ANNUAL FUNDING NOTICE

Scotland Health Care System Employees' Pension Plan

This notice is for the plan year beginning 01/01/2021 and ending 12/31/2021 (“Plan Year”).

Introduction

This notice includes important funding information about your pension plan (“the Plan”). This notice also provides a summary of federal rules governing the termination of single-employer defined benefit pension plans and of benefit payments guaranteed by the Pension Benefit Guaranty Corporation (PBGC), a federal agency.

Funding Target Attainment Percentage

The funding target attainment percentage of a plan is a measure of how well the plan is funded on a particular date. This percentage for a plan year is obtained by dividing the Plan’s Net Plan Assets by Plan Liabilities on the Valuation Date. In general, the higher the percentage, the better funded the plan. The Plan’s funding target attainment percentage for the Plan Year and two preceding plan years is shown in the chart below, along with a statement of the value of the Plan’s assets and liabilities for the same period.

	2019	2020	2021
1. Valuation Date	1/1/2019	1/1/2020	**1/1/2021**
2. Plan Assets			
a. Total Plan Assets	43,804,466	51,521,398	**59,348,819**
b. Funding Standard Carryover Balance	0	0	**0**
c. Prefunding Balance	6,381,928	2,279,565	**4,701,176**
d. Net Plan Assets, (a) – (b) – (c)	37,422,538	49,241,833	**54,647,643**
3. Plan Liabilities	46,385,378	49,241,833	**53,334,768**
4. At-Risk Liabilities	46,385,378	49,241,833	**53,334,768**
5. Funding Target Attainment Percentage (2d)/(3)	80.67%	100.00%	**102.46%**
6. Funding Target Attainment Percentage before reduction for Carryover Balance and Prefunding Balance, (2a)/(3)	94.43%	104.62%	**111.27%**

Credit Balances

Credit balances were subtracted from the Plan’s assets before calculating the Funding Target Attainment Percentage in the chart above. While pension plans are permitted to maintain credit balances (called “funding standard carryover balance” or “prefunding balance”) for funding purposes, such credits may not be taken into account when calculating a plan’s funding target attainment percentage. A plan might have a credit balance, for example, if in a prior year an employer made contributions at a level in excess of the minimum level required by law. Generally, the excess payments are counted as “credits” and may be applied in future years toward the minimum level of contributions a plan sponsor is required by law to make to the plan in those years.

At-Risk Status

If a plan’s Funding Target Attainment Percentage for the prior plan year is below a specified legal threshold, the plan is considered under law to be in “at-risk” status. “At-risk” plans are required to use actuarial assumptions that result in a higher value of plan liabilities and, consequently, require more funding by the employer. For example, plans in “at-risk” status are required to assume that all workers eligible to retire in the next 10 years will do so as soon as they can, and that they will take their distribution in whatever form would create the highest cost to the plan, without regard to whether those workers actually do so. The Plan has been determined to be in “at-risk” status in NONE of the years covered by the chart above. If applicable, the increased liabilities to the Plan as a result of being in “at-risk” status are reflected in the At-Risk Liabilities row in the chart above.

Fair Market Value of Assets

Asset values in the chart above are actuarial (smoothed) values, not market values. Market values tend to show a clearer picture of a plan’s funded status as of a given point in time. However, because market values can fluctuate daily based on factors in the marketplace, such as changes in the stock market, pension law allows plans to use actuarial values for funding purposes. While actuarial values fluctuate less than market values, they are estimates. As of 12/31/2021, the fair market value of the Plan’s assets was approximately $66,303,000. On this same date, the Plan’s liabilities were estimated as $71,746,719.

Participant Information

The total number of participants in the plan as of the Plan’s valuation date was 1,279. Of this number, 410 were active participants, 315 were retired or separated from service and receiving benefits, and 554 were retired or separated from service and entitled to future benefits.

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Funding & Investment Policies

The law requires that every pension plan have a procedure for establishing a funding policy to carry out the plan objectives. A funding policy relates to the level of contributions needed to pay for promised benefits. The funding policy of the Employer is to contribute an amount annually at least equal to the minimum required contribution under ERISA and the Pension Protection Act of 2006.

The purpose of the Investment Policy Guideline Statement is to assist the Board in effectively supervising and monitoring its investment activities; and to provide guidance to investment managers employed to manage pension fund assets. The management of the funds should be directed towards achieving the following objectives: (1) secure and preserve the benefits promised by the Plan; (2) provide investment returns adequate to increase benefits or reduce contributions; (3) avoid excessive short-run volatility of portfolio returns. Scotland Health Care System views the security of the benefits promised by the Plan as the primary investment standard of the funds. Any investment program undertaken by Scotland Health Care System or by any manager on behalf of the Plan must maintain the financial integrity of the funds with a high degree of confidence. However, Scotland Health Care System recognizes that it is desirable to assume investment risk commensurate with the standard of earning higher investment returns. Therefore, Scotland Health Care System views its risk policy in the management of the funds as tolerant of variable returns for a substantial portion of the funds, and despite its concern over short-run declines in portfolio value, it is willing to accept a wider range of performance results in exchange for the likelihood of earning superior long-run investment returns on these Funds. To enhance return and reduce risk, the portfolio shall be composed of diversified assets, including equities, fixed-income investments, cash equivalents, international investments and other asset classes that may be adopted by the Board, upon recommendation of the Finance Committee. The general policy shall be to diversify investments within both equity and fixed-income securities so as to provide a balance that will enhance total return while avoiding undue risk concentration in any single asset class or investment category.

In accordance with the Plan’s investment policy, the Plan’s assets were allocated among the following categories of investments, as of the end of the Plan Year. These allocations are percentages of total assets:

Asset Allocations (percentages may not total to 100% due to rounding)		Percentage
1. Interest-bearing cash		2.2%
2. U.S. Government securities		0.0%
3. Corporate debt instruments (other than employer securities):		
	Preferred	0.0%
	All other	0.0%
4. Corporate stocks (other than employer securities):		
	Preferred	0.0%
	Common	0.0%
5. Partnership/joint venture interests		0.0%
6. Real estate (other than employer real property)		0.0%
7. Loans (other than to participants)		0.0%
8. Participant loans		0.0%
9. Value of interest in common/collective trusts		0.0%
10. Value of interest in pooled separate accounts		0.0%
11. Value of interest in master trust investment accounts		0.0%
12. Value of interest in 103-12 investment entities		0.0%
13. Value of interest in registered investment companies (e.g., mutual funds)		95.3%
14. Value of funds held in insurance co. general account (unallocated contracts)		0.0%
15. Employer-related investments:	Employer Securities	0.0%
	Employer real property	0.0%
16. Buildings and other property used in plan operation		0.0%
17. Other		2.4%

Events with Material Effect on Assets or Liabilities

Federal law requires the plan administrator to provide in this notice a written explanation of events, taking effect in the current plan year, which are expected to have a material effect on plan liabilities or assets. For the 2021 plan year, the following events are expected to have such an effect: NONE

Right to Request a Copy of the Annual Report

A pension plan is required to file with the US Department of Labor an annual report (i.e., Form 5500) containing financial and other information about the plan. Copies of the annual report are available from the US Department of Labor, Employee Benefits Security Administration’s Public Disclosure Room at 200 Constitution Avenue, NW, Room N-1513, Washington, DC 20210, or by calling 1-202-693-8673. Alternatively, you may obtain a copy of the Plan’s annual report by making a written request to the plan administrator.

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Summary of Rules Governing Termination of Single-Employer Plans

Employers can end a pension plan through a process called "plan termination." There are two ways an employer can terminate its pension plan. The employer can end the plan in a "standard termination" but only after showing the PBGC that the plan has enough money to pay all benefits owed to participants. The plan must either purchase an annuity from an insurance company (which will provide you with lifetime benefits when you retire) or, if your plan allows, issue one lump-sum payment that covers your entire benefit. Before purchasing your annuity, your plan administrator must give you advance notice that identifies the insurance company (or companies) that your employer may select to provide the annuity. The PBGC's guarantee ends when your employer purchases your annuity or gives you the lump-sum payment.

If the plan is not fully-funded, the employer may apply for a distress termination if the employer is in financial distress. To do so, however, the employer must prove to a bankruptcy court or to the PBGC that the employer cannot remain in business unless the plan is terminated. If the application is granted, the PBGC will take over the plan as trustee and pay plan benefits, up to the legal limits, using plan assets and PBGC guarantee funds.

Under certain circumstances, the PBGC may take action on its own to end a pension plan. Most terminations initiated by the PBGC occur when the PBGC determines that plan termination is needed to protect the interests of plan participants or of the PBGC insurance program. The PBGC can do so if, for example, a plan does not have enough money to pay benefits currently due.

Benefit Payments Guaranteed by the PBGC

If a single-employer pension plan terminates without enough money to pay all benefits, the PBGC will take over the plan and pay pension benefits through its insurance program. Most participants and beneficiaries receive all of the pension benefits they would have received under their plan, but some people may lose certain benefits that are not guaranteed.

The PBGC pays pension benefits up to certain maximum limits. The maximum guaranteed benefit is $6,034 per month, or $72,409 per year, payable in the form of a straight life annuity, for a 65-year-old person in a plan that terminates in 2021. The maximum benefit may be reduced for an individual who is younger than age 65. The maximum benefit will also be reduced when a benefit is provided to a survivor of a plan participant.

The PBGC guarantees "basic benefits" earned before a plan is terminated, which includes:

- pension benefits at normal retirement age;
- most early retirement benefits;
- annuity benefits for survivors of plan participants; and
- disability benefits for a disability that occurred before the date the plan terminated.

The PBGC does not guarantee certain types of benefits:

- The PBGC does not guarantee benefits for which you do not have a vested right when a plan terminates, usually because you have not worked enough years for the company.
- The PBGC does not guarantee benefits for which you have not met all age, service, or other requirements at the time the plan terminates.
- Benefit increases and new benefits that have been in place for less than one year are not guaranteed. Those that have been in place for less than five years are only partly guaranteed.
- Early retirement payments that are greater than payments at normal retirement age may not be guaranteed. For example, a supplemental benefit that stops when you become eligible for Social Security may not be guaranteed.
- Benefits other than pension benefits, such as health insurance, life insurance, death benefits, vacation pay, or severance pay, are not
- The PBGC generally does not pay lump sums exceeding $5,000.

Even if certain benefits are not guaranteed, participants and beneficiaries still may receive some of those benefits from the PBGC depending on how much money the terminated plan has and how much the PBGC collects from the employer.

Corporate Information on File with PBGC

The law requires a plan sponsor to provide the PBGC with financial information about the sponsor and the plan under certain circumstances, such as when the funding target attainment percentage of the plan (or any other pension plan sponsored by a member of the sponsor's controlled group) falls below 80 percent (other triggers may also apply). The sponsor of the Plan, Scotland Health Care System, Inc., and each member of its controlled group, if any, was subject to this requirement to provide corporate financial information and plan actuarial information to the PBGC. The PBGC uses this information for oversight and monitoring purposes.

Where to Get More Information

For more information about this notice, you may contact Scotland Health Care System, Inc., at the Pension Committee or 910-291-7920. For identification purposes, the official plan number is 58-1847657 and the plan sponsor's employer identification number or "EIN" is 58-1847657. For more information about the PBGC and benefit guarantees, go to PBGC's website, www.pbgc.gov, or call PBGC toll-free at 1-800-400-7242. TTY/TDD users may call the Federal relay service toll free at 1-800-877-8339 and ask to be connected to 1-800-400-7242.

SUPPLEMENT TO ANNUAL FUNDING NOTICE
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This is a temporary supplement to your annual funding notice which is required by the Moving Ahead for Progress in the 21st Century Act and the Highway and Transportation Funding Act of 2014. These federal laws changed how pension plans calculate their liabilities. The purpose of this supplement is to show you the effect of these changes. Prior to 2012, pension plans determined their liabilities using a two-year average of interest rates. Now pension plans also must take into account a 25-year average of interest rates. This means that interest rates likely will be higher and plan liabilities lower than they were under prior law. As a result, your employer may contribute less money to the plan at a time when market interest rates are at or near historical lows.

The "Information Table" compares the impact of using interest rates based on the 25-year average (the "adjusted interest rates") and interest rates based on a two-year average on the Plan's: (1) Funding Target Attainment Percentage, (2) Funding Shortfall, and (3) Minimum Required Contribution. The funding target attainment percentage is a measure of how well the plan is funded on a particular date. The funding shortfall is the amount by which liabilities exceed net plan assets. The minimum required contribution is the amount of money an employer is required by law to contribute to a plan in a given year. The following table shows this information determined with and without the adjusted interest rates. The information is provided for the Plan Year and for each of the two preceding plan years, if applicable.

INFORMATION TABLE

	Plan Year 2019		Plan Year 2020		Plan Year 2021	
	With Adjusted Interest Rates	Without Adjusted Interest Rates	With Adjusted Interest Rates	Without Adjusted Interest Rates	With Adjusted Interest Rates	Without Adjusted Interest Rates
Funding Target Attainment Percentage	80.67%	65.93%	100.00%	82.31%	102.46%	81.12%
Funding Shortfall	$8,963,000	$19,340,000	$0	$10,585,000	($1,313,000)	$12,723,000
Minimum Required Contribution	$0	$0	$0	$1,105,000	$0	$3,085,000