Warehouse Employee Union Local No. 730 Pension Trust

Classic Values, Innovative Advice

American Rescue Plan Act of 2021 Special Financial Assistance

PBGC Final Regulations

September 23, 2022

Peter Hardcastle, CFA, FSA, EA, MAAA
Matt Deveney, FSA, EA, MAAA

Celebrating 20 years

Topics

- Overview / Key Changes
- Amount of Special Financial Assistance
- Timing
- Conditions

Overview / Key Changes

- ARPA signed into law March 11, 2021
- Interim Final Rule published on July 12, 2021
- Final Rule published on July 8, 2022 and effective August 8, 2022

- Key Changes in Final Rule:
  - Expands permissible investments for SFA
  - Bifurcates discount rates used to determine SFA
  - Changed the calculation for the SFA amount

- The changes increase SFA
  - Most notably for MPRA Plans
  - Some plans may still become insolvent before 2051

Amount of SFA

- SFA Greater of
  1. Plan Obligations – Plan Resources
     - Plan Obligations = PV of Benefit Payments (including retro if applicable) & Admin Expenses
     - Plan Resources = Assets (including receivable WL payments) & PV Future Contributions
     - Future contributions in CBAs signed after July 9, 2021 ignored
  2. Amount needed to maintain solvency for the period to 2051
  – Calculations made assuming SFA used to pay all benefits and expenses from measurement until SFA used up

- Final Rule changed the interest rates for the PVs:
  – Non-SFA Rate: lesser of the interest rate used in the 2020 PPA Certification, or 3rd segment rate + 2% (around 5.5% today)
  – SFA Rate: lesser of the non-SFA Rate, or average segment rates + 0.67% (around 3.3% today)

Application for SFA

- We can apply beginning March 11, 2023
  - There are approximately 200 plans eligible to apply on this date

- PBGC may temporarily close the filing window if they reach capacity
  - Under the IFR this likely would have required an application to be completely redone based on a new SFA measurement date
  - However, the Final Rule adds a “Lock-In” Application

Lock-in Application

- Is considered the Plan's initial application and locks in the Plan's base data, including:
  - SFA measurement date
  - Participant census data
  - Non-SFA and SFA interest rates

- PBGC will review lock-in applications to confirm they satisfy requirements and then they will be automatically denied for incompleteness

Permissible Investments

- Final Rule permits up to 33% of SFA to be invested in Return-Seeking Assets (RSA) measured on:
  - Each day, the plan purchases RSA other than automatic reinvestment, and
  - At least one day during every rolling 12-months from receipt of SFA
- Allowing RSA increases the chance of meeting the now lower interest rate of 67bp above average segment rates (rather than 200bp above the third segment rate)

Permissible Investments

- Return-seeking assets
  - Common Stock of US listed companies
  - Shares held in a permissible fund vehicle that restricts investment predominantly to equities
  - Debt securities resold, investment grade, and not foreign issued
  - Debt instrument that was, but no longer is, investment grade

- Investment grade fixed income securities
  - Bond or Debt security
  - Shares held in a permissible fund vehicle that restricts investment predominantly to securities
  - US & Municipal securities
  - Noninterest bearing cash
  - Money market funds

Changes to PBGC Conditions

Benefit Increases

- IFR: increases in future accruals must be funded by new contributions, retroactive benefit improvements are strictly prohibited
- Final Rule: plans can request an exception for retroactive & prospective improvements after 10-years if the Plan can avoid insolvency with the benefit increase

Changes to PBGC Conditions

Mergers:

- IFR: was interpreted that PBGC conditions for Plan's receiving SFA would continue to apply to the entire plan post-merger

- Final Rule: clarifies which conditions continue to apply and allows for a waiver of certain conditions

Changes to PBGC Conditions

Allocating Contributions

- IFR: diversion of contributions and allocation of expenses to other benefit plans is prohibited

- Final Rule: plans can request an exception after 5-years to temporarily reallocate up to 10% of contributions to H&W plan as long as the Plan is not projected insolvent

Changes to PBGC Conditions

Withdrawal Liability

- Liability and payment schedule calculated on mass withdrawal interest assumptions (currently around 2%) until the later of 10 years after receiving SFA or year SFA expected to be used
  - IFR was when SFA had been used, but Plans could keep a small SFA balance to prolong this provision
- Assets are reduced by the amount of the SFA written-down over the projected life of the SFA in the SFA application
  - IFR included SFA assets from day 1, but this may have incentivized employer withdrawals with SFA used to subsidize employer withdrawals

SFA Projections

- SFA will be based on 12/31/2022 assets at the earliest
  - We made projections using a 2022 return of -20% in late July, these show without SFA insolvency in 2033, with SFA receive $116m and reach 100% funding 2044
  - IPS YTD return through July is -7%, if this remains unchanged for the rest of 2022 the amount of SFA drops to $89.5m and the fund reached 100% in 2043
- Note SFA brings the total fund assets to the same point as of 1/1/2023 so poor 2022 returns are compensated by higher SFA
  - But higher SFA means more restricted assets and potentially lower returns after 2023

Projections – w/out SFA

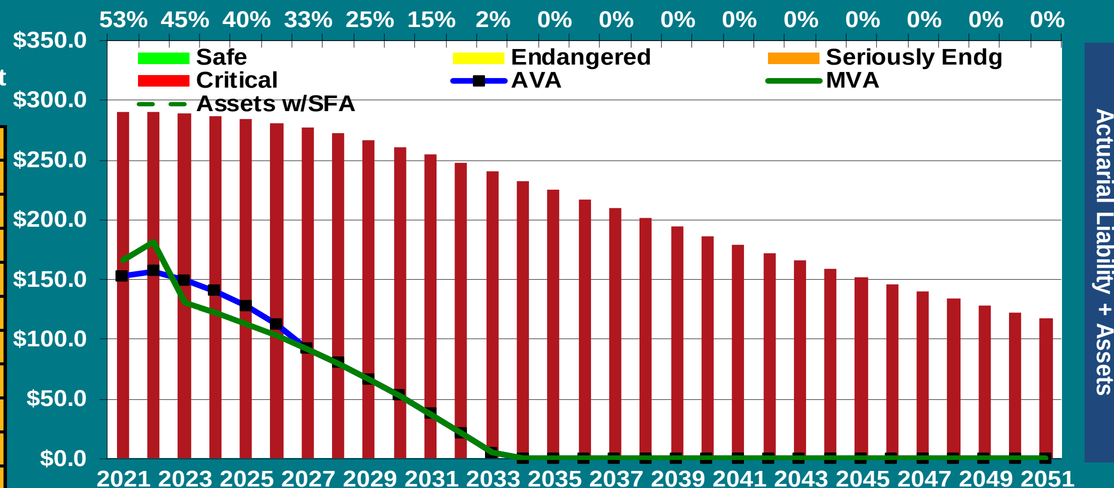
CHEIRON

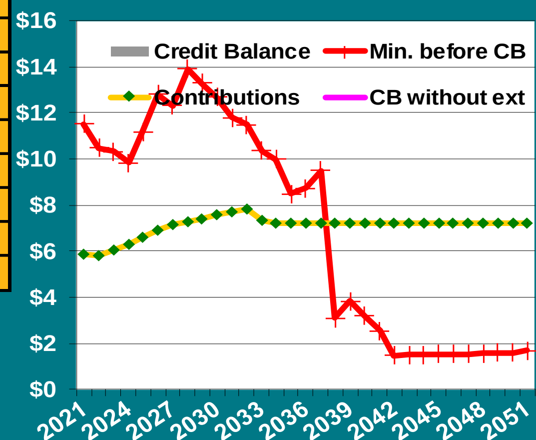
2021 Return	19.50%
Model SFA?	No
Insolvent PYB	2033
SFA Application Year	2023
Year SFA Received	2024
SFA $ Amount Received	$ -

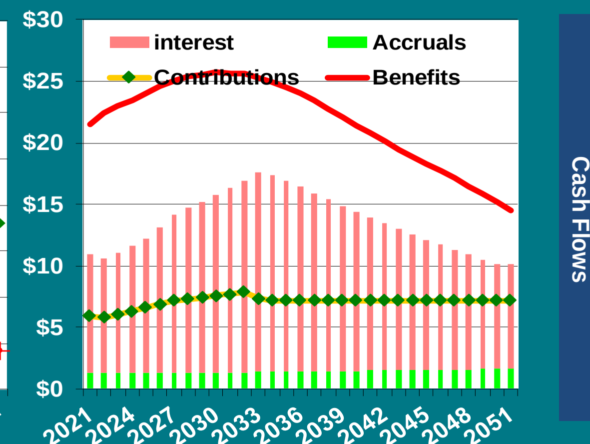
Calculate SFA

2000

PYB	Return	Cont	Ben	Mem Grwth	Discount Rate
2021	19.50%	4.8%	0.0%	0.0%	7.00%
2022	-20.00%	4.9%	0.0%	0.0%	7.00%
2023	7.00%	4.9%	0.0%	0.0%	7.00%
2024	7.00%	4.9%	0.0%	0.0%	7.00%
2025	7.00%	4.9%	0.0%	0.0%	7.00%
2026	7.00%	4.9%	0.0%	0.0%	7.00%
2027	7.00%	4.5%	0.0%	0.0%	7.00%
2028	7.00%	2.0%	0.0%	0.0%	7.00%
2029	7.00%	2.0%	0.0%	0.0%	7.00%
2030	7.00%	2.0%	0.0%	0.0%	7.00%
2031	7.00%	2.0%	0.0%	0.0%	7.00%
2032	7.00%	2.0%	0.0%	0.0%	7.00%
2033	7.00%	0.1%	0.0%	0.0%	7.00%
2034	7.00%	0.0%	0.0%	0.0%	7.00%
2035	7.00%	0.0%	0.0%	0.0%	7.00%
2036	7.00%	0.0%	0.0%	0.0%	7.00%
2037	7.00%	0.0%	0.0%	0.0%	7.00%
2038	7.00%	0.0%	0.0%	0.0%	7.00%
2039	7.00%	0.0%	0.0%	0.0%	7.00%
2040	7.00%	0.0%	0.0%	0.0%	7.00%
AVE	6.04%				







Projections – Preliminary SFA

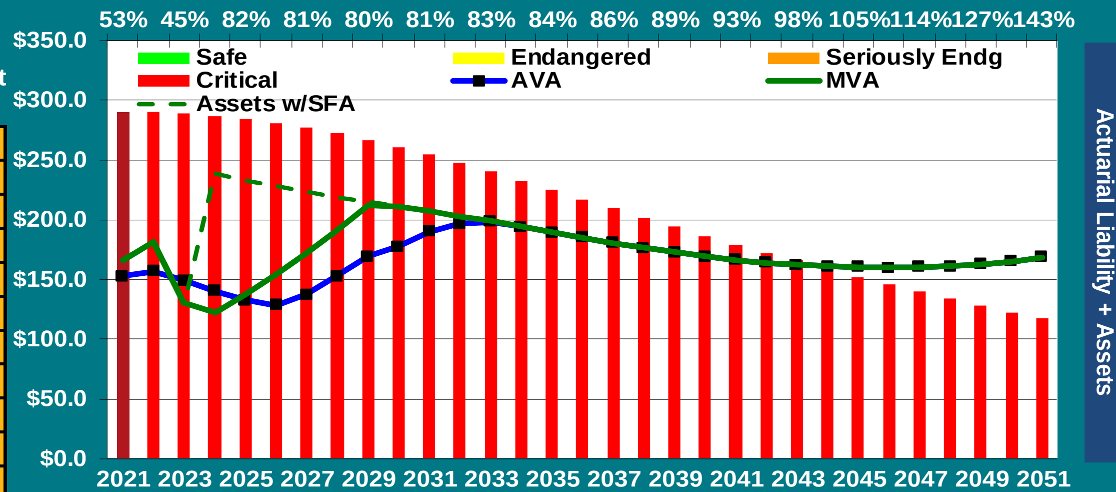
CHEIRON

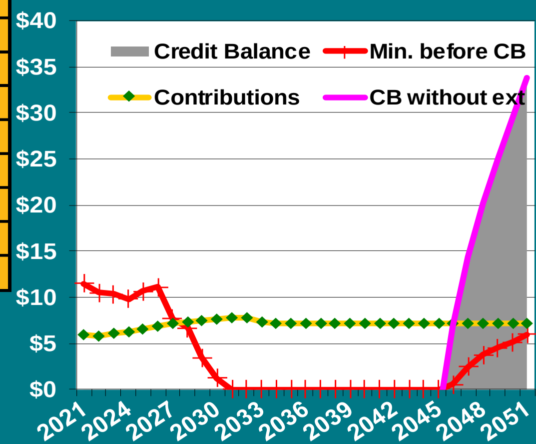
2021 Return	19.50%	SFA Application Year	2023
Model SFA?	Yes	Year SFA Received	2024
Insolvent PYB	None	SFA $ Amount Received	$ 116.2

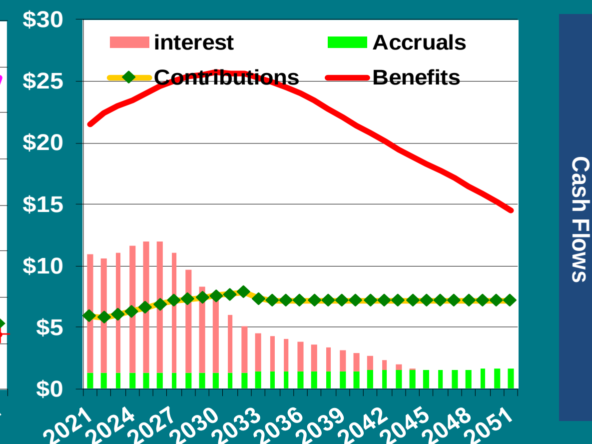
Calculate SFA

2000

PYB	Return	Cont	Ben	Mem Grwth	Discount Rate
2021	19.50%	4.8%	0.0%	0.0%	7.00%
2022	-20.00%	4.9%	0.0%	0.0%	7.00%
2023	7.00%	4.9%	0.0%	0.0%	7.00%
2024	7.00%	4.9%	0.0%	0.0%	7.00%
2025	7.00%	4.9%	0.0%	0.0%	7.00%
2026	7.00%	4.9%	0.0%	0.0%	7.00%
2027	7.00%	4.5%	0.0%	0.0%	7.00%
2028	7.00%	2.0%	0.0%	0.0%	7.00%
2029	7.00%	2.0%	0.0%	0.0%	7.00%
2030	7.00%	2.0%	0.0%	0.0%	7.00%
2031	7.00%	2.0%	0.0%	0.0%	7.00%
2032	7.00%	2.0%	0.0%	0.0%	7.00%
2033	7.00%	0.1%	0.0%	0.0%	7.00%
2034	7.00%	0.0%	0.0%	0.0%	7.00%
2035	7.00%	0.0%	0.0%	0.0%	7.00%
2036	7.00%	0.0%	0.0%	0.0%	7.00%
2037	7.00%	0.0%	0.0%	0.0%	7.00%
2038	7.00%	0.0%	0.0%	0.0%	7.00%
2039	7.00%	0.0%	0.0%	0.0%	7.00%
2040	7.00%	0.0%	0.0%	0.0%	7.00%
AVE	6.04%				







Projections – Plan assets at $157.5M

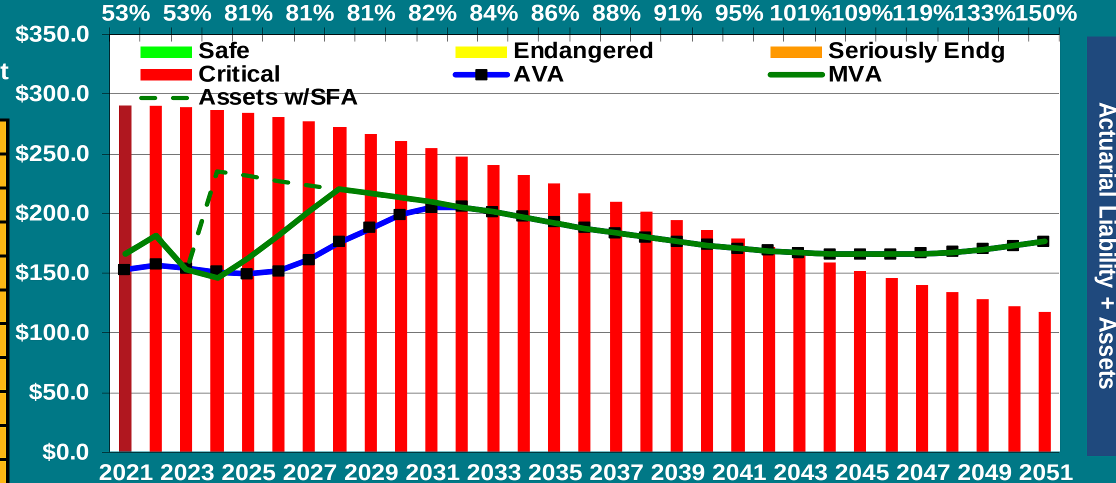
CHEIRON

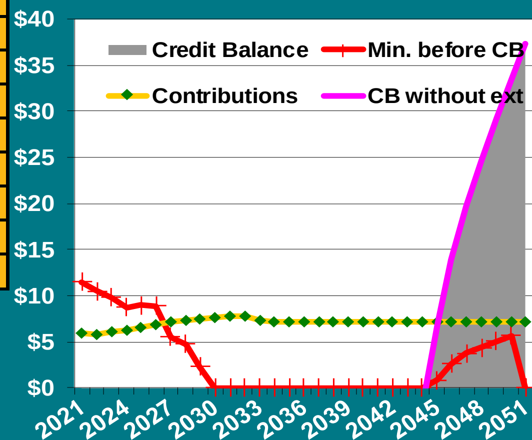
2021 Return	19.50%	SFA Application Year	2023
Year SFA Received	2024	Model SFA?	Yes
SFA $ Amount Received	$ 89.5	Insolvent PYB	None

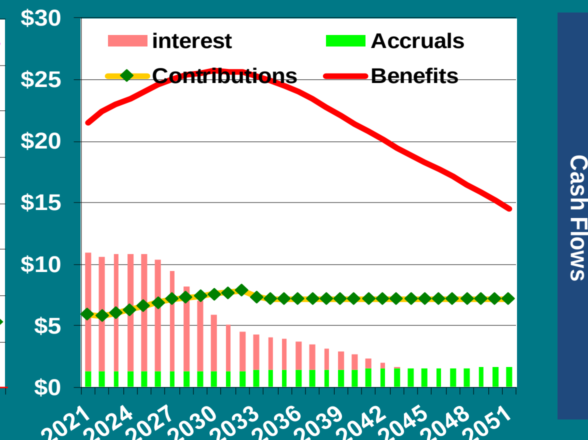
Calculate SFA

2000

PYB	Return	Cont	Ben	Mem Grwth	Discount Rate
2021	19.50%	4.8%	0.0%	0.0%	7.00%
2022	-7.00%	4.9%	0.0%	0.0%	7.00%
2023	7.00%	4.9%	0.0%	0.0%	7.00%
2024	7.00%	4.9%	0.0%	0.0%	7.00%
2025	7.00%	4.9%	0.0%	0.0%	7.00%
2026	7.00%	4.9%	0.0%	0.0%	7.00%
2027	7.00%	4.5%	0.0%	0.0%	7.00%
2028	7.00%	2.0%	0.0%	0.0%	7.00%
2029	7.00%	2.0%	0.0%	0.0%	7.00%
2030	7.00%	2.0%	0.0%	0.0%	7.00%
2031	7.00%	2.0%	0.0%	0.0%	7.00%
2032	7.00%	2.0%	0.0%	0.0%	7.00%
2033	7.00%	0.1%	0.0%	0.0%	7.00%
2034	7.00%	0.0%	0.0%	0.0%	7.00%
2035	7.00%	0.0%	0.0%	0.0%	7.00%
2036	7.00%	0.0%	0.0%	0.0%	7.00%
2037	7.00%	0.0%	0.0%	0.0%	7.00%
2038	7.00%	0.0%	0.0%	0.0%	7.00%
2039	7.00%	0.0%	0.0%	0.0%	7.00%
2040	7.00%	0.0%	0.0%	0.0%	7.00%
AVE	6.84%				







Reliance

The purpose of this presentation is to discuss the special financial assistance regulations of the American Rescue Plan Act of 2021 (ARPA). The results of this presentation rely on future plan experience conforming to the underlying assumptions and methods outlined in the 2021 Actuarial Valuation Report. To the extent that the actual plan experience deviates from the underlying assumptions and methods, or there are any changes in plan provisions or applicable laws, the results would vary accordingly.

In preparing this presentation, we relied on information (some oral and some written) supplied by the Fund Office and plan auditor. This information includes, but is not limited to, the plan provisions, employee data, and financial information. We performed an informal examination of the obvious characteristics of the data for reasonableness and consistency in accordance with Actuarial Standard of Practice No. 23.

Cheiron utilizes ProVal actuarial valuation software leased from Winklevoss Technologies (WinTech) to calculate liabilities and project benefit payments. We set parameters in the software to read the census data, to calculate benefits according to the Plan's provisions, and to apply actuarial assumptions. We review test cases to ensure these parameters are applied correctly, but otherwise, we rely on the software to provide accurate results for the Plan. We have relied on WinTech as the developer of ProVal. We have reviewed ProVal and have an understanding of it and have used ProVal in accordance with its original intended purpose. We have not identified any material inconsistencies in assumptions or output of ProVal that would affect this valuation.

This presentation and its contents have been prepared in accordance with generally recognized and accepted actuarial principles and practices and our understanding of the Code of Professional Conduct and applicable Actuarial Standards of Practice set out by the Actuarial Standards Board as well as applicable laws and regulations. Furthermore, as credentialed actuaries, we meet the Qualification Standards of the American Academy of Actuaries to render the opinion contained in this presentation. This presentation does not address any contractual or legal issues. We are not attorneys and Cheiron does not provide any legal services or advice.

This presentation was prepared exclusively for the Warehouse Employee Union Local No. 730 Pension Plan for the purposes described herein. Other users of this presentation are not intended users as defined in the Actuarial Standards of Practice, and Cheiron assumes no duty or liability to such other users.

Peter R. Hardcastle, CFA, FSA, EA, MAAA
Principal Consulting Actuary

Matt Deveney, FSA, EA, MAAA
Consulting Actuary