CENTRAL STATES PENSION FUND

November 13, 2017

The Honorable Sherrod Brown
713 Hart Office Building
Washington, DC

The Honorable Richard Neal
341 Cannon Office Building
Washington, DC

Dear Senator Brown and Representative Neal:

As you have requested, Segal Consulting ("Segal"), the actuary for the Central States, Southeast and Southwest Areas Pension Fund (the "Fund"), has performed an actuarial analysis of the possible effects of your draft multiemployer pension reform legislation on the Fund.

The conclusions contained in this letter are based on reasonable interpretations of the proposed legislation and reasonable projections and assumptions developed by Segal. Please note that Segal's analysis is based on deterministic actuarial projections; in other words, it does not take into account possible volatility with investment returns or other factors.

<u>Background</u>

The proposed legislation would create a new federal agency, the Pension Rehabilitation Administration (the "PRA"), that would be authorized to issue loans to plans in critical and declining status. The PRA would issue bonds to fund the loans, which would be provided directly to the plans to enable them to immediately secure promised benefits for participants and beneficiaries currently in payment status, either through purchasing annuities or through a cash matching or duration matching ("immunization") investment strategy.

Plan sponsors would apply for the loans, which would be repaid with interest-only payments for 29 years, with a final payment of principal and interest in the 30th year. The investment of the loan proceeds would be restricted to commercially purchased annuities issued by highly rated insurers, or cash matching and duration matching portfolios consisting of investment grade fixed income securities. Segal assumed that the interest paid on the loans would be comparable to the rates available in annuity purchase contracts or in investment grade fixed income securities.

In the event that a plan is projected to be unable to pay all benefits due during the loan term and make all required repayments, it would be able to apply to PBGC to receive financial assistance in conjunction with the loan. The financial assistance would be the amount (as determined by the plan actuary and submitted on the application) equal to the sum of (1) the percentage of benefits of participants and beneficiaries of the plan in pay status at the time of the application, and (2) the percentage of future benefits to which terminated vested participants not yet in pay status are entitled, which, if such percentage were paid by PBGC in combination with the loan, would allow the plan to avoid projected insolvency and be projected to have increasing assets over any 5-year period following the repayment of the loan. The amount of financial assistance available in conjunction with a loan could not exceed maximum guaranteed benefit with respect to all participants and beneficiaries of the plan, with the present value of the maximum guaranteed benefit amount with respect to such participants and beneficiaries calculated in the aggregate, rather than by reference to the benefit of each such participant or beneficiary. The maximum guaranteed benefit amount would be determined by disregarding any loan available from the PRA and as if the plan were insolvent on the date of the application.

Analysis

The federal loan program, on its own, would not be sufficient to enable the Fund to repay the loan at the end of the 30 years, and would not be sufficient for the Fund to remain solvent indefinitely. In other words, financial assistance from PBGC would be required to make the program work for the Fund.

The draft legislation is ambiguous as to when financial assistance from PBGC would be provided to the Fund. For purposes of this analysis, it was assumed that the PBGC assistance would be paid to the Fund over time, as the benefits for applicable participants are paid, beginning with the effective date of the loan.

Based on the draft legislative text and Segal's assumptions, the Fund expects to qualify for a loan as follows:

- PBGC financial assistance of \$20 to \$25 billion (on a present value basis) would be required, with the exact amount depending on factors such as market interest rates, contribution increases included in future collective bargaining and participation agreements, and attrition.

- The loan amount would be \$11 to \$15 billion at the \$20 billion of PBGC financial assistance level, with the exact amount depending upon market interest rates and investment returns.

- The Fund's projected ability to make repayments applies only to the \$11 to \$15 billion loan amount; the Fund would not be expected to repay any of the \$20 to \$25 billion of PBGC financial assistance.

- If Congress passed the legislation and the loan and financial assistance were received beginning effective July 1, 2018, and based on reasonable assumptions at this point in time, the Fund is projected not to become insolvent.

Please note that in addition to the proposed legislation that you have provided, Segal has also performed an actuarial analysis of a loan proposal developed by the United Parcel Service ("UPS"). Segal's actuarial analysis of the UPS proposal indicates that the loan program proposed in that legislation would be expected to allow the Fund to pay all benefits when due during the term of the loans (45 years) and to be able to repay the loans in full. In addition, the Fund would be projected to remain solvent after the end of the loan period.

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We hope that you find this information useful. Please let us know if you have any questions or would like for us to perform any additional analysis as the legislative process continues.

Sincerely,

Thomas C. Nyhan
Executive Director