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BY FEDERAL eRULEMAKING PORTAL
http://www.regulations.gov

The Honorable Gordon Hartogensis
Executive Director
Pension Benefit Guaranty Corporation
1200 K Street, NW
Washington, DC 20005

RE: Pension Benefit Guaranty Corporation
Special Financial Assistance by PBGC
RIN 1212-AB53

Dear Director Hartogensis,

We serve as the Board of Trustees of the Graphic Communications Conference of the International Brotherhood of Teamsters National Pension Fund (GCC/IBT-NPF or Plan), a nationwide Taft-Hartley, multiemployer pension plan. We submit these comments on behalf of the 33,965 active, deferred vested and retired participants and their beneficiaries to address our concerns with certain aspects of the Interim Final Rule (IFR) issued by the Pension Benefit Guaranty Corporation (PBGC) addressing Special Financial Assistance by PBGC.

We are concerned that if the PBGC does not allow for expansion in the type of investments that can be utilized to invest the Special Financial Assistance (SFA) to be received by multiemployer plans beyond investment-grade bonds and other similar fixed income investment vehicles, many multiemployer plans, including the GCC/IBT-NPF, will fall far short of having sufficient assets to provide full benefits through their plan year 2051, thereby undermining the intent of Congress in providing the SFA.

We are also concerned that under the current application priority groupings, the GCC/IBT-NPF, which has a May 1, 2022 projected insolvency date and therefore is in the second priority group which currently opens for SFA applications on January 1, 2022, will not receive its SFA before it has to implement harmful and disruptive benefit reductions for its participants that are unnecessarily costly, burdensome and time-consuming for the Plan and the Plan's staff.

The following comments address how the PBGC can implement investment guiderails that permit the Special Financial Assistance to be invested in a diversified portfolio with a tenable risk level that along with the prudent investment of legacy assets and receivable assets will permit multiemployer plans that receive Special Financial Assistance a much more realistic opportunity to provide full benefits through their 2051 plan year.

The following comments also address measures that the PBGC can take to ensure that plans with insolvency dates in 2022, such as the GCC/IBT-NPF, can avoid having to reduce benefits and implement the corresponding administrative procedures prior to receipt of the Special Financial

Assistance.

***Under the IFR, the SFA is projected to delay the GCC/IBT-NPF's insolvency only until its Plan year Beginning May 1, 2040.***

The GCC/IBT-NPF is a critical and declining status multiemployer pension plan with a projected insolvency date of May 1, 2022. According to the Plan's actuary, Segal, the Plan is projected to have approximately $87 million in legacy assets as of May 1, 2022. Under IFR § 4262.4 Amount of special financial assistance, taking into account the present value of the Plan's benefits and expenses, the fair market value of Plan assets, and the present value of future contributions, withdrawal liability payments, and other payments expected to be made to the Plan through the Plan year ending in 2051, the GCC/IBT-NPF would receive approximately $1.3 billion in SFA if it were provided on May 1, 2022.

Assuming an average investment-grade corporate bond rate of 3.0% based on a dedicated cash flow matching corporate bond portfolio, (i.e. the equivalent single rate based on the May 2021 yield curve projected to May 1, 2022)[1], the GCC/IBT-NPF will become insolvent in its Plan year beginning in 2039 if both the SFA, as required by PBGC Interim Final Regulation § 4262.14 Permissible investments of special financial assistance, and its legacy assets were invested in investment-grade fixed income investments. If the Plan's SFA was invested in investment-grade fixed income investments but the Plan's legacy assets as of May 1, 2022 were invested in investments earning 6% per year, then the Plan's projected insolvency would occur in Plan year beginning 2040.

Thus, it appears highly probable (if not certain) that, as the result of the investment restrictions included in the IFR, the SFA proceeds not be sufficient for the GCC/IBT-NPF to remain solvent through its Plan year ending in 2051. Rather, it will likely become insolvent in its Plan year beginning in 2039 or 2040 or possibly earlier.

These investment restrictions, however, are not required by the statute. New ERISA Section 4262(l) states in relevant part: "Special financial assistance shall be invested by plans in investment-grade bonds **or other investments as permitted by the corporation**. (Emphasis added)." Thus, Congress has specifically envisioned that the PBGC would permit plans that receive SFA to invest in investments other than investment-grade bonds. In order to ensure that the statutory mandate to provide funding to multiemployer plans enabling them to provide full benefits to their participants through their Plan year 2051, it is imperative that the PBGC permit plans to invest the SFA in investments other than investment-grade bonds.

In order to assist the GCC/IBT-NPF, and other similarly situated multiemployer plans, to remain solvent through its Plan year ending in 2051, it is crucial that the PBGC offer flexibility in the types of investments in which a multiemployer plan can invest its SFA and not place any restrictions on the investment of legacy assets beyond ERISA's fiduciary duties that already govern the investment of those assets.

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[1] Based on current actual bond yields, the 3% used in these projections may be overly optimistic. If the 3% return is overly optimistic, it substantially overstates the period during which the Plan would remain solvent.

***The chart below illustrates the impact on the Plan's projected solvency of 0.5% increases in the investment return on all assets and on SFA assets only.***

| | **Insolvency Date May 1** | |
|---|---|---|
| **Investment Return** | **All Assets*** | **SFA Assets Only**** |
| **3.0%** | **2039** | **2040** |
| **3.5%** | **2040** | **2041** |
| **4.0%** | **2041** | **2043** |
| **4.5%** | **2043** | **2045** |
| **5.0%** | **2046** | **2048** |
| **5.5%** | **2051** | **2051+** |
| **6.0%** | **2051+** | **2051+** |

* ***Legacy assets assumed to be $87 million if the Plan receives its SFA on May 1, 2022***
** ***Legacy assets assumed to earn 6.0%***

Thus, the Plan will need to be able to invest both its legacy assets and its SFA in investments that produce an investment return of 5.5% or more in order to remain solvent through its Plan year 2051.

***Investment vehicles are available that are similar in nature to fixed income but provide a better return without incurring more risk or without incurring an untenable amount of additional risk.***

Referencing Exhibit 1 below, the research of the Plan's Investment Consultant, Marquette Associates, Inc. (Marquette), indicates that the inclusion of select asset classes beyond investment grade fixed income (IGFI), such as core real estate, and open-end infrastructure can improve the outcomes of SFA accounts by providing enhanced total return in the long run, stronger real yield in both the short and long run, reduced risk within the investment portfolio, and a more efficient asset allocation.

Marquette recommends reviewing the addition of these asset classes on a holistic portfolio approach. The most important element of this approach is the diversification, i.e., "not putting all of the eggs in one basket." While non-investment grade bonds, bank loans, emerging markets debt, equities, core real estate funds, and open-end infrastructure may have a higher level of risk or introduce different types of risk, compared with investment grade bonds, a diversified portfolio that holds all these asset classes in the allocations as laid out in Exhibit 1 provides for the benefit of non-correlation between asset classes. It is this non-correlation that reduces the risk and volatility in the overall portfolio.

Exhibit 1: Portfolios for Comparison and diversification benefits

| Asset Class | Asset Class Annualized Volatility | Proposed | Portfolio A | Portfolio B | Portfolio C | Portfolio D | Portfolio E |
|---|---|---|---|---|---|---|---|
| Investment Grade Fixed Income | 5.2% | 100.0% | 90.0% | 80.0% | 70.0% | 60.0% | 55.0% |
| Bank Loans | 10.2% | 0.0% | 0.0% | 1.7% | 1.7% | 1.7% | 1.7% |
| High Yield | 10.3% | 0.0% | 0.0% | 1.7% | 1.7% | 1.7% | 1.7% |
| Emerging Markets Debt | 10.9% | 0.0% | 0.0% | 1.7% | 1.7% | 1.7% | 1.7% |
| Broad U.S. Equity | 16.8% | 0.0% | 10.0% | 10.0% | 15.0% | 20.0% | 20.0% |
| Broad Non-U.S. Equity | 22.9% | 0.0% | 0.0% | 0.0% | 5.0% | 5.0% | 5.0% |
| Core Real Estate | 12.0% | 0.0% | 0.0% | 5.0% | 5.0% | 5.0% | 7.5% |
| Core Infrastructure | 12.6% | 0.0% | 0.0% | 0.0% | 0.0% | 5.0% | 7.5% |
| **Avg. Annualized 30 Yr. Return** | | **3.40%** | **3.96%** | **4.41%** | **5.01%** | **5.49%** | **5.72%** |
| **Avg. Annualized 30 Yr. Volatility** | | **5.20%** | **5.18%** | **5.01%** | **5.62%** | **6.29%** | **6.39%** |

Based on Marquette's expected risk and return assumptions, portfolios that include a diversified mix of asset classes, similar to Portfolios C through E, provides multiemployer plans the highest probability of achieving a 5.5%-6.0% return target while only slightly increasing risk when compared to the Proposed portfolio of only IGFI.

***The return/risk profile of stock ETFs and mutual funds support allowing SFA assets to be invested in those vehicles to enhance return without incurring an untenable amount of additional risk.***

The below chart, produced by Marquette, provides the expected annualized return and volatility, or risk, for both the broad U.S. and non-U.S. equity markets over the next 30 years. According to Marquette, when viewed on a standalone basis, they are much riskier than IGFI, but when included in a diversified portfolio they provide enhanced total return in the long run, reduced risk within the portfolio, and a more efficient asset allocation.

| | Average 30 Year | |
|---|---|---|
| **Asset Class** | **Annualized Return** | **Annualized Volatility** |
| U.S. Equity | 7.8% | 16.8% |
| Non-U.S. Equity | 8.3% | 22.9% |
| IGFI | 3.4% | 5.2% |

Over the past 30 years, a 20% allocation to the S&P 500 Index and 80% allocation to the Bloomberg Barclays Aggregate Index (bellwether index for investment grade bonds) has enhanced returns and lowered portfolio risk, while having returned negatively in only 3 out of the previous 30 years.

| As of December 31, 2020 | # of Negative Returning Years | 5 Yrs | 10 Yrs | 20 Yrs | 30 Yrs |
|---|---|---|---|---|---|
| 80% BarCap U.S. Agg / 20% S&P 500 | 3 | 6.7% | 5.9% | 5.6% | 7.0% |

Therefore, a reasonable range of SFA assets being permitted to be allocated to equities is warranted.

***The return/risk profile of non-investment grade securities support allowing SFA assets dedicated to fixed income to be invested in those vehicles to enhance return without incurring an untenable amount of additional risk.***

The below chart, produced by Marquette, shows a key measure of the efficiency of different percentages of allocation of non-investment grade securities in a portfolio as represented by the Sharpe ratio. The Sharpe ratio is computed by taking the return less the risk-free interest rate (using the 3-month U.S. Treasury rate), divided by the standard deviation. This provides a key metric that shows the amount of return per unit of risk. The higher the Sharpe ratio, the better and more efficient the portfolio. Based on Marquette's research, the optimal allocation to the non-investment grade sectors, or "plus sectors", such as high yield bonds, bank loans, and emerging markets debt, falls in the range of 24% to 30% of a dedicated fixed income allocation.

| | **Sharpe Ratio** |
|---|---|
| 9% Plus | 0.89 |
| 12% Plus | 0.91 |
| 15% Plus | 0.92 |
| 18% Plus | 0.94 |
| 21% Plus | 0.95 |
| 24% Plus | 0.96 |
| 27% Plus | 0.96 |
| 30% Plus | 0.96 |

Over the past 20 years, permitting SFA assets to be allocated only to IGFI would have resulted in returns well below ARPA's target return of 5.5%, while an allocation of 10% to 30% to high yield bonds would have enhanced returns, provided additional income, and lowered portfolio risk, while having returned negatively in 6 or fewer years out of the previous 30.

| **As of December 31, 2020** | **# of Negative Returning Years** | **5 Yrs** | **10 Yrs** | **20 Yrs** | **30 Yrs** |
|---|---|---|---|---|---|
| 100% BarCap U.S. Agg | 3 | 4.4% | 3.8% | 4.8% | 6.0% |
| 90% BarCap U.S. Agg / 10% BarCap U.S. High Yield | 4 | 4.9% | 4.2% | 5.2% | 6.2% |
| 80% BarCap U.S. Agg / 20% BarCap U.S. High Yield | 6 | 5.3% | 4.5% | 5.5% | 6.5% |
| 70% BarCap U.S. Agg / 30% BarCap U.S. High Yield | 4 | 5.7% | 4.8% | 5.8% | 6.7% |

Therefore, a reasonable range of SFA assets being permitted to be allocated to non-investment grade securities is warranted.

***Instead of addressing SFA assets independently, the PBGC should address investment assets holistically by requiring that a certain percentage of all of a multiemployer plan's assets (SFA and legacy assets) be invested in investment grade fixed income securities.***

The PBGC should adopt a holistic approach to investments for plans that receive SFA, such that the plan's overall investment program would be viewed inclusive of SFA and legacy plan asset allocations. Title I of ERISA, requiring that ERISA assets be diversified, should apply to all plan asset investments used to pay pension benefits. As noted above, portfolios that include equities, real assets and other diversifying fixed income assets provide multiemployer plans with the highest probability of achieving return expectations of 5-6%, even while keeping the majority of the portfolio invested in IGFI.

Marquette recommends an allowance of between 40.0% to 50.0% of total plan assets (legacy and SFA) to be permitted to be invested in asset classes outside of IGFI (including non-investment grade fixed income, equities, core real estate, and open-end infrastructure). Permitting such diversification would allow for an efficient and beneficial use of SFA assets without incurring unnecessary risk and will ultimately serve to enable multiemployer plans to meet their retirement benefit obligations to their participants and beneficiaries as envisioned by Congress through the passage of ARPA.

***Multiemployer plans should be permitted to invest their legacy assets subject only to the satisfaction of the trustees' fiduciary duties.***

Limiting the investment of a multiemployer plan's legacy assets will doom many multiemployer plans to insolvency prior to their plan year 2051. As the investment of legacy assets is already subject to the fiduciary duties of prudence, diversification, and loyalty to the best interests of plan participants and beneficiaries, further restrictions are unnecessary. Moreover, because multiemployer plans that receive SFA will be able to invest their legacy assets over a longer period of time, using SFA assets that will have lower investment returns to pay benefits and expenses as they come due and thus preserving legacy assets until the SFA assets are exhausted, the legacy assets will be able to weather investment cycle peaks and valleys thereby resulting in a higher long-term asset return.

Additionally, when investing legacy assets, the trustees should be permitted to take into account the percentage of SFA assets in investment-grade fixed income securities in fulfilling their fiduciary duties with respect to asset allocation and the overall investment program for the plan. Otherwise, a plan's assets will be heavily over weighted to fixed income investments resulting in a depressed return that inevitably will force many plans to fall woefully short of the statutory mandate for these plans to pay benefits through their plan years ending in 2051.

***The PBGC should take steps to ensure that the Plan does not have to prepare administratively for insolvency or become insolvent prior to receiving its Special Financial Assistance.***

As the GCC/IBT-NPF is currently projected to become insolvent May 1, 2022, it is in the second priority group for filing its application for SFA, currently on or after January 1, 2022. Even in a perfect scenario -- the GCC/IBT-NPF immediately files its application when it is permitted to do so, the PBGC grants the Plan's SFA application within 120 days, and the Plan receives its SFA 60 to 90 days after its application has been granted -- it is likely that the Plan will not receive its SFA until after it has become insolvent. This would result in a reduction in retiree and beneficiary benefits to PBGC guarantee levels and the need to restore those benefits at a later date. Additionally, the Plan will have to notify its participants of insolvency and benefit cuts at least 90 days before they are set to occur sowing significant – and unnecessary – fear and uncertainty. It will take the GCC/IBT-NPF approximately four to six months to develop programs, test, and implement a benefit reduction/restoration protocol into its computer system for its 20,000 + participants in pay status. Accommodations for treating SFA as an expected resource benefit for the May 1, 2022 Plan year, or slight adjustments to the prioritization process for SFA could remedy this otherwise inevitable imbroglio for plans like the GCC/IBT-NPF on the cusp of insolvency.

Thus, we recommend that the PBGC adopt one or more of the following measures:

- Allow plans to consider their expected SFA as a component of their available resources in determining whether they are insolvent for a particular plan year.

- Allow plans to file emergency petitions for consideration in the first priority group.

- Move up the date of opening the application process for the second priority group.

- Include an allowance in the first priority category for plans that otherwise would be included in the second priority category but are projected to be insolvent within 7 months from their otherwise earliest filing date.

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The 33,965 retired, active and inactive participants and beneficiaries of the Graphic Communications Conference of the International Brotherhood of Teamsters National Pension Fund are indebted to you for your efforts to preserve, for as long as possible, the modest pension benefits that they have spent their entire working lives to secure.

We are available to answer any questions related to your efforts to finalize the regulations to implement the provision of Special Financial Assistance by the PBGC.

Respectfully submitted,

Board of Trustees

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