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UFCW and FELRA Severance Fund

Actuarial Valuation Report as of January 1, 2020

Produced by Cheiron

October 2020

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October 16, 2020

UFCW and FELRA Severance Fund
c/o Associated Administrators, LLC
8400 Corporate Drive, Suite 430
Landover, Maryland 20785-2361

Dear Trustees:

At your request, we have performed the January 1, 2020 Actuarial Valuation of the UFCW and FELRA Severance Fund (the "Fund"). The purpose of this report is to present the annual actuarial valuation of the UFCW and FELRA Severance Fund. This report is for the use of the Trustees and its auditors in preparing financial reports in accordance with applicable law and accounting requirements. Any other user of this report is not an intended user and is considered a third party.

Your attention is called to the introductory section in which we refer to the general approach employed in the preparation of this report. We also comment on the sources and reliability of both the data and the actuarial assumptions on which our findings are based. These comments are the basis for our certification that this report is complete to the best of our knowledge. The results of this report are only applicable to the 2019 Plan Year and rely on future plan experience conforming to the underlying assumptions. To the extent that actual plan experience deviates from the underlying assumptions, the results would vary accordingly.

In preparing our report, we relied on information (some oral and some written) supplied by Associated Administrators, LLC and Calibre CPA Group PLLC. 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.

This report and its contents have been prepared in accordance with generally recognized and accepted 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 report. This report does not address any contractual or legal issues. We are not attorneys, and our firm does not provide any legal services or advice.

This report was prepared for the UFCW and FELRA Severance Fund for the purposes described herein and for the use by the Fund's auditor in completing an audit related to the matters herein. Other users of this report are not intended users as defined in the Actuarial Standards of Practice, and Cheiron assumes no duty or liability to such other users.

Sincerely,
Cheiron

Christopher J. Mietlicki, ASA, MAAA, EA
Consulting Actuary

Kathy Swan, FSA, MAAA, EA
Consulting Actuary

FOREWORD

Cheiron has performed the Actuarial Valuation of the UFCW and FELRA Severance Fund as of January 1, 2020. The purpose of this report is to:

1) **Measure and disclose**, as of the valuation date, the financial condition of the Fund, and

2) **Provide specific information** and documentation required by the auditors of the Fund.

An actuarial valuation establishes and analyzes fund assets, liabilities, and contributions on a consistent basis and traces the progress of each from one year to the next. It includes measurement of the Fund's investment performance as well as an analysis of actuarial liability gains and losses.

Section I presents a summary of the valuation and compares this year's results to last year's results.

Section II contains exhibits relating to the valuation of assets.

Section III shows the various measures of liabilities.

Section IV contains a disclosure of recent employer contribution levels.

The appendices to this report contain a summary of the Fund's membership at the valuation date, a summary of the major provisions of the Fund, and the actuarial methods and assumptions used in the valuation. Details are provided in the appendices.

In preparing our report, we relied on information (some oral and some written) supplied by Associated Administrators, LLC and Calibre CPA Group PLLC. 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.

The actuarial assumptions reflect our understanding of the likely future experience of the Fund, and the assumptions as a whole, represent our best estimate for the future experience of the Fund. Future results may differ significantly from the current results presented in this report 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.

Finally, in preparing this report, we have conformed to generally accepted actuarial principles and practices which are consistent with the Code of Professional Conduct and applicable Actuarial Standards of Practice set out by the Actuarial Standards Board.

SECTION I - SUMMARY

The table below sets out the principal results of this year's valuation and compares them to last year's results.

Table I-1
UFCW and FELRA Severance Fund
Summary of Principal Results

	1/1/2019	1/1/2020	Change
Participant Counts			
Full-Time Actives	3,331	3,138	-5.8%
Part-Time Actives	1,429	1,432	0.2%
Total	4,760	4,570	-4.0%
Financial Information			
Total Present Value of Future Benefits and Expenses	$ 41,288,109	$ 38,597,188	-6.5%
Present Value of Future Employer Contributions	73,491	72,208	-1.7%
Market Value of Assets	3,836,408	3,071,977	-19.9%
Surplus (Deficit)	(37,378,210)	(35,453,003)	
Expected Future Payments	49,630,225	45,970,232	-7.4%
Fund Experience			
Asset Gain/(Loss)	$ (115,295)	$ (22,156)	
Liability Gain/(Loss)	$ (2,257,961)	$ 235,616	
Total Gain/(Loss)	$ (2,373,256)	$ 213,460	
Contributions and Cash Flows			
Prior Year Employer Contributions	$ 5,122,314	$ 2,972,272	-42.0%
Prior Year Administrative Expenses	$ 447,823	$ 423,084	-5.5%
Prior Year Benefit Payments	$ 5,578,693	$ 3,410,789	-38.9%

SECTION I - SUMMARY

General Comments

- The Fund has essentially been closed to new participants since 2000. In addition, as of December 31, 2013, benefit accruals were frozen. Consequently, liabilities will decline as benefits are paid.

- Benefit payments of $8.3 million are expected during 2020. They are expected to decline to less than $4 million per year over the next few years.

- The total expected future benefit and expense payments on a cash basis, assuming no investment earnings, are $45,970,232 .

- Cash infusions have allowed the Fund to maintain solvency, and additional contributions will be required.

SECTION II - ASSETS

Assets at Market Value

Market values represent "snapshot" or "cash out" values, which provide the principal basis for measuring financial performance from one year to the next.

Table II-1
Statement of Assets at Market Value

	January 1, 2019	January 1, 2020
Invested Assets		
Short-Term Investments	$ 2,487,011	$ 1,689,727
Allocated Share of Investments	450,604	1,381,747
Total Investments	$ 2,937,615	$ 3,071,474
Other Assets		
Accrued Interest and Dividends Receivable	$ 3,964	$ 2,403
Contributions Receivable	912,758	11,006
Accounts Payable	(17,929)	(12,906)
Total Non-Invested Assets	$ 898,793	$ 503
Net Assets Available for Benefits	$ 3,836,408	$ 3,071,977

Changes in Market Value

The components of asset change are:

- Contributions
- Benefit payments
- Expenses
- Investment income (realized and unrealized)

The specific changes during 2020 are presented below.

Table II-2
Changes in Market Values

Value of Assets - January 1, 2019	$	3,836,408
Employer Contributions	$	2,972,272
Net Investment Return		97,170
Benefit Payments		(3,410,789)
Administrative Expenses		(423,084)
Value of Assets - January 1, 2020	$	3,071,977

Investment Performance

The Market Value of Assets (MVA) returned 2.9% for the 2019 Plan Year as compared to the 2018 Plan Year return of 0.8%. The Fund experienced an actuarial investment loss (expected return versus actual return) of $22 thousand since the return for 2019 was less than the assumption of 3.5% per year. These are dollar weighted returns based on simplified timing and may differ from returns provided in other reports.

SECTION III - LIABILITIES

In this section, we present detailed information on Fund liabilities including:

- Statement of **changes** in these liabilities during the year,
- **Disclosure** of Fund liabilities as of January 1, 2019 and January 1, 2020, and
- A **projection** of future liabilities.

The following table summarizes the liability changes during the past year.

Table III-1
Changes in Total Liability

Total Liability as of January 1, 2019	$	41,288,109
Benefit Payments		(3,410,789)
Administrative Expenses		(423,084)
Interest		1,378,568
Experience (Gain) / Loss		(235,616)
Total Liability as of January 1, 2020	$	38,597,188

SECTION III - LIABILITIES

Disclosure

The Present Value of Future Benefits and Expenses (PVFBE) represent the amount of money needed today to fully pay off all future benefits and expenses of the Fund. This calculation assumes that benefit accruals for current participants remain frozen and that there are no new participants in the Fund.

The following table discloses the PVFBE as of the current valuation and the prior one. It also shows the Total Resources from current assets and future contributions that are expected to be available to pay these obligations. The difference between the Total Resources and PVFBE shows that the net deficit decreased from the previous year.

Table III-2
Liabilities/Net Surplus (Unfunded)

	1/1/2019	1/1/2020
Contribution Account Balance	$ 25,370,008	$ 24,088,524
Past Service Benefits	276,587	240,040
Cash Bonus Benefits	9,016,718	8,122,475
Death Benefits	1,327,019	1,193,650
Benefit Taxes	3,181,545	2,974,191
Administrative Expenses	2,116,232	1,978,308
Total Present Value of Future Benefits and Expenses	$ 41,288,109	$ 38,597,188
Market Value of Assets	$ 3,836,408	$ 3,071,977
Future Negotiated Contribution on Behalf of Current Participants	73,491	72,208
Total Resources	$ 3,909,899	$ 3,144,185
Net Surplus/(Deficit)	$ (37,378,210)	$ (35,453,003)

SECTION III - LIABILITIES

The following table shows how different discount rates impact the net surplus/(deficit). The first column, which uses a discount rate of 0.00%, is essentially a cash basis. The second column utilizes a rate based on investment grade corporate bonds. The third column utilizes a discount rate equal to the investment return that might be achieved in a fully funded, well-diversified investment portfolio.

Table III-3
Discount Rate Sensitivity as of January 1, 2020

Discount Rate:	**0.00%**	**3.50%**	**7.00%**
Contribution Account Balance	$ 28,230,292	$ 24,088,524	$ 21,144,986
Past Service Benefits	252,022	240,040	229,907
Cash Bonus Benefits	10,172,724	8,122,475	6,772,487
Death Benefits	1,416,642	1,193,650	1,035,279
Benefit Taxes	3,542,337	2,974,191	2,579,747
Administrative Expenses	2,356,215	1,978,308	1,715,940
Total Present Value of Future Benefits and Expenses	$ 45,970,232	$ 38,597,188	$ 33,478,346
Market Value of Assets	$ 3,071,977	$ 3,071,977	$ 3,071,977
Future Negotiated Contribution on Behalf of Current Participants	87,373	72,208	61,381
Total Resources	$ 3,159,350	$ 3,144,185	$ 3,133,358
Net Surplus/(Deficit)	$ (42,810,882)	$ (35,453,003)	$ (30,344,988)

SECTION III - LIABILITIES

Projection

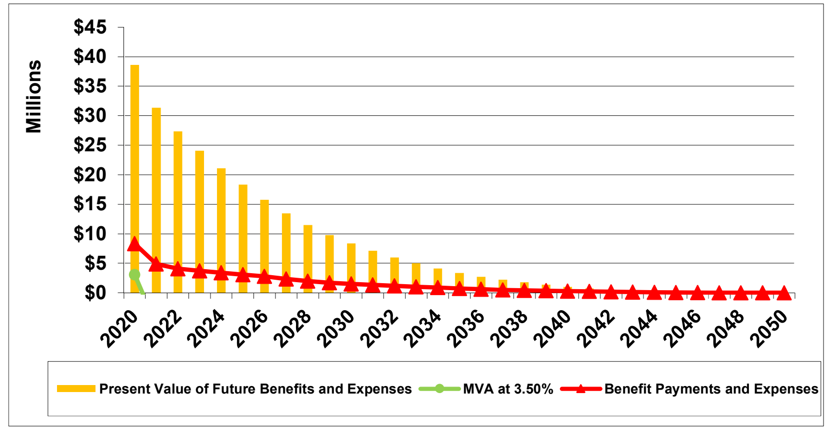
Since the 2000 Collective Bargaining Agreement, poor investment returns have produced the significant deficit shown on page 5.

To assist the Trustees in their financial management of the Fund, in the following chart, we show projections of three critical financial measurements:

- the present value of all future projected benefits and expenses (the yellow bars),
- the projected benefits and expenses (red line) to be paid in each year, and
- the market value of assets (the green line).

These projections are based upon the long-term funding assumptions detailed in the appendix. They assume that all future experience conforms exactly to these assumptions.

This projection assumes no future employer contributions since contributions have ceased on behalf of the vast majority of participants.



The chart shows the Fund would be insolvent in 2020, when its assets have been completely dissipated. At that point, the present value of future benefit and expense payments is projected to be approximately $35.4 million. However, since there is an agreement to provide additional cash infusions once the assets drop below agreed upon levels, the Fund will be able to pay benefits as long as the agreement is still in place.

SECTION IV - CONTRIBUTIONS

In this section, we present detailed information on Fund contributions from two perspectives:

- **Actuarially determined contributions**, based on the Aggregate funding method, and
- **Historic collectively bargained contributions**.

To begin this section, we present a summary of past contributions. Effective with the March 26, 2000 Collective Bargaining Agreement, future contributions to the Severance Fund were essentially eliminated with the exception of a few small employers. Any significant contributions have been lump sum payments agreed to in recent bargaining. We expect regular contributions for the 2019 Plan Year and beyond to be less than $0.1 million per year in total for these groups.

Table IV-1
Summary of Past Contribution Amounts

Year	Contribution Made
2019	$ 2,972,272
2018	5,122,314
2017	7,089,681
2016	10,424,856
2015	2,450,618
2014	5,958,012
2013	1,770,040
2012	5,249,088 [1]
2011	31,570
2010	79,380

[1] This reflects the 2012 bargaining agreement where primary employers were expected to contribute a total lump sum of $6 million on July 1, 2012.

Actuarial Contributions

In the process of evaluating the financial condition of any fund, we analyze the fund's assets and liabilities to determine what level (if any) of contributions are needed to properly fund future benefits and expenses.

For this fund, the funding method employed is the **Aggregate Cost Method**. In this method, the annual actuarial cost is determined by calculating the excess of the PVFB over the assets and spreading that amount over the projected average future service.

The Fund currently has a $35,525,211 expected unfunded present value of future benefits. The average present value of remaining future service of the existing participants is 6.5514. Dividing these two figures results in an actuarial cost of $5,422,537 per year. This annual actuarial cost will need to be covered by future investment (or experience) gains or additional contributions in order to avoid insolvency.

APPENDIX A - MEMBERSHIP INFORMATION

The January 1, 2020 data for this valuation was provided by Associated Administrators, LLC (AA). We also received the check register showing all those who were paid out during 2019. 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.

The following is a list of data charts contained in this section:

- Participant Reconciliation from January 1, 2019 to January 1, 2020
- Age/Service Distribution for Full-Time Active Participants
- Age/Service Distribution for Part-Time Active Participants

Participant Reconciliation from January 1, 2019 to January 1, 2020

	Total
1. January 1, 2019 valuation	**4,760**
2. Reductions	
a. Terminated	(265)
3. Changes in status	
a. Data corrections	75
4. January 1, 2020 valuation	**4,570**

APPENDIX A - MEMBERSHIP INFORMATION

AGE/SERVICE DISTRIBUTION OF ACTIVE PARTICIPANTS

FULL-TIME PARTICIPANTS AS OF JANUARY 1, 2020

	COMPLETED YEARS OF SERVICE										
AGE	Under 1	1-4	5-9	10-14	15-19	20-24	25-29	30-34	35-39	40 & Up	Total
Under 25	0	0	0	0	0	0	0	0	0	0	0
25-29	0	0	0	0	0	0	0	0	0	0	0
30-34	0	0	0	0	1	0	0	0	0	0	1
35-39	0	0	0	3	7	8	14	6	2	4	44
40-44	0	0	0	13	42	32	54	25	21	3	190
45-49	0	0	0	30	93	68	119	60	41	14	425
50-54	0	0	0	42	132	96	180	118	47	20	635
55-59	0	0	0	51	152	131	261	168	68	31	862
60-64	0	0	0	23	121	87	180	132	89	17	649
65-69	0	0	0	10	53	41	52	39	22	13	230
70 & Up	0	0	0	1	24	10	34	14	10	9	102
Total	0	0	0	173	625	473	894	562	300	111	**3,138**

Average Age = 56.2 Completed Years of Service = 27.6

PART-TIME PARTICIPANTS AS OF JANUARY 1, 2020

	COMPLETED YEARS OF SERVICE										
AGE	Under 1	1-4	5-9	10-14	15-19	20-24	25-29	30-34	35-39	40 & Up	Total
Under 25	0	0	0	0	0	0	0	0	0	0	0
25-29	0	1	0	0	0	0	0	0	0	0	1
30-34	0	0	0	0	1	0	0	0	0	0	1
35-39	0	0	1	2	7	5	14	4	5	3	41
40-44	0	0	1	10	32	21	31	17	10	4	126
45-49	0	0	0	11	40	33	49	38	10	6	187
50-54	0	0	0	13	61	41	69	44	15	4	247
55-59	0	0	0	20	69	43	95	55	26	3	311
60-64	0	0	0	16	49	46	91	58	33	7	300
65-69	0	0	0	7	20	24	44	24	19	6	144
70 & Up	0	0	0	2	8	16	19	14	8	7	74
Total	0	1	2	81	287	229	412	254	126	40	**1,432**

Average Age = 56.3 Completed Years of Service = 26.30

APPENDIX B - SUMMARY OF MAJOR PLAN PROVISIONS

1. Eligibility

All employees within bargaining units represented by UFCW Locals 27, 400, and 1776, where the Collective Bargaining Agreement calls for contributions to this fund on behalf of such employees. This fund was originally closed to new participants effective January 1, 1993. However, an exemption was made to add in active employees in eligible classifications hired September 12, 1992 through March 26, 2000 who were still actively employed.

2. Vesting Schedule

Benefits under the Fund vest at the rate of 10% per year of credited service. This service is measured according to the participant's service under the FELRA and UFCW Pension Fund.

3. Benefits Upon Termination of Service

When a participant's service terminates (other than by death), the vested portion of his earned severance benefit will be paid. The earned severance benefit equals the sum of A, B, and C below.

A. The account balance equal to the sum of contributions made on his/her behalf.

Effective for severance from service on or after January 1, 1993, a participant's account balance will be increased for years of service in excess of 20, according to the following schedule:

Current Contribution Rate	Additional Contribution for Years of Service in Excess of 20
10¢ per hour	10¢
15¢ per hour	15¢
25¢ per hour	25¢
35¢ per hour	35¢

B. A past service benefit based upon years of credited service prior to becoming a participant in the Fund, according to the following schedule:

Contribution Rate	Past Service Benefit Rate/Year Service Full-Time	Part-Time	
10¢ per hour	$100.00	$ 50.00	(max. 10 years)
15¢ per hour	133.00	66.50	
25¢ per hour	200.00	100.00	
35¢ per hour	250.00	125.00	

APPENDIX B - SUMMARY OF MAJOR PLAN PROVISIONS

Note: Former participants in the UFCW Local #117 and FELRA Severance Fund are entitled to a past service benefit according to the following schedule:

	Past Service Benefit Rate/Year Service	
Contribution Rate	Full-Time	Part-Time
10¢ per hour	$ 125.00	$ 62.50
15¢ per hour	140.00	70.00
25¢ per hour	220.00	110.00
35¢ per hour	275.00	137.00

C. A cash bonus (not applicable to former participants in the UFCW Local #117 and FELRA Severance Fund) equal to the cash surrender value at termination of hypothetical individual whole life polices having an aggregate face amount equal to the participant's scheduled death benefits under the Fund. Those cash surrender values are determined by reference to policies available from the Northwestern National Life Insurance Company.

Effective April 1, 2000, there shall be a 10% increase in the final benefit calculation for severance benefits payable on or after that date.

Effective December 31, 2013 benefit accruals were frozen.

4. Death Benefits

Upon the death of a participant, other than former participants in the UFCW Local #117 and FELRA Severance Fund, the benefit will be the greater of:

A. A death benefit according to the following schedule:

Contribution Rate	Full-Time	Part-Time
Under 35¢ per hour	$ 5,000	$ 2,500
35¢ per hour	10,000	5,000

B. The participant's earned severance benefit. (This is also the death benefit for former participants in the UFCW Local #117 and FELRA Severance Fund.)

5. FICA and FUTA Tax

In addition to the benefits described above, the Fund also pays the employer portion of the FICA tax and the FUTA tax attributable to distributions under the Fund.

6. Changes in Plan Provisions

None

APPENDIX C - ACTUARIAL ASSUMPTIONS AND METHODS

A. Actuarial Assumptions

1. Rate of Investment Return

3.5% compounded annually

All investment returns are net of investment expenses.

2. Rate of Mortality

Active: RP-2000 Combined Healthy mortality table for males and females

Healthy Inactive: RP-2000 Healthy Annuitant mortality table set forward one year for males and no adjustment for females

3. Rates of Turnover

Terminations of employment for reasons other than death or retirement are assumed to be in accordance with annual rates as shown below for illustrative ages.

Age	Number Expected to Terminate Annually Per 1,000
25	199
30	139
35	99
40	58
45	37
50	14
55 and over	0

4. Rates of Retirement

Age	Number Expected to Retire Annually Per 1,000	
	Less than 30 Years of Service	Over 30 Years of Service
50	0	200
51	0	200
52	0	200
53	0	200
54	0	200
55	85	200
56	85	200
57	85	200
58	85	200
59	85	200
60	150	200
61	150	250
62	300	350
63	200	400
64	200	400
65	300	400
66	300	400
67	200	400
68	200	400
69	200	400
70 and over	1,000	1,000

5. Provision for Expenses Other Than Investment Expenses

The present value of administrative expenses was calculated by multiplying the present value of benefits by 5.88%.

FICA, FUTA, and state unemployment taxes paid by the Plan are assumed to total 8.84% of distributions.

APPENDIX C - ACTUARIAL ASSUMPTIONS AND METHODS

6. Contribution Hours

Full-time employees are assumed to work 1,800 hours per year, and part-time employees are assumed to work 1,200 hours per year.

7. Changes in Assumptions Since Last Valuation

None

B. Actuarial Methods

1. Asset Valuation Method

The assets used in this report are market values of the valuation date.

2. Funding Method: Aggregate Actuarial Cost Method

Under the Aggregate Actuarial Cost Method, the excess of the Actuarial Present Value of projected benefits over the value of assets is funded on a level basis over the future working lifetime of active employees. The portion of this excess allocated to the current year is called the annual actuarial cost.