



# ***AERP Participant Presentation – 2022 Plan Year***

***April 2023***

# Outline

- Aerospace Employees' Retirement Plan (AERP) Programs
- Management and Administration of AERP
- Plan Year Information
  - *Statistics*
  - *Fund Status*
- Comparison to Inflation





## AERP 1: Defined Benefit Plan

- Effective for employees hired prior to January 1, 1993
  - *Fixed Benefits and Variable Benefits accrue*
    - Effective October 1, 2018, future accruals for the Fixed Benefit were frozen and the Variable Benefit accrual rate was set at 1.3%
    - Beginning October 1, 2023, the Variable Benefit accrual under the AERP will be frozen
      - *In August 2018, a 204(h) Notice was sent to participants and other interested parties communicating these plan changes and a reminder copy was emailed in March*
      - *AERP 1 participants keep vested benefits and will be eligible to receive Company 401(k) contributions*
  - *Paid as a monthly annuity at retirement*

## The AERP Variable Benefit and the Hurdle Rate

- Variable plan benefits increase or decrease annually depending on the actual returns of the underlying investments.
  - *Hurdle rate is 4% for the AERP plan and has been part of the benefit formula since inception*
    - Retirees receive an increase when investments returns are above 4% and decreases when returns are below 4%
  - *Hurdle rates are a common part of plan designs for variable pension plans and help ensure long term funded status*

# AERP Programs

Continued



## Combined Retirement Program (CRP)

- Effective on October 1, 2005
  - *All employees hired on or after April 1, 2005*
  - *Other eligible AERP 1 and ASAP 1 employees who had elected CRP in August 2005*
- Employees are enrolled in two separate plans
  - *AERP 2: Defined Benefit Plan*
    - 3-year vesting for active employees effective October 1, 2011
    - Similar to AERP 1 but with somewhat less than half the benefits
  - *ASAP 2: Defined Contribution Plan*
    - Company contribution of 4% of compensation
    - Immediate vesting
    - Diversified investment account choices
- Plan frozen as of September 30, 2018
  - *Plan participants keep vested benefits and moved to the 401(k) for future benefits*

**NOTE: Employees hired before April 1, 2005 who did not elect the Combined Retirement Program will remain either in AERP 1 or in 401(k).**

# Aerospace 401(k) Plan



## 401k Defined Contribution Plan

- Effective October 1, 2018
  - *All employees in the Combined Retirement Plan were moved to the 401k plan and all new hires on or after the effective date.*
  - Regular full-time and part-time employees are eligible for employer contributions
    - Effective October 1, 2023, AERP 1 participants will be eligible for 9% Basic and up to 3% match
  - Basic Contribution (no employee contribution required)
    - *5% contribution for employees with less than 5 years of service*
    - *7% contribution for employees that have between 5 and 25 years of service*
    - *9% contribution for employees with 25 or more years of service*
  - Match Contribution
    - *Aerospace matches employee 401k contributions up to 3%*
  - All employer contributions are immediately vested
  - Employees can contribute up to the IRS limit into a pre-tax or Roth account
  - An additional after-tax option is available to invest in above the IRS limit (up to 10% of weekly salary)





## **The Aerospace Retirement Benefits Committee**

- **The Aerospace Retirement Benefits Committee ("ARBC") was established January 2022**
  - *Replaced and consolidated three committees (AERP, Retiree Medical, 401(k))*
  - *As plan sponsor, the Company is responsible for ERISA Settlor decisions including plan design and funding strategy*
- **Purpose**
  - *Oversight of plan administration including oversight of third party administrators and vendors*
  - *Investment of plan assets*
  - *Reviewing participants' benefit claims*
- **Membership**
  - **Steven Leontis**, Chair
  - **David Roberts**, Principal Director Total Rewards
  - **Gary Mizumoto**, Assistant Treasurer Finance
  - **Rosalind Lewis**
  - **Jean Michael**
- **Advisors**
  - **Brenda Ching**, Counsel to Committee OGC - non-voting member
  - **NEPC**, Investment Advisor to Committee for AERP and Retiree Medical
  - **Mercer Consulting**, Investment Advisor to Committee for 401(k) Plan
  - **Crowe**, Independent Third Party Auditor for plan financial statements



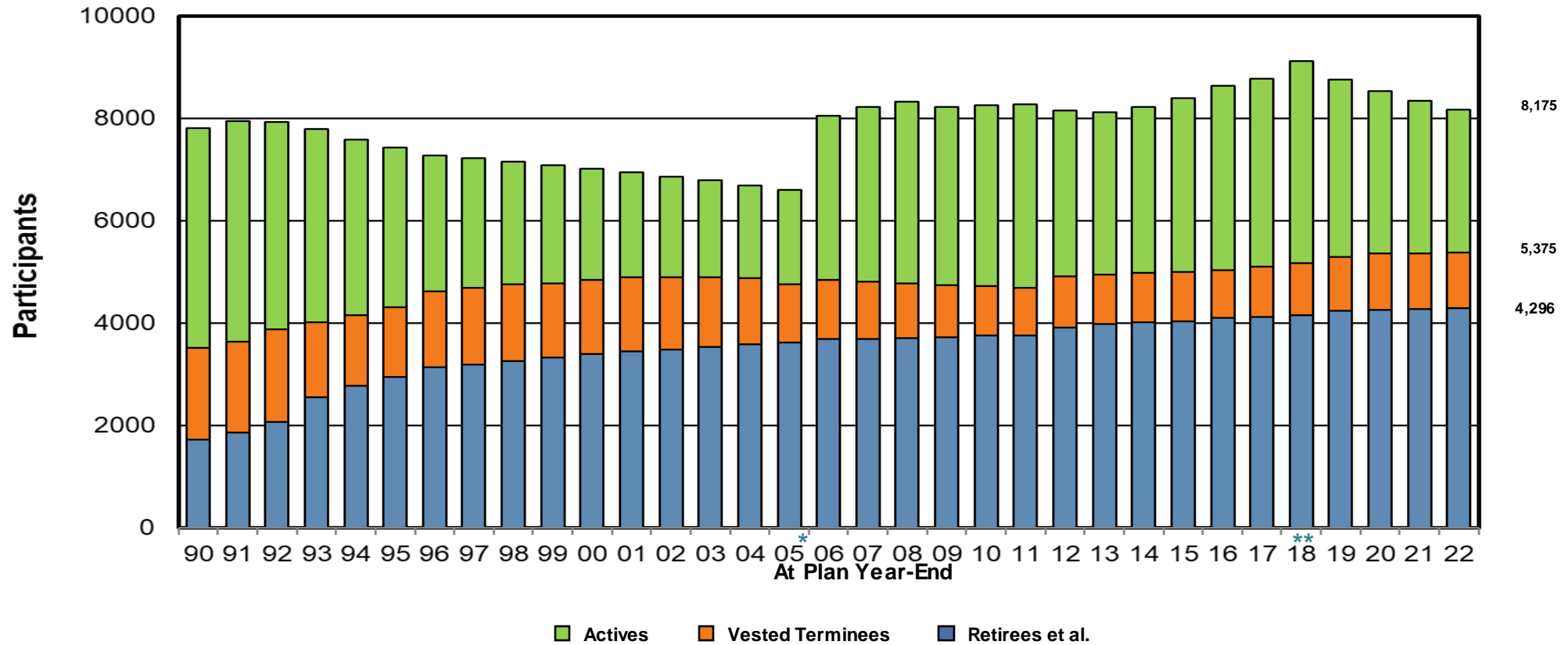
## **The Aerospace Retirement Benefits Committee**

*ARBC incorporates best practices for plan governance under ERISA*

- Centralized governance which provides a broad-based integrated look at Aerospace's retirement benefit plans with ARBC serving as a single-point of oversight for AERP, 401(k) and Retiree Medical Plans.
- To promote continuity in plan oversight, all members of the ARBC have recently served on AERP, 401(k) or RMP plan committees. Treasury Director Gary Mizumoto and Total Rewards Principal Director Dave Roberts also provide continuity, management and subject matter expertise, and connection to supporting teams within Aerospace.
- All ARBC committee members have gone through extensive ERISA fiduciary training.
- ARBC retains independent ERISA investment advisors with co-fiduciary responsibility for plan investment selection.
  - *NEPC (AERP, Retiree Medical Plan)*
  - *Mercer Consulting (401(k))*
- ARBC is staffed with active employee members of management with expertise and experience to satisfy ERISA fiduciary requirements.
  - *Given the ARBC's widely expanded fiduciary duties (including plan asset investment oversight), it is not advisable for the Company to ask individual retirees to incur exposure to fiduciary liability.*
- Plans are subject to annual financial and compliance audit by independent accounting firm as required by ERISA.

# AERP Retirement Plan Participants

As of 9/30/2022

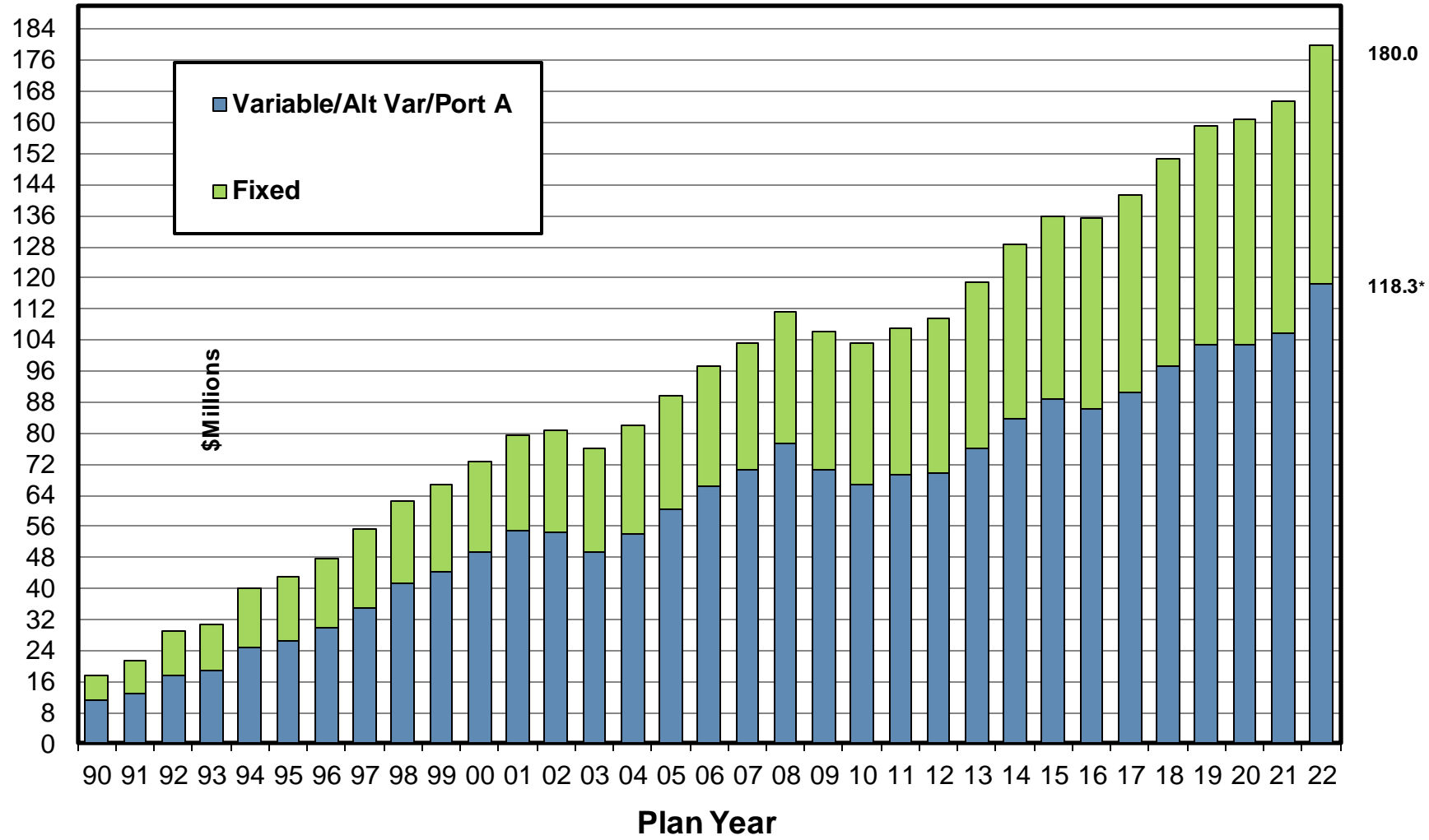


\* Combined Retirement Plan opened

\*\* Combined Retirement Plan frozen



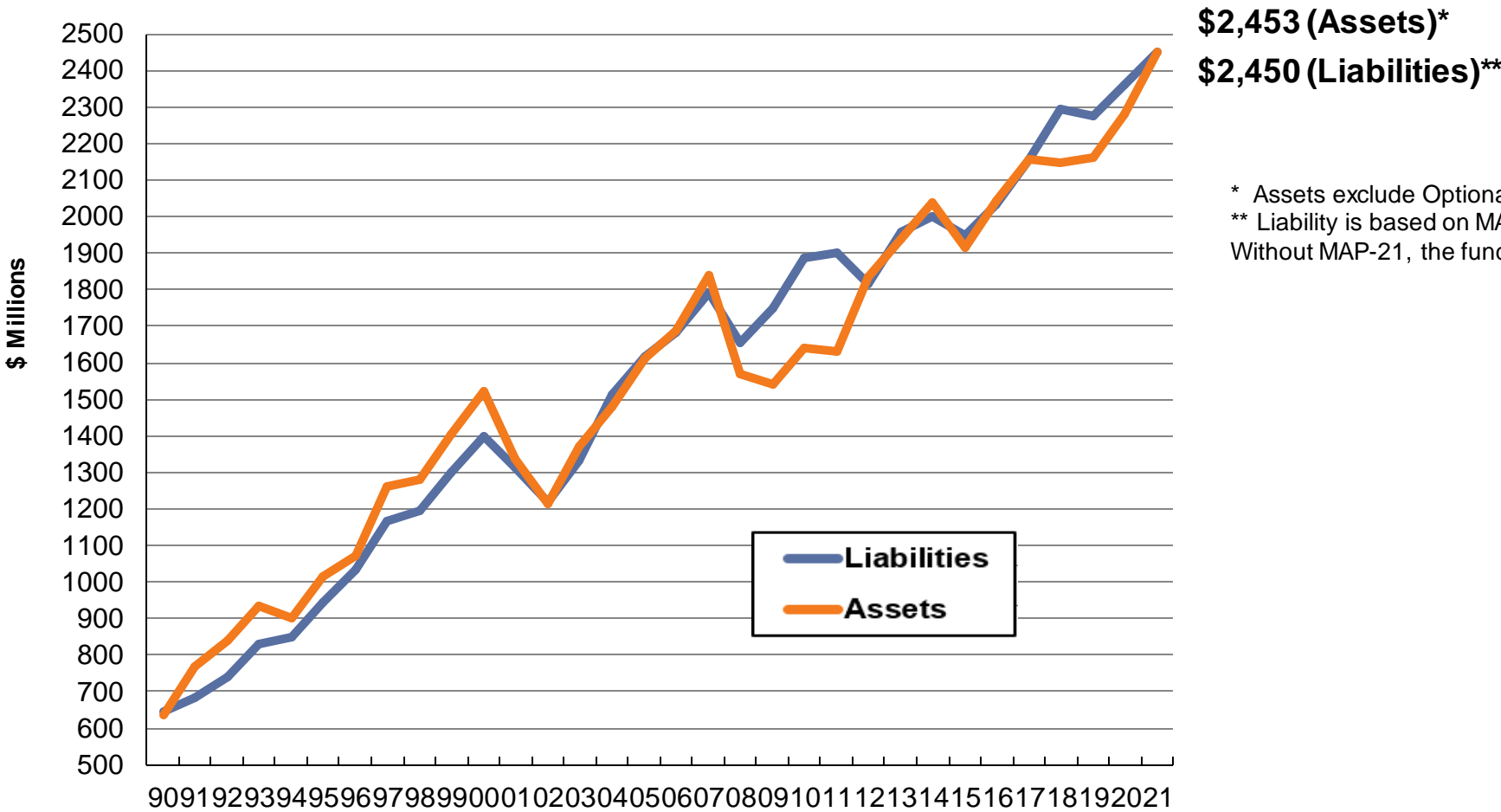
# Benefit Payments



\*Includes withdrawal of \$2.3 million from the Optional Contribution Account

# Total AERP Plan Assets and Liabilities

Based on Annual Funding Notice for Plan Year 10/1/21 sent in January 2023



# Financial Condition of the Plan

*Estimated as of September 30, 2022*

- The Plan's actuary prepares an annual actuarial valuation in May to determine the value of the liabilities, the value of the assets, and the customary contribution (allowable for actual reimbursement under government contracts).

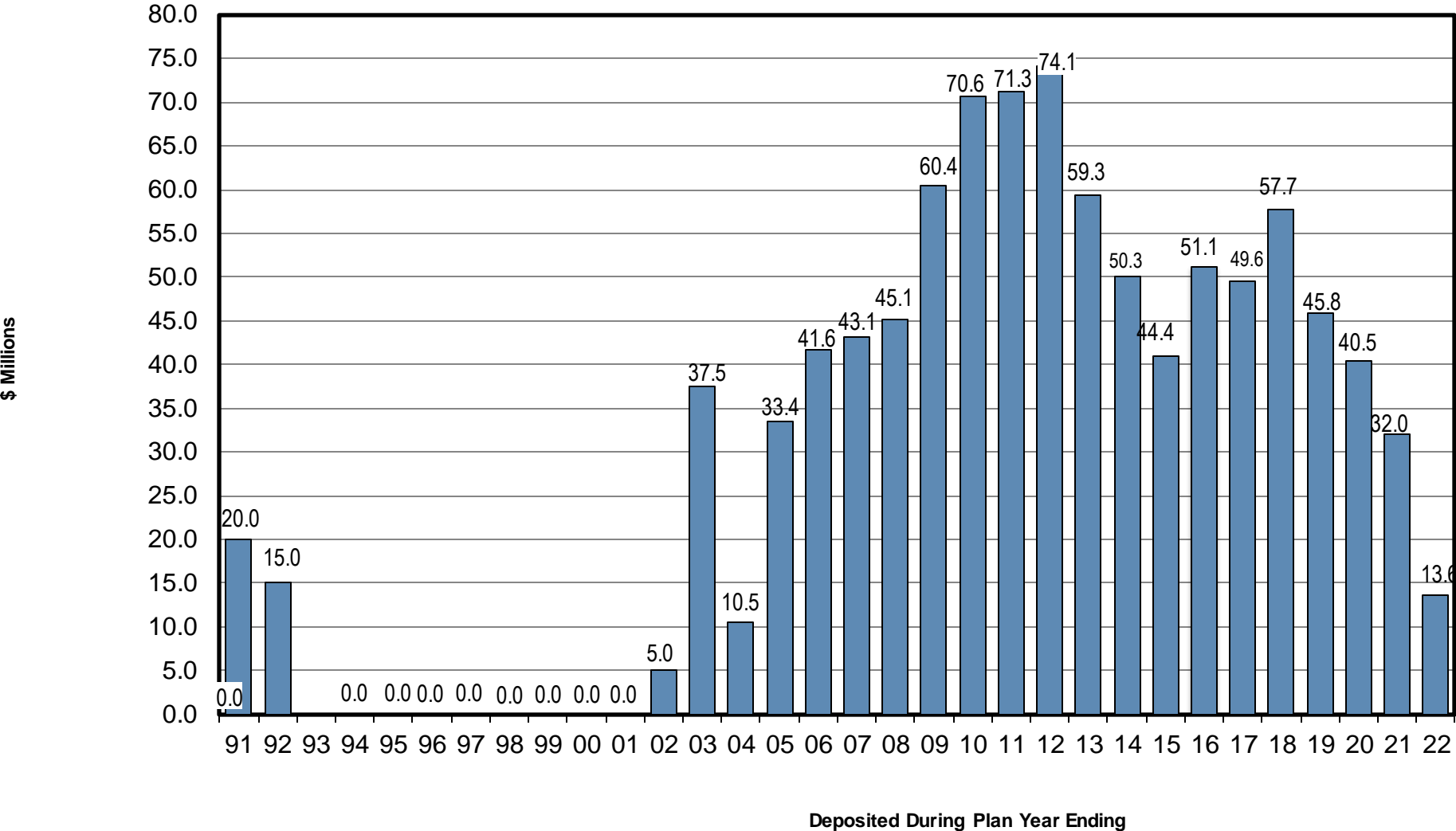
Dollars in Millions	
Assets (Actuarial Value)	\$1,840
<u>– Liabilities<sup>(1)</sup></u>	<u>\$2,101</u>
Surplus (Shortfall)	(\$261)

**Estimated:  
Formal numbers  
available in May**

- There will be a company contribution in FY 2023
- External auditors audit the Plan each year and present a written audit report to the Board of Trustees in June

(1) Estimated as of 9/30/22 using MAP-21 stabilized rates and represents a funding level of 88%. Without MAP-21, the funding level was estimated at 87%.

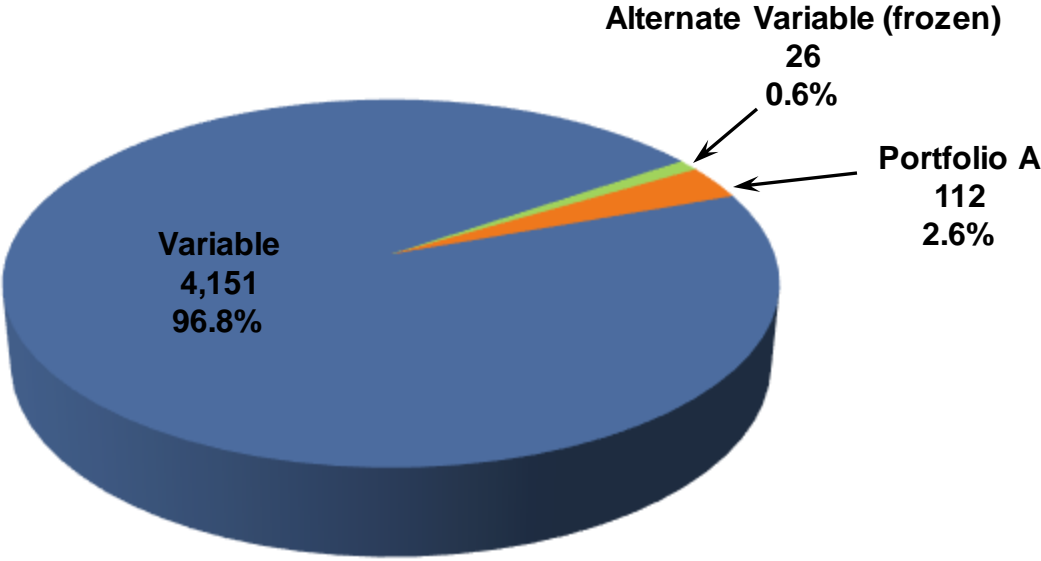
# Corporate Contribution



For Annuity Benefits



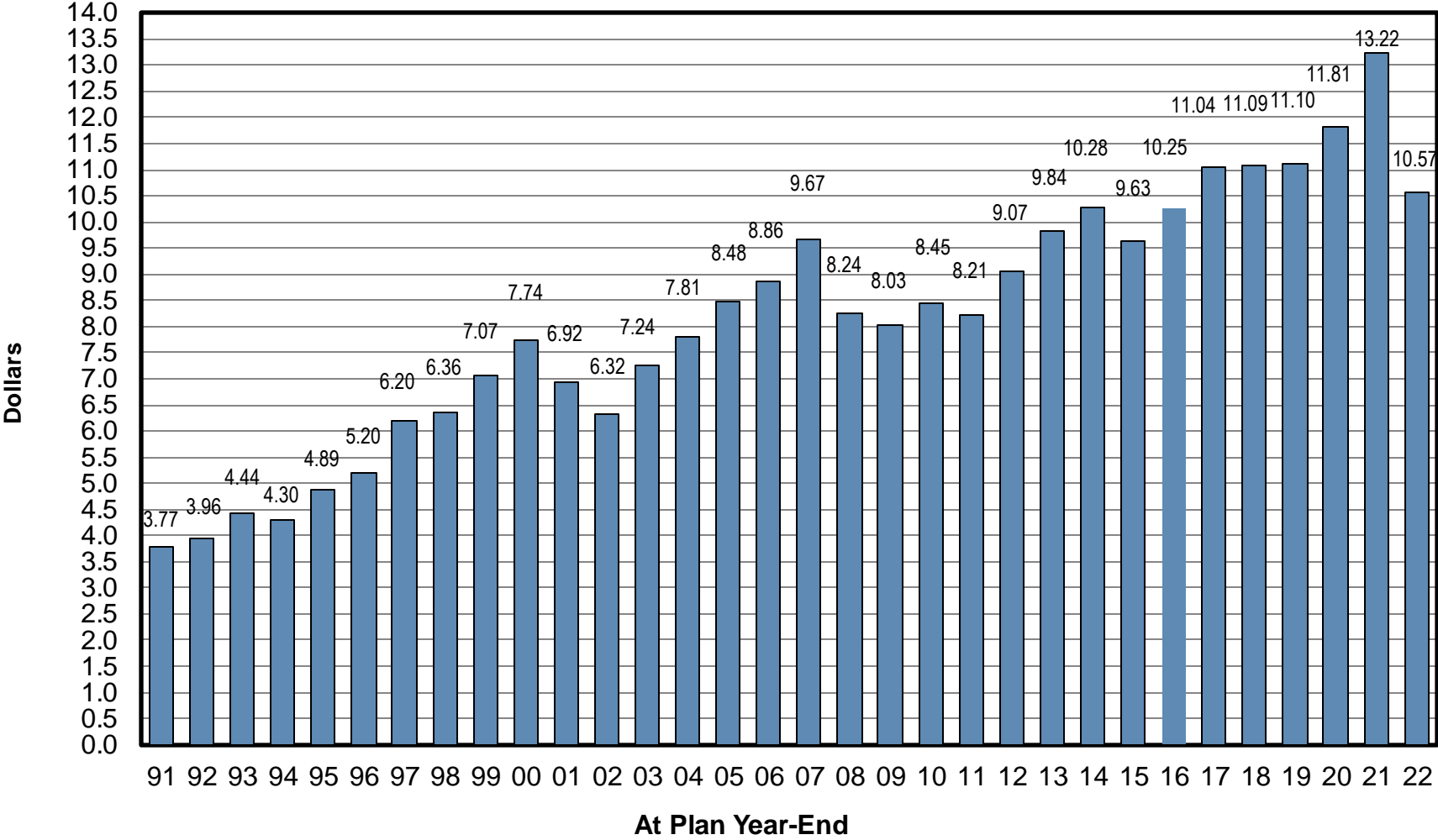
***Distribution of Retirees/Beneficiaries  
by Type of Variable Benefit Payments***



**Total Retirees/Beneficiaries: 4,289**

***September 30, 2022***

Variable Benefit



Unit Value

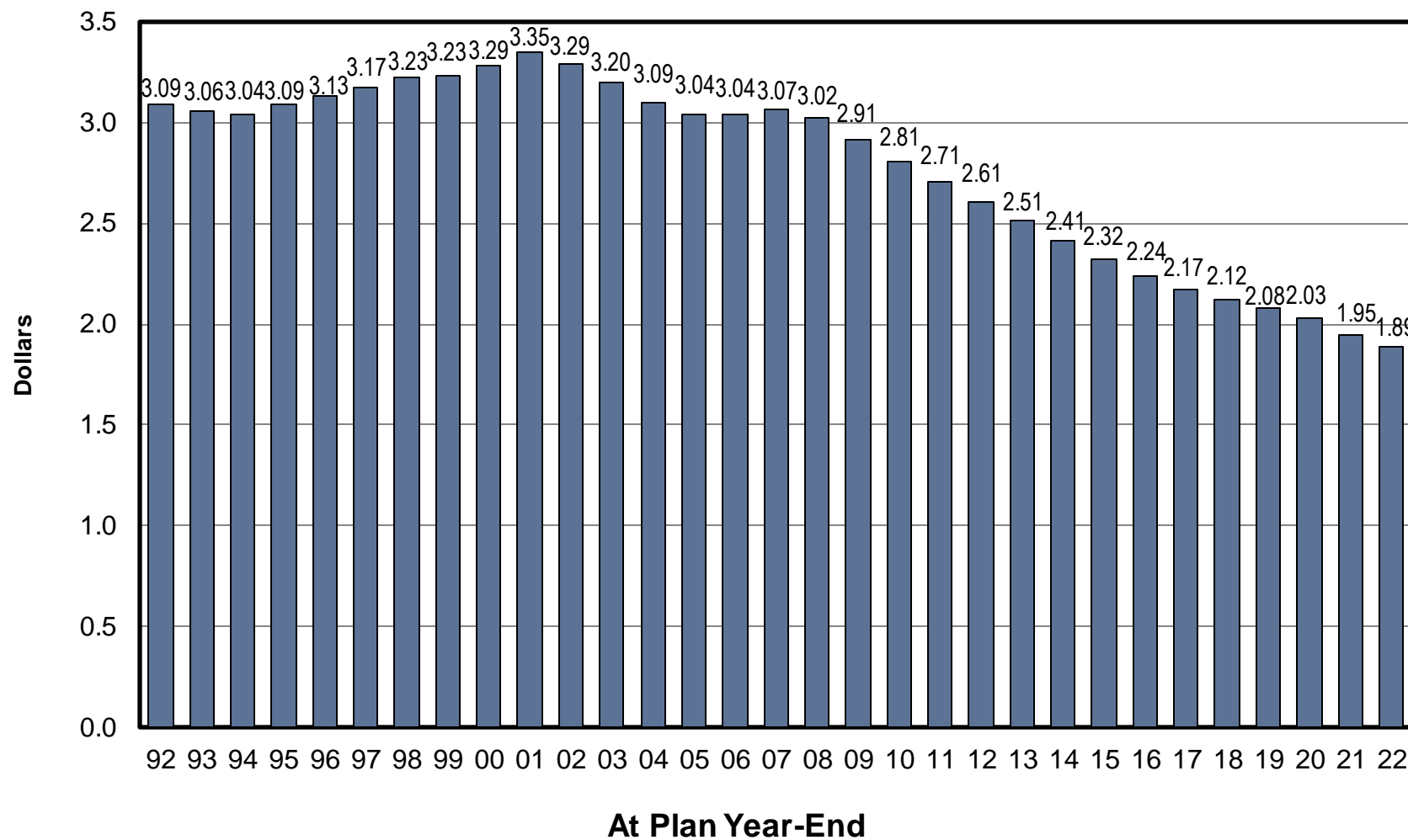


# Alternate Variable Benefit

T-Bills



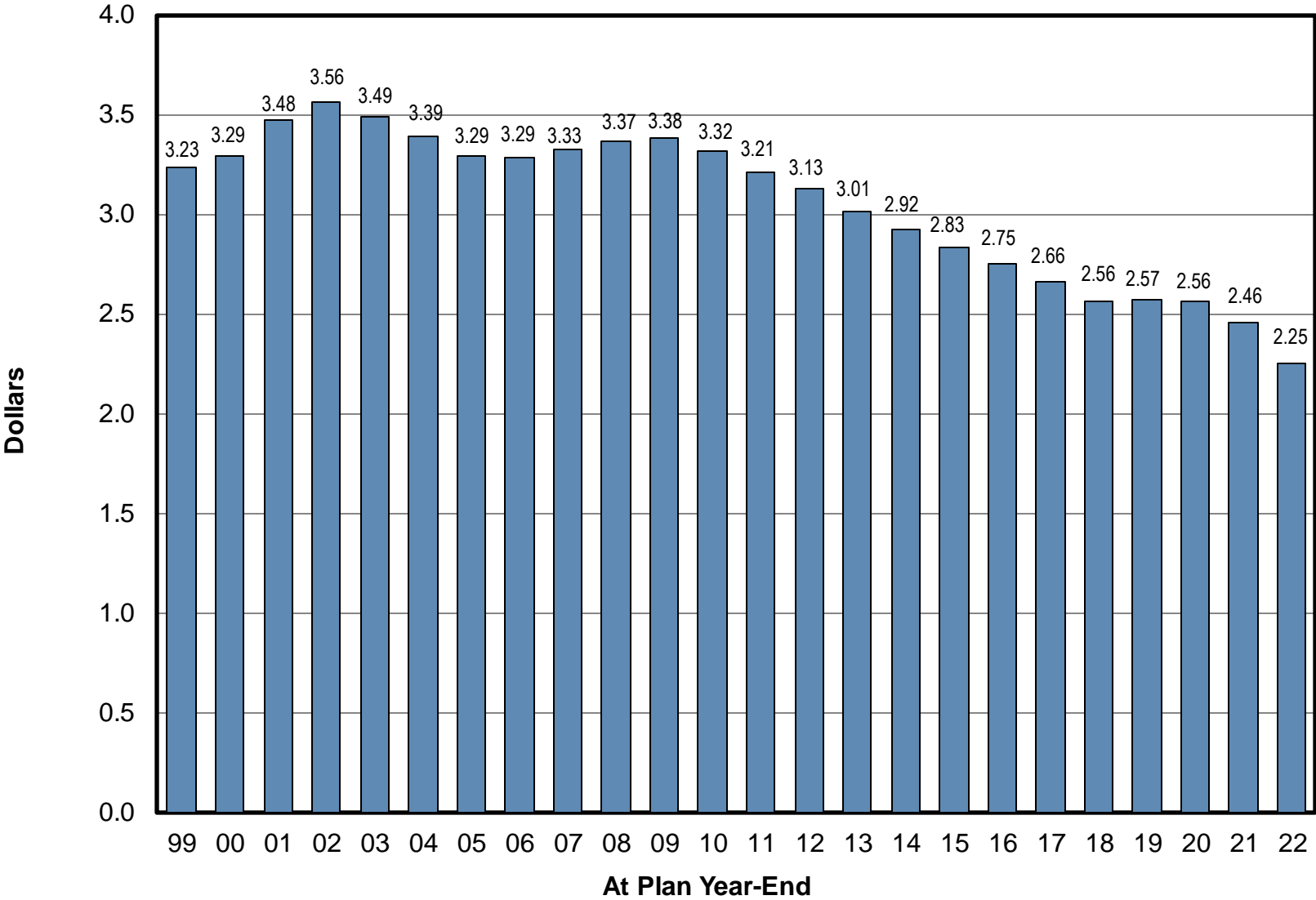
(Frozen Option Effective August 15, 1999 — No New Entrants)



Unit Value

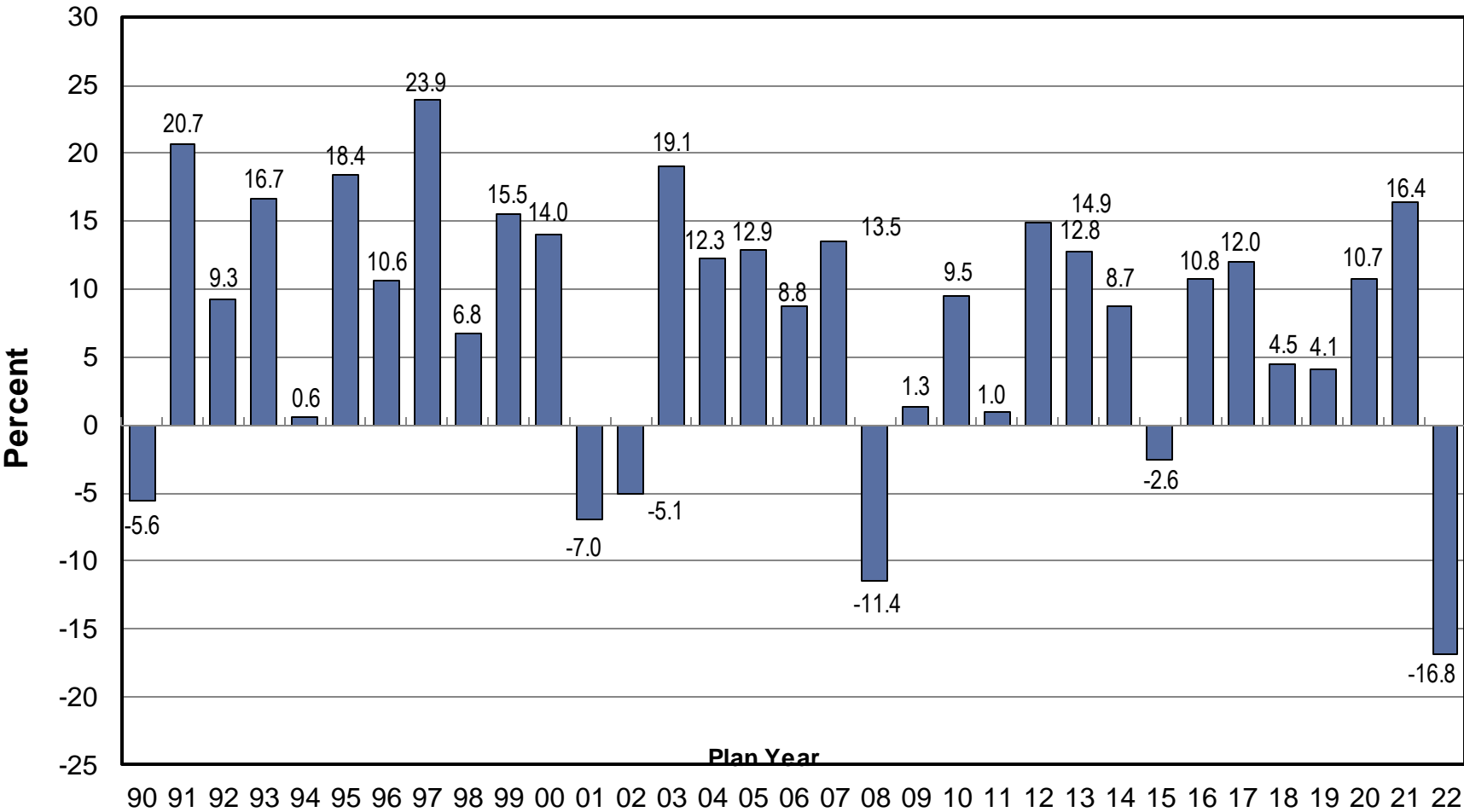
# Portfolio A Benefit

Bonds



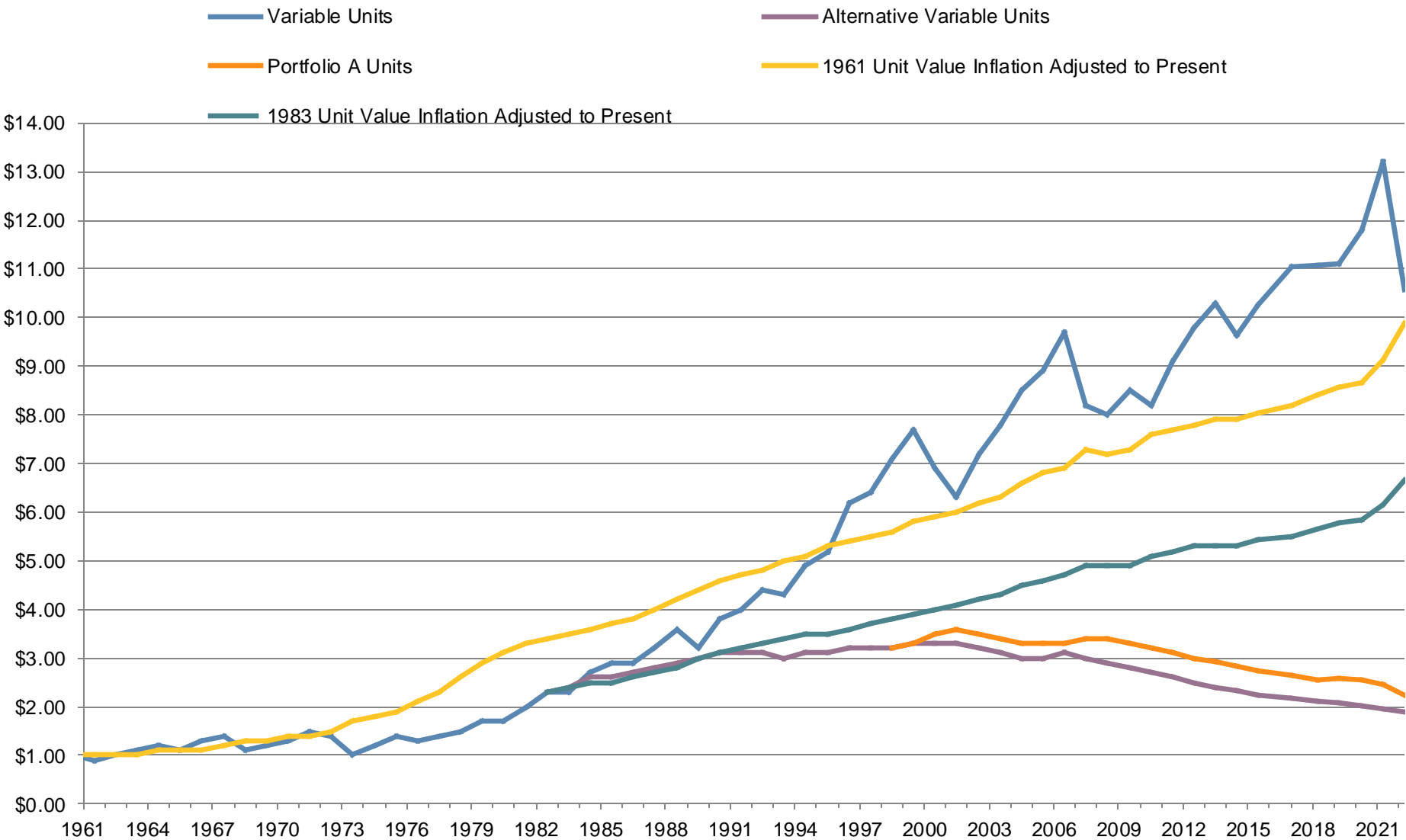
Unit Value

# Annual Investment Performance



Based on Performance of Plan Assets for Variable Benefits

# Comparison of AERP Unit Values to Inflation



## Allocation of Assets at Market Value



	Fixed Benefit Portfolio	%	Variable Benefit Portfolio	%	Variable and Fixed Portfolio Subtotal	Percent of Total Assets
Common Stock						
Domestic	219.0	32.2%	393.0	31.1%	612.0	31.2%
International	85.1	12.5%	253.0	20.1%	338.1	17.3%
Fixed Income	358.0	52.7%	536.3	42.5%	894.3	45.6%
Real Estate	17.7	2.6%	79.8	6.3%	97.5	5.0%
Subtotal Fixed and Variable	679.8		1,262.1		1,941.9	99.1%
Other Assets						
Alternate Variable Fund					0.4	0.0%
Portfolio A					1.8	0.1%
Subtotal (Including Alt. Var. & Port A.)					1,944.1	99.2%
Optional Contributions					15.3	0.8%
Total Assets					1,959.4	100.0%

*As of February 28, 2023 (Dollars in Millions)*

# Resources



- **For retirement income planning, active employees can access the Pension Service Center [ESS website](#)**
  - *Educate yourself about your Aerospace retirement benefits*
  - *Generate projections for AERP and 401(k)*
  - *Model various retirement scenarios including pension, savings and social security benefits*
  - *Identify shortfalls and fixes*
- **Detailed information available to participants on the Aerospace [HR/Benefits website](#)**
  - *Copy of this briefing*
  - *Audit financials report*
- **Retiree website [retirees.aerospace.org](http://retirees.aerospace.org)**
- **Questions**
  - *Email your questions to [aerospacetotalrewards@aero.org](mailto:aerospacetotalrewards@aero.org)*
    - *Answers will be posted on the Retiree and Benefits websites under FAQs*