

July 9, 2021

PBGC SFA 21-02

## Special Financial Assistance Assumptions

### I. Introduction

This guidance provides guidelines for changes to certain assumptions that plans may use for purposes of determining eligibility for special financial assistance (SFA) and the amount of SFA. Plans may, but are not required to, use the guidelines if they are reasonable for the plan. Guidelines are available for contribution base units (CBUs), administrative expenses, mortality, contribution rates, new entrant profiles, and investment expenses.

This guidance is divided into five sections:

- Background
- Acceptable assumption changes
- Generally acceptable assumption changes
- Generally not acceptable assumption changes
- Additional information

### II. Background

[Section 9704](#) of the American Rescue Plan (ARP) Act of 2021 (P.L. 117-2) added section 4262 to ERISA, which authorizes PBGC to provide special financial assistance (SFA) to eligible multiemployer plans. Certain multiemployer plans are eligible to apply for SFA if they are in critical and declining or critical status; were approved to suspend benefits under the Multiemployer Pension Reform Act of 2014 as of March 11, 2021; or became insolvent after December 16, 2014 and have not terminated.

On July 9, 2021, PBGC issued an interim final rule, to add a new part 4262 to its regulations, that provides regulatory guidance to multiemployer plans on the requirements for SFA applications and related restrictions and conditions. This document, providing guidance on certain SFA assumptions, along with the SFA instructions for filing requirements and corresponding templates, provide additional guidance to multiemployer plan practitioners on how to prepare and file the required application information for SFA.

Section 4262(e) of ERISA generally looks to plan assumptions previously selected by the plan actuary (original assumptions) for determining eligibility for SFA and calculating the amount of SFA. Section 4262(e)(4) provides a mechanism for a plan to propose changes to actuarial assumptions if it determines that the use of one or more of its original assumptions (other than the interest rate) is unreasonable.

Under § 4262.5(c) of PBGC's SFA regulation, a plan that proposes to change its original assumptions is required to describe in its application why any original assumption is no longer reasonable, assert that the plan proposes to use a changed assumption, and demonstrate in its application why the changed assumption is reasonable.

PBGC will accept a plan's changed assumption unless PBGC determines that the assumption is unreasonable or determines that a plan's changed assumptions are unreasonable in the aggregate. This guidance explains, for certain changed assumptions, when PBGC might (or might not) consider an assumption reasonable.

Within this document, SFA measurement date, as defined in § 4262.2, means the last day of the calendar quarter immediately preceding the date the plan's application was filed.

### **III. Acceptable assumption changes**

When a plan adopts an assumption that is needed to project obligations or resources beyond the period reflected in the most recent certification of the plan status before January 1, 2021 (pre-2021 certification of plan status), PBGC considers this “extension” of an assumption to be an assumption change. To the extent a plan adopts such an extension of an assumption or proposes another change to an assumption in accordance with § 4262.5(c), PBGC will accept the assumption changes described in this section III, provided the plan includes the information required by § 4262.5(c) in the application and the demonstration provided by the plan shows the assumption is reasonable. However, with respect to the § 4262.5(c)(1)(iii) requirement to demonstrate that the changed assumption is reasonable, it is sufficient to include a statement to that effect instead of a detailed demonstration.

In accordance with the SFA instructions for filing requirements and corresponding templates, a plan is required to reflect any of the changed assumptions described in this section in the “Baseline” details. The changed assumptions described in this section are not required to be disclosed in the “Reconciliation” details. (For a description of Baseline and Reconciliation, see the SFA instructions posted on PBGC’s website at [www.pbgc.gov](http://www.pbgc.gov).)

#### **A. Adoption of assumptions not previously factored into pre-2021 certification of plan status**

A plan’s certification of plan status does not utilize assumptions for CBUs or plan-related administrative expenses more than 20 years in the future. In addition, plans that, before enactment of ARP, were projected to become insolvent in less than 20 years likely do not utilize assumptions for CBUs or plan-related administrative expenses for years after the projected insolvency date.

As such, most plans will need to adopt a change in assumption to reflect the latter years in the projection period not factored into the pre-2021 certification of plan status (the “post-certification projection years”). PBGC will consider the following assumptions that reflect assumptions for post-certification projection years to be reasonable.

##### **1. CBU assumption**

PBGC will accept a change in CBU assumption to reflect the post-certification projection years if the number of assumed CBUs for such years is the same or no less than the number assumed for the last full plan year for which a CBU assumption was utilized.

For example, if the pre-2021 certification of plan status projected a decrease of 2% per year in CBUs over the 20 years covered by the projection resulting in 1,000 CBUs for year 20, PBGC will accept an assumption that uses the same number of CBUs for each projection year as were assumed in the pre-2021 certification of plan status and assumes 1,000 CBUs for years 21 – 30.

##### **2. Administrative expenses assumption**

PBGC will accept a change in an administrative expenses assumption to reflect the post-certification projection years if the rate of increase for administrative expenses for such years is the same or no more than the increase assumed for the last full plan year in the projection period used in the pre-2021 certification of plan status for which there was an assumption utilized, further adjusted to reflect the PBGC premium increase under section 4006(a)(3)(A) of ERISA that goes into effect in 2031, subject to a cap determined as a

specified percentage (taken from the table below) of projected benefit payments for the same year to which administrative expenses are being projected.

<i>Annual Benefit Payments for the Last Plan Year Ending On or Before the SFA Measurement Date</i>	<i>Cap on Projected Administrative Expenses as a Percentage of Projected Annual Benefit Payments</i>
\$100 million or more	6%
\$50 million but less than \$100 million	9%
\$5 million but less than \$50 million	12%
Less than \$5 million	15%

**Example #1.** Before the enactment of ARP, a plan was projected to become insolvent in 2026, administrative expenses were assumed to increase by 2% from 2025 to 2026, and there was no assumption utilized for administrative expenses for years after 2026. Benefit payments in the last plan year ending on or before the SFA measurement date are \$75 million. For this plan, PBGC will accept a changed assumption under which assumed administrative expenses are determined in the same manner as in the pre-2021 certification of plan status through 2025, and for the post-certification projection years are calculated as follows:

- Calculate the assumed administrative expenses for each year, without application of the cap, as follows:
  - For 2026 through 2030, 2% higher than the prior year’s assumed administrative expenses,
  - For 2031, 2% higher than the 2030 assumed administrative expenses plus the amount needed to reflect the premium increase, and
  - For years after 2031, 2% higher than the prior year’s assumed administrative expenses.
- Apply the cap to the applicable years:
  - For all years after 2025, the projected administrative expenses determined above for each year are limited to 9% of the projected benefit payments for such year. The cap is 9% because the annual benefit payments in the last plan year ending on or before the SFA measurement date are between \$50 and \$100 million.

**Example #2.** A plan has annual benefit payments in excess of \$100 million. The pre-2021 certification of plan status for the plan projected a 3% increase in administrative expenses every year. For 2040, the last year of the projection in the pre-2021 certification, administrative expenses were equal to 7% of annual benefit payments. Assuming that the 3% increase assumption was reasonable, PBGC will accept the administrative expenses projected in the pre-2021 certification, even though they exceed the 6% of benefit payments threshold. For 2041 through 2051, the 6% cap from the above table will apply.

## **B. Proposed change to mortality assumption**

PBGC will accept a change to the plan's mortality assumption if the plan adopts the Pri-2012 amount-weighted Blue Collar table (Pri-2012(BC)) with a projection scale published by the Retirement Plans Experience Committee of the Society of Actuaries in the two years preceding the SFA measurement date.

## **C. Proposed change to contribution rate assumption**

PBGC will accept a change to the plan's contribution rate assumption if the plan uses reasonably anticipated employer contribution rates for the current and succeeding plan years, assuming that the terms of one or more collective bargaining agreements pursuant to which the plan is maintained for the current plan year continue in effect for succeeding plan years, based on information reasonably available as of the SFA measurement date, unless a substantial contribution rate decrease was negotiated after March 11, 2021. Also see § 4262.4(f)(1)(i) and § 4262.4(f)(4) for additional requirements that may apply for contribution rate decreases adopted on or after July 9, 2021.

**Example.** The SFA measurement date for a plan is March 31, 2022. The collective bargaining agreement (CBA) for contributing employer A in effect in 2022 was entered into before March 11, 2021 and expires on March 31, 2024. The contribution rate under the CBA for employer A is \$5.00 per base unit in 2022, \$5.25 in 2023, and \$5.50 in 2024. PBGC will accept \$5.00 for 2022, \$5.25 for 2023 and \$5.50 for 2024 and subsequent years.

## **D. Proposed change to new entrant profile assumption**

PBGC will accept a change to the plan's new entrant profile assumption if the distributions of age, service, and gender are based on the characteristics of the new entrants and rehires to the plan in the five plan years preceding the plan's SFA measurement date (reflecting all new entrants and rehires in those five plan years rather than only those remaining in service), and the age bands used in the new entrant profile are no greater than 10 years.

# **IV. Generally acceptable assumption changes**

To the extent a plan proposes to change an assumption in accordance with § 4262.5(c), PBGC will generally accept the assumption changes described in this section IV provided the plan includes the information required by § 4262.5(c) in the application and the demonstration provided by the plan shows the assumption is reasonable. While PBGC expects that an assumption that is set following these guidelines generally will be acceptable and will require less explanation than an assumption not following these guidelines, PBGC may not accept the proposed changed assumption if the facts and circumstances indicate that the result is not reasonable.

In accordance with the SFA instructions for filing requirements and corresponding templates, a plan is required to include any of the changed assumptions described in this section in the "Reconciliation" details. The changed assumptions described in this section should not be included in the "Baseline" details.

## **A. Proposed change to CBU assumption**

### **1. Assumption for first 10 years of projection period**

In general, PBGC will look to the geometric average rate of change in actual CBUs over the most recent 10 plan years preceding the SFA measurement date (excluding any plan year that contains any part of the “COVID period” defined in section IV.A.3. below) as the basis for its review.

If that average is:

- Greater than or equal to zero (i.e., on average, CBUs have been increasing or remaining level), PBGC generally will accept a plan’s changed CBU assumption for the first 10 plan years if assumed future CBUs for those 10 plan years are no less than actual CBUs for the most recent plan year ending before the SFA measurement date that does not include the COVID period.
- Less than zero (i.e., on average, CBUs have been decreasing), PBGC generally will accept a plan’s changed CBU assumption for the first 10 plan years if CBUs for those 10 plan years are assumed to decline each year at that average rate, not to exceed a three percent per year decline rate.

For this purpose, the initial assumed CBU amount used to project CBUs for the 10 plan years beginning with the first plan year that begins after the SFA measurement date is the actual amount of CBUs for the most recent plan year ending before the SFA measurement date that does not include the COVID period.

### **2. Assumption for years more than 10 years in the future**

PBGC generally will accept a change to the plan’s CBU assumption for the period after the first 10 plan years subsequent to the SFA measurement date if, for each such plan year, the projected CBUs increase by no more than one percent per year, remain constant, or decline by no more than one percent per year.

### **3. Exclusion period**

For purposes of this guidance, the term “COVID period” means the period beginning on March 1, 2020 and ending on December 31, 2021.

Data from the COVID period is excluded to take into account the period during which a plan’s industry may have been affected by the COVID-19 pandemic and to avoid using data that could skew the CBU assumption. The exclusion period begins March 1, 2020, the beginning of the presidentially declared national emergency<sup>1</sup> and ends December 31, 2021, which is a proxy for when many industries will begin to stabilize.

Providing a set exclusion period is intended to simplify the information needed to support the changed CBU assumption. As explained above, plans may, but are not required to, use the guidelines if they are reasonable for the plan. The COVID-19 pandemic has disparate impacts for different industries, and some industries may not return to normal levels of activity by December 31, 2021. In such cases, plans can propose to adopt an alternative CBU assumption with detailed explanations and supporting rationale and information, per § 4262.5(c).

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<sup>1</sup> The Proclamation on Declaring a National Emergency Concerning the Novel Coronavirus Disease (COVID-19) Outbreak was signed on March 13, 2020.

#### 4. Example

Consider Plan X, a plan with a calendar plan year and with an SFA measurement date in 2021. For purposes of Plan X's 2020 certification of plan status, CBUs were assumed to decrease by 1.0% per year. Plan X determines that the CBU assumption is no longer reasonable and proposes to change that assumption as follows:

- 2022 CBUs are assumed to be 4.5% (1.5% per year for three years) less than 2019 CBUs.
- CBUs for 2023 through 2029 are assumed to be 1.5% less than the amount assumed for the prior year.
- CBUs for 2030 through 2051 are assumed to be 1.0% less than the amount assumed for the prior year.

The CBU history for Plan X is shown in the table below. CBUs for 2020 and 2021 do not factor into the calculation because those plan years contain part of the COVID period.

(A) Plan Year	(B) CBUs	(C) Ratio to prior year
2010	930,000	NA
2011	960,000	1.0323
2012	950,000	0.9896
2013	940,000	0.9895
2014	950,000	1.0106
2015	900,000	0.9474
2016	860,000	0.9556
2017	840,000	0.9767
2018	820,000	0.9762
2019	810,000	0.9878

The geometric average of the numbers in column (C) is 0.9848. This average is determined by taking the product of those numbers and raising it to the  $\frac{1}{9}$  power. This equates to an average decrease of 1.52% per year [ $1.0000 - 0.9848 = .0152$ ]

Because the proposed assumption provides for a decrease (1.5%) for the first 10 years of the projection period, a rate that is not greater than the average decrease calculated above, PBGC will generally accept the changed CBU assumption for the first 10 years. In addition, because the proposed CBU assumption for years after 2029 provides for a 1.0% decrease, PBGC will also generally accept the changed CBU assumption for the remainder of the projection period.

#### B. Proposed change to mortality assumption

PBGC generally will accept a change to the plan's mortality assumption if the plan's proposed mortality assumption is a modified version of the Pri-2012 amount-weighted Blue Collar table (Pri-2012(BC)) reflecting the plan's fully credible or partially credible mortality experience, with a projection scale published by the Retirement Plans Experience Committee of the Society of Actuaries in the two years preceding the SFA measurement date. 26 CFR 1.430(h)(3)-2 for single-employer plans should be used as a framework to develop the modified plan-specific mortality table.

For this purpose, references to requesting approval from the Commissioner in 26 CFR 1.430(h)(3)-2(b) are not relevant. References to applicability to all plans in a controlled group in 26 CFR 1.430(h)(3)-2(c)(1) and newly affiliated plans in 26 CFR 1.430(h)(3)-2(f)(2) are also not relevant.

References in 26 CFR 1.430(h)(3)-2 to the prescribed mortality tables under 430(h)(3)(C) should be replaced with references to Pri-2012(BC).

References in 26 CFR 1.430(h)(3)-2 to mortality improvement rates should be replaced with

references to any projection scale published by the Retirement Plans Experience Committee of the Society of Actuaries in the two years preceding the SFA measurement date.

### **C. Proposed change to assumptions (except the interest rate) to reflect significant plan experience between the participant census date and the date the application for SFA is filed**

PBGC generally will accept a change to a plan's assumptions (except the interest rate) if the plan's proposed assumption is made due to a significant change in plan experience that has occurred after the participant census date and before the date the application for SFA is filed (or for a revised application, the date the revised application is filed).

#### **1. Example**

Plan Y's plan year is the calendar year. The plan is in critical and declining status for the 2020 plan year. The plan files its SFA application in February 2025. Its SFA measurement is 12/31/2024, and the plan's participant census data is as of 1/1/2024, since the actuarial valuation using 1/1/2025 census data is not yet completed and the application filing date is less than 270 days after 1/1/2025. In the pre-2021 certification of plan status, the level of CBUs is assumed to decrease by 1% per year, and no current contributing employers are assumed to withdraw from the plan.

On 1/31/2025, the plan's largest contributing employer, who contributed 20% of the total employer contributions in 2024, withdraws from the plan. The plan determines that its original pre-2021 assumptions are no longer reasonable, and makes the following changes to the assumptions used to determine the requested amount of SFA:

- Reduces the assumed CBU level for 2025 by 20% from its 2024 level,
- Adjusts its average contribution rate, as needed, to reflect the average for the remaining contributing employers,
- Reflects the expected projected withdrawal liability payments from the withdrawing employer in its projection of SFA resources,
- Changes its turnover and retirement assumptions to reflect the termination or retirement for the employees of the withdrawing employer on 1/31/2025,
- Changes its new entrant profile to reflect a demographic profile that excludes demographic characteristics of new entrants of the withdrawing employer, after determining that original new entrant profile was no longer reasonable based on an analysis of the new entrant demographic characteristics of the remaining contributing employers.

The plan must provide supporting rationale, data, and information on why using each of the original assumptions is no longer reasonable, and why the proposed assumptions are reasonable.

## **V. Generally not acceptable assumption changes**

### **A. Proposed change to CBU assumption**

PBGC generally will not accept a change to the plan's CBU assumption if:

- The changed assumption includes year-to-year changes that are not adequately supported by the plan's historical data, or

- The change is based on speculative changes in industry trends not supported by data.

Given the difficulty of projecting industry trends over a 30-year period for any industry, it is important that the CBU assumption be supported by historical data and informed by recent trends. Speculative industry transformations unsupported by data are not appropriate. For example, PBGC generally will not accept a CBU assumption that anticipates extreme automation of an industry (e.g., self-driving trucks replacing all human truck drivers). The CBU guidelines in this document in sections III.A.1, IV.A and V.A will help to streamline the application review process and serve to ensure plans are treated consistently within a given industry or union.

## **B. Proposed change to investment expense assumption**

PBGC generally will not accept a change to the plan's investment expense assumption that is based on a methodology for identifying which classes of expenses are included in the projected administrative expenses in the deterministic projection used to determine the requested SFA that is different from the methodology used in the projections used in the pre-2021 certification of plan status.

## **C. Proposed change to assumptions (except the interest rate) based on short-term plan experience between the participant census date and the date the application for SFA is filed**

PBGC generally will not accept a change to a plan's assumption if the plan's proposed assumption is made to reflect short-term plan experience (other than significant plan experience as described in section IV.C) that has occurred between the participant census date and the date the application for SFA is filed (or for a revised application, the date the revised application is filed). In addition, no changes to assumptions or methods are allowed which reflect plan investment experience after the SFA measurement date.

# **VI. Additional information**

## **A. Nonbinding guidance**

This guidance represents PBGC's current thinking on this topic. It does not create or confer any rights for or on any person or operate to bind the public. A plan can use an alternative approach if the approach satisfies the requirements of the applicable statutes and regulations.

## **B. Contact Information**

For questions about this guidance, please email the general Multiemployer Program Division mailbox at [multiemployerprogram@pbgc.gov](mailto:multiemployerprogram@pbgc.gov), and include as the subject "Special Financial Assistance Question from (Plan Name)."

For comments on this guidance, please submit your comments, including your contact information, to the General Counsel at [GuidanceComments@pbgc.gov](mailto:GuidanceComments@pbgc.gov), and include as the subject "Special Financial Assistance Comment from (Plan Name)."