

American Rescue Plan:

Special Financial Assistance Regulations

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Caveats

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Today's presenters



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Special Financial Assistance

- Eligibility
- Amount
- Investments
- Conditions/Restrictions
- Other Items
- Observations

Eligibility

1	Critical and declining status in any plan year 2020 through 2022
2	Approved suspension of benefits under MPRA as of March 11, 2021
3	Critical status in any plan year 2020 through 2022, with a current liability funded percentage below 40%, and which have an active to inactive participant ratio of less than 2 to 3 <ul style="list-style-type: none">▪ These three criteria for critical status plans do not need to be satisfied in the same plan year
4	Plans that became insolvent after December 16, 2014, and have not terminated as of March 11, 2021

Eligibility – Critical Status

- Plans electing critical are not eligible – must satisfy the critical tests
 - Unclear if a plan that elected critical prior to 2020 could be eligible
- Current liability funded percentage <40%
 - Assets are market value **plus** anticipated withdrawal liability payments
- Participant count at end of plan year from 5500 used for testing
2:3 ratio of actives to inactive

Eligibility – Assumptions

- Assumptions from certification prior to January 1, 2021 used unless unreasonable
- Except discount rate – can't change discount rate even if now unreasonable
- May end up with different assumptions for actual certification and to determine eligibility for assistance

Eligibility – Priority Groups

PRIORITY GROUP	DESCRIPTION OF PRIORITY GROUP	SFA APPLICATION PERIOD
1	Insolvent plans or plans projected to be insolvent before March 11, 2022	July 9, 2021, through December 31, 2025
2	Either: <ul style="list-style-type: none"> ▪ Plans that implemented MPRA benefit suspensions as of March 11, 2021 ▪ Plans expected to be insolvent within one year of the SFA application filing date 	January 1, 2022,* through December 31, 2025
3	Plans in critical and declining status with 350,000 or more participants	April 1, 2022,* through December 31, 2025
4	Plans projected to become insolvent before March 11, 2023	July 1, 2022,* through December 31, 2025

* Or an earlier date specified on the PBGC's [website](#).

Eligibility – Priority Groups

PRIORITY GROUP	DESCRIPTION OF PRIORITY GROUP	SFA APPLICATION PERIOD
5	Plans projected to become insolvent before March 11, 2026	February 11, 2023,* through December 31, 2025
6	Plans PBGC determines would need more than \$1 billion in financial assistance (absent SFA)	February 11, 2023,* through December 31, 2025
7	Additional plans PBGC identifies as a priority	March 11, 2023,* through December 31, 2025
N/A	All other eligible plans not in priority groups 1-7 above	March 11, 2023,* through December 31, 2025

* Or an earlier date specified on the PBGC's [website](#).

Eligibility – Application Timing

- PBGC has 120 days to approve or deny application – if no action taken by PBGC, application is deemed approved
 - PBGC can open and close priority groups to manage their workload
- PBGC can deny for incomplete or missing information, unreasonable assumptions, and/or not meeting the eligibility requirements
- Plans can withdraw and reapply but measurement date is fixed with initial application

- Deadlines:

Initial applications	December 31, 2025
Revised applications	December 31, 2026

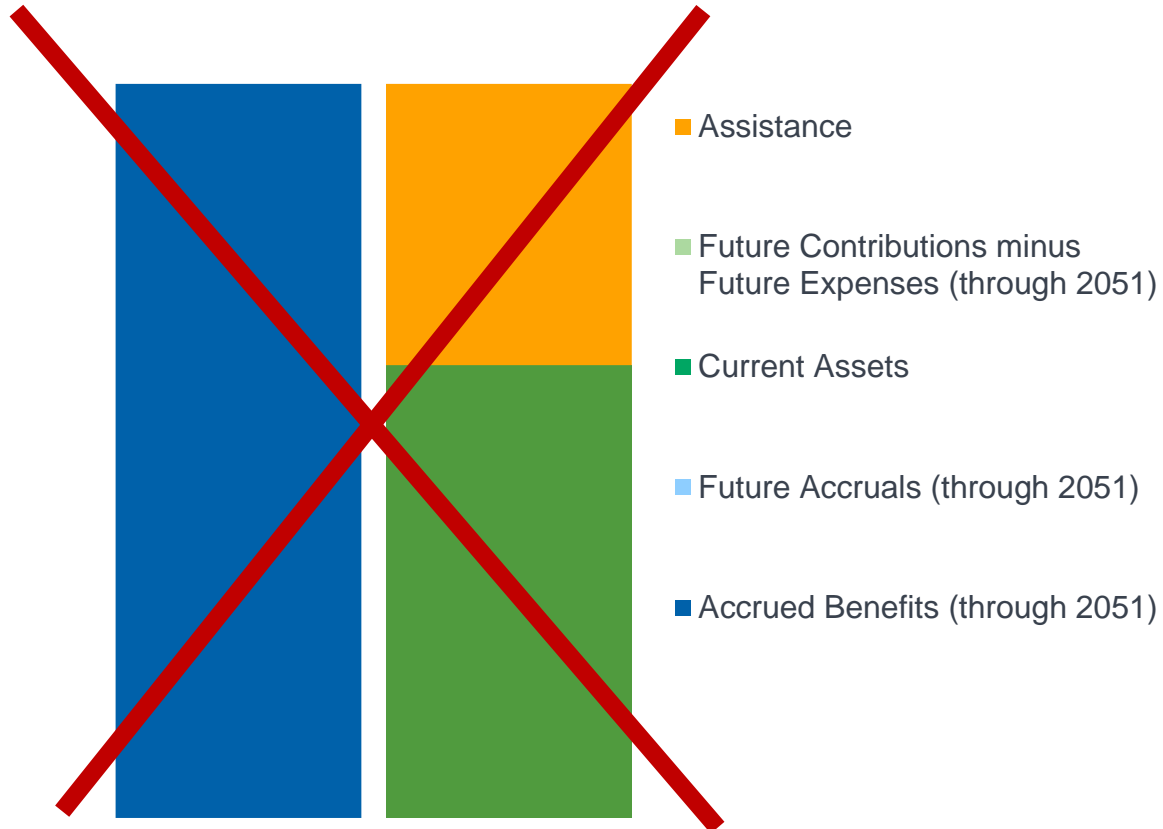
Amount

- Amount = Value of Obligations – Value of Resources
 - Measured as of last day of calendar quarter prior to application
- Obligations
 - Present value of benefit payments (after restoring MPRA cuts) +
 - Present value of admin expenses
- Resources
 - Market value of assets +
 - Present value of contributions and withdrawal liability payments

Amount

Example of eligible plan with “late” projected insolvency

Compare Current Assets to
Accrued Benefit Payments



Compare Projected Assets to
Projected Benefit Payments



Amount – Restoration of MPRA Cuts

- Must reinstate benefits “suspended” under MPRA
- Must also reinstate benefits reduced due to insolvency
- Make-up payment due to participants
 - Lump sum or monthly installments over period of 5 years
- Can restore benefits prior to receiving assistance money
- Certain payments are rollover eligible
 - Will need participant election to rollover
- Expect additional administrative expense to calculate and pay these benefits

Amount – Assumptions

- Same as for determining eligibility, except...
- Discount rate is no greater than 3rd segment rate + 200bps
 - Current discount rates would be limited to around 5.50%
- PBGC will accept the assumptions unless clearly erroneous
- Plans may change assumptions (other than discount rate) with documentation of why old assumption is no longer reasonable

Amount – Other Events

- **No gaming the amount**
- Can't do the following to get more assistance
 - Merge plans or spin off a group of participants
 - Increase benefits (except restoring MPRA cuts)
 - Reduce future contribution rates
- If any of these occur, they are ignored for determining the amount of assistance

Investments

- Currently, can only be invested in investment grade fixed income
 - Can be individual securities or mutual funds / ETFs
 - Some limited amount of leverage / derivatives allowed
- Disconnect between calculation of amount (5.5%) and yields on investment grade fixed income (3.5% or less)
- PBGC is requesting comments on other allowable investments
 - Must not have materially greater risk than fixed income

Investments – Use of Assistance

- Must be segregated from other assets
- Must only be used to pay benefits and expenses of plan
- No requirement on when assets get used

Conditions / Restrictions

- Benefit increases
 - Cannot increase benefits for past service (prior to application)
 - Can increase future benefits if paid for by increased contributions
- Contribution rates
 - Cannot decrease rate or change base unit definition
 - Exception if plan sponsor demonstrates that it lessens the risk of loss to plan participants
- Withdrawal liability
 - Must use mass withdrawal rates for 10 years or until assistance assets are depleted

Conditions / Restrictions (more)

- Asset allocation
 - Must keep 1 year of benefit payments and expenses in fixed income
- Income/contribution allocations
 - Cannot decrease amount allocated to a plan with assistance
- Transfer or merger (after receiving assistance)
 - Requires approval by the PBGC
 - Not clear if other restrictions follow to merged plan
- Additional reporting requirements

Other Items

- Plans that receive assistance are deemed to be in critical status through 2051
- Plans that receive assistance are prohibited from suspending benefits under MPRA in the future
- PBGC premiums are still due for plans receiving assistance
- Assistance assets are ignored for IRS minimum funding purposes
- Coordination with other ARP temporary relief provisions
 - Impact of decision to freeze Zone status?
 - Unwinding extended loss recognitions?

Observations

- Just because a plan is eligible doesn't mean it will get assistance
 - If not projected to run out of money by 2051 at 5.5%, won't get assistance
- Disconnect between current fixed income yields and 5.5% could set plans up for failure
 - Asset volatility over the next 30 years could result in plans running out of money before 2051
- Restriction on future MPRA applications means plans that fail will have benefits reduced to PBGC guarantees



Questions



Thank you

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