

PBGC

Special Financial Assistance Final Rule

Permissible Investments

August 16, 2022



- Previous Special Financial Assistance (SFA) Final Rule PBGC Webinars
- Permissible Investments
- Questions

Recap – Previous SFA Final Rule Webinars

July 7,
2022

Special Financial Assistance Final Rule

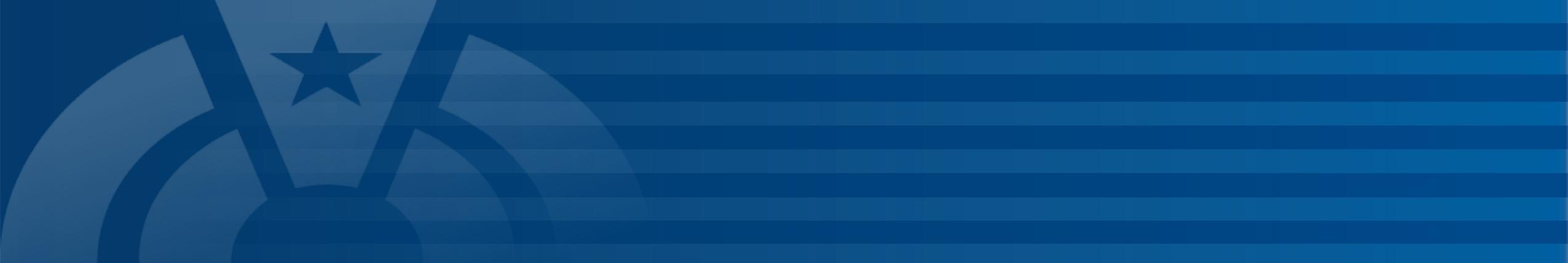
July 28,
2022

Special Considerations for Plans that Applied Under the Interim Final Rule and Other Plans Currently Eligible to Apply

August 4,
2022

SFA Applications Under the Final Rule

Prior PBGC SFA webinars both recordings and presentation slides are available at: <https://www.pbgc.gov/arp-sfa/webinars>



§4262.14 Permissible Investments



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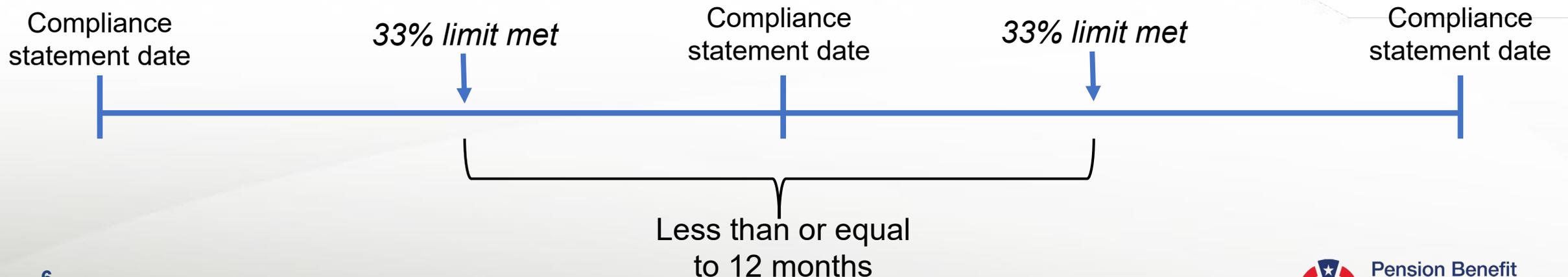
Such assistance shall be segregated from other plan assets, and shall be invested by the plan in investment grade bonds or other investments as permitted by regulations or other guidance issued by the Pension Benefit Guaranty Corporation

SFA Permissible Investments Under Final Rule

- SFA assets and earnings:
 - Are segregated from non-SFA assets and may be used any time
 - May be used to make benefit payments and pay plan expenses
- Allowance for allocation to return-seeking assets (RSA) is up to 33%
- Remainder of SFA assets – at least 67% - must be allocated to investment grade fixed income (IGFI)
- Applicable on date that an application is filed under provisions of final rule

SFA Permissible Investments – Rebalancing to 33% Limit on RSA

1. 33% limit must be met every time RSA are purchased
 - Automatic reinvestment of fund distributions not considered a purchase
- AND**
2. 33% limit must be met once during past 12 months
 - Return differences in RSA and IGFI or downgrades of IGFI may put RSA over the 33% limit temporarily
 - Benefit payments can be used to rebalance



- Broad, liquid markets
- Publicly/widely traded
- Common, simple investments
- Robust regulatory framework
- U.S. markets
- Derivatives used to gain exposure, not leverage

SFA Permissible Investments – Definitions

Investment Grade Fixed Income

- Debt securities
- Fixed rate
- Registered under 1933 Act
- Dollar-denominated
- Investment Grade

Return-Seeking Assets

- Equities traded in U.S. markets (12(b) of 1934 Act)
- Fixed income issued using 144A
- “Fallen angels”

Permissible Fund Vehicles

- Mutual Funds
- Exchange Traded Funds (ETFs)
- Collective Trusts
- Invested predominantly in permissible securities

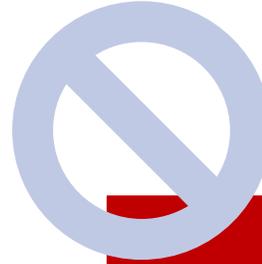
SFA Investment Grade Fixed Income – What’s In and Out

PERMISSIBLE EXAMPLES



- Investment grade credit bonds registered under 1933 Act
- Treasuries
- Government-sponsored entity issues
- Investment grade municipal bonds
- Cash or equivalents
- Money market funds
- Sample permissible funds:
 - Aggregate bond index fund
 - Core bond fund with tilt toward credit bonds

NOT PERMISSIBLE EXAMPLES



- 144A securities & fallen angels
 - Except small portion in permissible fund vehicles
- High yield bonds
- Convertible bonds
- Preferred stock
- Collateralized loan obligations
- Annuity purchases

SFA Return Seeking Assets – What’s In and Out

PERMISSIBLE EXAMPLES



- Equities traded on U.S. exchanges
 - Includes foreign companies
 - Level II and III American Depositary Receipts (ADRs)
- Debt resold under 144A
- Fallen angels
- Sample permissible funds:
 - U.S. large cap equity index fund
 - U.S. active or passively managed fund

NOT PERMISSIBLE EXAMPLES



- Stocks traded over the counter
- Stocks traded on foreign exchanges
- Funds invested in foreign markets
 - For example, EAFE
- High yield bonds, except fallen angels
- Bonds traded in foreign markets
- Emerging market debt funds
- Alternative investments
- Leverage

Condition on entire portfolio (SFA and non-SFA assets):

- Allocation to investment grade fixed income must be greater than or equal to one year of projected benefit payments and administrative expenses

Allocation
to IGFI

≥

1 Yr of Projected Benefit
Payments & Admin
Expenses

Questions?



Webpage: <https://www.pbgc.gov/arp-sfa>

Thank you!

For SFA Practitioner Related Questions or Requests for a
Pre-Filing Consultation:

Email multiemployerprogram@pbgc.gov

