

# SECTION 430(j)

## Quarterly Contributions Liquidity Requirements

### Single Employer Plans

# **§430(j) QUARTERLY CONTRIBUTIONS LIQUIDITY REQUIREMENTS**

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**Exam condition removed in 2010 - no longer  
ignore quarterly / liquidity requirements**

**Numerous revisions for 2015 final regulation**

## **§430(j)**

### **BASIC DEFINITIONS**

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#### **Due date for minimum contribution**

**8 ½ months after the close of the plan year**

#### **Interest**

- **Payment adjusted for interest between the valuation date and the payment date**
- **Use effective rate of interest for plan year**

#### **NOTES:**

- **Minimum required contribution (MRC) is defined as calculated at the valuation date**
- **Effective rate of interest - single rate that reproduces Funding Target**

**§430(j)(3)**  
**QUARTERLY CONTRIBUTIONS**

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**Required for plan with funding shortfall for the  
prior plan year**

**Funding Shortfall:**  
**Funding Target – (AAV – CB – PB)**

## **§430(j)(3)(D)**

### **QUARTERLY CONTRIBUTIONS**

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#### **FOUR REQUIRED INSTALLMENTS**

- **25% of the Required Annual Payment**
- **Due at 3 ½, 6 ½, 9 ½, and 12 ½ months after the start of the plan year**

**Required Annual Payment is lesser of**

- a) 90% of this year's MRC**
- b) 100% of last year's MRC**

**Minimum required contribution (MRC) does not reflect any reduction by PB / CB**

## **1.430(j)-1(c)(7)**

### **SHORT PLAN YEARS**

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#### **REQUIRED INSTALLMENTS**

- Due 15 days after end of short plan year
- Also due at 3 ½, 6 ½, 9 ½ months after the start of the short plan year (if applicable)
- Amount equals Required Annual Payment divided by number of installments

#### **SHORT PLAN YEAR = CURRENT PLAN YEAR**

Required Annual Payment is lesser of

- 90% of this year's minimum
- 100% of last year's minimum times  
(length of short plan year)/(12 months)

#### **SHORT PLAN YEAR = PRIOR PLAN YEAR**

Required Annual Payment is lesser of

- 90% of this year's minimum
- 100% of last year's minimum times  
(12 months)/(length of short plan year)

## **1.430(j)-1(c)(2)(ii)**

### **USING FUNDING BALANCES**

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**Election under 430(f) by plan sponsor to apply CB / PB towards MRC is treated as satisfying required installment**

**Elected amount is adjusted with effective rate of interest from the valuation date to the due date of the installment**

## **§430(j)(3)(A)**

### **QUARTERLY CONTRIBUTIONS**

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#### **INTEREST PENALTIES**

- Interest is charged on the amount of the underpayment, for the period of the underpayment
- Interest Penalty: effective rate of interest for the plan year, plus 5%



**1.430(f)-1(f)(1)(iii)**

## **STANDING ELECTION - FUNDING BALANCES**

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**Plan sponsor can use standing election to apply CB / PB to meet quarterly installments**

**Standing election first takes effect on later of date election is created, or installment is due**

**Amount of standing election = 25% of prior year MRC (not same as 25% of RAP)**

**Plan sponsor can write to EA to suspend standing election for remaining installments**

**After current year valuation is completed, plan sponsor can modify standing election for remaining installments (to reflect 25%\*RAP)**

## 1.430(j)-1(f)

### QUARTERLY CONTRIBUTIONS - EXAMPLE 1

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Year Minimum required contribution

2016 100,000

2017  $125,000 * 90\% = 112,500$

100,000 Required annual payment

25,000 Quarterly installment

<u>Due date</u>	<u>Amount</u>	<u>PV at 01/01/17</u>
04/15/2017	25,000	24,585
07/15/2017	25,000	24,236
10/15/2017	25,000	23,891
01/15/2018	25,000	23,551
2017 Total		96,263

- 2017 effective rate is 5.9%
- Assume plan sponsor pays quarterly installments at due dates
- Remaining 2017 contribution at 01/01/17 is  $28,737 = 125,000 - 96,263$

1.430(j)-1(f)

## QUARTERLY CONTRIBUTIONS - EXAMPLE 2

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Same data as Example 1. Plan sponsor applies 15,000 of the 2016 CB towards the 2016 MRC. This does not change the 2017 quarterly installment.

Year Minimum required contribution

2016 100,000

2017 125,000 \*90% = 112,500

100,000 Required annual payment

25,000 Quarterly installment

<u>Due date</u>	<u>Amount</u>	<u>PV at 01/01/17</u>
04/15/2017	25,000	24,585
07/15/2017	25,000	24,236
10/15/2017	25,000	23,891
01/15/2018	25,000	23,551
2017 Total		96,263

**1.430(j)-1(f)**

## **QUARTERLY CONTRIBUTIONS - EXAMPLE 3**

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**Same data as Example 1. Plan sponsor applies the 2017 CB towards the 2017 MRC. This satisfies 17,287 of the first quarterly installment.**

<b>Year</b>	<b>Minimum required contribution</b>
<b>2016</b>	<b>100,000</b>
<b>2017</b>	<b>125,000 *90% = 112,500</b>

**100,000 Required annual payment**  
**25,000 Quarterly installment**

<b>2016 Funding ratio</b>	<b>81%</b>
<b>2017 CB</b>	<b>17,000</b>
<b>2017 Effective rate</b>	<b>5.9%</b>
<b>04/15/2017 CB value</b>	<b>17,287</b>

## 1.430(j)-1(f)

### QUARTERLY CONTRIBUTIONS - EXAMPLE 3

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Remaining amount of 04/15 required installment is  $7,713 = 25,000 - 17,287$ .

Assume plan sponsor pays quarterly installments at due dates. Remaining 2017 contribution at 01/01/17 is  $28,737 = 125,000 - 96,263$ .

<u>Due date</u>	<u>Amount</u>	<u>PV at 01/01/17</u>
01/01/2017	17,000	17,000
04/15/2017	7,713	7,585
07/15/2017	25,000	24,236
10/15/2017	25,000	23,891
01/15/2018	25,000	23,551
2017 Total		96,263

**1.430(j)-1(f)**

## **QUARTERLY CONTRIBUTIONS - EXAMPLE 5**

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**Same data as Example 3. Plan sponsor applies the 2017 CB towards the 2017 MRC. This satisfies 17,287 of the first quarterly installment.**

**Year Minimum required contribution**

**2016 100,000**

**2017 125,000 \*90% = 112,500**

**100,000 Required annual payment**

**25,000 Quarterly installment**

**2016 Funding ratio 81%**

**2017 CB 17,000**

**2017 Effective rate 5.9%**

**04/15/2017 CB value 17,287**

**Only 10,000 of the 01/15/2018 installment is paid. This creates an underpayment of 15,000.**

1.430(j)-1(f)

## QUARTERLY CONTRIBUTIONS - EXAMPLE 5

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A final contribution of 55,000 is paid at 09/15/2018. This must be split into two pieces. The underpayment of 15,000 is discounted using both the effective interest rate and the penalty interest rate. The period of underpayment is 8 months.

<u>Date paid</u>	<u>Amount</u>	<u>PV at 01/01/17</u>
01/01/2017	17,000	17,000
04/15/2017	7,713	7,585
07/15/2017	25,000	24,236
10/15/2017	25,000	23,891
01/15/2018	10,000	9,420
09/15/2018	15,000	13,189
09/15/2018	40,000	36,268
2017 Total		131,590

$$13,189 = 15,000 * [(1.059)^{-12.5/12}] * [(1.109)^{-8.0/12}]$$
$$36,268 = 40,000 * [(1.059)^{-20.5/12}]$$

## **1.430(f)-1(d)(1)(i)(B)**

### **SPECIAL RULE FOR LATE QUARTERLY CONTRIBUTIONS**

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- **Assume plan sponsor elects to use existing balance to satisfy required quarterly installments**
- **Assume the date of the election is after due date of required quarterly installments**
- **Different interest rates will be used for discounting the amount from the election date back to the valuation date to**
  - **Calculate the present value of the "contribution", versus**
  - **Calculate the amount of the remaining funding balance**



**1.430(f)-1(d)(1)(i)(B)**

## SPECIAL RULE FOR LATE QUARTERLY CONTRIBUTIONS

## Year Minimum required contribution

**2016      81,000**

**2017    200,000 \*90% =    180,000**

## 81,000 Required annual payment

## 20,250 Quarterly installment

**2017 PB** **100,000**

**2017 Effective rate** **6.0%**

# **1.430(f)-1(d)(1)(i)(B)**

## **SPECIAL RULE FOR LATE QUARTERLY CONTRIBUTIONS**

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**What is the present value of the smallest amount to satisfy minimum funding at 01/01/2017 if the plan sponsor elects to use 20,250 of the prefunding balance at 04/15/2017 to satisfy the first required quarterly installment?**

**Since the election is made prior to the due date, the present value of this "contribution" uses the 6.0% EIR for all purposes:**

<b>Date elected</b>	<b>Amount</b>	<b>PV at 01/01/17</b>
<b>04/15/2017</b>	<b>20,250</b>	<b>19,909</b>

**Remaining PB**

**80,091 = 100,000 PB - 19,909**

**Smallest amount**

**100,000 = 200,000 MRC - 19,909 - 80,091**

# 1.430(f)-1(d)(1)(i)(B) SPECIAL RULE FOR LATE QUARTERLY CONTRIBUTIONS

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What if the plan sponsor elects to use 20,250 of the prefunding balance at 07/01/2017 to satisfy the first required quarterly installment?

Since the election is made after the due date, the present value of this prefunding election uses 11.0% (EIR + 5%) after the due date:

Date elected	Amount	PV at 01/01/17
7/1/2017	20,250	19,481

$$19,481 = 20,250 * (1.06)^{-3.5/12} * (1.11)^{-2.5/12}$$

Remaining PB (discount election with EIR)

$$80,331 = 100,000 \text{ PB} - 19,669$$

$$19,669 = 20,250 * (1.06)^{-6/12}$$

Smallest amount - now slightly larger

$$100,188 = 200,000 \text{ MRC} - 19,481 - 80,331$$

**1.430(j)-1(c)(3)(iii)**  
**EARLY CONTRIBUTIONS -**  
**NOW INCREASED WITH INTEREST**

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- Contributions in excess of prior required installments (made prior to installment due dates) are increased with effective rate of interest to next due date
- Now treated basically same as election to use funding balances
- Change from proposed regulation

## 1.430(j)-1(f) EXAMPLE 16

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Assume plan has required quarterly installment of 10,000.

Can pay contribution of 9,993 at 04/10/17 and still satisfy first installment. Contribution is 5 days early:

$$10,001 = 9,993 * [(1.059)^{5/365}]$$

## **1.430(j)-1(d)(1)(i)**

### **LIQUIDITY REQUIREMENT**

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**Applies to plans subject to Quarterly  
Contribution requirement:**

- **Single employer plan with**
- **Funding shortfall for the prior plan year**

**1.430(j)-1(d)(1)(iii)**

## **LIQUIDITY REQUIREMENT - DEFINITIONS**

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### **SMALL PLAN EXCEPTION**

**If 100 or less participants on each day of prior plan year, exempt from liquidity requirement**

**Participant count uses plan aggregation**

- Include all non-multiemployer DB plans in controlled group**
- Only count participants of employer**

**1.430(j)-1(d)(1)(i)**

## **LIQUIDITY REQUIREMENT - DEFINITIONS**

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**Requirement to make additional quarterly contributions**

**Plan is treated as failing to pay the required installment for a quarter to the extent that**

- **the value of Liquid Assets contributed after the close of that quarter, and before the due date for the installment**
- **is less than the Liquidity shortfall for the quarter**

### **Example**

**First required installment due date: 04/15**

**End of prior quarter: 03/31**

**Only have 15 days to pay off liquidity reqt**



**1.430(j)-1(e)(6)(i)**

## **LIQUIDITY REQUIREMENT - DEFINITIONS**

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### **Liquidity Shortfall**

- **At last day of the quarter for which a required installment is made, the excess of**
  - **Base Amount for the quarter, over**
  - **Liquid Assets at the last day of the quarter**

## **1.430(j)-1(e)**

### **LIQUIDITY REQUIREMENT - DEFINITIONS**

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- **ALL disbursements, which includes**
  - **Purchases of annuities**
  - **Lump sums**
  - **Benefit payments**
  - **Administrative expenses**
  
- **Adjusted Disbursements:**
  - **Disbursements from plan**
  - **less FTAP times sum of**
    - **annuity purchases and**
    - **payment of single sums**

**Disbursements are based on quarters of two plan years (see next page). FTAP is from valuation for the corresponding plan year.**

## **1.430(j)-1(e)(6)(ii)**

### **LIQUIDITY REQUIREMENT - DEFINITIONS**

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#### **Base Amount for a quarter**

- **3 times sum of Adjusted Disbursements**
- **12 months ending on last day of the quarter**

#### **Base Amount - Special rule**

- **Base amount exceeds 2 times sum of Adjusted Disbursements, for 36 months ending on last day of quarter**
- **Actuary certifies this was caused by non-recurring circumstances**
- **Can re-determine Base amount excluding amounts related to the non-recurring circumstances**

**1.430(j)-1(e)(5)**

## **LIQUIDITY REQUIREMENT - DEFINITIONS**

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### **Liquid Assets**

- **Cash**
- **Marketable securities**
- **Insurance and annuity contracts - more minutiae in regulation!**

**1.430(j)-1(d)(1)(i)**

**CAP ON LIQUIDITY REQUIREMENT**

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**Limited to amount that, when added to prior installments paid for the year, would increase FTAP to 100%**

## **§430(j)(4)(A)**

### **LIQUIDITY SHORTFALL versus QUARTERLY**

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**You should think of required quarterly installment as the greater of**

- **Liquidity shortfall**
- **Required quarterly contribution**

**"A plan shall be treated as failing to pay the full amount of any required installment ... to the extent that the value of the liquid assets paid in such installment is less than the liquidity shortfall ..."**

**1.430(j)-1(d)(3)**

**ADDITIONAL REQUIRED INSTALLMENT DUE  
TO LIQUIDITY SHORTFALL**

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**Definition - portion of the required installment considered not paid due to the effect of the liquidity requirement**

**This is the excess of the liquidity requirement over the quarterly contribution requirement**

## **1.430(j)-1(d)(2)(i)**

### **PERIOD OF UNDERPAYMENT**

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**Assume the liquidity requirement exceeds the quarterly contribution requirement**

#### **Additional 5 percentage point interest penalty**

**The total required installment is treated as unpaid until the close of the NEXT quarter.**

**The result is that the penalty rate is applied for 2.5 months:**

**Due date            04/15**

**Payment date    05/01**

**Assumed paid    06/30**

#### **Interest adjustment to valuation date**

**This reflects the actual date of payment of a contribution**



## **2017 GENERAL CONDITIONS – FUNDING SINGLE EMPLOYER PLANS**

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- 47. There have been no late quarterly contributions, and there is no liquidity shortfall**

**1.430(j)-1(f)**

**LIQUIDITY SHORTFALL**

**EXAMPLE 11 (simplified version)**

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<b>(1) Liquid Assets</b>	<b>1,300</b>
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<b>(2) Disbursements (prior 12 mos at EOQ)</b>	
Benefit payments+expenses	<b>450</b>
Lump sums + Annuities	<b><u>200</u></b>
	<b>650</b>

<b>(3) Current valuation FTAP</b>	<b>85%</b>
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**(4) Adjusted disbursements**

**(5) Base amount**

**(6) Liquidity shortfall**

**Ignoring liquidity requirement, quarterly installment is 50.**

**1.430(j)-1(f)**

**EXAMPLE 11X (simplified version)**

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**Modified example - shifted disbursements,  
compare results versus Example 11**

**(1) Liquid Assets 1,300**

**(2) Disbursements (prior 12 mos at EOQ)**

**Benefit payments+expenses 550**

**Lump sums + Annuities 100**

**650**

**(3) Current valuation FTAP 85%**

**(4) Adjusted disbursements**

**(5) Base amount**

**(6) Liquidity shortfall**

## 1.430(j)-1(f)

### LIQUIDITY SHORTFALL - EXAMPLE 12

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Same data as Example 11. The additional required installment due to liquidity shortfall is  $90,000 = 140,000 - 50,000$ .

Year Minimum required contribution

2016 200,000

2017  $250,000 * 90\% = 225,000$

200,000 Required annual payment

50,000 Quarterly installment

Plan sponsor pays 30,000 at 04/15/17. This creates an underpayment for both the quarterly contribution requirement (20,000) and for the liquidity requirement (90,000).

## 1.430(j)-1(f)

### LIQUIDITY SHORTFALL - EXAMPLE 12

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A contribution of 110,000 is paid at 04/30/17. This eliminates both underpayments. Both underpayments are discounted for 6 months, using the effective interest rate and the penalty interest rate.

<u>Date paid</u>	<u>Amount</u>	<u>PV at 01/01/17</u>
04/15/2017	30,000	29,503
04/30/2017	20,000	19,434
04/30/2017	90,000	87,452

The penalty rate applies to the underpayments for 2.5 months, assuming payment at 06/30/17 (see page 26):

$$111,056 = 110,000 * [(1.059)^{2.0/12}]$$

$$106,886 = 111,056 * [(1.059)^{-3.5/12}] * [(1.109)^{-2.5/12}]$$

## **§430(k) IMPOSITION OF LIEN**

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**If cumulative unpaid quarterly / liquidity exceeds 1,000,000, and Plan's FTAP for the year < 100%, then**

- 1. Plan gets lien against plan sponsor and all members of controlled group for the total amount, and**
- 2. Plan sponsor must notify PBGC within 10 days of the required installment due date**

**§430(l)**

**QUALIFIED TRANSFERS TO HEALTH BENEFIT  
ACCOUNTS**

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**Assets transferred pursuant to IRC 420 are not  
treated as assets of the plan under IRC 430**

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