SEIU Benefit Funds
PENSION | HEALTH & WELFARE | 401K

SEIU National Industry Pension Fund (NIPF)
2024 Update Related to Funding Projections and Overall NIPF Status

Executive Summary

- The NIPF provides a defined lifetime benefit to the participant with the option of electing a continuing lifetime benefit payable to the participant's surviving spouse.
- The NIPF is continuing to improve back toward the "green zone" and is projected to always be able to pay promised benefits.
- A stable or growing level of contributions is an important component of the NIPF's recovery and long-term financial health.
- To encourage growth within the NIPF, the Board has already:
  - eliminated the non-benefit bearing ("supplemental") contribution load for newly bargained increases to the benefit-bearing ("base") contribution rate for any group, and
  - lowered the supplemental contributions applicable to certain new groups joining the NIPF.
- The NIPF already has a market value funded percentage over 80% and is projected to have a market value funded percentage of over 100% within the next several years.
- While recovery out of the "red zone" is not yet complete, at this point it is not a matter of if, but when the NIPF will emerge.

2024 Highlights

1. **Defined Benefit Plan:** As a defined benefit plan, the NIPF provides a defined monthly annuity payable for the participant's lifetime with the option of a continued monthly annuity payable for their surviving spouse's lifetime based on their payment form election. This differs significantly from a defined contribution plan (e.g., a 401(k) plan), which results in a pot of money based on contributions made to the account (adjusted by investment gains/losses) that the participant must then manage in retirement for income. In addition, there is no significant individual employer administrative responsibility and no individual investment responsibility. The NIPF is jointly Trusteed, meaning there is equal management and employee representation on the Board. As of January 1, 2024, the Plan has roughly $1.6 billion in assets and covers over 100,000 participants, of whom approximately 37,000 are active and earning benefits.

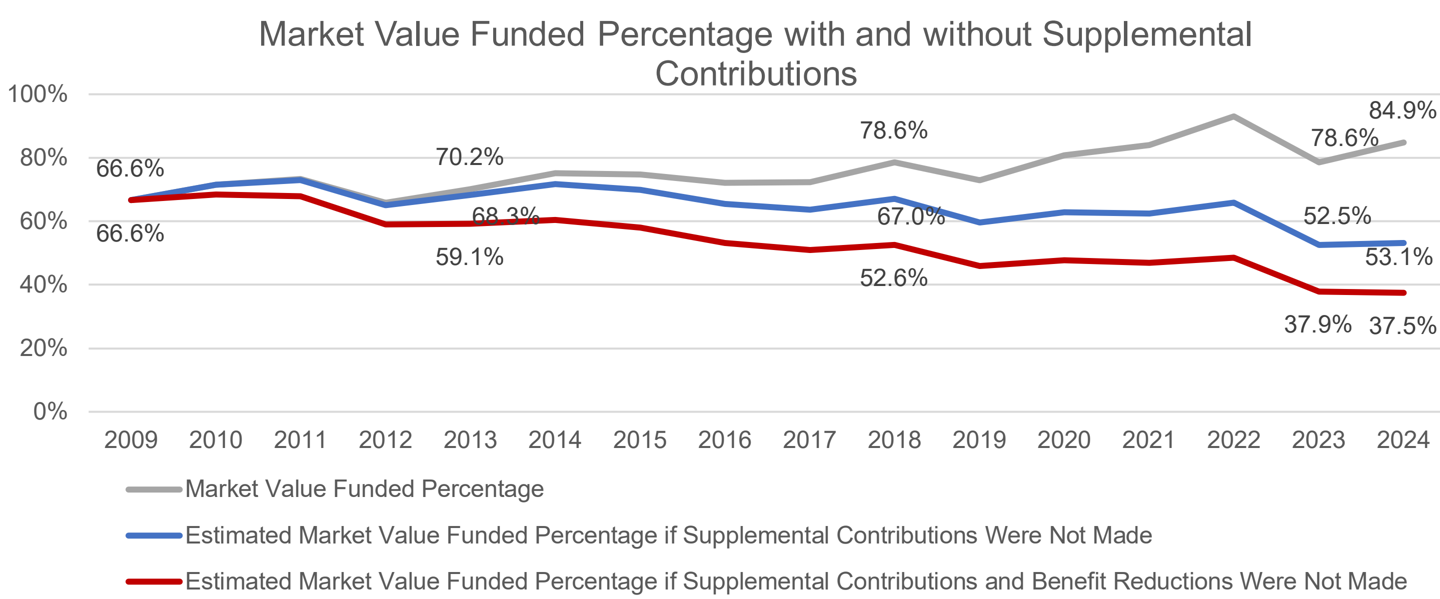
2. **Red Zone, but NOT Critical and Declining:** Although the NIPF remains in the "Red Zone", the NIPF is not projected to have a solvency (i.e., cash flow) problem. In other words, the NIPF is projected to always be able to pay promised benefits.

3. **Rehabilitation Plan:** When a plan is in the Red Zone, it is required to take measures to improve its funding and return to the Green Zone. Such measures are adopted as part of a "Rehabilitation Plan". The NIPF's Rehabilitation Plan requires additional contributions that do not earn benefits (i.e., "supplemental" contributions) be made to help improve the NIPF's financial health. The

Rehabilitation Plan required increases each year to the level of supplemental contributions through 2022, after which the supplemental contributions generally stop increasing, but remain in place[1]. The Rehabilitation Plan also reduced the benefit accrual rate in 2010 and cut "adjustable" benefit subsidies to improve the funded position of the NIPF. Once the NIPF emerges back into the Green Zone and the funding improves sufficiently, the Board of Trustees can take steps toward improving the benefits and/or lowering the supplemental contribution dollars.

4. **Recovery from Experience Losses:** The NIPF (like many others) has been working to recover from the "Great Financial Crisis" that caused a significant investment loss in 2008 (approximately $450 million) and resulted in the NIPF entering the Red Zone. The Rehabilitation Plan was designed based on reasonably anticipated experience and reasonable actuarial assumptions. Nevertheless, experience since its adoption has been less favorable than those assumptions. Notably, there was another large investment loss in 2022 (approximately $310 million), and covered employment levels and employer contributions have been lower than originally anticipated. Such losses are being made up through the changes required by the Rehabilitation Plan. On a cumulative basis, the value of Rehabilitation Plan benefit reductions through the end of 2023 was approximately $760 million and the value of supplemental (non-benefit bearing) contributions made through the end of 2023 was approximately $580 million. **The importance of a stable or growing level of contributions to the long-term health of the NIPF cannot be understated and is the primary reason why the Trustees took action to lessen the burden of supplemental contributions on new employers bargaining into the NIPF and on benefit-bearing ("base") contribution rate increases bargained after January 1, 2020[2].**

5. **Positive Effect of Supplemental Contributions and Benefit Reductions:** The graph below shows the estimated effect of both the supplemental contributions and benefit reductions on the market value funded percentage since 2009. These measures are doing what they were designed to do under the Rehabilitation Plan. We estimate that, absent supplemental contributions, the funded percentage would be roughly 53% on January 1, 2024, and we estimate that the effect of slower benefit growth avoided a far lower 38% funded percentage result on that date if no Rehabilitation Plan measures were taken (versus the actual funded percentage of about 85%).



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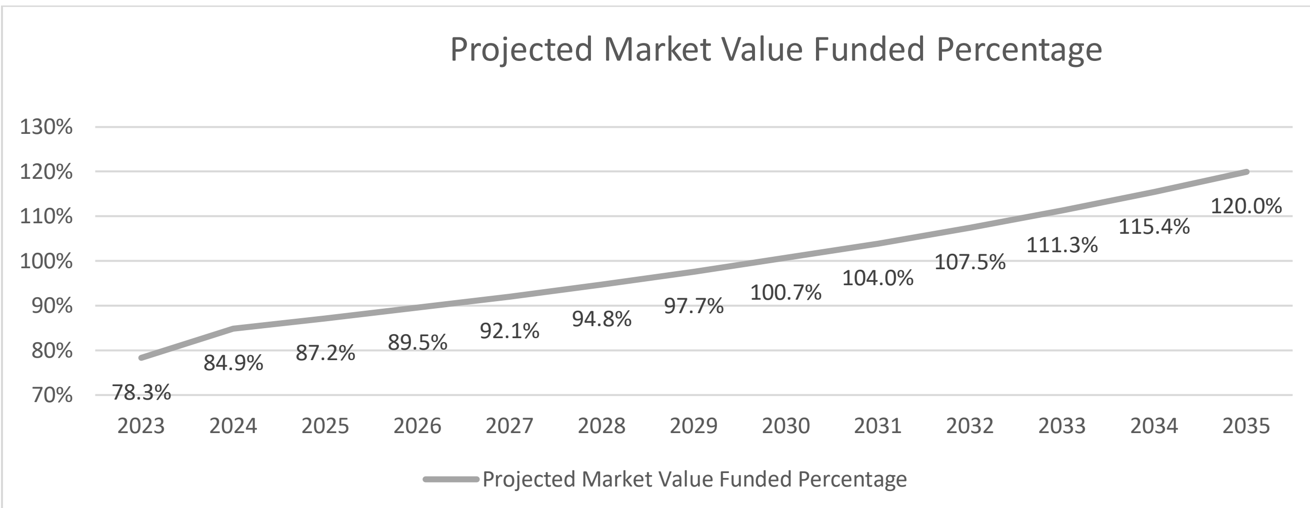
[1] See item #8 ("Special Rules for Certain New Employers") for additional context regarding new employers bargaining into the NIPF.

[2] See item #7 (""Base" Contribution Rate Increases") and item #8 ("Special Rules for Certain New Employers") for additional details.

6. **Progress Back Toward Green Zone:** Although recovery takes time and is not yet complete, progress is being made and the NIPF continues on a path toward emergence from the Red Zone back to the Green Zone in the next few years. The Rehabilitation Plan that was adopted in 2009 required emergence in 2024; however, with the passage of the American Rescue Plan Act in 2021, the required emergence has been extended by five years to 2029. Based on current projections, the NIPF is on track to emerge before 2029.

   The NIPF's emergence into the Green Zone will mean that certain funding requirements have been satisfied. The graph below shows the NIPF's projected market value funded percentage, which is projected to exceed 100% within the next ten years.

   The projection is based on the data, assumptions, and methods used for projections shown at the June 2024 Board of Trustees meeting. The active population is assumed to remain level, supplemental contributions are assumed to continue, and a market return of 7.0% is assumed to be earned in 2024 and in each year thereafter[i].



7. **"Base" Contribution Rate Increases:** As of January 1, 2020, there is no supplemental contribution load on new base (i.e., benefit bearing) contribution rate increases. Therefore, any newly negotiated base contribution rate increases would be free from a supplemental (non-benefit bearing) load and the additional dollars fully count toward the benefit formula. Since the implementation of this rule, close to 20,000 participants have had new base rate increases bargained.

8. **Special Rules for Certain New Employers:** Effective January 1, 2020, special rules under the Rehabilitation Plan provide lower supplemental contribution requirements for new employers in certain situations. Prior to the implementation of this rule, any new employer bargaining into the Plan would immediately need to pay supplemental contributions equal to 169% of the benefit-bearing contribution rate. Under the new rules, the supplemental load equals 7.75% of the benefit-bearing rate in the first year and increases by 7.75% annually over the following four years. The ultimate supplemental contribution load under this rule is 45.2%. Since the implementation of this rule, over 10,000 new participants have bargained into the NIPF.

9. **What Happens After NIPF Returns to Green Zone?:** Once the NIPF emerges into the Green Zone, the NIPF will be positioned to restructure the benefit/contribution/risk relationship through some combination of improving the benefits, reducing the supplemental contributions, and potentially taking steps toward reducing the possibility that investment volatility could damage the funded position over time. With the supplemental contributions continuing, the NIPF is projected to improve its funding significantly. The Board of Trustees will be evaluating and determining the steps and appropriate timing for future actions, but it begins with returning to the Green Zone.

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[i] The actuarial calculations were completed under the supervision of Maria Kirilenko, ASA, MAAA, EA. All data, assumptions, and methods are those described in the January 1, 2024 zone status certification. Projections, by their nature, are not a guarantee of future results. The projections are intended to serve as estimates of future financial outcomes that are based on the information available at the time the projections were completed, and the agreed-upon assumptions and methodologies described herein. Emerging results may differ significantly if the actual experience proves to be different from these assumptions or if alternative assumptions are used. Actual experience may differ due to such variables as demographic experience, the economy, stock market performance and the regulatory environment.

Segal valuation results and projection models are based on proprietary actuarial modeling software. The actuarial valuation models generate a comprehensive set of liability and cost calculations that are presented to meet regulatory, legislative and client requirements. Deterministic cost projections are based on a proprietary forecasting model. Our Actuarial Technology and Systems unit, comprised of both actuaries and programmers, is responsible for the initial development and maintenance of these models. The models have a modular structure that allows for a high degree of accuracy, flexibility, and user control. The client actuarial team programs the assumptions and the plan provisions, validates the models, and reviews test lives and results, under the supervision of the responsible actuary.