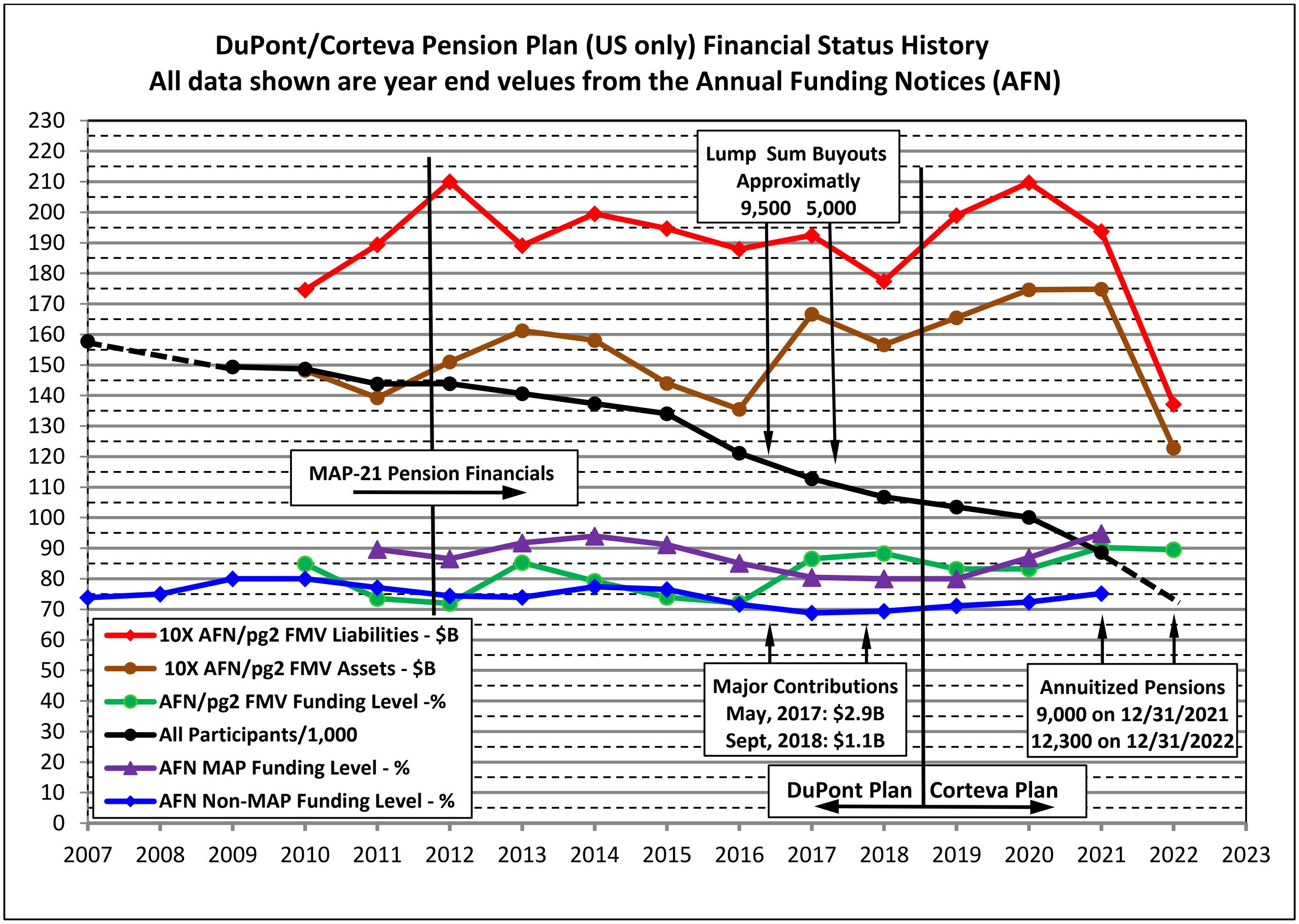
May 22, 2023

From: **Paul Kende**
To: **NRLN DuPont Retirees Chapter**
Subject: **DuPont/Corteva Pension Plan Historical Financial Overview**

This is an update of the financial history of the DuPont Pension Plan for which Corteva Agriscience assumed sponsorship on June 1, 2019 – and is based on the April, 2023 Annual Funding Notice (AFN), which reports the status of the Plan over the previous 3-years. In the graph below, I show Plan Participant population and performance data from AFNs, dating back to 2007, so we can all see and assess the Plan's financial trends and its current status.



For a detailed analysis and explanation of the various methods for calculating Funding Levels, MAP-21 adjustment history, Prefunding Credit Balance, Fair Market Value, and other financial factors, refer to my note of May 3, 2022, posted in the Archive section of on our NRLN/DuPont Retirees webpage: https://www.nrln.org/wp-content/uploads/2022/05/May-2022-Chapter-Update.pdf?

Below is a brief summary of our Pension Plan's current, updated financial condition and its implications for us.

1. **Demographics -** U.S. Pension Plan Participants (retirees, spouses and former, vested employees) numbered about 158,000 in 2007, which is now down to about 88,700, due to attrition, Lump Sum Buyouts in 2016/17, of about 9,000 Participants, representing relatively small remaining obligations, annuitized on 12/31/2021. An additional 12,300 retiree pensions were annuitized, effective 12/31/2022, mostly Plan Participants, who have no contingent beneficiaries. Mortality data for 2022 is not yet available, but is roughly 3%/year; therefore, I project the Participant population to about 73,000 at year-end 2022 (dotted black line).

2. **Financials -** Between year-end 2021 and 2022, liabilities dropped by $5.7B and assets by $5.2B. The transfer of 12,300 retirees' pensions, to a Prudential Life Insurance Company Group Annuity contract, was a $1.1B transaction. The Pension Plan liability reduction was mainly the result of annuitization, a significant increase in Discount Rate, and benefits paid out during the year. Assets also diminished by the annuitization transaction, the benefits paid out, as well as by investment market losses. The net effect of all this left the Fair Market Value (FMV)-based Funding Level at 89.6%, at year-end 2022, about the same as a year earlier (green line). I believe that FMV, the most current valuation, is also the most reliable indicator of the Pension Plan's financial condition.

3. **Pension vs Annuity Risk -** The annuitized pensions are no longer protected by federal ERISA rules, nor covered by PBGC insurance, against failure to pay by Prudential. However, insurance companies are highly regulated, rarely fail, and state Insurance Guarantee Associations provide some coverage (varies by state) - but much less than PBGC (which is 100% for most people, except for very highly paid younger pensioners). Loss of ERISA and PGBC protection represents increased risk for annuitized pensioners. I was unsuccessful in persuading Corteva management to purchase secondary, re-insurance, for annuitized Participants, against Prudential's potential failure; however, I know of no pension plan sponsor who has purchased re-insurance. Your NRLN organization is actively lobbying for legislation, to make such secondary re-insurance mandatory for sponsors. The "Talking Points" attachment, on the last page, provides some conceptual details on our proposed modifications to ERISA law, to protect pensioners annuitized by Plan sponsors; these points were used in meetings with many Senators, Representatives, and their staffs, in late February. Beyond the Talking Points, a detailed proposal, with legislative language, has been developed by NRLN, and presented to Senate committee staff, trying to motivate key Senators to sponsor a bill – not an easy task, especially in a politically strained environment.

4. **Future Annuitizations –** In view of the recent major annuitizations by IBM (100,000 pensions with $16B liability transfer to Prudential and MetLife, effective 1/1/2023 (https://www.ai-cio.com/news/ibm-de-risks-16-billion-in-pension-obligations/) and AT&T (96,000 pensions with $8B liability transfer to Athene), as well as Corteva's two, much smaller de-risking actions, the obvious question is: will Corteva annuitize more or even all our pensions? I do not know Corteva's plans, but I believe they would do this under the right financial conditions of increased discount rates, resulting in Funding Levels approaching 100%, favorable investment performance, strong insurance company interest, etc. One factor mitigating against this, is that the easy-to-annuitize, low-value pension obligations and single life/no beneficiary pensions (i.e. the "low hanging fruit"), has already been accomplished and the remaining pensions are more complex and more expensive to transfer.

Your comments and questions are always welcome.

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Protecting Retirees in Pension Plan De-Risking

Talking Points

The steady decline in defined-benefit pension plan sponsorship has taken another alarming turn for the worse as more companies move to "de-risk" their pension plans. Plan sponsors are using group annuity buyouts to transfer billions of dollars in assets and benefit liabilities to third party insurance companies – and, in the process, stripping retirees and older workers of critical protections.

A 2022 survey by Vanguard found that 27% of large pension funds are likely to engage in risk transfers over the following 12 months through either a partial de-risking (12%) or a voluntary plan termination (15%). De-risking strips participants of protections provided by the Employee Retirement Income Security Act (ERISA) and the Pension Benefit Guaranty Corporation (PBGC).

For example, last September IBM continued the trend by transferring $16 billion in pension assets to Prudential and to Metropolitan Life – and with it the responsibility to pay benefits to 100,000 retirees and beneficiaries covered by the IBM Personal Pension Plan.

If an insurance company fails or is otherwise unable to make good on the annuity payments, the retiree's benefits are backed solely by state guaranty associations (SGAs). The maximum coverage of state guaranty associations vary widely by state, but most states guarantee only up to $250,000 per person per lifetime.

By comparison, the PBGC insures against far greater losses because it continues making the monthly benefit payment. For example, at age 70 PBGC's maximum benefit guarantee is $11,200 per month for 2023 – which amounts to $134,460 in just one year.

The NRLN advocates that the most straightforward remedy to prevent the potential harms of de-risking is for Congress to amend the safe harbor fiduciary rules in ERISA Section 404 to require that annuity contracts:

1. **Require reinsurance** at the time of transfer of asset and liabilities: Group annuity contracts must require the purchase of reinsurance that is sufficient to provide a replacement annuity of equal value from a third-party insurer that is independent of the annuity provider and financially capable. **The reinsurance must travel with the annuity if the initial annuitant sells the annuity to another insurance company**.
2. Prohibit an insurer from offering to convert or exchange the contract for a lump sum payout or other change in the form of benefit.
3. Prohibit the sale or transfer of all or a portion of the annuity contracts to an entity that is not a state-licensed insurance company with an above average financial risk rating.
4. Require the annuity provider to send an annual report that confirms the reinsurance provider and the current rating and financial status of the annuity provider.
5. Prohibit the assessment of fees against the annuitant by the annuity provider.
6. Prohibit the annuity provider from reducing the benefit amount transferred from the plan to the annuity provider, including to correct a miscalculation of the benefit transferred to the annuity provider.
7. Establish a claim and appeals procedure for annuitants that conforms to the claims and appeals procedure under ERISA.
8. More generally, require that annuitants comply with regulations or guidance adopted by the Department of Labor and designed to ensure that a participant's rights under ERISA are not reduced or impaired by the transfer of the benefit to the annuity provider.
9. Plan sponsors also should affirm that the transfer of benefit liabilities to the insurer does not substantially impair the funded status of the plan after the de-risking transaction (based on a standard to be promulgated by Treasury in consultation with DOL).