years (1,994 of 5,000 Trials)*

	Probability of Insolvency by		
Scenario	**2032**	**2042**	**2052**
Option 1 *Receive SFA*	<1%	14%	27%
Option 2 Do Not Receive SFA	1%	24%	41%

* A "correction" is defined as a year with an investment return of -10% or less

Impact of SFA Final Rule on Individual Plans:

Withdrawal Liability

Changes from IFR to Final Rule

Withdrawal Liability

	IFR	Final Rule
Interest Rate	• Plans must use interest rates required for mass withdrawal liability[1] (currently 2.75% to 3.00%) when determining unfunded vested benefits ("UVBs") • Required for 10 years following receipt of SFA or, if later, when the plan exhausts its SFA assets	• Plans must use interest rates required for mass withdrawal liability[1] (currently 2.75% to 3.00%) when determining UVBs • Required for 10 years following receipt of SFA or, if later, when the plan *is initially projected*[2] *to* exhaust its SFA assets
Assets	• SFA is included in assets when determining UVBs for measurement dates following the plan's receipt of SFA • SFA is recognized fully and immediately	• SFA is included in assets when determining UVBs for measurement dates following the plan's receipt of SFA • *SFA is phased in over the period that the plan is initially projected to maintain SFA assets*[2,3]

1. Interest rates used to value benefits in Appendix B to 29 CFR Part 4044
2. Assuming SFA assets are used to pay benefits and expenses before non-SFA assets
3. PBGC requested comments on this provision by August 8, 2022

Illustration of UVBs under IFR and Final Rule

Illustration under the IFR

Development of Unfunded Vested Benefits ("UVBs")	Year 0	Year 1	Year 2	Year 3
1. Present Value of Vested Benefits[1]	94.6	147.3	142.4	137.2
2. Asset Value				
a. Non-SFA Assets	19.3	10.9	12.4	13.9
b. SFA Assets	N/A	105.9	99.4	92.7
c. Total Assets	19.3	116.8	111.8	106.6
3. UVBs [1. - 2.c., not less than $0]	**75.3**	**30.5**	**30.6**	**30.6**

Illustration under the Final Rule

Development of Unfunded Vested Benefits ("UVBs")	Year 0	Year 1	Year 2	Year 3
1. Present Value of Vested Benefits[1]	94.6	147.3	142.4	137.2
2. Asset Value				
a. Non-SFA Assets	19.3	10.9	12.4	13.9
b. SFA Assets	N/A	105.9	99.4	92.7
c. Total Assets	19.3	116.8	111.8	106.6
3. Excluded Assets per Phase-In Methodology[2]	N/A	105.9	99.3	92.7
4. UVBs [1. - (2.c. - 3.), not less than $0]	**75.3**	**136.4**	**129.9**	**123.3**

1. For purposes of this example, it is assumed that the plan's actuary uses a 7.00% discount rate for withdrawal liability purposes prior to the plan receiving SFA.
2. The plan is initially projected to maintain SFA assets over a 16-year period and therefore SFA assets are phased-in each year by 1/16th of the initial amount of SFA.

Observations for SFA Eligible Plans

Final Rule Duration of Withdrawal Liability Interest Rate Change

- Maintaining nominal amount of SFA assets long-term will no longer preserve the requirement to use mass withdrawal liability interest rates for withdrawal liability purposes

Final Rule Withdrawal Liability Asset Value Change

- Increases a plan's UVBs from the IFR for a temporary period
- Less impactful for plans that are projected to exhaust SFA assets quickly
- May reduce likelihood of employers withdrawing soon after a plan receives SFA
- PBGC requested comments on the SFA phase in provision (may be subject to change)

General Commentary on Withdrawal Liability After Receiving SFA

- Some plans will not see significant changes in UVBs immediately
    - Consider impact on plans already using lower withdrawal liability discount rates
- Effective withdrawal liability for some employers may remain unchanged
    - Consider impact of 20-year cap on withdrawal liability payments

Impact of SFA Final Rule on Individual Plans:

SFA Application Decisions

Supplemented Application

Application Filing Date

Application filed under IFR | before **August 8, 2022** on or after | *Application filed under Final Rule*

Supplemented Application

Plans that received approval for SFA based on an application filed under the IFR must file a Supplemented Application to reflect certain changes under the Final Rule:

- Updated calculation of SFA
- Additional permissible investments (effective upon filing)
- SFA phase in for withdrawal liability purposes (effective upon filing)

Status of Supplemented Applications as of September 9, 2022

	Number of Plans	Amount of SFA
Approved Applications under IFR	30	$7.6 billion *(Approved)*
Supplemented Applications	19	$0.9 billion *(Requested)*

SFA Measurement Date

	IFR	Final Rule
SFA Measurement Date	Last day of the calendar quarter immediately preceding a plan's initial application for SFA	Last day of the *third calendar month* immediately preceding a plan's initial application for SFA

Example SFA Measurement Dates

Initial Application Date	IFR	Final Rule
January 2023	December 31, 2022	October 31, 2022
February 2023	December 31, 2022	November 30, 2022
March 2023	December 31, 2022	December 31, 2022
April 2023	March 31, 2023	January 31, 2023
Mary 2023	March 31, 2023	February 28, 2023
June 2023	March 31, 2023	March 31, 2023

Census Data

	IFR	Final Rule
Census Data	Participant census data as of: (1) the first day of the plan year in which the plan's initial application for SFA is filed; or (2) if the application is filed less than 270 days after the beginning of that plan year and the actuarial valuation for that plan year is not complete, the first day of the prior plan year.	Participant census data used to prepare the plan's actuarial valuation report: (1) for the plan year in which occurs the plan's SFA measurement date; or (2) if there is no such report for that plan year, for the preceding plan year.

Example Census Data under the Final Rule (Calendar Year Plan)

Initial Application Date	SFA Measurement Date	Census Data
March 2023	December 31, 2022	(1) January 1, 2022 or (2) January 1, 2021 *(if 2022 valuation is not completed)*
April 2023	January 31, 2023	(1) January 1, 2023 or (2) January 1, 2022 *(if 2023 valuation is not completed)*

Lock-in Application

Lock-in Application *(new under the Final Rule)*

- ***Treated as a plan's initial SFA application, which "locks-in" a plan's:***
  - SFA measurement date,
  - Interest rate assumptions, and
  - Census data
- ***Filing prior to March 11, 2023***
  - Limited to eligible plans in priority group 5, priority group 6, or other priority groups PBGC may designate in the future
  - May only be filed during periods when PBGC has temporarily closed the filing portal
- ***Filing on or after March 11, 2023 and prior to December 31, 2025***
  - May be filed by any eligible plan
  - Not limited to periods when PBGC has temporarily closed the filing portal

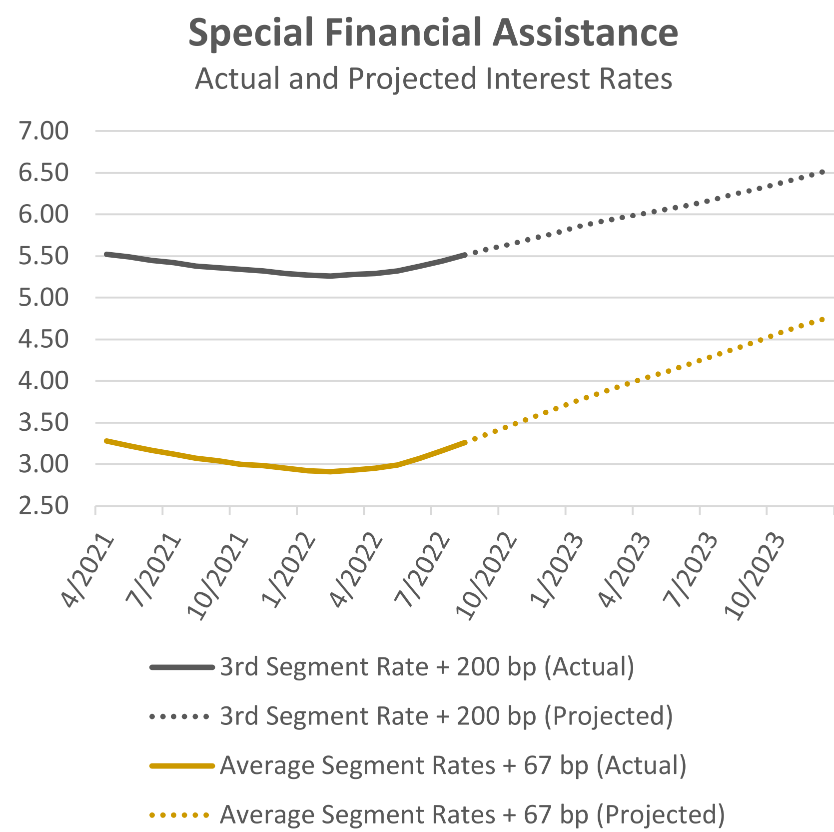
When to Initially Apply for SFA?

Considerations

- Potential insolvency before receiving SFA
- Reinstatement of suspended benefits
- Priority group eligibility / PBGC capacity
- Asset value at SFA measurement date
- Applicable interest rates
- Applicable census data
- Lock-in Application
- Political risk

Commentary on Interest Rates

- The SFA and non-SFA interest rates are projected to increase in the future for most eligible plans.
- For our sample plan, an increase of 25 basis points in both interest rates would ***lower the amount of SFA by 2.5%***, all other things being equal.



Note: Assumes future spot segment rates remain at August 2022 levels in the future. August 2022 spot 1st, 2nd, and 3rd segment rates are 3.67%, 4.67% and 4.73%, respectively.

Impact of SFA Final Rule on Individual Plans:

Other Items

Contributions

New Contribution Provisions

- ***Determination of SFA***
  - Projected contributions exclude contribution rate agreed to on or after July 9, 2021
  - That is, when determining the amount of SFA, projected contributions do not reflect contribution rate increases required by a rehabilitation plan, but not yet bargained
- ***Reallocation of Contributions***
  - Plans may file for an exception from the limitation on reallocation of contributions to another employee benefit plan
    - May request as early as five (5) plan years following receipt of SFA
    - May request to reallocate up to 10% of contributions negotiated as of March 11, 2021 from the pension plan to a health plan for up to five (5) years
    - Must demonstrate to the satisfaction of PBGC that the:
      - Pension plan will avoid insolvency following reallocation of contributions,
      - Health plan needs the contributions to pay for a significant increase in costs due to a Federal law that goes into effect after March 11, 2021

Benefit Improvement Conditions

	IFR	Final Rule
Benefit Improvement Conditions	A plan cannot be amended to improve: • ***Past-service benefits*** other than a reinstatement or restoration of suspended benefits • ***Future-service benefits*** unless paid for by contribution increases not reflected in the plan's determination of SFA	A plan cannot be amended to improve: • ***Past-service benefits*** other than a reinstatement or restoration of suspended benefits • ***Future-service benefits*** unless paid for by contribution increases not reflected in the plan's determination of SFA *Exception to above conditions: Past-service and future-service benefit improvements are permitted ten plan years after the plan receives SFA following demonstration, to the satisfaction of PBGC, that the plan will avoid insolvency after benefit improvement.*

Important Note

Other limitations on benefit improvements may apply.

For example, a plan may not be amended after adopting a rehabilitation plan to increase benefits (including future benefit accruals) unless (1) the increase is paid for out of additional contributions not contemplated by the rehabilitation plan and (2) the plan is projected to emerge from critical status by the end of the rehabilitation period after reflecting the benefit increase. [See IRC 432(f)(1)(B)]

Plan Mergers

New Plan Merger Provisions

- Plans that receive SFA must request PBGC approval before engaging in a merger
- Merged plans are not subject to restrictions on:
  - Future-service benefit improvements, allocation of plan assets, and allocation of expenses
- Merged plans meeting certain requirements[1] may apply to waive restrictions on:
  - Past-service benefit improvements, contribution decreases, and allocation of contributions and other income
- Merged plans are subject to restriction on withdrawal liability settlements, annual compliance statements, and periodic audits
- Merged plans must continue to segregate SFA assets and follow SFA investment restrictions
- UVBs attributable to the plan (or plans) that received SFA continue to be subject to the conditions on withdrawal liability interest rate assumptions and SFA phase in
- Merged plans are not subject to "deemed critical" requirement [IRS Revenue Ruling 2022-13]

1. Assets and current liability of plans that received SFA must be 25% or less than the total asset value and total current liability, respectively, of the total merged plan. In addition, all plans that did not receive SFA must be certified in the "Green Zone" (excluding the special rule) and must not be projected in critical status in the next 5 years.

Thank you!

Questions?