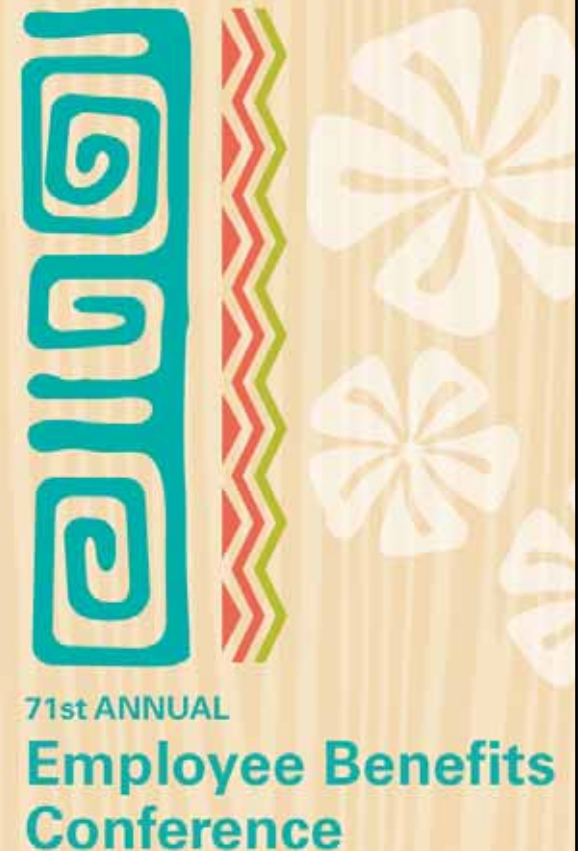


Entering the Green Zone and Staying There

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International Foundation
OF EMPLOYEE BENEFIT PLANS 

Topics

- PPA primer
- What happens to your rehabilitation plan?
- Effective management
- Communication and managing expectations
- Reconsidering actuarial assumptions
- Historical trends

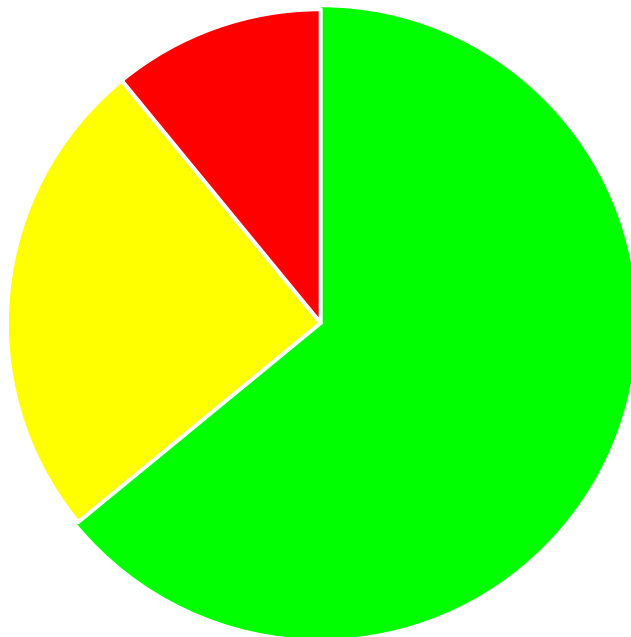
PPA Primer

PPA Primer

- PPA Certification is due 90 days into the plan year
 - Determines Zone Status
 - Scheduled Progress
- Zone status is mainly based on:
 - Current Funded Ratio (65% and 80% thresholds)
 - Projected Credit Balance (negative within 5 or 7 years)
 - Projected Insolvency (within 15 or 20 years)

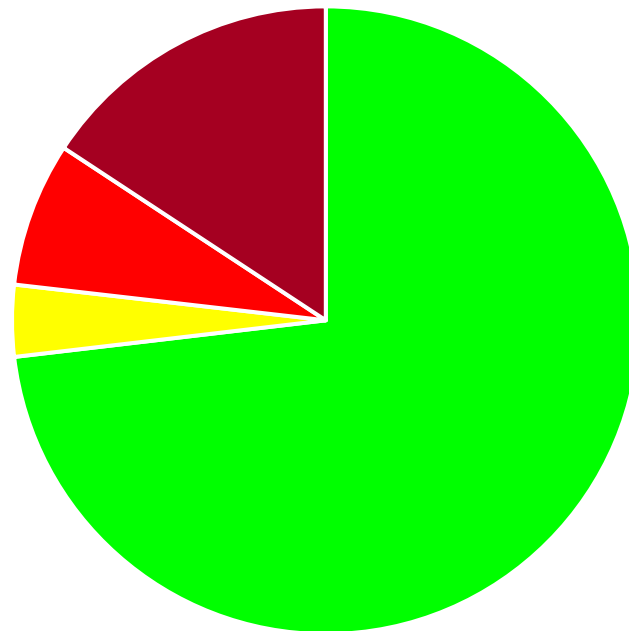
PPA Primer

2009 Status



■ Safe ■ Endangered ■ Critical

2023 Status



■ Safe ■ Endangered ■ Critical ■ SFA

Source: 5500 Database

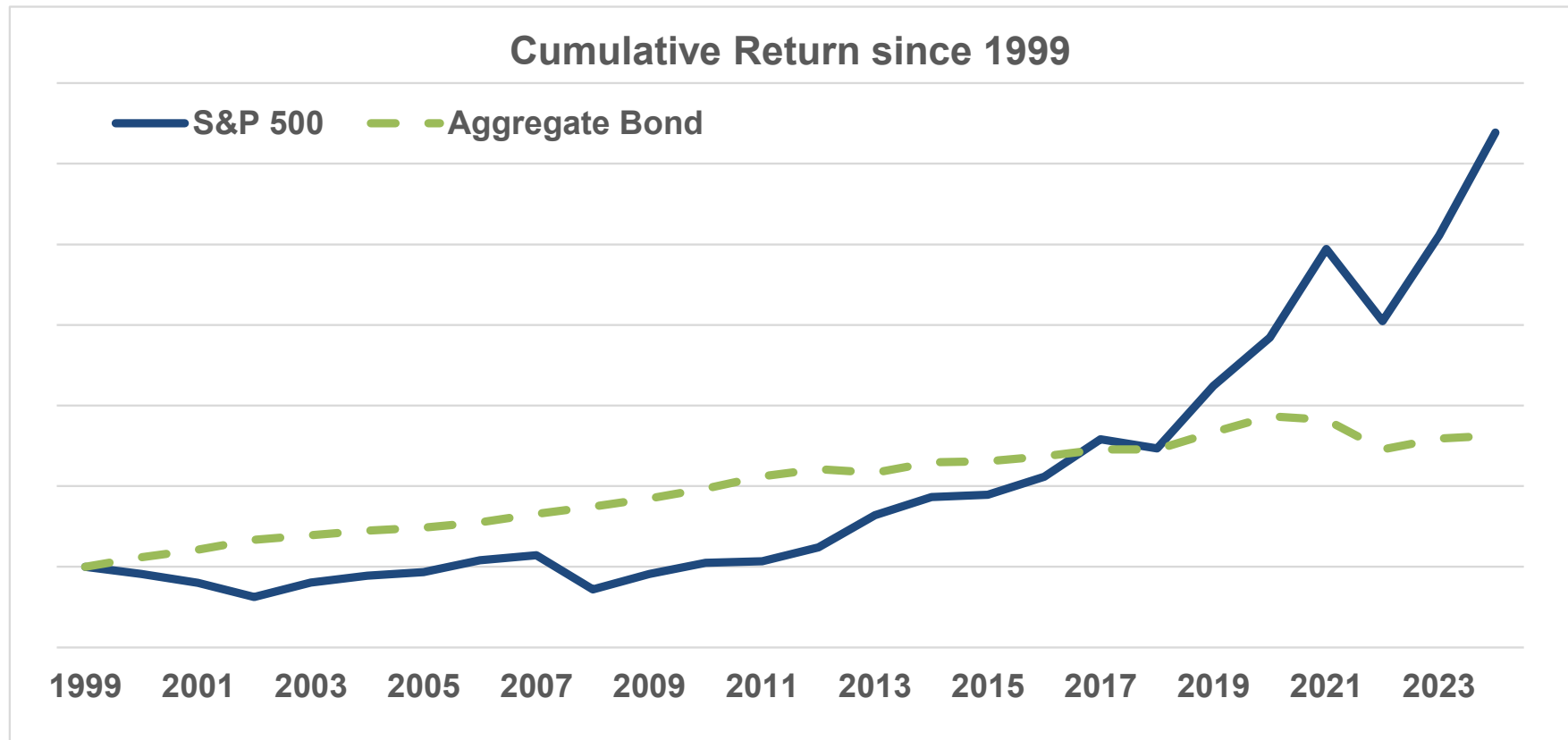
PPA Primer

- Why plans became troubled?
 - Strong investment returns in the late 1990s pushed plans close to full/over-funding which raise issues with tax-deductibility of employer contributions leading to contribution holidays and benefit increases
 - “Dot-Com Bubble Burst” from 2000 to 2002
 - Great Recession in 2008
 - Falling interest rates
 - Declining work levels

PPA Primer

- Why have plans emerged?
 - Investment returns
 - De-risking
 - Contribution increases and benefit changes with RP/FIP
 - Funding relief

PPA Primer





What Happens to Your Rehabilitation Plan?

What Happens to Your Rehabilitation Plan?

- RP ends with the plan year preceding the plan year when the actuary certifies emergence
 - Does not fail critical status tests, *
 - Is not projected to have an accumulated funding deficiency for that year and the following 9 years, and
 - Is not projected to become insolvent for the next 30 years

* Ignored for Plans with amortization extensions

What Happens to Your Rehabilitation Plan?

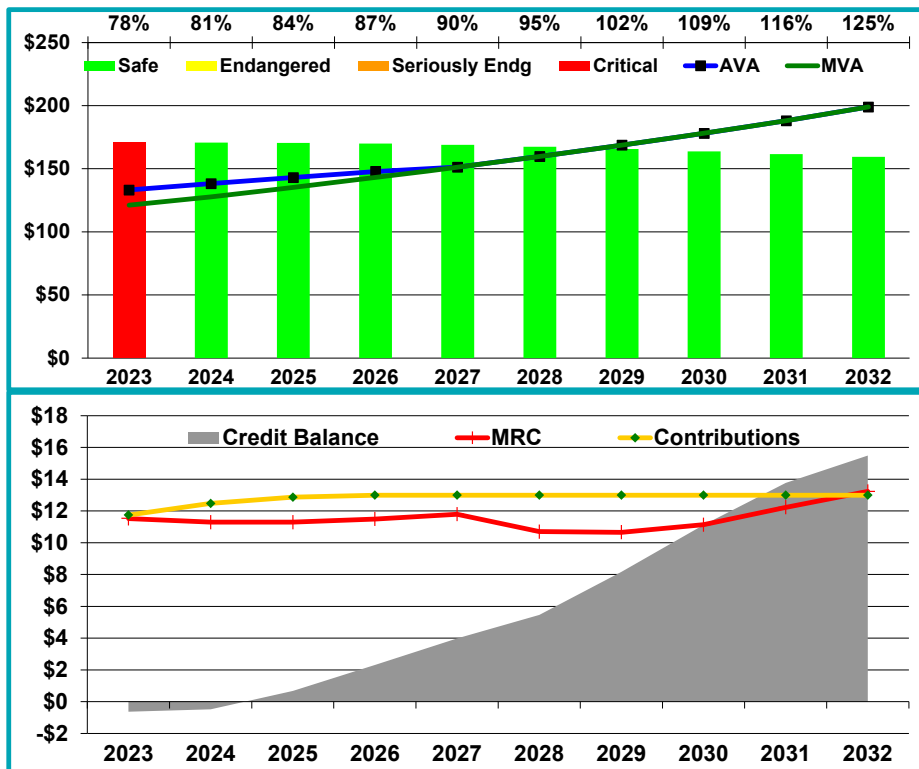
- However, remember the RP/FIP schedule was negotiated.
- Adjustable benefits and future accruals are not automatically restored

What Happens to Your Rehabilitation Plan?

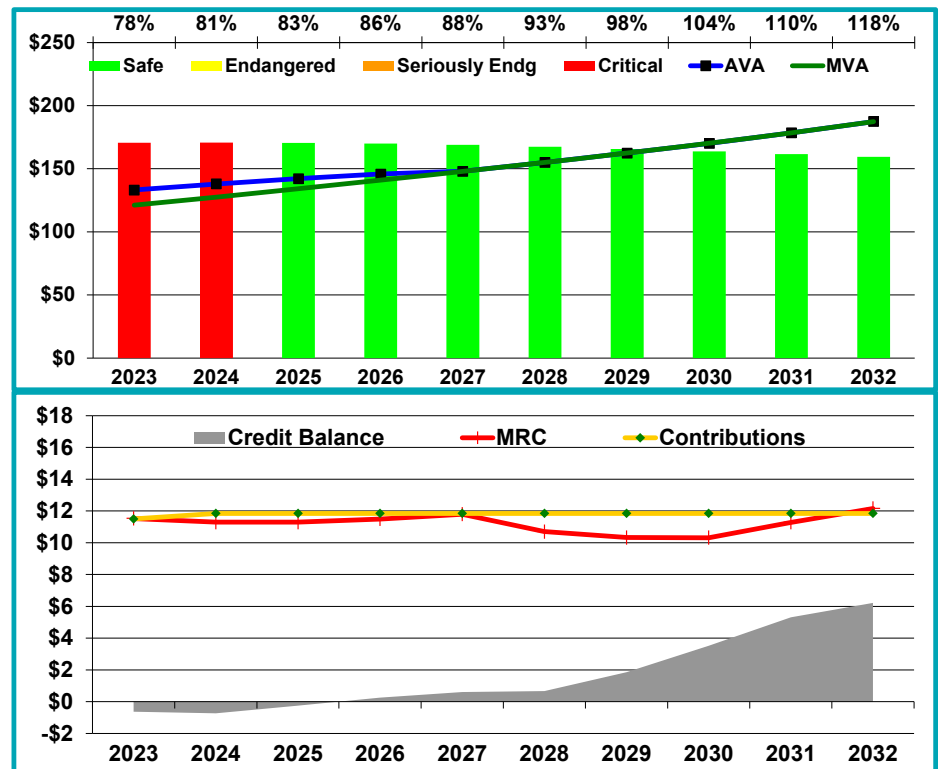
- Actuary should analyze how likely the plan is to return to critical status
 - With benefits restored
 - Without ongoing contribution rate increases
 - With modified assumptions

What Happens to Your Rehabilitation Plan?

With Bargained Contribution Increases

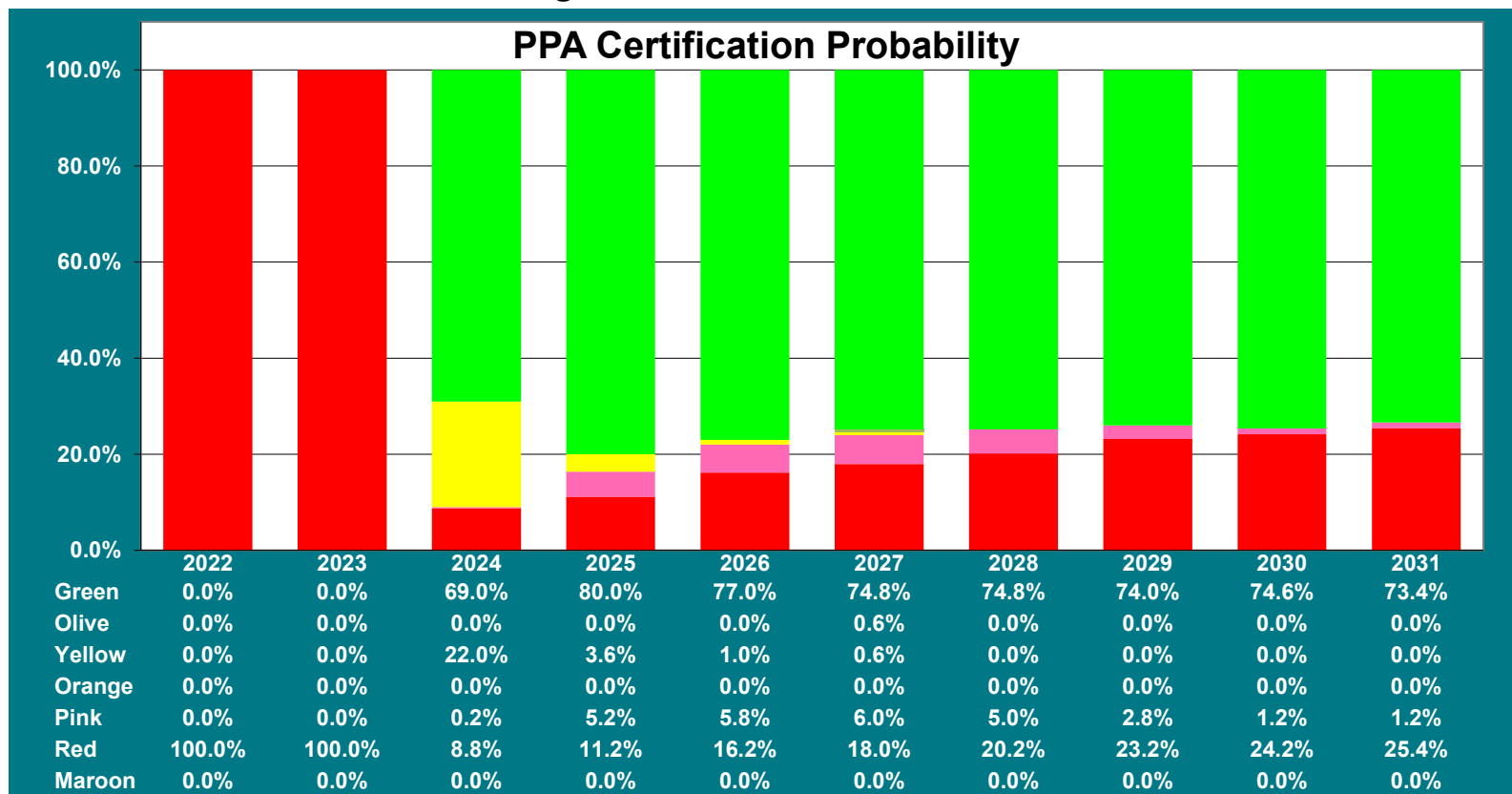


Without Bargained Contribution Increases



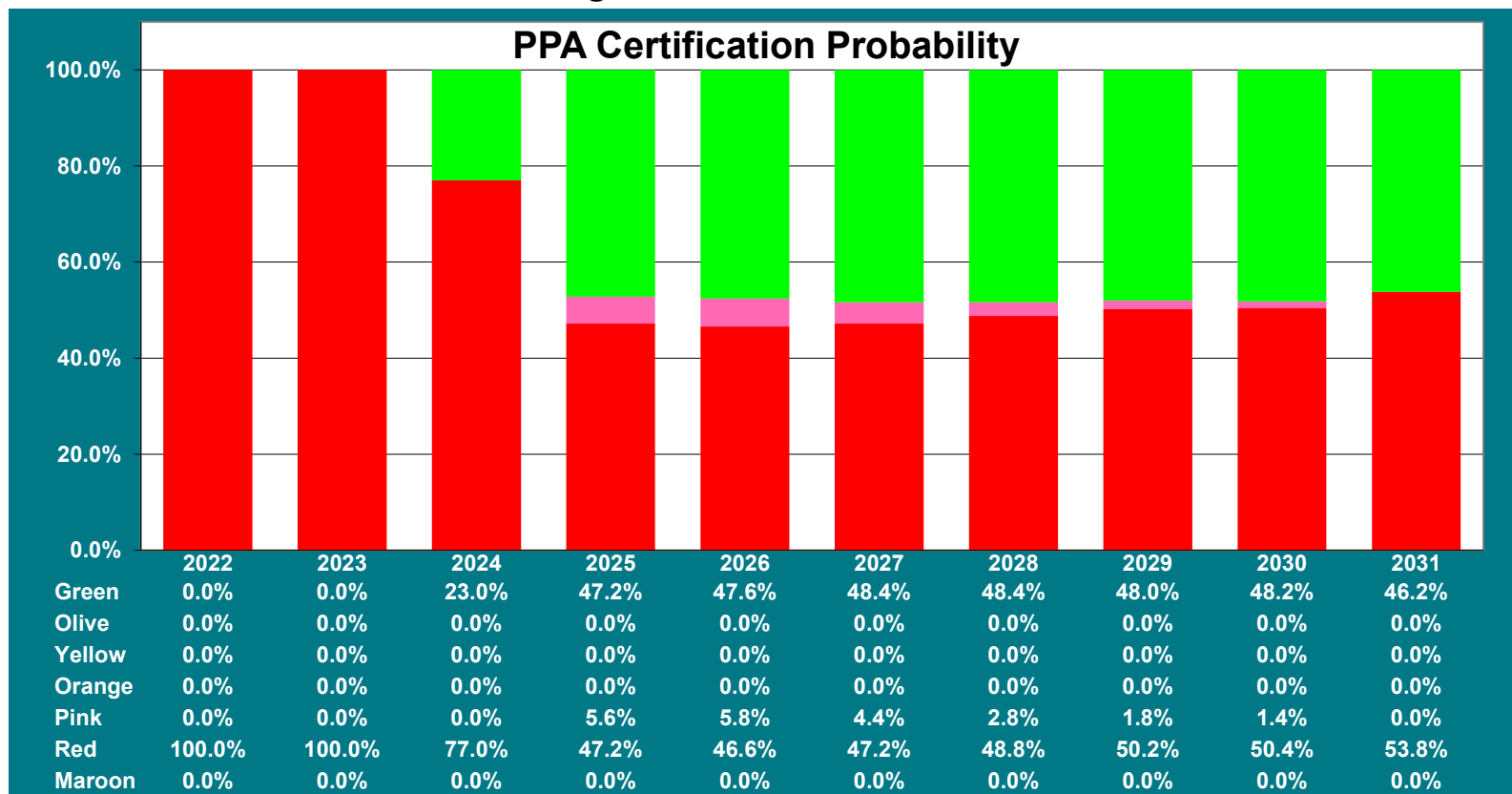
What Happens to Your Rehabilitation Plan?

With Bargained Contribution Increases



What Happens to Your Rehabilitation Plan?

Without Bargained Contribution Increases



What Happens to Your Rehabilitation Plan?

- Contribution rate increases during RP/FIP
 - Are disregarded in determining the allocation of UVB, and
 - In determining the highest contribution rate
- Contributions post-emergence
 - Exclusion ceases to apply as of the expiration date of the collective bargaining agreement in effect when the plan emerges from endangered or critical status
 - However, increases in the contribution rate shall continue to be disregarded in determining the highest contribution rate for plan years during which the plan was in endangered or critical status
 - Simplified calculations

Effective Management

Effective Management

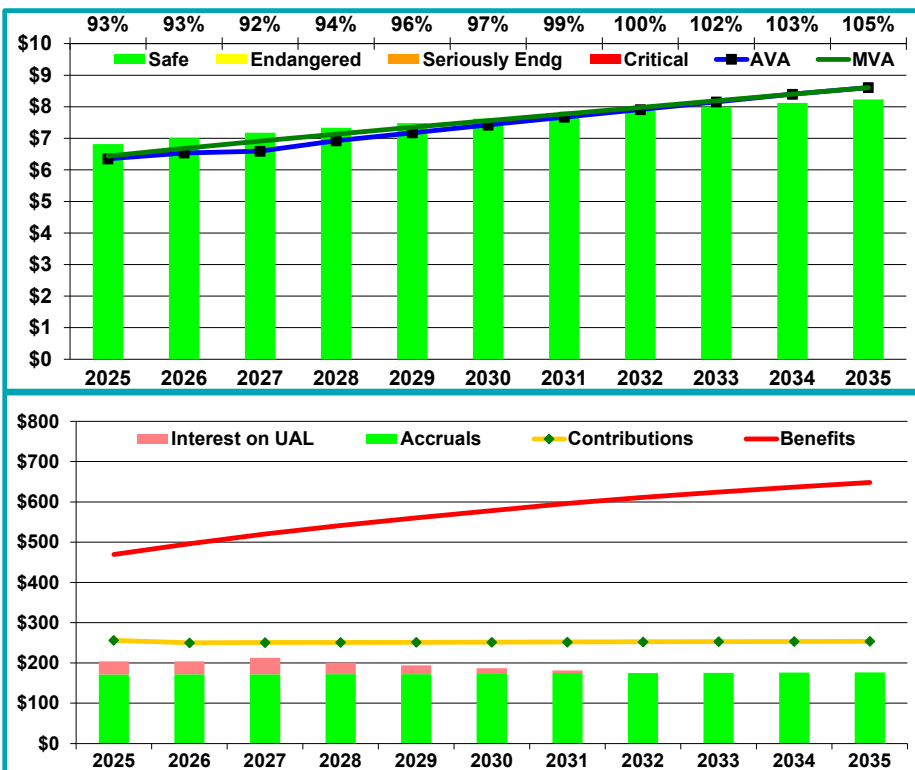
- Trustees to establish goals
 - Reach 100% funded (or something higher)?
 - Restore benefits?
 - De-risk?
 - No UVB?
 - All of the above?
- Continual monitoring of projections
 - How do the goals change after bad returns, a drop in hours, or a large employer leaves?

Effective Management

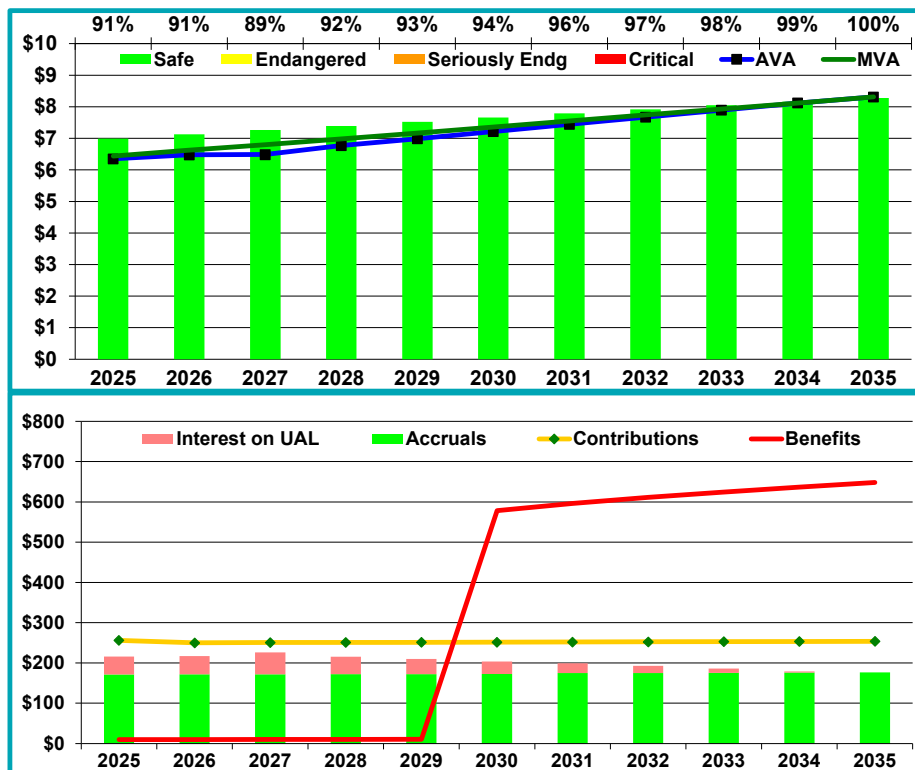
- Market opportunities
 - Annuitization: Carve off a portion of the liability to an insurance company
 - Cash flow matching: Buy bonds that produce coupons and mature at the rate of expected benefit payments or net negative cash flow
 - Lump sum cashouts: Target inactive vested plan participants with small benefits

Effective Management: Cash Flow Matching

Baseline

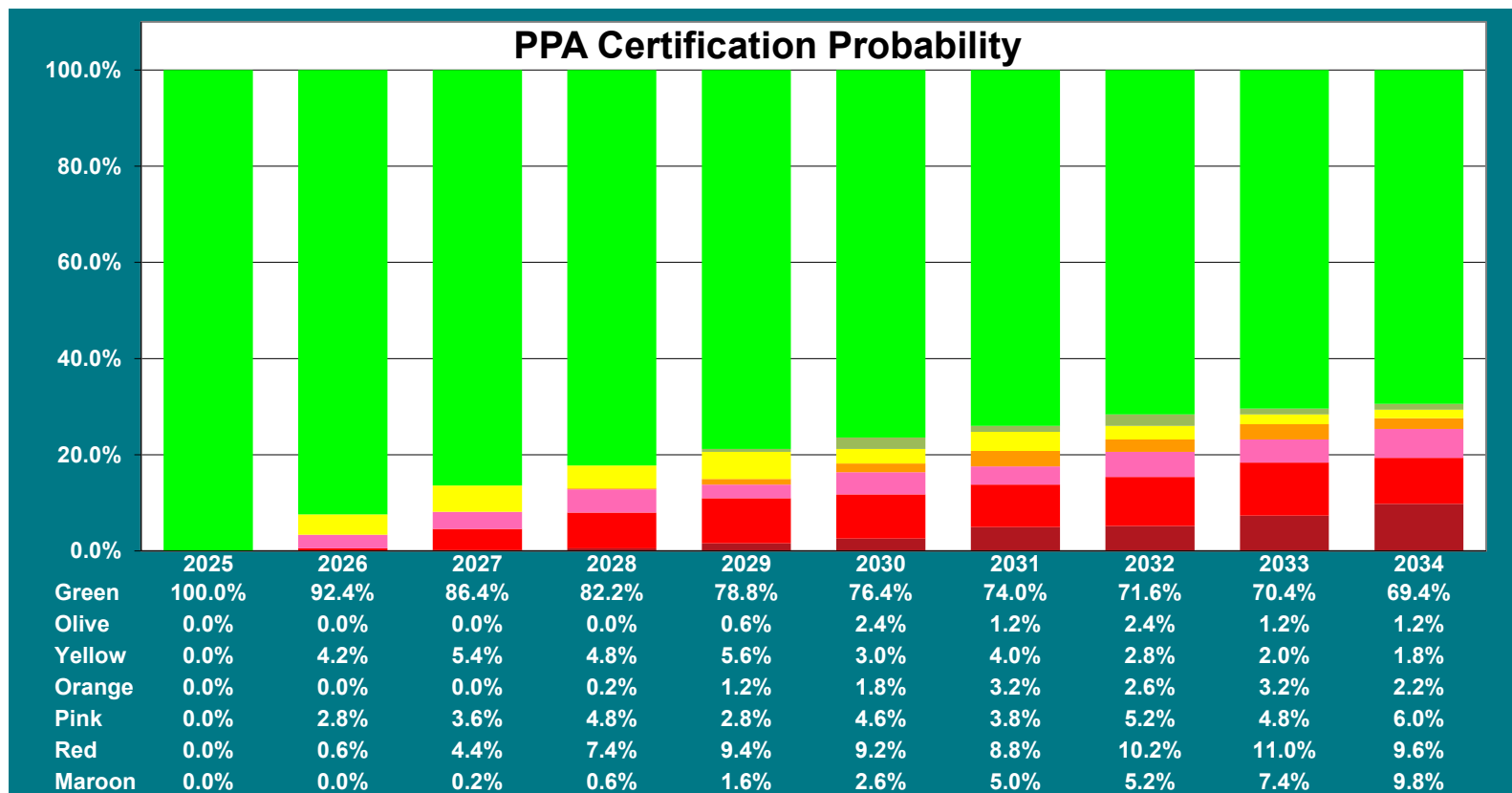


100% CFM for 5 Years



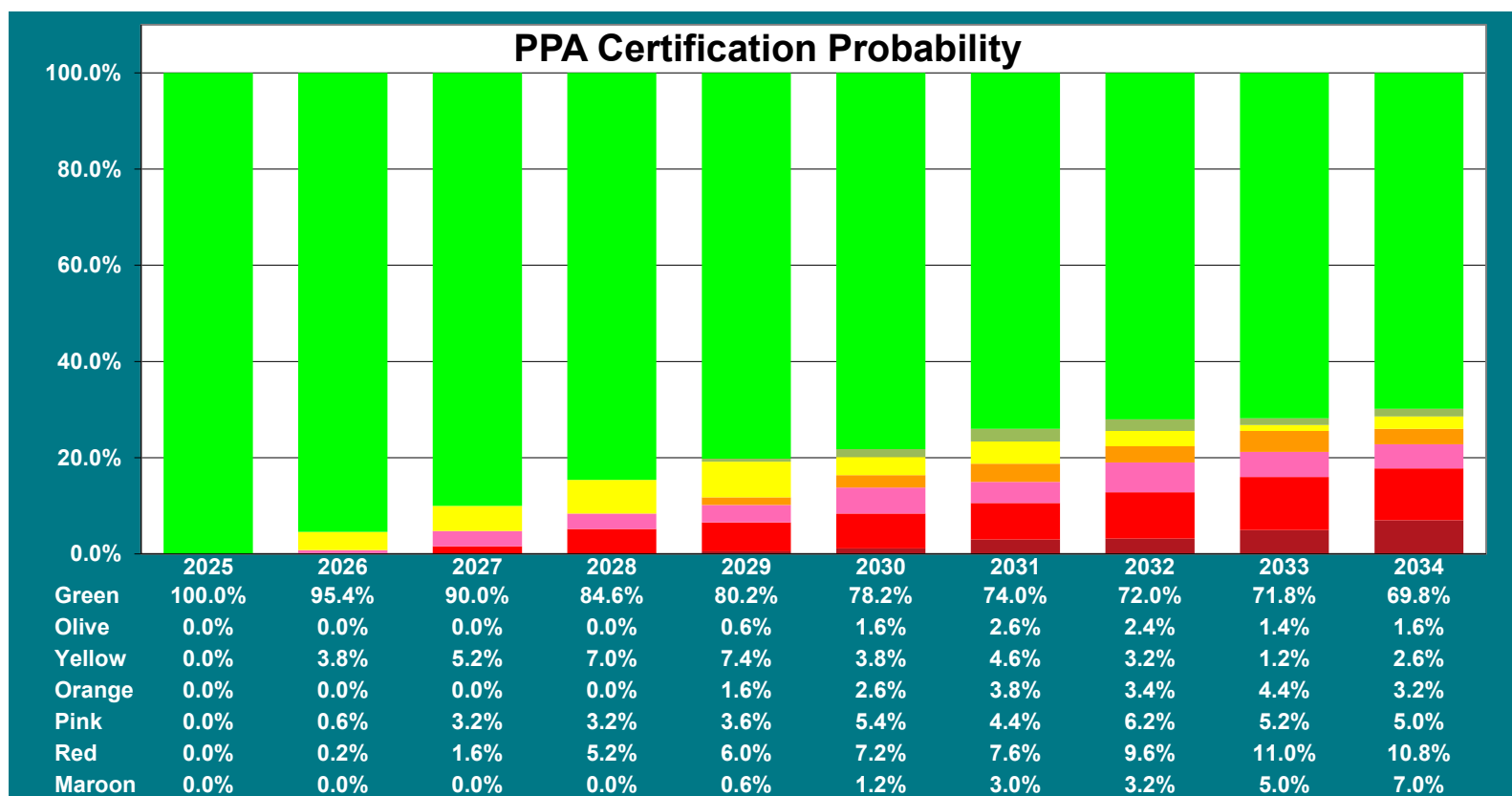
Effective Management: Cash Flow Matching

Baseline



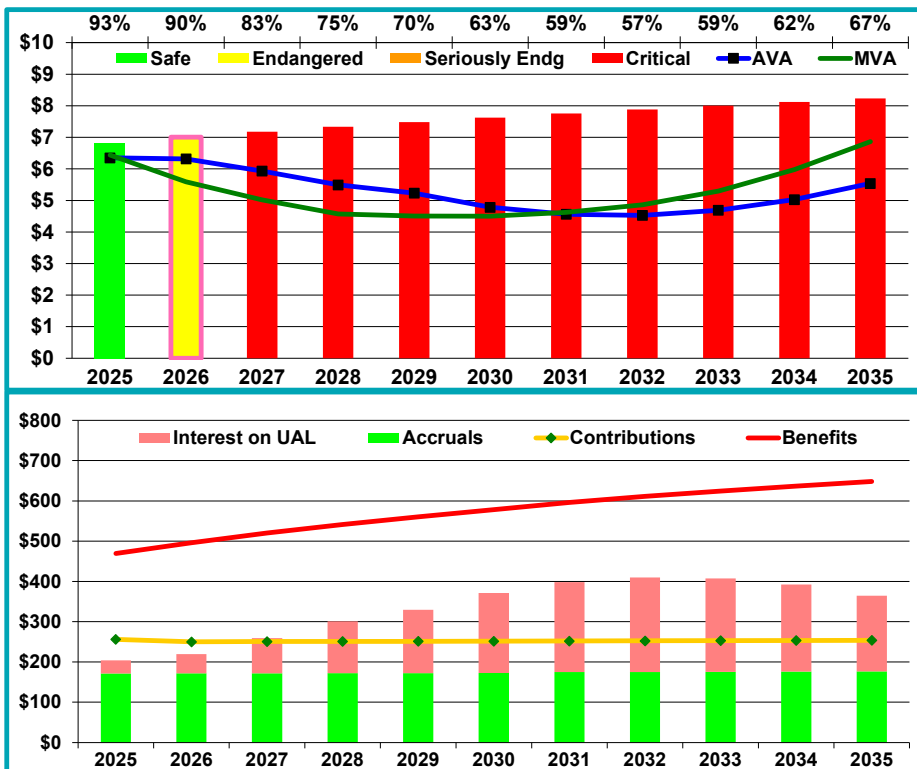
Effective Management: Cash Flow Matching

100% CFM for 5 Years

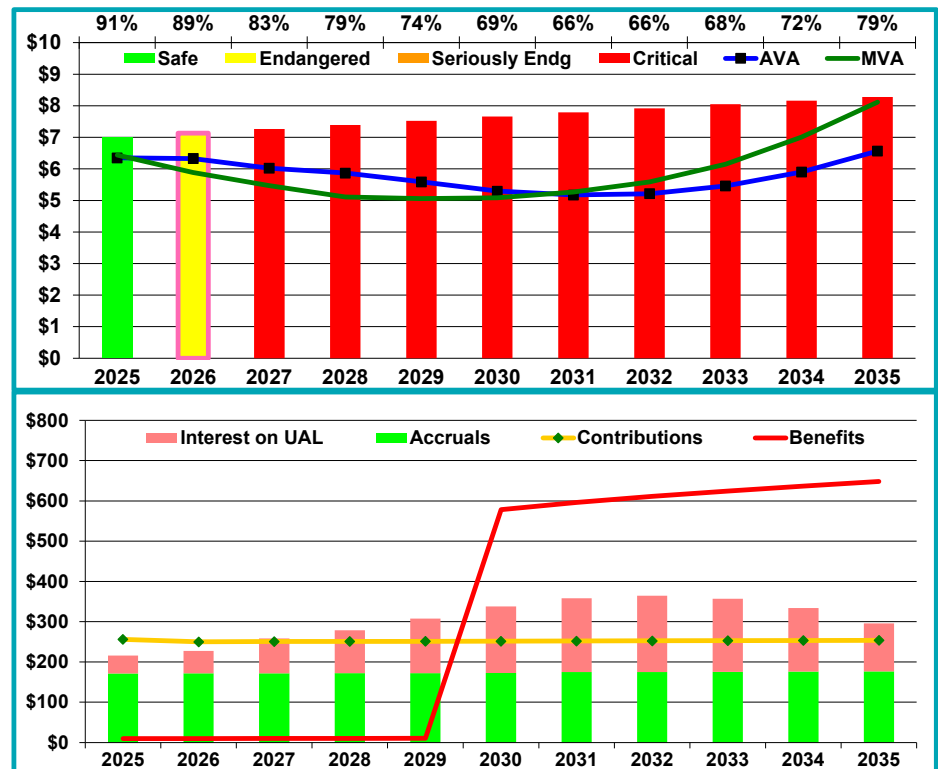


Effective Management: Cash Flow Matching

Down-Up Return Scenario: No CFM



Down-Up Return Scenario: With CFM



Effective management

- Strategic plans
 - Funding and Benefits Policy: Still promise guaranteed benefits going forward, but make gradual efforts to increase the funding ratio and reduce the amount of investment income that is needed to pay for benefits, while giving moderate increases along the way
 - Variable benefits: Do not guarantee benefits earned in the future; benefits go up or down depending on investment return compared to a target called a hurdle rate

Effective Management: Funding and Benefits Policy

- Example
 - Instead of targeting 100% funded at 6.5%, set an ultimate goal of 120% funded at 5.0%
 - **Phase 1:** Set funding Goal Posts (e.g., 105% funded, 110% funded), when reached, the benefit multiplier increases
 - **Phase 2:** After achieving 120% funded, every time the discount rate can be reduced by 25 bps and stay above 120%, the benefit multiplier increases



Effective Management: Funding and Benefits Policy

- **Phase 3:** Create an evergreen cash match bond portfolio for expected benefit payments in the next few years
- Every time 120% funded is reached, the Board will target an additional year of benefit payments to the bond portfolio, and the benefit multiplier increases



** Add scheduled contribution increases to accelerate achievement of goal posts*

Effective Management: Funding and Benefits Policy

- Provides benefit sustainability
- Minimizes probability of non-Safe PPA status and future Withdrawal Liability
- Provides a road map of when benefits are expected to increase
- Look for tactical opportunities and develop strategic plans



Communication and Managing Expectations

Communication and Managing Expectations

- Notices due 120 days into the Plan Year:
 - Annual Funding Notice (all plans)
 - PPA Notice (non-Safe plans)
- Consider a cover letter if the Plan has emerged from Endangered/Critical status
 - OK to “celebrate” the accomplishment
 - Be transparent about what will/will not change

Communication and Managing Expectations

- Consider consistent talking points to be used at union meetings, job sites and calls to the plan office
- Consider education for employers about how UVB is allocated post-emergence
- Special communications for Strategic Plans
 - Describe the Funding and Benefits Policy
 - Education on Variable Plan design

Reconsidering Actuarial Assumptions

Reconsidering Actuarial Assumptions

- Assumptions should always be appropriate for the purpose of the measurement
 - Assumptions should not change simply because the plan emerged
 - Assumptions would change depending on your post-emergence strategy
 - Routine experience studies

Reconsidering Actuarial Assumptions

- Discount rate (actuary's assumption)
 - Remain consistent with overall investment allocation and strategy
 - Adjust as appropriate for tactical opportunities and strategic plans
 - Review the benefits of de-risking the portfolio
- Industry activity (trustee assumption)
 - Reflects expected change in future membership and/or contributions
 - Could stabilize post-emergence

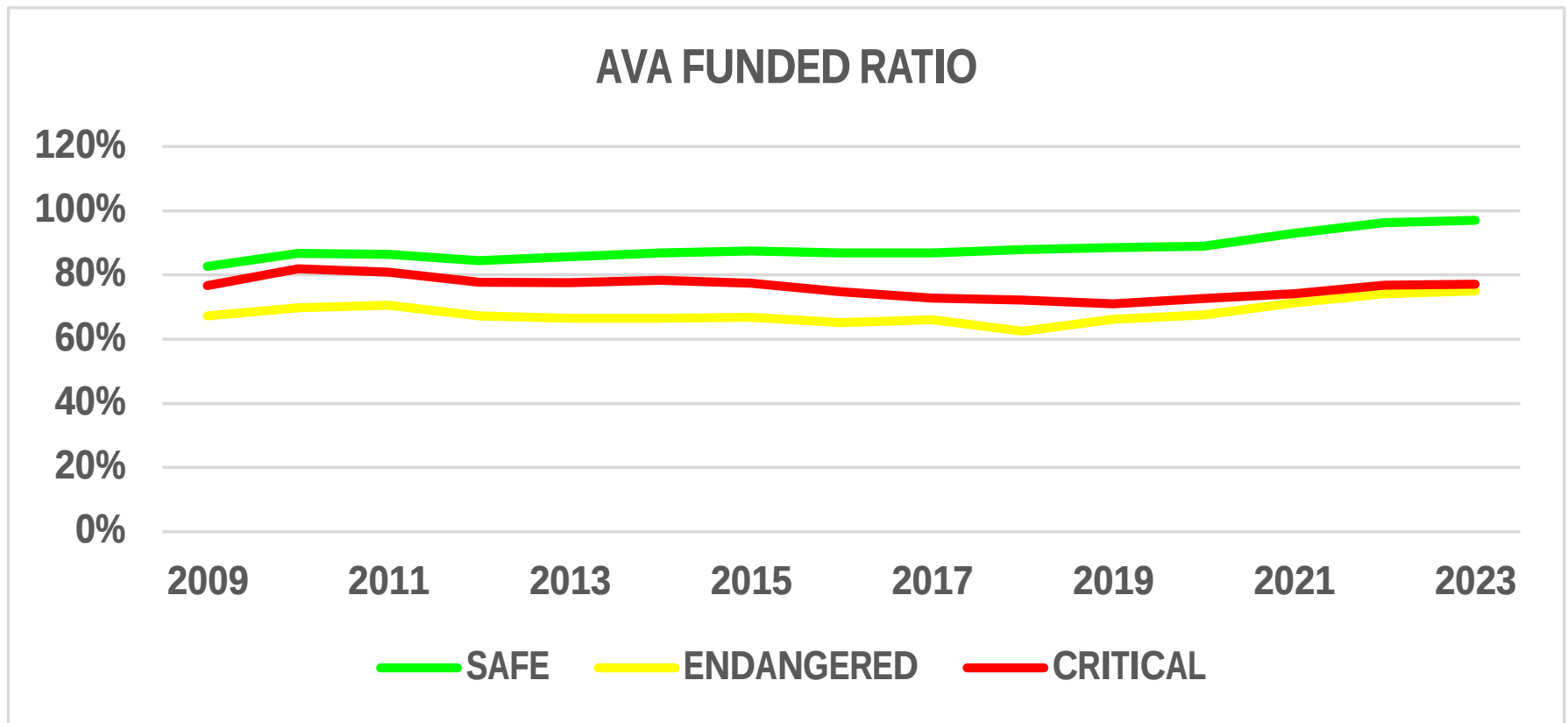
Reconsidering Actuarial Assumptions

- Retirement and termination rates
 - Both may need to be adjusted if benefits were restored and/or future accruals are updated
 - Emergence from Critical could lead to less employer withdrawals

Historical Trends

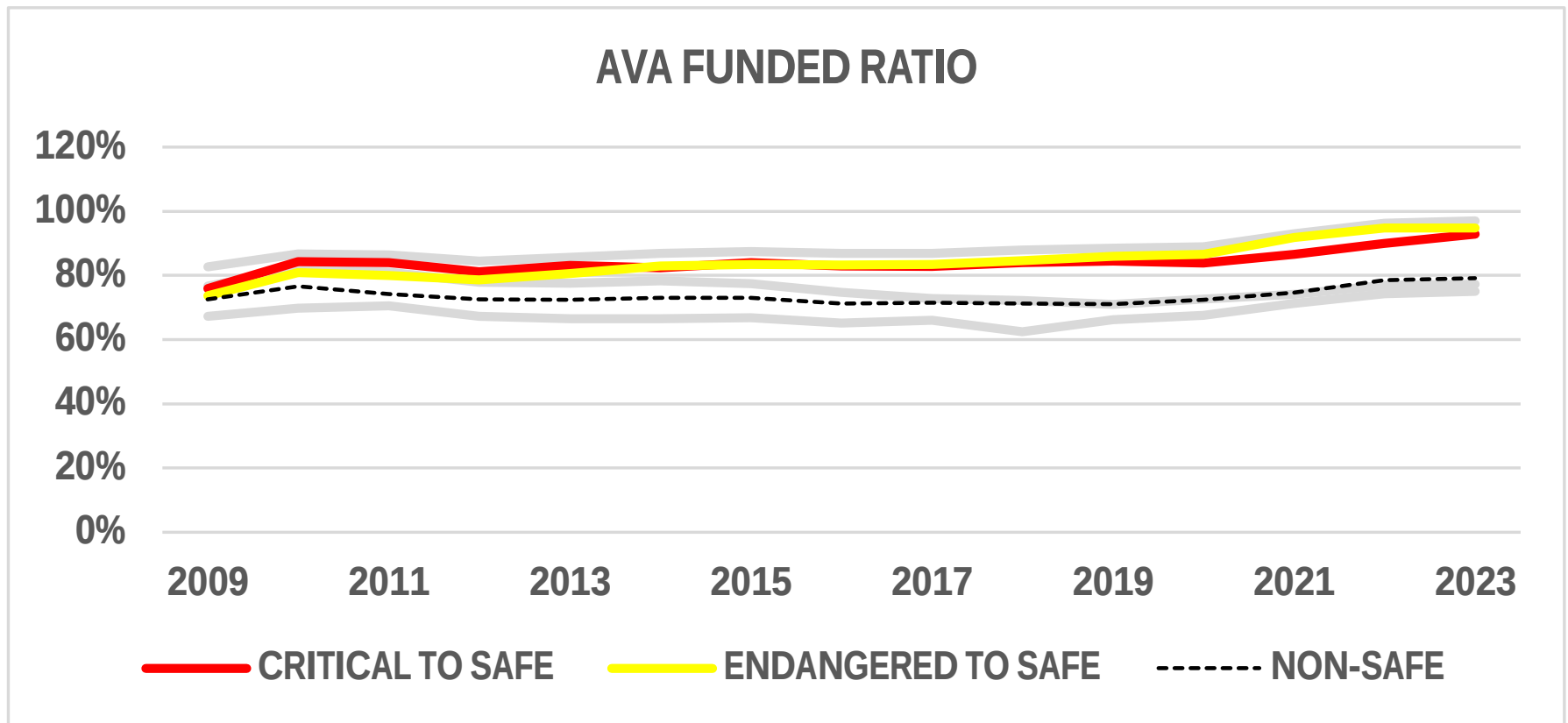
Historical Trends

Status as of 2023



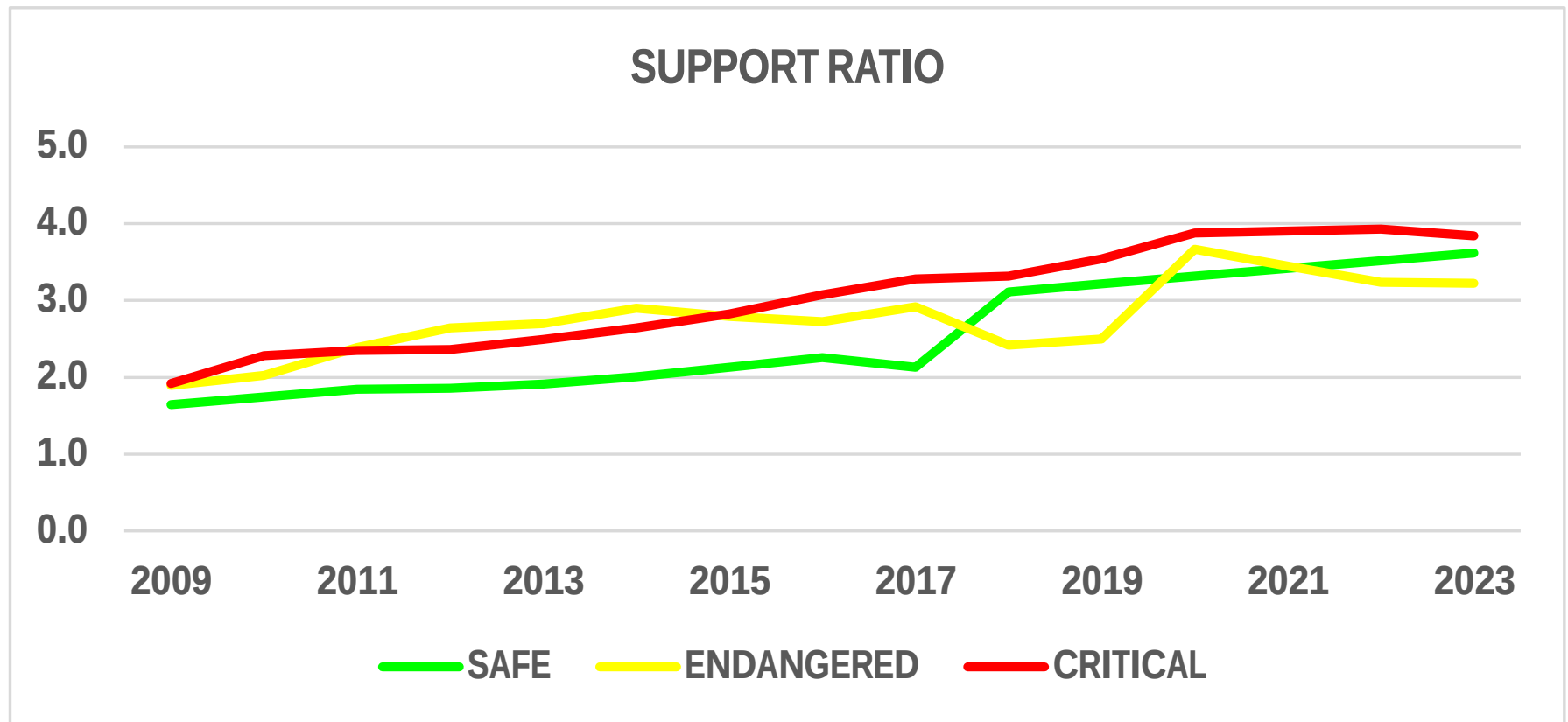
Historical Trends

Non-Safe (2009) to Safe (2023)



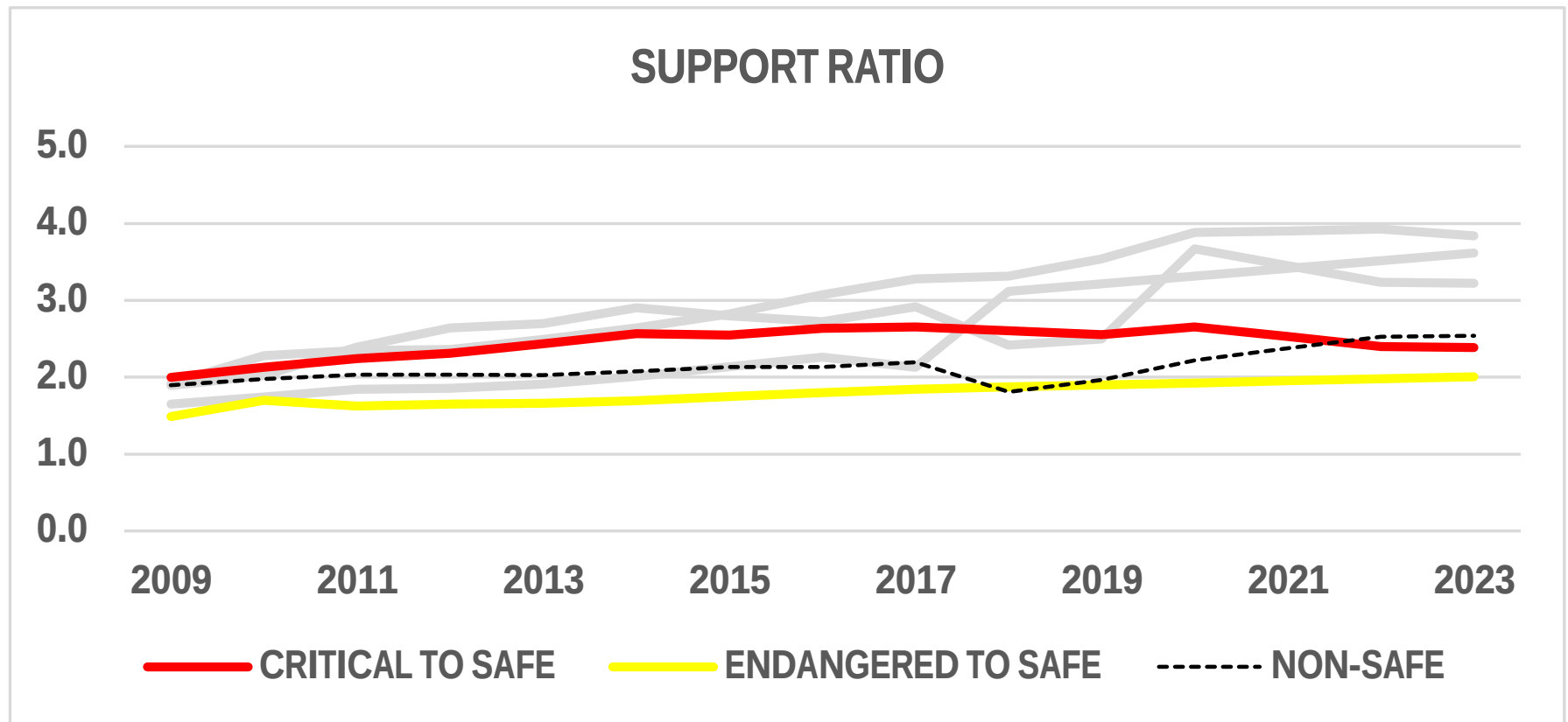
Historical Trends

Status as of 2023



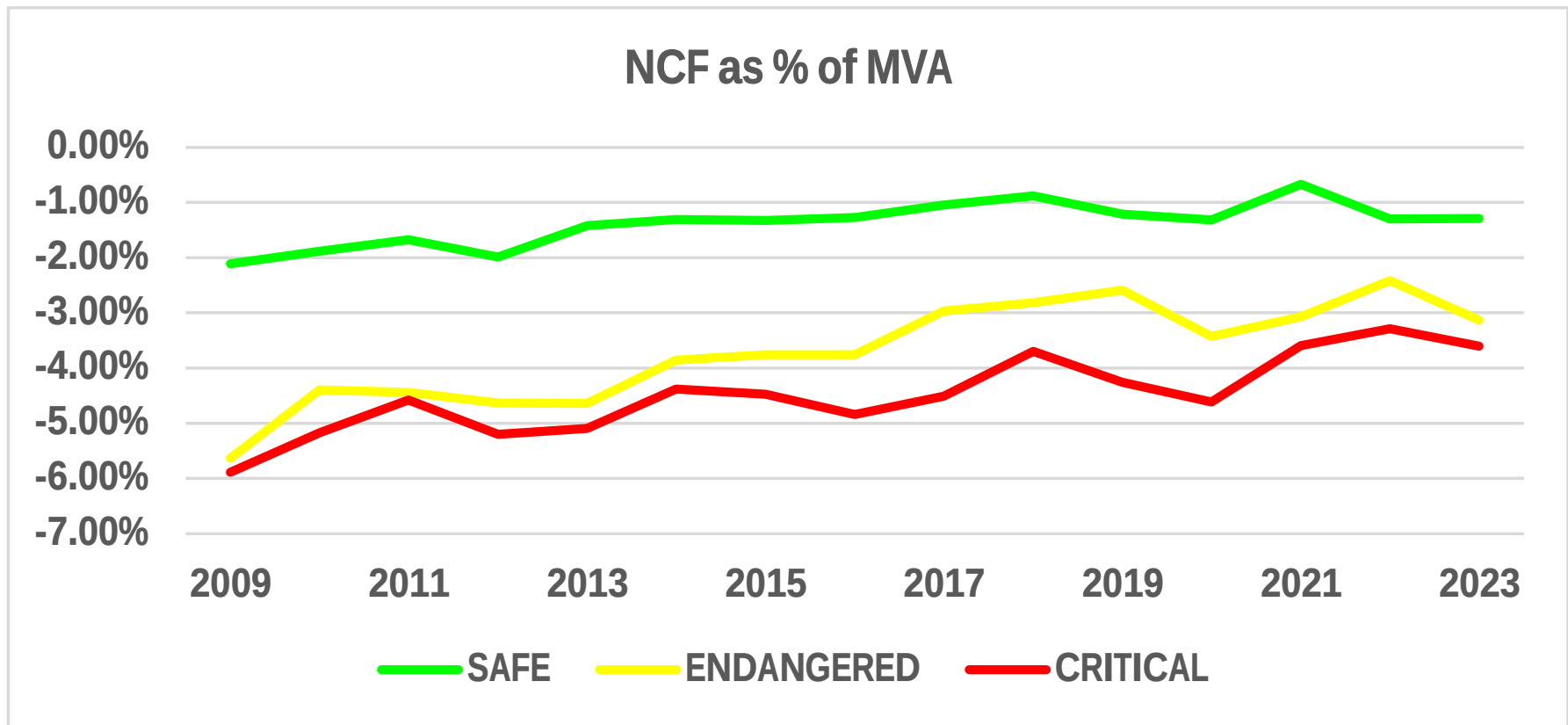
Historical Trends

Non-Safe (2009) to Safe (2023)



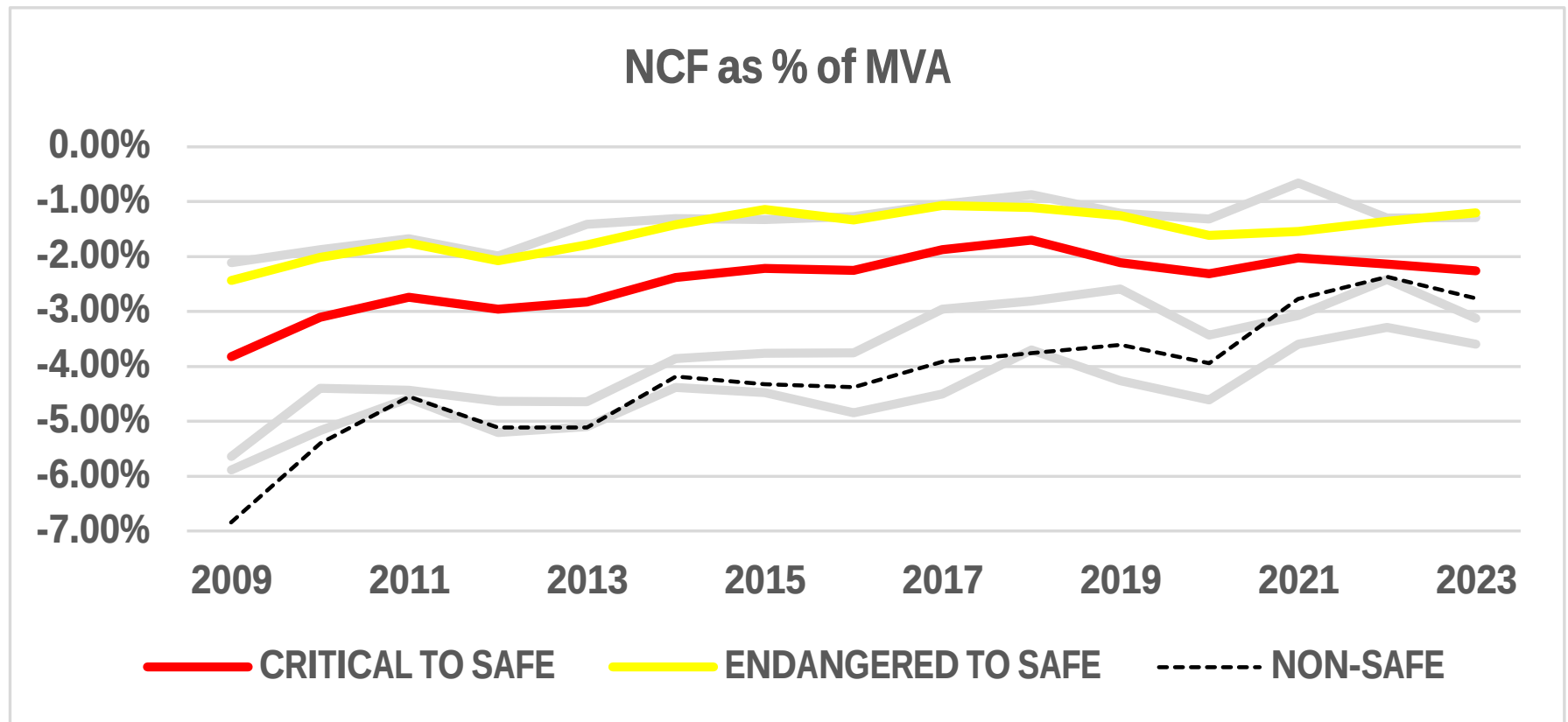
Historical Trends

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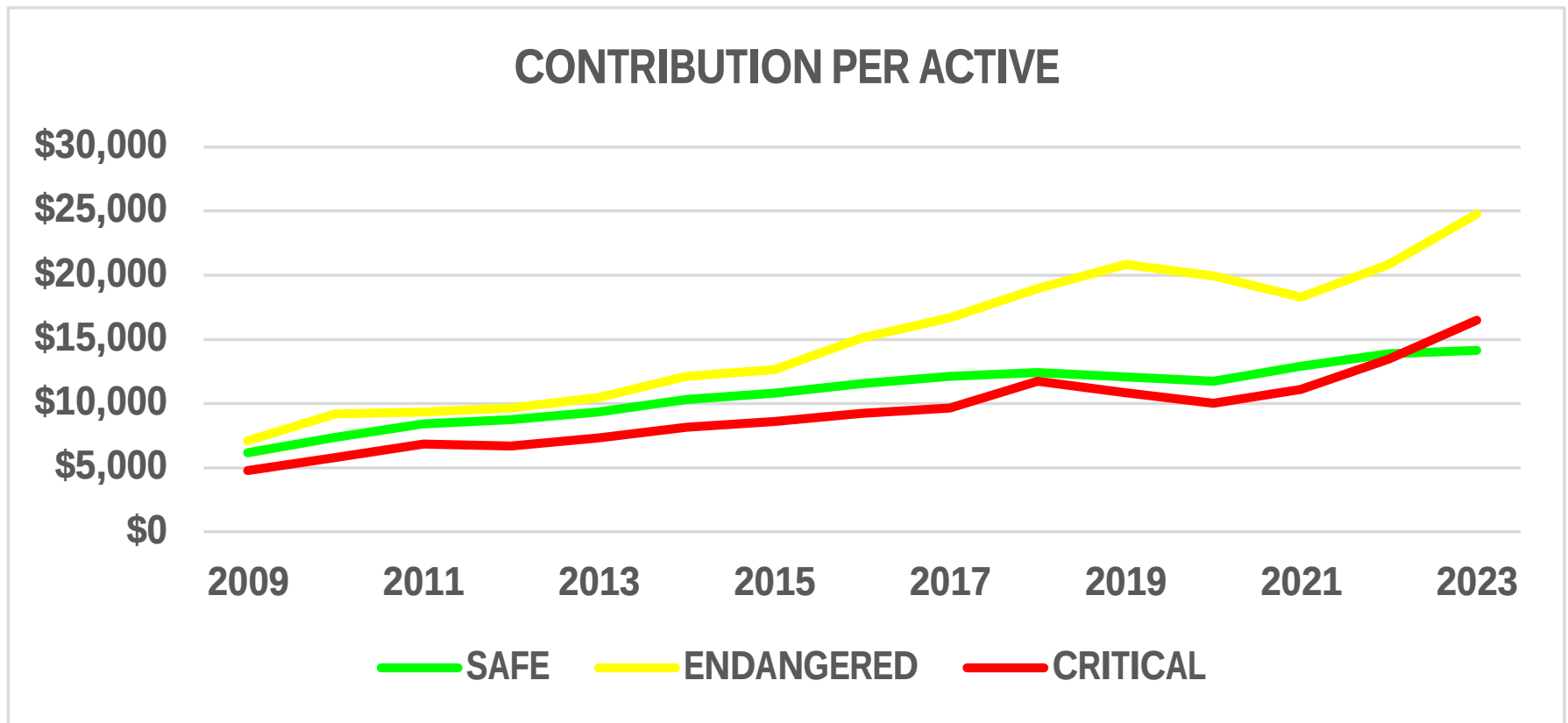
Historical Trends

Non-Safe (2009) to Safe (2023)



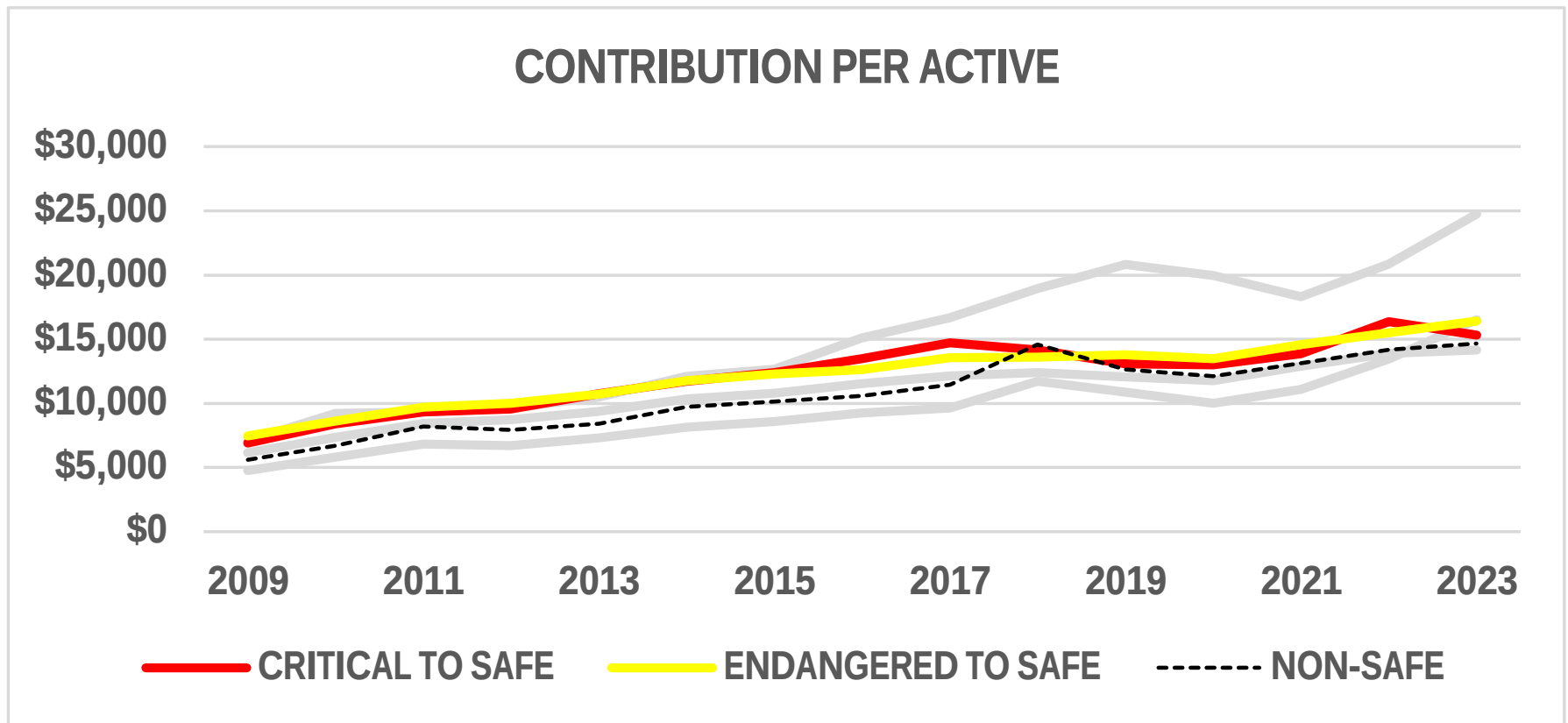
Historical Trends

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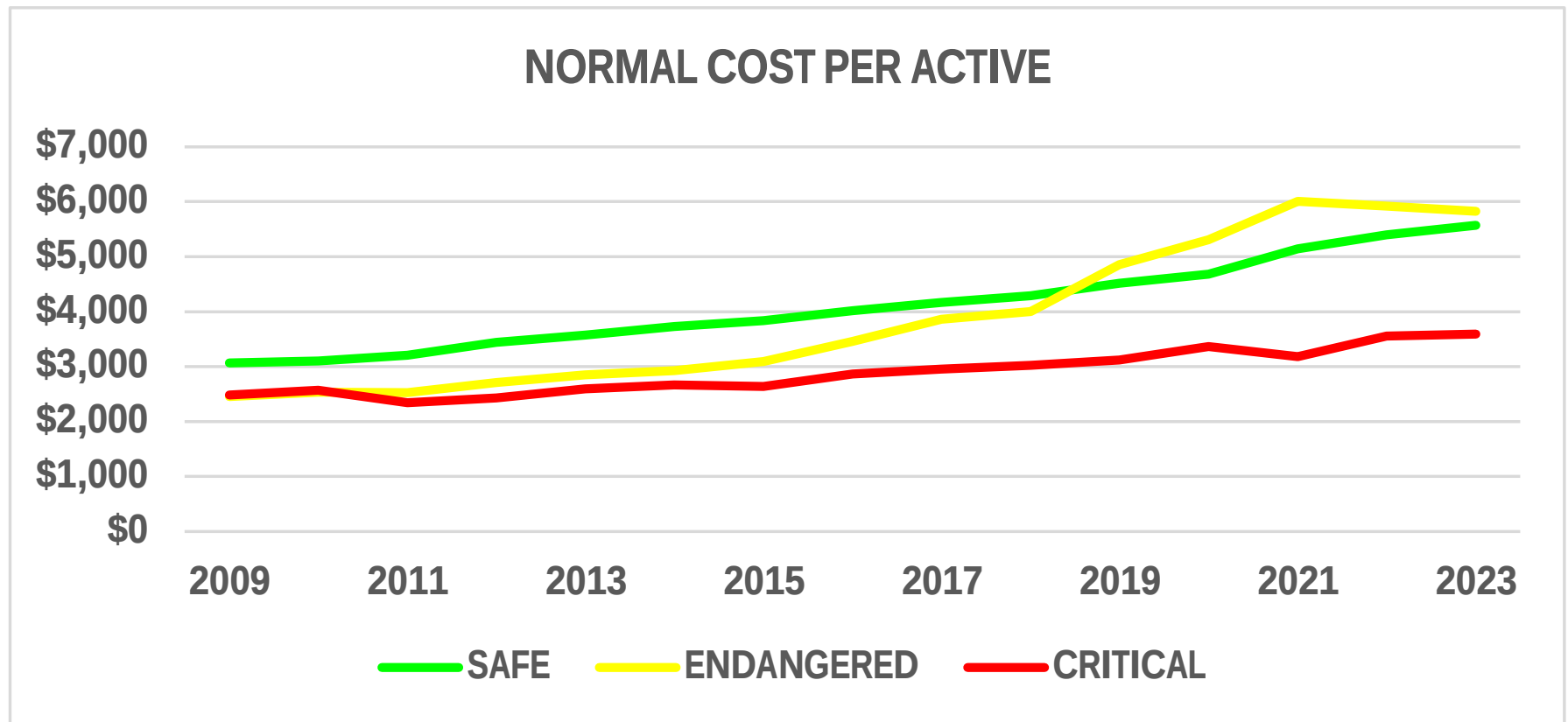
Historical Trends

Non-Safe (2009) to Safe (2023)



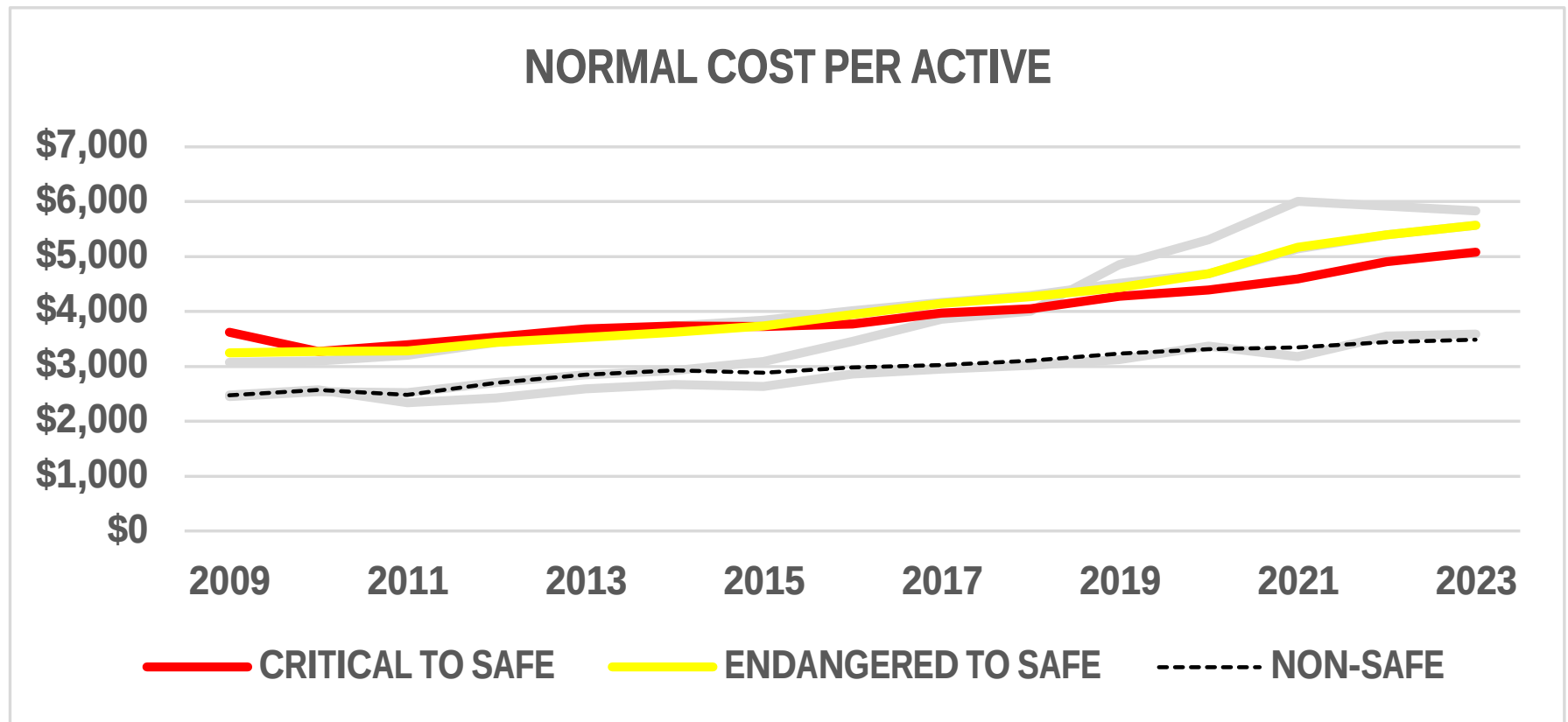
Historical Trends

Status as of 2023



Historical Trends

Non-Safe (2009) to Safe (2023)



Key Takeaways

- Analyze the likelihood of returning to Critical status
- Establish goals (funding level, benefits)
- Consider market opportunities/strategic plan
- Consistent communication, develop talking points
- Review assumptions in line with post-emergence strategy

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