WAREHOUSE EMPLOYEES UNION LOCAL NO. 730 PENSION PLAN

Classic Values, Innovative Advice

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Topics for Discussion

- Summary of the multiemployer relief provisions of the American Rescue Plan Act 2021
  - Financial Assistance
  - PPA Relief (like WRERA 2008)
  - Amortization Relief (like PRA 2010)

Financial Assistance

- Eligible Plans receive financial assistance to pay full benefits through 2051
  - Need guidance to determine the amount of financial assistance *(Potential readings and numbers on next slide)*
- Special Financial Assistance is not subject to repayment
- Eligibility
  - C&D status in any PYB 2020 to 2022 ←*Local 730*
  - Approved MPRA Suspension
  - Critical status in any PYB 2020 to 2022, with <40% CL Funded % and active to inactive ratio < 2/3
  - Plan insolvent but not yet terminated

Calculation of Financial Assistance

- Act is unclear how the assistance is calculated, possible interpretations include
    1. Value of Expected Payments less Value of Expected Contributions less Plan Assets
    2. Value of Expected Payments without regard to Plan Resources
    3. Value of Expected Payments not PROJECTED to be covered by Plan Resources
  - For Local 730 getting assistance at 1/1/2023, these amounts might be \$100m, \$334m and \$69m, respectively

Asset Projections for Local 730

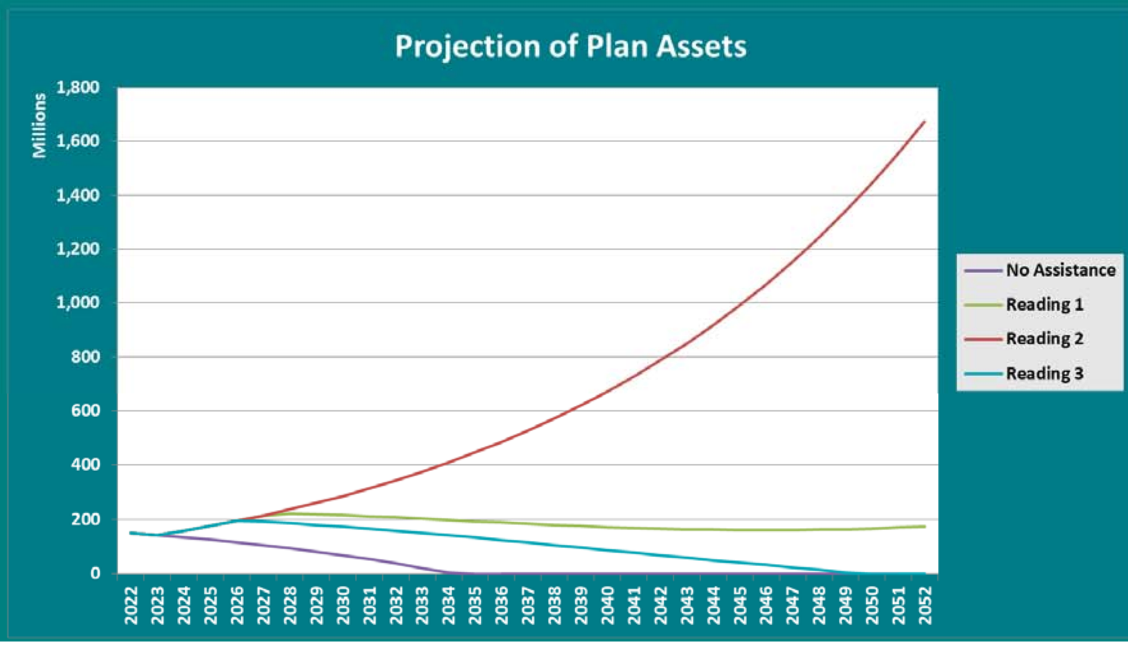
ANALYSIS OF FINANCIAL ASSISTANCE FOR
WAREHOUSE EMPLOYEES UNION LOCAL NO. 730 PENSION PLAN

Earnings on Plan Assets to Date of Assistance 7.25%

PARAMETERS FOR CALCULATING ASSISTANCE			ASSISTANCE ($m)	Reading of Proposed Law
Date Assistance Paid	2023	(January 1st)	$100.0	Reading 1: Value of Expected Payments less Value of Expected Contributions less Plan Assets
3rd Segment Rate	3.60%	Valuation at 5.60%	$333.6	Reading 2: Value of Expected Payments without regard to Plan Resources
Earnings on Other Plan Assets (3rd reading)	7.25%		$69.3	Reading 3: Value of Expected Payments not PROJECTED to be covered by Plan Resources

For Plotting Projections of Plan Assets under the Proposal
Earnings on Assistance Assets 2.50%
Earnings on Other Plan Assets (SAME AS ABOVE) 7.25%

NOTE: Reading 1 and Reading 3 are equivalent if all assumed asset returns equal the discount rate; 5.60%



Comments on Calculation

- No assistance: Fund runs out of assets in 2034
- Reading 1: Fund likely remains solvent if the other plan assets outperform the mandated discount rate by enough margin
- Reading 2: Unlikely interpretation because many qualifying plans with assets would expect to be overfunded by 2052
- Reading 3: Fund likely runs out of assets before 2052 if the assistance assets earn less than the mandated discount rate

Comments on Calculation

- Readings 1 and 3 are interesting because there is the potential arbitrage between investments and mandated discount rate
  - Positive arbitrage: the existing plan assets are likely to earn more than the mandated discount rate
  - Negative arbitrage: the assistance investments are unlikely to earn the mandated discount rate (3rd segment rate is based on market rates for corporate bonds)

Financial Assistance

- Applications
  - Regulations within 120 days of enactment
  - Alternative application for Partitioned plans
  - Original application due no later than 12/31/2025
  - Revised application due no later than 12/31/2026
  - Deemed approved unless notified within 120 days of the application filing

- Plans with priority consideration will be reviewed within the first 2-years *(Not Local 730 …)*
  - Plans likely insolvent within 5-years
  - Plans with projected FA > $1 billion
  - Plans that have suspended benefits under MPRA
  - PBGC discretion *(… unless MPRA application helps)*

Financial Assistance

- Assumptions
  - Same as those used in the 2020 PPA Certification, unless clearly erroneous or unreasonable, subject to the interest rate limit
  - Interest Rate Limit = 3rd segment rate + 200 bps (currently around 5.6%)
  - Unreasonable assumptions can be changed with proper disclosure in the application, PBGC will accept unless they determine the changes are unreasonable.

Financial Assistance

- Financial Assistance
  - is transferred to the Plan as determined by PBGC, but no later than 1 year after approval
  - Single lump sum payment
  - Must be segregated from other plan assets
  - Must be invested in investment-grade bonds

- Benefit Suspension are reinstated
  - with retroactive payments to those in pay status as of the effective date of the FA

Financial Assistance

- Plans that receive FA
  - deemed to be in critical status in all years until 2051
  - continue paying all PBGC premiums
  - are not eligible to apply for a new suspension of benefits
  - are subject to current rules and guarantees if they ultimately become insolvent

Financial Assistance

- PBGC may impose, by regulation, reasonable conditions relating to:
  - Increase in future accruals rates
  - Retroactive benefit improvements
  - Allocation of plan assets
  - Reductions in employer contribution rates,
  - Diversion of contributions to, and allocation of expenses to, other benefit plans, and
  - Withdrawal liability

- PBGC Premiums
  - continue increasing with inflation until 12/31/2030
  - For PY 2031, premium rate increase to $52, indexed thereafter

PPA Relief (like WRERA 2008)

- Election to "pause" PPA Zone status for the first PYB during period March 1, 2020 to Feb 28, 2021, or next succeeding plan year.
  - Plans that would be newly Critical that elect to "pause" status are not subject to excise taxes
  - If the Plan was previously in Endangered or Critical status, the Plan is not required to update its FIP/RP until the next plan year.
  - Notify DOL of election as part of next PPA Cert, or send 30 days after election
  - Election is irrevocable, unless consent of the Secretary
- Must notify Participants, Bargaining Parties, PBGC, and DOL of election
- Plans in Endangered or Critical for PYB 2020 or 2021 (after "pause" election) can also elect to extend FIP/RP from 10 to 15 years (or 15 to 20 years for seriously endangered plans)

Amortization Relief (like PRA 2010)

- Plans that meet the solvency test can phase-in the impact of investment losses and other losses due to COVID-19 incurred in either or both of the first two plan years ending after February 29, 2020
  - 29-year amortization of the net investment or COVID-19 loss,
  - 10-year smoothing period for assets, and
  - 130% of market value upper limit on the actuarial value of plan assets.
- Solvency Test: Plan has sufficient assets to pay future benefits and expenses over the amortization period.
- Effective for first PYE on or after 2/29/2020, but disregarded for ERISA 305 for the first PY
- No benefit increases for two years after election without actuarial certification.
- Must notify participants and beneficiaries, and inform the PBGC.