UFCW Unions & Participating Employers Pension Fund

Cheiron
Classic Values, Innovative Advice

2022 Actuarial Presentation

December 1, 2022

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Topics for Discussion

- 2022 Actuarial Valuation

- Special Financial Assistance (SFA)

2022 Actuarial Valuation Results

	2021	2022	% Chg
Liabilities			
Accrued Liability (UC for PPA and ASC 960)	$ 247,205,133	$ 251,061,538	1.6%
Vested Liability	$ 246,495,099	$ 250,540,311	1.6%
PPA Funding Ratio	48.2%	47.7%	N/A
Assets			
Market	$ 126,455,212	$ 131,953,068	4.3%
Market Return on Assets	11.82%	14.49%	N/A
Actuarial	$ 119,261,262	$ 119,789,120	0.4%
Actuarial Return on Assets	9.32%	11.02%	N/A
Minimim Funding			
Funding Deficiency at Beginning of Year	$ (29,452,477)	$ (44,942,118)	52.6%
Minimum Funding Requirement before Funding Deficiency	17,746,465	16,688,474	-6.0%
Employer Contributions*	4,174,849	*4,000,000*	-4.2%
Funding Deficiency at End of Year	$ (44,942,118)	$ (60,638,908)	34.9%
Participants			
Active	2,256	1,835	-18.7%
Deferred Vested	6,430	6,533	1.6%
Retired	3,423	3,615	5.6%

* *2022 contributions are estimated*

SFA: Timetable

- Non-Food is not in a priority category
- Plans in categories 5 and 6 originally had application period openings on 2/11/2023
  - PBGC opened category 5 early on 11/15/2022
  - No change to category 6, still 2/11/2023
- Plans not in a priority category scheduled for 3/11/2023 opening
  - Monitoring situation

SFA: Issues

- Assumption changes
  - Use 2020 assumption unless unreasonable
  - PBGC encourages changing mortality
  - We expect to change Base Unit assumption
- Filing / Locking-in
  - Naturally, we will try to file on 3/11/2023
  - However, if we fail to be accepted, should we "lock-in" the measurement date?

SFA: Locking-in / Investment Risk

Until Measurement Date → Measurement Date to Receipt of SFA → After Receipt of SFA

- Before measurement date, asset movements largely offset by change in amount of SFA
- After measurement date, no change in SFA, so movements in asset markets can help or hurt:
  - If interest rates rise, then SFA covers benefits for longer, but existing fund assets may become depressed
  - If interest rates fall, vice versa

Measurement Date to Receipt of SFA

- E.g. Measurement Date = 12/31/2022
- Assuming 2022 return is -15%, SFA is in the of \$175m - \$190m range
  - If application accepted 3/11/2023, latest date for SFA receipt = 10/7/2023
  - If lock-in at measurement date, SFA could be into 2024 or later
  - PBGC will pay interest at ~3.9% on SFA

Measurement Date to Receipt of SFA

- Positive economic outcomes
  1. Interest rates continue to rise extending benefits covered by SFA
  2. Risk assets turn around increasing non-SFA assets
- Negative economic outcomes
  3. Interest rates fall back to 2021 levels, reducing benefits covered by SFA
  4. Non-SFA assets continue to lose value

1\. + 4. or 2. + 3. might well go hand-in-hand

Scenario Analysis: Assets Returns

- IPS provided 3 asset return scenarios, (base, downside, upside) with 3 cash match options (none, 1 year, and 2 year)

Asset Class	Base Case	Downside Case	Upside Case
Public Equity	6.8%	-15%	15%
Investment Grade Bonds	5.0%	0%	8%
High Yield Bonds - Short Duration	6.5%	-2%	10%
High Yield Bonds - High Quality	7.3%	-8%	13%
Real Estate	7.8%	-10%	10%
Opportunistic	8.0%	-13%	15%
Private Equity	0.0%	-20%	20%
Cash/Other	2.0%	3%	2%
Short Term Bonds	5.0%	2%	6%

Scenario Analysis: Asset Allocation

IPS also provided allocation where dedicated short-term bonds were purchased to match 12 or 24 months net outgo

Asset Class	Current Portfolio as of 8/31/22	1-Yr. Cash Reserve Portfolio	2-Yr. Cash Reserve Portfolio
Public Equity	42.4%	32.0%	21.5%
Investment Grade Bonds	4.3%	4.3%	4.3%
Short Duration High Yield Bonds	5.3%	4.0%	2.7%
High Quality High Yield Bonds	3.1%	2.3%	1.6%
Real Estate	19.6%	19.6%	19.6%
Opportunistic	13.0%	13.0%	13.0%
Private Equity	8.9%	8.9%	8.9%
Cash/Other	3.4%	3.4%	3.4%
Short Term Investment Grade Bonds	0.0%	12.5%	25.0%

Note: In order to fund the short duration investment grade bond allocation as soon as possible, funding would come from liquid assets with higher expected risk (public equity, short duration high yield bonds, and high quality high yield bonds) and not alternative investments. Investment grade bonds are not used as a funding source since the portfolio has an intermediate duration profile and the risk reduction from moving to a short duration profile would be minimal and not worth the transaction costs.

Scenario Analysis: Bonds Yields

- Under each asset scenario, bond yields are likely different
  - Base: yields broadly unchanged
  - Downside: yields likely higher
  - Upside: yields likely lower
- Bond yields highly impactful on future projections as SFA assets could comprise of roughly 2/3 of total assets (SFA + non-SFA)

Scenario Analysis: Impact of yields on SFA

Period of Benefit Payments + Expenses covered by $175m of SFA	
Effective Yield	Period
2%	9 $^{0}/_{12}$ years
3%	9 $^{6}/_{12}$ years
4%	9 $^{11}/_{12}$ years
5%	10 $^{7}/_{12}$ years
6%	11 $^{3}/_{12}$ years
7%	12 $^{1}/_{12}$ years
8%	13 $^{1}/_{12}$ years

Each year of cover provides ~$20m in benefit payments and administrative expenses

Scenario Analysis: Assumptions

- Projection used in the 2022 Valuation
  - Estimated 2022 return of -13.1% (Year to date through 10/31/2022 12.2% gross of fees)
  - Membership levels: 10% decline for Shoppers / 20% decline for Metro for 2022
    - Total plan CBUs projected to decline at 3% for 10 years and then 1% thereafter in line with PBGC assumption guidance
- SFA rate calculated using average of segment rates + 67bp (3.9%) and Non-SFA rate using 3rd segment rate + 200bp (5.9%)
- SFA assumed to be $175m for modeling purposes
  - SFA assets assumed to be invested in cash matching portfolio and Non-SFA assets assumed return of 7.00% thereafter

Scenario Analysis: Assumptions

- Assume SFA is calculated as $175m and received either late 2023 ($181.8m) or late 2024 ($188.9m)
  – If base, SFA can be invested at 5%
  – If downside, SFA can be invested at 8%
  – If upside, SFA can be invested at 3%
- Projections with and without cash match
  – Scenarios 1, 2 and 3 assume SFA received late 2023 and a 1-year cash match
  – Scenarios 4, 5 and 6 assume SFA received late 2024 and a 2-year cash match

Scenario Analysis: Projections

Scenario	SFA Receipt	End 2051 Assets (No Cash Match)	End 2051 Assets (With Cash Match)
1 Base	End 2023	$165.4m	$162.8m
2 Downside	End 2023	$148.1m	$166.5m
3 Upside	End 2023	$165.1m	$151.9m
4 Base	End 2024	$131.6m	$127.8m
5 Downside	End 2024	$123.8m	$149.9m
6 Upside	End 2024	$128.8m	$110.1m

- 1 year delay in receipt of SFA costs approx. $34m in base case due to extra year of 3.9% interest from PBGC not matching the expected earnings on non-SFA assets and SFA assets, and the loss compounding for 27 years.
- Non-SFA assets assumed to earn IPS capital market returns in 2023 and 2024 and 7.00% in 2025 and thereafter.

Required Disclosures

The purpose of this presentation is to present the preliminary January 1, 2022 actuarial valuation results for the UFCW Unions and Participating Employers Pension Fund to the Trustees. 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 user.

In preparing this presentation, we relied on information (some oral and some written) supplied by the Fund Office and Auditor, Withum. 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 Standards of Practice No. 23.

This analysis was based on financial data through December 31, 2021, and the January 1, 2022, membership data. Unless otherwise noted, the assumptions and methods are outlined in the January 1, 2021 Actuarial Valuation Report. Future results may differ significantly from this presentation due to such factors as the following: plan experience differing from that anticipated by the assumptions; changes in assumptions; and changes in plan provisions or applicable law.

This presentation and its contents were 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 our firm does not provide any legal services or advice.

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