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Comments on PBGC Final Rule

Page 20 section titled… *1. Pay all benefits due through 2051* clearly states:

"Section 4262(j)(1) provides that the amount of financial assistance provided to a multiemployer plan eligible for financial assistance under this section shall be such amount required for the plan to pay all benefits due during the period beginning on the date of payment on the special financial assistance payment… and ending on the last day of the plan year ending in 2051, with no reduction in" benefits.

Page 21 section titled… 2. Interest rates for SFA and non-SFA assets clearly states:

"For a plan to project accurately how much SFA is "required" for the plan "to pay all benefits due" through the end of the plan year ending in 2051, it must project the SFA assets, adjusted for earnings, needed to cover each year's benefit payments and expenses until exhausted, and the non-SFA "other plan assets," adjusted for contributions and earnings, needed to cover each year's benefit payments and expenses after the SFA assets are exhausted through the end of the SFA coverage period."

Page 80 clearly states:
"The changes in the final rule permit plans to invest a specified percentage-up to 33 percent-of their SFA funds in return-seeking assets (RSA) as described in 4262.14© of the final rule. That leaves 67 percent or more of the SFA funds to be invested in investment grade fixed income securities (IGFI). PBGC believes this ratio (67 percent IGFI to 33 percent RSA)> appropriately considers the need to protect SFA assets to pay protected benefits of the participants and expenses of the plan, The 33 percent that may be invested in RSA as defined in the final rule will enable plans to grow SFA funds and increase the potential to pay benefits through 2051 while limiting the total risk exposure of taxpayer-funded assistance.

Ryan ALM observations and recommendations are as follows:

1. The language on page 20 is that of a defeasance[i] that requires assets fully fund benefits + expenses through a certain period of time. A defeasance requires the certainty of asset cash flows to fund chronologically liability cash flows as they come due. Only **bonds** have the certainty of cash flows and it is why they have been used historically for cash flow matching. Benefits and Expenses (B+E) are a term structure that is paid *chronologically* from contributions (C) first, withdrawal liability payments (WLP) second and assets cash flows third. As a result, it is an asset exhaustion test to see if asset cash flows are sufficient to fund net liability cash flows (B+E) – (C+WLP))… net of contributions and withdrawal liability payments. It is not a test to see if assets earn some ROA target or hurdle rate. It is an asset exhaustion test to see if asset cash flows fully fund B+E and ***when*** these SFA assets are exhausted.

2. The SFA assistance is a grant and does not need to br paid back. Page 20 makes it clear that it requires the grant be used to pay all benefits chronologically through 2051. Page 21 contradicts page 20 suggesting that non-SFA assets can be used to fund net B+E through 2051 in determining how much SFA is required to fully fund B+E through 2051. This language is inconsistent with the intent of the SFA grant.

3. Allowing 33% in RSA is another contradiction of the intent of the SFA grant. The SFA grant is to cash flow match (defease) net liability cash flows… *it does not have a ROA hurdle rate. It does not need RSA.* RSA belong in the legacy assets (non-SFA). Fixed income assets can now be removed from the legacy assets since the segregated SFA account is now where fixed income assets belong. By removing fixed income from the legacy portfolio asset allocation would enhance their ROA. You do not need or want RSA assets in the SFA asset pool. You need SFA assets to have certainty of cash flows… only bonds can apply. Furthermore, bonds not used to defease pension liabilities are return-seeking assets (RSA). In 2022, a core bond portfolio used as RSA lost >10% YTD. Where is the certainty in funding benefits and expenses?

4. The proper discount rate to calculate the SFA grant should be the U.S. Treasury STRIPS yield curve or at worst all three PPA segments chronologically. Each multiemployer plan's liabilities are unique with different labor force, salaries, mortality, contributions, withdrawal liability payments and plan amendments. No generic discount rate could possible price such a different array of liabilities correctly. This requires a custom liability index (CLI) for each plan to price and calculate the present value of net liabilities (B+E) – (C+WLP).

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Thank you for your time and opportunity to comment.

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[i] Defeasance is the setting aside of dedicated funds to repay debts. In this PBGC reference it is the cash flow matching of asset cash flows to liability cash flows with certainty. This will guarantee full payment of each liability payment when due,